

outsized Impact

How Investment Can Address the
Systemic Risk of LGBTQIA+ Inequity

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Colorful Capital

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Definitions

Throughout this study, we employ terms that might cause the reader to pause and consider. The following are some of these terms and uses that we'd like to call out and make available to our readers as they head into this analysis.

BIPOC

This term stands for Black, Indigenous, and People of Color and is generally pronounced "bye-pock." It is a term most often used in the United States, and its intention is inclusion and representation. While for many years, terms like "People of Color" might have melded or even obscured individual identities, the callout in this term for Black and Indigenous people is an acknowledgment of the systemic and race-focused injustices and barriers faced by those communities.

Intersectionality

The Merriam-Webster dictionary defines "Intersectionality" as "the complex, cumulative way in which the effects of multiple forms of discrimination (such as racism, sexism, and classism) combine, overlap, or intersect especially in the experiences of marginalized individuals or groups." Those who use the term and embrace the perspective of intersectionality considers the ways in which inequality is based on many factors: gender, race, ethnicity, sexual and gender identity and orientation, disability, class, and more intersect to create unique effects that are specific and individual to each person. The intersections of identity, background, and experience, when considered together, help us better understand how a person's social, personal, and political identities overlay and result in different discrimination or privilege at every turn.

LGBTQIA+

This version of the alphabetical representation of our broad community includes Lesbian, Gay, Bisexual, Trans, Queer, Intersex, Asexual or Aromantic, and other identities and experiences. Other versions of this term might include other segmentation. Many other letters come in and out of the lexicon. For this paper, we choose LGBTQIA+ and use this to include all members of and identities within the broader community, with the '+' used to be inclusive of all additional non-cisgender and/or non-straight identities such as pansexual, asexual, intersex, gender non-binary and those questioning their gender and/or sexual identities. At points in this paper, you will see the occasional "LGBT," "LGB" and other variations. We cite those studies or writings that have limited themselves to these identifications in these instances and include the term used by the original research and authors to avoid misrepresentation.

Foreword by M.V. Lee Badgett

If you want to fight social inequality and exclusion of LGBTQIA+ people, it's hard to know where to start and which tools to use. But we do know what our targets of change are. The social science and health research covered in *Outsized Impact*, this insightful new report, reveals a connected web of challenges that LGBTQIA+ people face throughout their lives and that contribute to systemic risk.

It starts early: harassment and bullying in schools create headwinds for LGBTQIA+ students to learn, to graduate, and to convert their education into good jobs. Discrimination in employment holds people back from getting good jobs, promotions, a fair paycheck, and business loans. Those experiences cause what some call "minority stress." That extra stress from living in an unequal society contributes to mental and physical health disparities. Those disparities feed harmful stereotypes and hateful attitudes, which in turn promote violence and reactionary laws. And if we had more data about LGBTQIA+ people, we'd learn more about how many problems exist and how closely they are connected.

Fortunately, over the last few decades these inequalities have been the targets of LGBTQIA+ activists, allied community members, policymakers, and even businesses. We've used boycotts, buycotts, internal pressure, demonstrations, education, research, communication strategies, enlightened leaders, and strategic thinking to promote equality. We've passed some non-discrimination laws, convinced many businesses to improve the way they treat LGBTQIA+ workers, provided better health care, and worked to make many other institutions more welcoming and supportive. However, we still have much to do in the United States and around the world—especially given backlash in many places—to create true inclusion and equality, as this report's authors effectively demonstrate.

Economic tools have become increasingly effective. So where can we find new tools for accelerating change and addressing systemic risk? *Outsized Impact* has an answer: The financial system must be much more engaged in creating equality across its interlocking levels. Colorful Capital's own excellent example shows how to do it by investing in LGBTQIA+ led startups in their own portfolio, working to engage the rest of the financial industry, and pushing other systems to get on board with better data to measure and promote change.

This report shows the financial sector how to deploy its economic power to make the lives of LGBTQIA+ people better. A few other examples include making investments in LGBTQIA+ inclusive start-ups, financing training of LGBTQIA+ entrepreneurs in developing countries, encouraging inclusion throughout big finance's operations, and prioritizing financial inclusion across the sector.

The resulting returns to equality will be shared by LGBTQIA+ people and by us all, with a stronger economy and a fairer financial system.

M. V. Lee Badgett (she/her)

Professor Emerita of Economics, University of Massachusetts Amherst
Chief Economist, Koppa LGBTI+ Economic Power Lab.

Letter from Colorful Capital Leadership

Dear Colleagues and Collaborators,

When we think of inequitable systems and practices as they relate to members of the LGBTQIA+ community, we often think of hate speech and violent threats, refusal of service, the strengthening of anti-LGBTQIA+ policy and rhetoric in state and local legislature and rulemaking, and the demonization of certain identities and expressions.

What often goes unexamined are the practices of financial exclusion that limit the LGBTQIA+ community's economic health and growth. These inequities, and the absence of basic protections, are morally and ethically inconsistent with today's social covenant and must be addressed. More specifically, the practices reinforcing the LGBTQIA+ community's exclusion from, and barriers to, the levers of economic health and growth are systemic and will require the financial industry — beyond just venture capital — to address and correct.

To that end, as we carefully crafted Colorful Capital's impact framework for our investment and portfolio management approach, we realized the opportunity to share it with others to inspire broader reach and collective action. Throughout this paper, we have adapted our own impact framework to serve as a tool for other leaders and investors as they drive systemic progress for the LGBTQIA+ community as well.

With strength and learnings from the community of DEI (Diversity, Equity, and Inclusion) research and frameworks, alongside our in-depth knowledge of impact and the impact potential of capital markets, we present this report to our colleagues across sectors and to those within, outside of, and allied with the LGBTQIA+ community.

We hope that this report will valorize and align the individual and collective efforts of investors to take decisive action towards a new system of increased LGBTQIA+ equity—one that ensures parity that better mirrors society's diversity in the composition of U.S. financial institutions, investee companies, and their supply chains and that furthers the development of equitable social structures for LGBTQIA+ people.

We look forward to the future work, collaboration, progress, and disruption of long-entrenched systemic inequity that will result from this work, and the work of allies across the field.



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Executive Summary

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 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.

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 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 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.

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.

Introduction: Systems Reinforce Biased Action, Ensuring Suboptimal Outcomes for All

LGBTQIA+ people being unable to reach their full contribution potential due to exclusionary practices is demonstrably harmful to the economy and society. The current market model^A—broadly characterized as objective and efficient under Modern Portfolio Theory^B—countersigns the state of LGBTQIA+ inequity, undermining the entire economy. In this report we tie this concept back to the role of capital markets in perpetuating inequity.

In accepting or glancing past economically significant negative externalities^C, the market fails to

account for the true level of systemic risk arising from continued inequitable treatment of and barriers for the LGBTQIA+ community. When investors internalize the gains and benefits of their investments but externalize or shift the costs of those investments on to the environment and society, they invite and even foster social dysregulation and dysfunction.⁶

As we have depicted below (Figure 1), flawed beliefs and belief systems beget value-extracting practices that deliver suboptimal outcomes for investors and society and undercut already vulnerable systems.

The market fails to account for the true level of systemic risk arising from continued inequitable treatment of and barriers for the LGBTQIA+ community.

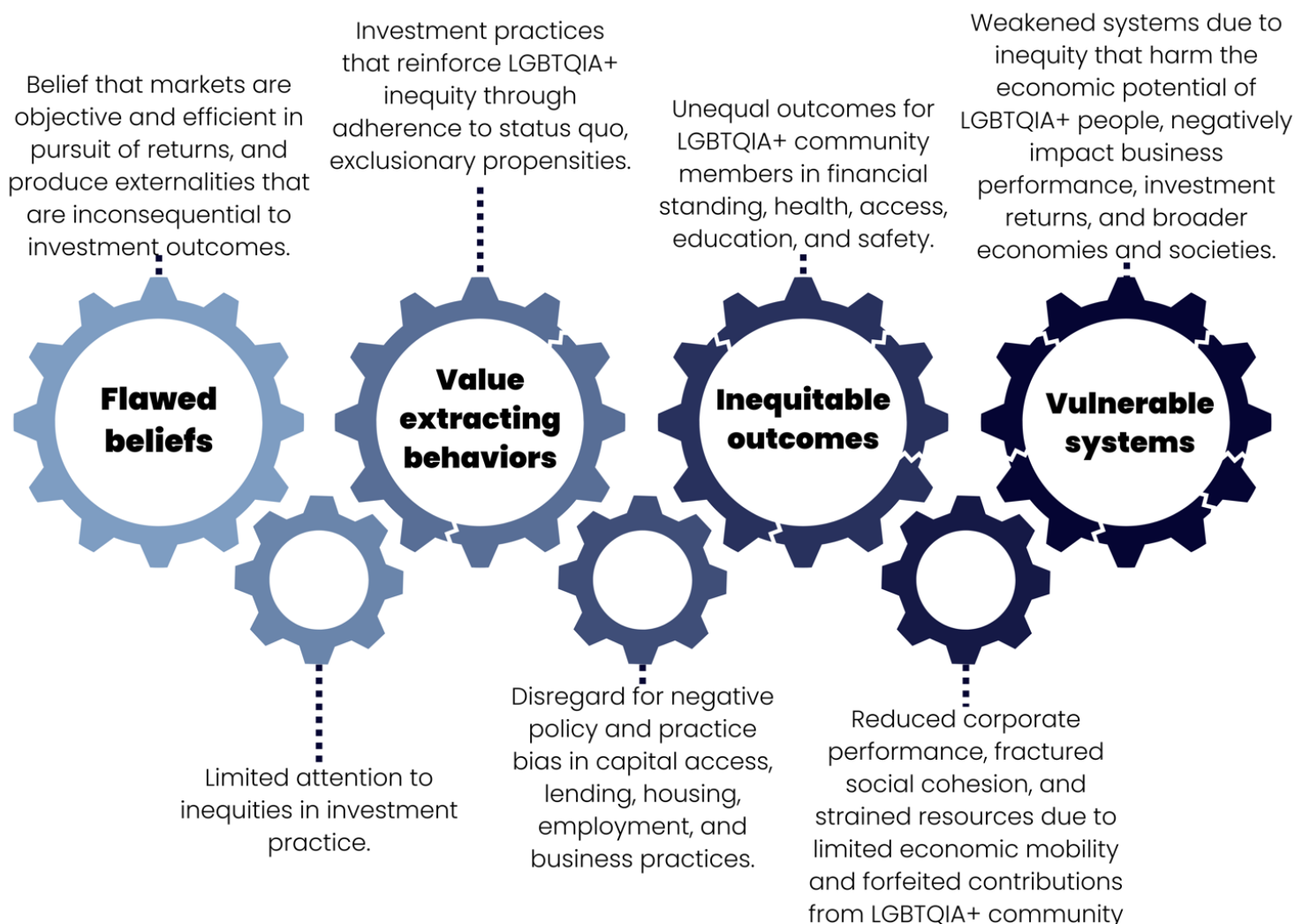
^AWe refer to neoliberal capitalism and the belief that unfettered markets can achieve the best economic outcomes, manage societal and environmental risks, and should not be obstructed by public policy and regulation. Neoliberalism, Encyclopedia Britannica, by Nicola Smith (Senior Lecturer, Political Science, University of Birmingham), <https://www.britannica.com/topic/neoliberalism>

^BPut into practice starting in the late 1970s, Modern Portfolio Theory (MPT) included a number of fundamental dimensions, such as: the benefits of diversification, the efficiency of markets, and the correspondence of risks taken to rewards received. MPT also assumed that systematic risks—that is, those inherent in the market or in an asset class as a whole—are beyond the ability of asset owners and managers to influence. They therefore should not be penalized, or given credit, for portfolio losses or gains due to the “systematic” rewards or risks of the market as a whole, but only for their own “idiosyncratic” contributions to their portfolios’ performance, positive or negative, relative to that of the market.

^CA concept first developed by Arthur Pigou in 1928, for more please see: Arthur C Pigou. The Economics of welfare, 4th edition, 1928, <https://www.econlib.org/library/NPDBooks/Pigou/pgEW.html>

Figure 1

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



In reality, LGBT inclusion is associated with several markers of economic and social progress, including the level of entrepreneurship, urbanization, overall well-being, less corruption, and more freedom.⁷ Economist and researcher Lee Badgett argues that the positive externalities of full inclusion of the LGBT community contribute to economic growth via improved productivity and human capital development, as well as positive health outcomes – to name a few.⁸ Badgett further indicates that the impact of inclusion extends to overall gender inclusion in some economies:

“Positive policies toward LGBT people are visible indicators of openness. Addressing the issues of LGBT people are likely to generate discussions and changes of restrictive gender norms, and such changes could expand the acceptable social and economic roles for all men and women. If roles expand, the rights of women are likely to be enhanced, in particular, leading to a much larger potential gain in economic output.”⁹

Logically, we conclude that significant changes to practices that uphold or fail to disrupt the systemic exclusion of the LGBTQIA+ community hold the potential to generate positive outcomes across the market and benefit overall economic health and growth. Conversely, continued inequity threatens economic growth, social stability and, consequently, long-term investment returns.

LGBT inclusion is associated with several markers of economic and social progress

The purpose of this report

This report looks at how, why, and where LGBTQIA+ equity matters to investors, corporate leaders, standard-setters — as well as the broad LGBTQIA+ community and its allies. We illustrate how historic and continued cycles of discrimination and exclusion have led to the inequity faced by members of the LGBTQIA+ community today. We outline the unique role the financial industry can play in addressing lost economic opportunity by advancing equity and breaking down long-fortified systemic barriers.

Our report aims to:^D

1

Help investors understand **feedback loops** between their investment approaches and the systemic risk of LGBTQIA+ inequity.

2

Identify the approaches investors can utilize to maximize overall positive LGBTQIA+ equity impact.

3

Examine assessment of investor actions within their portfolio, organization, and across the broader financial community and systems.

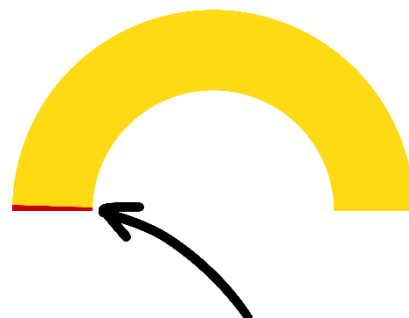
^D When we refer to “investors,” we mean all types. These include large and small institutions (pensions, endowments and foundations, and family offices) concerned about the long-term stability of the environment and society; individual investors (HNWI, mass affluent and retail investors) who want their children and grandchildren to inherit a just and sustainable world, and the asset managers, investment consultants, and advisors who support them.

Outsized Opportunity: Why Investors Should Care

Though LGBTQ+ people represent nearly 8% of the U.S. population, only 0.6% of Fortune 500 corporate board members identify as LGBTQ+.¹⁰ Similarly, among over 13,000 U.S.-listed companies, only nine (or 0.06%) have an out CEO (Figure 2).¹¹ What's more, LGBTQ+-led ventures received only 0.5% of the \$2.1T startup funding allocated in 2023, a vast underrepresentation compared to the proportion of people who identify as LGBTQ+ in the population (Figure 3).¹² The exclusion of entire demographics of people from business leadership and financial services ignores the material benefits of LGBTQIA+ inclusion in the fabric of our commercial, social, and civic society.

Studies have indicated that greater social inclusion of LGBTQIA+ community members leads to advancements in innovation and economic development. Badgett's work has demonstrated that inclusion of LGBTI people can increase a country's GDP by 1% or more.¹³ On a more granular level, Wells Fargo found that states with a higher concentration of LGBTQ people experience higher rates of growth in Gross State Product (GSP, a measurement of state economic growth).¹⁴

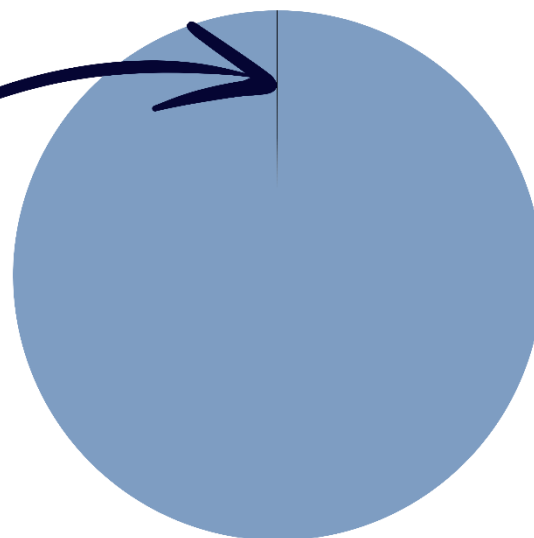
Figure 3: Startup Funding Allocated to LGBTQ+-Led Ventures



LGBTQ+-led ventures received only 0.5% of the \$2.1T startup funding allocated in 2023

Figure 2: Actively Traded Companies with LGBTQ+ CEOs in the U.S.

Among over 13,000 US-listed companies, only nine (or 0.06%) have CEOs who identify as LGBTQ+.



■ CEOs ■ CEOs who identify as LGBTQ+

LGBTQIA+ Exclusion Has Significant Economic Consequences

The exclusion of LGBT individuals by the financial community has hampered growth due to economic inefficiencies arising from lost labor time, reduced productivity, and underinvestment in human capital.¹⁵ While a comprehensive analysis of the economic impact of LGBTQIA+ exclusion in the U.S. does not yet exist, the costs have been quantified in the context of country-specific economies.

- Studies in 2023 have estimated that North Macedonia and Serbia experience substantial hits to their economy of \$64 million and \$293 million USD respectively (or 0.5% of each country's GDP) due to labor market discrimination and exclusion on the basis of sexual orientation, gender identity, gender expression, and sex characteristics (SOGIESC).¹⁶
- A 2014 study from the World Bank modeled the impact of employment discrimination and health disparities for LGBT people, calculating a \$1.2 to 26 billion hit in USD to India's national economy.¹⁷
- A 2003 Canadian study estimated avoidable losses of up to \$8 billion in Canadian dollars due to health disparities for LGB people (data was only captured for lesbian, gay, and bisexual people).¹⁸

There are major economic ramifications when exclusion of the LGBTQIA+ community remains unaddressed.

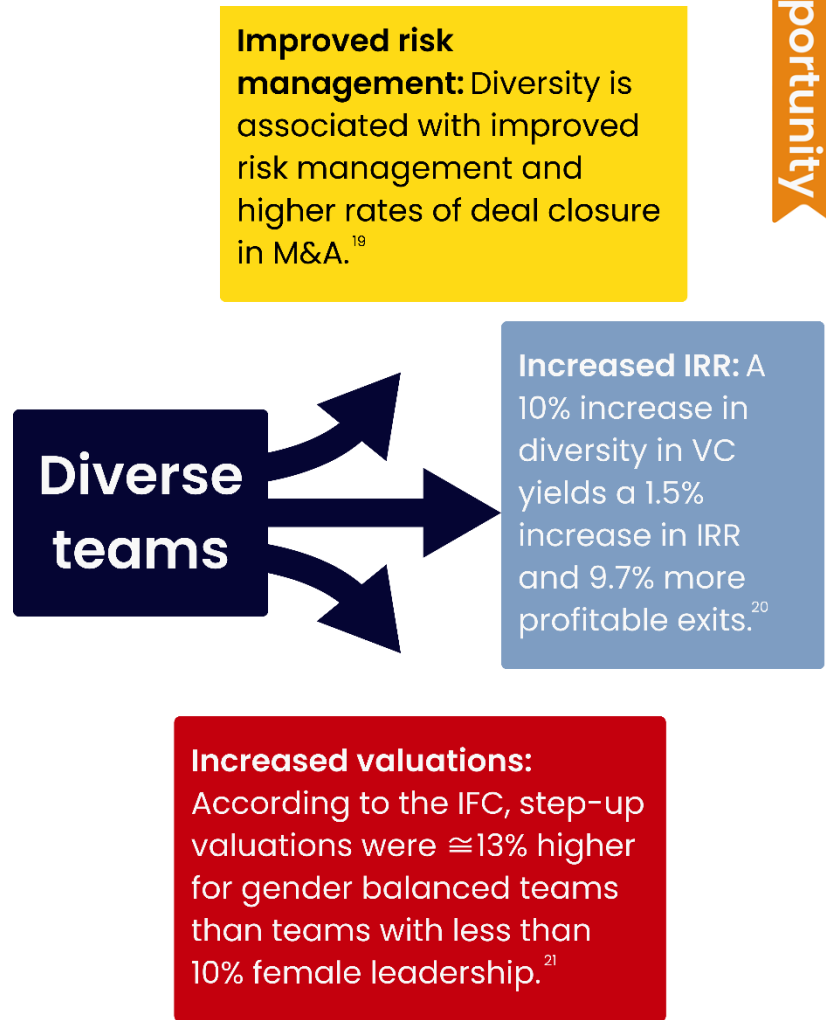
In general, limited data collection on the lives of LGBTQIA+ people both in the U.S. and around the world mean that these figures often underestimate the true cost. There are major economic ramifications when exclusion of the LGBTQIA+ community remains unaddressed.

LGBTQIA+ Inclusion and Leadership is Linked to Positive Performance and Returns

A broad body of research demonstrates that diverse teams make better decisions and help companies make more money. Figure 4 details specific findings on the positive effects of diverse teams: from improved risk management to increased IRR to increased valuations.

There is minimal research on the impact of LGBTQ individuals in senior management, especially at the chief executive level.²² The sole study examining firms with known LGBTQ executives determined that inclusion of LGBTQ leaders has a direct positive impact on a firm’s financial performance and value compared to firms with no LGBTQ leadership.²³ An exhaustive study published in 2023 by Shanaev et. al measured the performance of stocks led by LGBTQ CEOs – of which there were only 26 during the study’s period, yet another marker of severe underrepresentation. They found that those stocks significantly outperform the market by a monthly alpha of 0.69%-1.08% in both raw and risk-adjusted terms.²⁴ As the authors wrote, this implies that:

Figure 2: Financial Benefits of Diverse Teams



“...investors and stock market participants at large substantially discriminate against LGBTQ-led firms and consistently underestimate their performance due to conscious or unconscious biases.”

Also, many studies have found that inclusive policy interventions have positive profitability and societal implications. A 2017 study on U.S.-based firms found that implementation of LGBTQ-inclusive policies – inclusive treatment of a firm’s lesbian, gay, bisexual, and transgender

employees, consumers, and investors — is correlated with higher stock returns and higher market valuations.²⁵ Building on that paper’s analysis, another group found that each standard deviation increase in a firm’s Corporate Equality Index score, an HRC (Human Rights Campaign) score that measures firm-level LGBT friendliness, was associated with a 7% increase in stock market valuation and 0.5% increase in profitability.²⁶ In 2019, another study demonstrated that increased LGBT workplace inclusivity has a strong correlation with increased Tobin’s Q — a measure of firm value, return on assets, and cash flow ratios.²⁷

Investors play a critical role in firm governance and performance and, as investors increasingly factor corporate social responsibility into their investment strategies, their trading activities have significant effects on a firm’s value. A 2022 study found that when firms adopt LGBT-inclusive policies, institutional investors restructure their holdings to reflect their views on LGBT rights, impacting up to 18.3% of a firm’s trading value.²⁸ Investment or divestment can be wielded as a vehicle for change.

The U.S. Supreme Court’s 2020 decision in *Bostock v. Clayton County* grants protections for employees against discrimination on the basis of sexual orientation or gender identity — providing security and an imperative for LGBTQIA+ workplace inclusivity.²⁹ In fact, a 2022 study establishes that institutional protection and implementation of employment non-discrimination policy increases start-up quality (measured by propensity for patent-filing, average amount of VC investment, and ability to survive at least 5 years) because the disincentive to leaving paid work increases with greater job security and improved working conditions.³⁰ This is exemplified by the concentration of funding for LGBTQ+-founded start-ups in California, New York, and Colorado — states with long-established employment non-discrimination policies — where 81% of reported LGBTQ+ start-up funding was raised.³¹ Further evidence of the value created by LGBTQIA-led start-ups comes from the 2023 StartOut report on LGBTQ+ entrepreneurship, which found that:

“LGBTQ+ founders created 36% more jobs, 114% more patents, and 44% more exits, despite raising 16% less funding compared to the average founder.”³²

A 2017 NGLCC report estimated that LGBT entrepreneurship contributed \$1.7 trillion to the American economy and created more than 33,000 jobs.³³ We can extrapolate from this — and from the evidence from California, New York, and Colorado — that the quality (as defined by the study above) of LGBTQIA+-led start-ups will continue to rise given the evolving impact of federal-level protections against discrimination.

Strong Investor Demand for LGBTQIA+ Equity and Inclusion Will Continue to Grow

Current trends indicate increasing demand for investment opportunities that drive LGBTQIA+ equity and inclusion. A 2023 report from Morgan Stanley surveyed a representative sample of individual investors in the U.S. and found nearly half of them want increased opportunities to support LGBTQ+ equity and inclusion.³⁴ Younger investors demonstrate greater interest in these opportunities than older investors – with Gen Z more than twice as likely to express interest than Baby Boomers, and over six times more than the Silent Generation.³⁵ As of 2024, the LGBTQ+ community is estimated to represent nearly 8% of the U.S. population.³⁶ This proportion will continue to rise with a generational increase in those who feel comfortable publicly identifying as LGBTQIA+. Gallup found that in 2023, each generation is nearly twice as likely as the generation preceding it to identify as LGBTQ+ (sampling the data: 22.3% of Gen Z as compared to 9.8% of millennials and 4.5% of Gen X).³⁷ Critically, Gallup estimates that if current trends continue, the proportion of LGBTQ+ adults will exceed 10% within the next three decades.³⁸

Younger investors demonstrate greater interest in these opportunities than older investors – with Gen Z more than twice as likely to express interest than Baby Boomers, and over six times more than the Silent Generation.

Our systems—spanning education, healthcare, corporate human resources, etc.—are unprepared to meet the needs of this growing segment of the population. There are also major investor implications of that shift (i.e. generational wealth transfer and its ramifications for asset management as LGBTQIA+ inclusion matters more to younger generations). As the generational wealth transfer accelerates, giving younger generations more investment power, demand for investment products driving LGBTQIA+ equity and inclusion are likely to increase accordingly. Despite significant interest, there are too few investment offerings to meet demand. About 45% of investors said that limited investing

opportunities prevented them from investing in LGBTQ+ equity and inclusion.³⁹

In 2023, LGBT Capital estimated the global purchasing power of LGBT people to be \$4.7 trillion, with \$1.4 trillion of that in the U.S. alone.⁴⁰ Open For Business ran a comparison with 2022 World Bank GDP data and found that the global LGBTQ+ community has a greater spending power than the

individual populations of Japan, Germany, India, and France.⁴¹ This spending power will continue to expand; Wells Fargo drew on data from Gallup finding that between 2012 and 2021, the number of individuals identifying as LGBTQ+ grew by approximately 118% while the American population only grew by 5.7%.⁴² The purchasing power of LGBTQIA+ consumers is undoubtedly substantial and only poised to grow as more young people identify as LGBTQIA+ despite ongoing anti-LGBTQIA+ legislative efforts – underscoring the untapped financial opportunity to appeal to this population and to the ever-increasing millions of people who consider themselves to be family, friends, and allies to LGBTQIA+ community members.

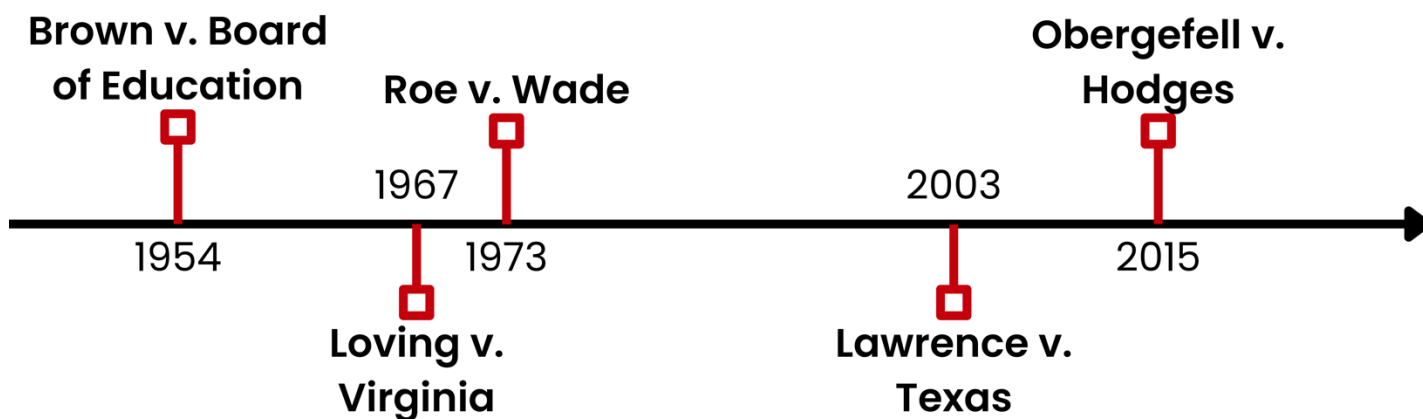
Taken together, the underrepresentation of the LGBTQIA+ community in the financial industry, economic impact indicators, and access to capital, as covered above derives from a history of marginalization that spans politics, healthcare, financial institutions, education, and social stigmas. Despite the potential and already realized economic impact and contribution of LGBTQIA+ people, these inequities will worsen given continued legal and market constraints. Investor action and corresponding capital flow are necessary to fully unfetter and unlock the potential of businesses led by this population.

Outsized Inequity: Legacy, Scope, & Persistence

Where We Are: Sentiment, Policy, and Lack of Data

The Fourteenth Amendment to the Constitution was ratified in 1868 making clear that “No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.”⁴³ Despite this, we are still a long way from ensuring protection for all, and today the protections that have been enshrined into law that include LGBTQIA+-identified people remain under assault. For decades, lawyers have used the Fourteenth Amendment as the foundation of civil rights cases to essentially argue for recognition of personhood for marginalized people. Shown in Figure 5, these arguments have been exemplified by landmark cases like *Brown v. Board of Education* (1954, ended racial segregation in schools)⁴⁴, *Loving v. Virginia* (1967, struck down state anti-miscegenation laws)⁴⁵, the now overturned *Roe v. Wade* (1973, protected the fundamental right to choose)⁴⁶, *Lawrence v. Texas* (2003, decriminalized same-sex sexual conduct)⁴⁷, and *Obergefell v. Hodges* (2015, granted marriage equality).⁴⁸

Figure 3: Landmark Supreme Court Cases

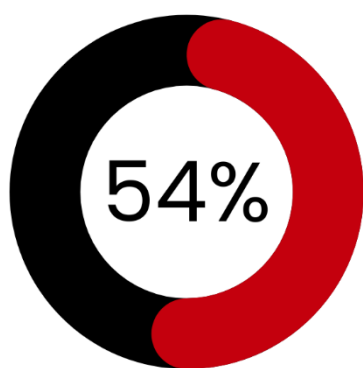


Only in the 2020 *Bostock v. Clayton County* Supreme Court ruling did LGBT people receive federal protection against employment discrimination on the basis of sexual orientation and gender identity.⁴⁹ Attempts to expand on the *Bostock* ruling with passage of the Equality Act — which would include protections in the domains of housing, public accommodations, public education, federal funding, credit and jury service — have thus far been unsuccessful.⁵⁰ The Equality Act would amend existing civil rights laws to explicitly include gender identity and sexual orientation as protected characteristics and expand these protections in public spaces to encompass retail stores, recreational facilities, transit services, and establishments that provide services.⁵¹ While the

law, first introduced nearly a decade ago, passed the House in previous sessions of Congress, it has continually failed to advance beyond the Senate and remains stalled in the 118th Congress.⁵²

Depicted in Figure 6 below, to-date, 54% of LGBTQ people in the U.S. live in an area without state-level protections (34 states and 4 U.S. territories) when applying for credit. These 54% of LGBTQ Americans can be discriminatorily denied credit, mortgage, and lending services for themselves and their businesses.⁵³ Similarly, in 19 U.S. states, LGBTQ people can be unfairly denied housing and 31% of LGBTQ people in the U.S. live in states where they can be refused service in or denied entry to public places or private businesses.^{54,55}

Figure 4: Statistics on Discrimination against LGBTQ People



54% of LGBTQ people in the U.S. live in an area without state-level protections



In 19 U.S. states, LGBTQ people can be unfairly denied housing



31% of LGBTQ people in the U.S. live in states where they can be refused service in or denied entry to public places or private businesses

Basic rights and freedoms for LGBTQIA+ community members vary widely depending on where someone is located. LGBTQIA+ individuals, particularly those who are gender minorities, face evolving risks as the legal landscape changes year to year. State to state, inequitable underlying social, policy, and civil systems have significant negative implications for quality of life and access to services and resources – affecting education, employment, health, and economic outcomes.

A record number of anti-LGBTQ bills in the U.S. were introduced at the state level in 2023—with 510 introduced and 84 signed into law, which reflects rising social disharmony, widening disparities across the LGBTQ community, increasing precarity, and political marginalization.⁵⁶ The actions of legislators are at odds with public sentiment towards LGBTQIA+ issues. A recent poll from The 19th

(an independent, nonprofit newsroom) and SurveyMonkey indicates that only 17% of Americans and 29% of Republicans believe politicians should focus on restricting gender-affirming care.⁵⁷ Research conducted by the nonpartisan Public Religion Research Institute (PRRI) show that 76% of Americans (including 59% of Republicans) support non-discrimination protections in housing, public accommodations, and employment—protections contained within the Equality Act.⁵⁸ In fact, a majority in all states support these protections, with Arkansas (60%), Alabama (61%), Oklahoma (61%) and Wyoming (61%) exhibiting the lowest levels of support.⁵⁹ However, between 2022 and 2023, PRRI found that support has dropped slightly.⁶⁰ The introduction of anti-LGBTQ+ bills continues to reinforce negative perceptions of LGBTQIA+ people—exacerbating existing stigmas.

Continued stigma associated with identifying as LGBTQIA+ prevents many people from declaring their sexual orientation, gender identity, gender expression, and sex characteristics. The lack of data collection, symptomatic of a legacy of exclusion, hinders the ability to gain a more comprehensive understanding of the extent to which underlying social structures in the U.S. — structures related to democracy, education, income, and wealth accumulation, etc. — 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, which in themselves would have a signaling effect of broader acceptance and support. In 2022, the Biden Administration recognized the need for change and issued the Executive Order on Advancing Equality for Lesbian, Gay, Bisexual, Transgender, Queer, and Intersex Individuals. The executive order mandates the collection of data and the development and implementation of initiatives, programs and policies from the Attorney General, Secretary of HHS, Secretary of Education, Secretary of HUD, Secretary of State, and Director of the OMB.⁶¹ Currently the census and American Community Survey (ACS) only collects data on married or cohabiting same-sex couples — meaning that single LGBTQIA+ individuals are excluded from the dataset. However, in 2024, the U.S. Census Bureau has proposed the addition of questions about sexual orientation and gender identity to the ACS.⁶² As the nation’s largest statistical agency, the addition of these questions would mark a definitive step forward towards a national normalization of data, inclusion of LGBTQIA+ people and their identities in national data, and sector-specific progress.

A record number of anti-LGBTQ bills in the U.S. were introduced at the state level in 2023— with 510 introduced and 84 signed into law,

From its inception, the U.S. has created systems that perpetuate LGBTQIA+ inequity, alongside sexist and racist ideologies. Only with more data can we know the extent of inclusion in, and exclusion from, the structures that make up the foundation upon which the U.S. economy is built. The data that does exist paints a sobering picture of the ways that these systems have and continue to adversely affect the LGBTQIA+ community, documented further in the sections below.

Intersectionality, Discrimination and Minority Stress

While press, literature, and social commentary often refer to the LGBTQIA+ community as a monolith, the intersectional^E identities of BIPOC (Black, Indigenous, and People of Color), TGNC (Transgender and Gender-non-conforming individuals), as well as other marginalized people are often not captured, included, or noted.

The LGBTQIA+ community is a microcosm of society; racism, transphobia, sexism, and ableism overlay disparately as external, in-community, and individual stressors for the most marginalized individuals. A 2023 study has shown that while LGBTQI+ adults experience discrimination at higher levels than non-LGBTQI+ adults (36% compared to 19%), transgender, intersex and LGBTQI+ people of color are disproportionately discriminated against.⁶³ Reports of discrimination increase to 56%

for transgender people and 67% for people with intersex traits; additionally, 45% of LGBTQI+ people of color compared with 31% of white LGBTQI+ people experienced discrimination.⁶⁴

Transgender, intersex and LGBTQI+ people of color are disproportionately discriminated against

While heterosexism (encompassing homophobia, transphobia, etc.) is experienced across the entire LGBTQIA+ community, racial minorities within the community experience elevated levels of these biases due to cultural contexts. These higher levels of discrimination (including racism, transphobia, and misogyny within the community) towards multiply marginalized LGBTQIA+ community members contribute to the pressure to conceal one's identity, a heightened awareness of external oppression, and/or the creation of other coping mechanisms.

^E This term was first coined by Kimberle Crenshaw in 1989 to capture the unique challenges that black women face within discrimination law. Crenshaw Kimberle. "Demarginalizing the Intersection of Race and Sex: A Black Feminist Critique of Antidiscrimination Doctrine, Feminist Theory and Antiracist Politics" University of Chicago Legal Forum, 1989.

The Minority Stress Model^f elucidates the ways in which accrual of stress leads to mental and physical health disparities for stigmatized minority groups.⁶⁵ Specifically, how distal/external stressors (e.g. discrimination from people and institutions, microaggressions, and victimization) and proximal reactions (e.g. internalized stigma, expectation of rejection, and identity concealment) together contribute to chronically elevated stress levels.⁶⁶ Today, the scope of the Minority Stress Model has broadened to include gender⁶⁷ and racial minorities⁶⁸—providing a framework to understand the detrimental impact of minority stress on health and well-being for people who are marginalized in multiple ways. In fact, a study examining how minority stress differentially affects LGBT people of color demonstrated that spaces typically understood to foster community resilience (e.g. LGBTQIA-affirming clinics and community centers) can also be a source of racial/ethnic stigma for BIPOC individuals due to a relative lack of intersectional LGBT POC spaces and the prevalence of racism.⁶⁹ These data points demonstrate that solutions or policy changes that fail to account for the nuances of the multi-faceted communities present within the LGBTQIA+ community will perpetuate the ‘isms’ of society.

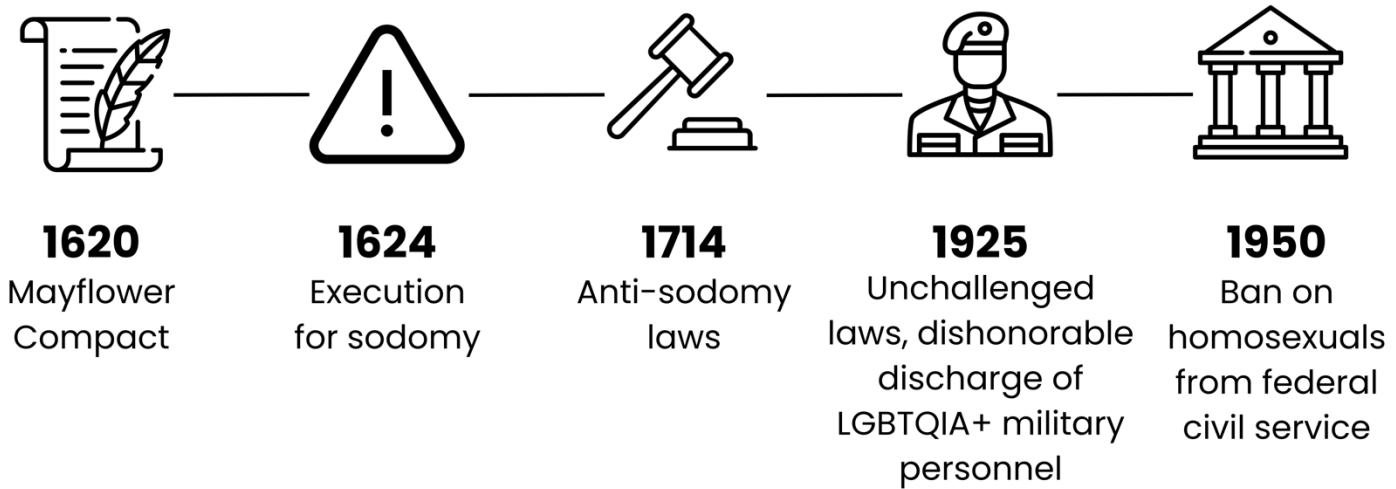
The Systems that Led Us Here

Criminal Justice & Persecution

Illustrated in Figure 7 below, even before the nation’s founding, the signing of the Mayflower Compact in 1620 established gender norms designating that a woman’s role was to “please her husband and make him happy.”⁷⁰ Symbolic of that era’s attitudes towards LGBTQIA+ individuals, a man was executed for sodomy in 1624, with anti-sodomy laws being enacted in the early colonies by 1714 and remaining unchallenged until 1925.⁷¹ For centuries in the U.S., the criminalization of homosexuality and gender expression has permitted police to indiscriminately harass LGBTQIA+ people and raid their establishments with impunity. Today, this contributes to the overrepresentation of LGBTQIA+ individuals in the criminal justice system. For example, gay, lesbian, and bisexual people are 2.25 times more likely to be arrested than their heterosexual peers—with lesbian and bisexual women facing a fourfold higher arrest risk than straight women.⁷² In fact, individuals who identify as lesbian, gay or bisexual are 3 times likelier to be incarcerated than the general U.S. population.⁷³

^fThis term was first coined in 2003 by Ilan H. Meyer after consolidating empirical evidence on the social, psychological, and structural factors affecting sexual minorities. I. H. Meyer (2003). “Prejudice, social stress, and mental health in lesbian, gay, and bisexual populations: Conceptual issues and research evidence”. *Psychological Bulletin*, 129 (5), 674–697.

Figure 5: Brief History of Discrimination and LGBTQIA+ Resistance In the US



Criminalization of LGBTQIA+ identities in the U.S. is partially rooted in colonization, genocide, and enslavement. According to authors Mogul, Richie, and Whitlock, “from the first point of contact with European colonizers, Indigenous peoples, enslaved Africans, and immigrants—particularly immigrants of color, were systematically policed and punished based on actual or perceived ‘deviant’ sexualities and gender expressions.”⁷⁴

These discriminatory biases and practices, which have led to persecution and imprisonment of LGBTQIA+ peoples, also underlie a harmful legacy of medical classifications and practices—several of which continue today despite the absence of scientific evidence.

Healthcare

In 1952, the American Psychiatric Association’s (APA) newly-published Diagnostic and Statistical Manual for Mental Disorders (DSM) listed homosexuality as a sociopathic personality disturbance—serving as the foundation for pernicious treatments, laws, and regulations, including the basis for legal denial of employment to homosexuals.⁷⁵ It wasn’t until 1973 that homosexuality was removed from the APA’s list of mental disorders—and from the DSM altogether in 1987.⁷⁶ Despite that progress, the DSM in 1980 and International Classification of Diseases (ICD) in 1990 still pathologized those whose gender identity does not align with their sex assigned at birth, coding ‘gender identity disorder’, ‘transvestism’, and ‘transsexualism’ as psychosexual disorders or disorders of sexual preference.⁷⁷ Three decades later, the DSM in 2013 and ICD in 2019 no longer considered being transgender a psychiatric disorder—finally recognizing the distinction between gender and sex—and shifted diagnostic emphasis to the distress and dysfunction associated with

gender dysphoria/incongruence, particularly in unwelcoming environments and places lacking protective laws.⁷⁸

Classification of homosexuality and incongruous gender identity as a disorder gave rise to “conversion therapy” interventions that purported to “cure” these conditions—ranging from brain surgery to electric shock and aversion therapy.⁷⁹ In 2020, both the International Rehabilitation Council for Torture Victims⁸⁰ and the UN⁸¹ classified conversion therapy as torture. However, conversion therapy is still practiced in almost all states (except for Vermont and Hawaii), despite being banned in 22 states and the District of Columbia.⁸²

The 80s and 90s were rife with individual and community experiences of fear, trauma, and grief as the HIV/AIDS epidemic ravaged the LGBT community.⁸³ Those who became HIV-positive faced extraordinary loss—of friends, family, housing, healthcare, and employment—due to pervasive stigma. Many suffering from HIV/AIDS were reliant on care from ill-equipped and poorly funded institutions, and other at-risk members of their community who organized for survival. A diagnosis of HIV/AIDS meant many were unable to obtain or retain health insurance that would cover the costs of prevention and treatment. This, coupled with pharmaceutical pricing, made needed treatments like azidothymidine (commonly known as “AZT”) and protease inhibitors unaffordable and inaccessible.⁸⁴

Between 1987 and 1998, 324,029 people died of AIDS or HIV-related causes in the United States.⁸⁵ At the height of the epidemic, Black men aged 25-44 in the U.S. had a mortality rate almost 4.45 times higher than that of white men.⁸⁶ By 1995, the epidemic had devastated the U.S. population of gay male baby boomers, often referred to as the “lost generation.” One in nine were diagnosed with AIDS, one in fifteen died, and overall, 10% of the 1.6 million gay-identifying men aged 25-44 had lost their lives.⁸⁷

LGBTQ+ people are twice as likely to report being discriminated against during a healthcare visit and nearly half (45%) experienced negative interactions with healthcare providers—compared to 33% of non-LGBTQ+ people

Until the arrival of antiretroviral therapy in 1996, an HIV diagnosis was a de facto death sentence—underpinned by homophobia in public policy and resource allocation, pharmaceutical company decision-making, and healthcare services. The ramifications of the epidemic are still felt by that generation; those diagnosed before 1996 are more likely to have multiple comorbidities.⁸⁸ While the FDA lifted some 90s-era restrictions on blood donations by LGBTQ+ people in 2023, today, the stigma surrounding HIV remains prevalent.⁸⁹ Currently, 34 states have laws in place—originally

implemented when research on HIV transmission and treatment was limited—that criminalize HIV exposure, however, many of these laws criminalize behaviors that cannot transmit HIV.⁹⁰

Exacerbated by the AIDS crisis, the LGBTQIA+ community has long had a fraught relationship with the U.S. healthcare system. From ongoing barriers to accessing gender-affirming care for transgender people to continued discrimination and stigma, LGBTQIA+ individuals face significant challenges to achieving positive health outcomes. Many hold several intersectional identities, increasing their layered and complex barriers to healthcare. The dearth of culturally competent care has been documented in several studies. A survey of medical schools in Canada and the U.S. found that 40% spent zero hours on LGBT-related curricular content. Among those that did, the median reported time was only five hours.⁹¹ Additionally, a third of transgender individuals reported the need to educate healthcare providers themselves in order to receive appropriate care.⁹² Intersex[©] children have also historically been forced to undergo medically unnecessary procedures to ensure conformity to binary sex stereotypes that have led in some cases to permanent infertility, pain, incontinence, loss of sexual sensation, and lifelong mental suffering, including depression.⁹³

Due to underlying factors like state legislation, mistreatment and abuse from healthcare providers, and discrimination from insurers, LGBTQ+ people are twice as likely to report being discriminated against during a healthcare visit and nearly half (45%) experienced negative interactions with healthcare providers—compared to 33% of non-LGBTQ+ people.⁹⁴ Compared to 18% of non-LGBTQ+ people, 25% of LGBTQ+ people reported being in fair or poor health, with that proportion rising for those with low incomes or with Medicaid coverage.⁹⁵ The Center for American Progress (CAP) also found that in 2022, LGBTQI+ people are over twice as likely as non-LGBTQI+ people to rate their mental health as “poor” or “bad”.⁹⁶

Education & LGBTQIA+ Youth

The harassment, bullying, and differential treatment experienced by LGBTQIA+ youth at home and at school threatens and diminishes their future economic stability. LGBTQ youth homelessness is a well-documented issue, with 28% reporting experiencing homelessness or housing instability in their lives.⁹⁷ Additionally, 16% of LGBTQ youth reported running away from home, and 14% reported being kicked out or abandoned—indicating overlap in these experiences.⁹⁸ Unfortunately, a 2023 survey conducted by The Trevor Project reveals a grim reality: fewer than 40% found their home to be affirming of their sexual orientation or gender identity.⁹⁹

Ongoing legislation, typified by Florida’s ‘Don’t Say Gay’ and subsequent ‘Don’t Say They’ laws, perpetuates the stigma that LGBTQ people are “deviants” and restricts learning opportunities in

[©] People born with sex characteristics that do not fit typical definitions for male or female bodies, including sexual anatomy, reproductive organs, hormonal patterns, and/or chromosome patterns

schools. Nearly two-thirds of LGBTQ youth reported that hearing about state or local laws prohibiting discussion about LGBTQ people at school adversely affected their mental health.¹⁰⁰

The GLSEN’s (Gay, Lesbian & Straight Education Network) 2021 National School Climate Survey on the experiences of LGBTQ+ middle and high school students (Figure 8) found that an overwhelming 83.1% of LGBTQ+ students experienced in-person harassment or assault at school based on personal characteristics, and 97% reported hearing “gay” used pejoratively.¹⁰¹ Distressingly, 72% of students reported hearing negative remarks about gender expression from teachers or other school staff.¹⁰² These experiences have deleterious effects on mental health; in The Trevor Project’s 2023 survey, 41% of LGBTQ youth had seriously considered attempting suicide in the past year.¹⁰³

Bullying, harassment, assault, and discrimination disincentivizes and discourages youth from attending school and investing in their education, thereby diminishing their human capital potential. Those subjected to higher levels of victimization were twice as likely as those who experienced lower levels to indicate no intention of pursuing post-secondary education, as well as demonstrate poorer academic performance – with an average GPA of 2.83 compared to 3.15.¹⁰⁴ These factors impede LGBTQIA+ youths’ ability to access the resources and/or connections necessary for laying the foundation for success.

These percentages of LGBTQ+ middle and high school students...

- Heard “gay” used pejoratively
- Experienced in-person harassment or assault at school based on personal characteristics
- Heard negative remarks about gender expression from teachers or other school staff
- Seriously considered attempting suicide in the past year

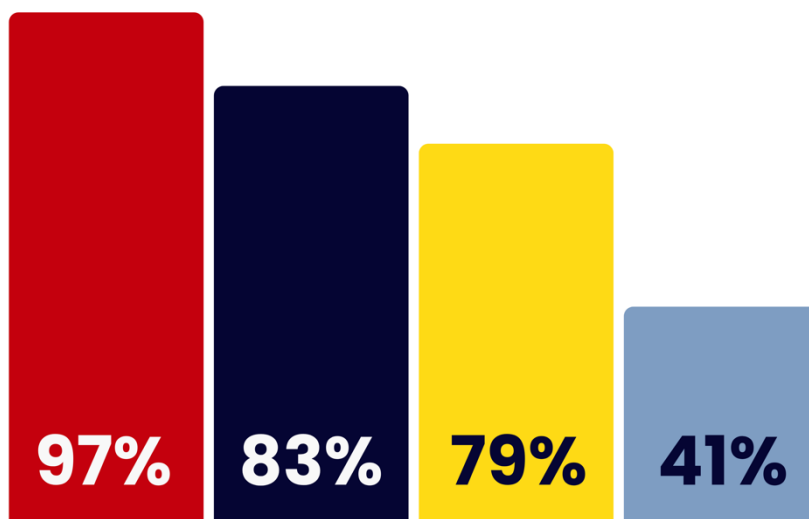


Figure 6: LGBTQ+ Students Experiencing In-Person Harassment or Assault at School Based On Personal Characteristics

Measures of Wealth: Income Disparity, Housing, and Retirement Support

LGBTQIA+ identity weighs negatively on earnings, housing, and economic strength.¹⁰⁵ A 2022 study found that 10 years after graduating with a bachelor's degree, LGBTQ+ graduates in the U.S. earn an average of 21.7% less than their non-LGBTQ+ peers. The study found that this discrepancy is a result of labor market discrimination and a lower likelihood of completing a high-paying major.¹⁰⁶ In fact, in their 2020 study, Burn and Martell found that gays and lesbians selected majors with lower levels of prejudice which were inversely correlated with high-paying fields like STEM and business.¹⁰⁷ Discrimination and/or fear of prejudice clearly impacts financial outcomes for LGBTQIA+ people.

Negative outcomes related to lack of human capital development are also linked to poverty, income, and housing status. In 2019, prior to COVID-19, 21.6% of LGBT adults in the U.S. were living in poverty—compared to 15.7% for cisgender straight people.¹⁰⁸ Race and ethnicity further exacerbate disparities with poverty rates increasing to 30.8% and 37.3% for Black and Latine LGBT people, respectively—compared to 15.4% for white LGBT people.¹⁰⁹ From 2022 data, 22% of LGBTQ+ adults had an income of less than \$25,000 compared to non-LGBTQ+ adults (14%).¹¹⁰ The gender wage gap is also evident: median household wealth for female same-sex couples was less than half that of mixed-sex couples.¹¹¹ The 2022 CAP report also found that “nearly 3 in 10 LGBTQI+ adults reported experiencing some kind of housing discrimination or harassment in the past year because of their sexual orientation, gender identity, or intersex status.”¹¹²

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The 2022 Congressional LGBTQ+ Equality Caucus’ “Inaugural Report on The Condition of LGBTQ+ People in the United States” that food insufficiency — a more severe condition than food insecurity that measures whether a household has enough to eat — is more than twice as high among LGBTQ+ people as it is among the general population.¹¹³ Economic insecurity is even worse for LGBTQ+ people of color, with 37% of Black LGBTQ+ adults experiencing food insecurity, compared to 22% of their white counterparts.¹¹⁴ Beyond the Caucus’ report, additional evidence indicates economic security differentials for more marginalized members of the LGBT community; transgender people face worse levels of economic insecurity than cisgender people. In 2021, more than 30% of transgender adults were living at or below the Federal Poverty Level.¹¹⁵

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Aspirations and determinants towards wealth building and retirement are rife with barriers for LGBTQIA+ individuals in the U.S. Our 2022 [Barriers & Exclusions report](#) summarized differentials in access to traditional financial services such as credit cards, savings accounts, and loans. LGBTQ people are 1.5 times more likely to have been turned down for credit compared to non-LGBT peers.¹¹⁶ Notably, only 13% of LGBTQ+ Americans hold non-retirement investment accounts, compared to 56% of the overall U.S. population.¹¹⁷ Indicative of pervasive economic disparities, a recent study by the Center for LGBTQ Economic Advancement & Research found that 23% of LGBTQ households were unbanked or underbanked, increasing to 46.9% and 37.6% for Black and Hispanic LGBTQ households

respectively.¹¹⁸ In contrast, only 18% of non-LGBT households were unbanked or underbanked in the U.S.¹¹⁹ Furthermore, there is considerable evidence that same-sex couples experience mortgage discrimination when compared with different-sex couples. A 2024 study of home mortgage applications in the U.S. between 2018 to 2021 found that same-sex couples are 8.8% more likely to be denied a home mortgage and are quoted an interest rate that is 0.8% higher conditional on approval.¹²⁰

Retirement planning for LGBTQIA+ adults requires different considerations than for other communities, particularly since older LGBTQIA+ adults are more likely to be single, live alone, and have no children or family they can rely on for caregiving as they age.¹²¹ A 2022 survey found that LGBTQIA+ Americans are less confident they will have enough to live comfortably in retirement than straight and cisgender Americans. Even when narrowed to upper-income respondents, 89% of non-LGBTQ Americans reported confidence in their retirement savings, while only 76% of LGBTQ respondents felt the same.¹²² These numbers also likely have a historic basis; before marriage equality was achieved in 2015, same-sex couples were not entitled to financial benefits (related to social security and tax filing) afforded to married heterosexual couples.

Older LGBTQIA+ adults are more likely to be single, live alone, and have no children or family they can rely on for caregiving as they age.

Workplace Equity and Corporate Leadership

The landscape of rights for LGBTQIA+ workers has been marked by a history of oppression—with meaningful progress only being achieved in the last two decades. During World War II, many LGBTQ military personnel were dishonorably discharged and treated as sexual psychopaths—preventing them from receiving benefits from the G.I. bill and future employment.¹²³ In 1950, amid a cultural shift towards conservatism, the U.S. Senate and President Eisenhower banned and

terminated anyone suspected of “sexual perversion” from federal civil service—linking non-heteronormative identities to communist values.¹²⁴ Eisenhower’s Executive Order 10450 was in place until President Barack Obama repealed it in 2017.¹²⁵ Exacerbating employment discrimination embedded in this law, LGBTQIA+ people could still be fired for testing positive for HIV – despite protections against termination due to health status enshrined in the Disabilities Act of 1990.¹²⁶

In a 2022 survey, 50% of LGBTQI+ people reported workplace discrimination or harassment based on their identity, including 70% of transgender respondents.

Despite the Supreme Court’s 2020 *Bostock v. Clayton County* decision extending protections for U.S. employees against discrimination based on sexual orientation or gender identity,¹²⁷ employment discrimination and workforce exclusion

remains pervasive. In a 2022 survey, 50% of LGBTQI+ people reported workplace discrimination or harassment based on their identity, including 70% of transgender respondents.¹²⁸ Enforcement of employment non-discrimination policies is clearly lacking: over 20% of respondents reported being fired, denied a promotion, equal wages, or training opportunities because of their identity.¹²⁹ Interestingly, although LGBTQI+ people are employed at higher rates they face greater income and job instability than non-LGBTQI+ people—often working part-time, as freelancers, contractors, or in the gig economy.¹³⁰

The significant underrepresentation of LGBTQIA+ people in corporate leadership—demonstrated in a number of studies referenced previously, among them that only 0.6% of Fortune 500 corporate board members identify as LGBTQ+ even though LGBTQ+ people represent nearly 8% of the U.S. population¹³¹—has been compounded by a history of employment discrimination as well as the toll of the HIV/AIDS epidemic on that generation of leaders who are currently in their 60s and 70s. Network gaps - informal networks that have traditionally been centered in largely exclusionary

groups, locales, and activities – as well as long-standing biases in industries that have been slow to embrace LGBTQIA+ talent, contribute to this imbalance in corporate board representation.

The Need for System-Level Change

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. This extends to employment and housing decisions, investment preferences, social interactions, and educational outcomes. Notably, in 2023, the Canadian government issued a travel advisory cautioning LGBTQ

citizens visiting the U.S. due to a consistently more hostile legal landscape.¹³² If the U.S. continues to be perceived as intolerant, it risks brain drain and migration to countries with more progressive policies—resulting in creativity and innovation losses. Inclusion is urgently needed.

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.

Social inclusion is imperative for economic growth and development—and the importance of LGBTQIA+ inclusion is recognized by multiple organizations. The United States Agency for International Development (USAID) links LGBTQI+ inclusive development to strengthening livelihoods, economies, and democracies.¹³³ Similarly, Chatham House views rising global anti-LGBTQ rhetoric as a marker of weakening democratic norms.¹³⁴ Though the task of achieving systems change is daunting,

ongoing research from the World Bank finds that exclusion is not immutable.¹³⁵ Through careful planning, education, and partnership with excluded and marginalized groups, incremental advances and social inclusion can be achieved.

Extending beyond the negative impacts of U.S. policies and practices, LGBTQIA+ individuals around the world face severe, life-threatening, and inhumane repercussions for being who they are. In 65 countries it remains illegal to practice homosexual activity, and in 12 of those countries, adults who engage in consensual same-sex acts can face the death penalty.¹³⁶ Honor killings, rape, and forced marriages continue unabated in several places, with transgender people particularly at risk.¹³⁷ Conversion therapy is still legal and practiced around the world, including in

the UK and Switzerland.¹³⁸ Canada, Greece, France, and New Zealand only enshrined protections for LGBTQ people from conversion therapy in 2021 or 2022.¹³⁹

To be LGBTQIA+ is to live—as many marginalized populations do—within systems that are unjust. An individual’s access to housing, healthcare, a safe learning environment, inclusive public spaces, and a just criminal process, should not depend on any classification—be it race or ethnicity, socioeconomic status, sexual orientation, gender identity, health status, or ability. Each new report that details the impact of discrimination on the lives and well-being of LGBTQIA+ people underscores the need for ongoing structural and system-level change. In acting to address this need, we must remain mindful of the pervasive effects of racism, sexism, ableism, homophobia, transphobia, and xenophobia within society—or we risk perpetuating the same marginalizing behaviors that led us here.

An individual’s access to housing, healthcare, a safe learning environment, inclusive public spaces, and a just criminal process, should not depend on any classification—be it race or ethnicity, socioeconomic status, sexual orientation, gender identity, health status, or ability.

Outsized Impact: How Finance Can Advance and Assess LGBTQIA+ Equity

Capital flows have the power to effect systemic change, provide opportunity, advance social progress, and uplift futures. As detailed above, discrimination against LGBTQIA+ people permeates all aspects of life and economic activity in the U.S. Investors face a moral and economic imperative to upend discriminatory social and financial structures and adopt new practices that champion LGBTQIA+ equity and inclusion.

The financial community — encompassing financial services, corporate leaders, and investment decision-makers — is uniquely positioned to leverage investor responsibility as financial stewards in advancing responsible, remunerative, and equality-oriented progress. By embracing a system-level investing approach, investors can expand the expectations of fiduciary duty as stewards of not only capital but also the interconnection of environmental and social well-being.

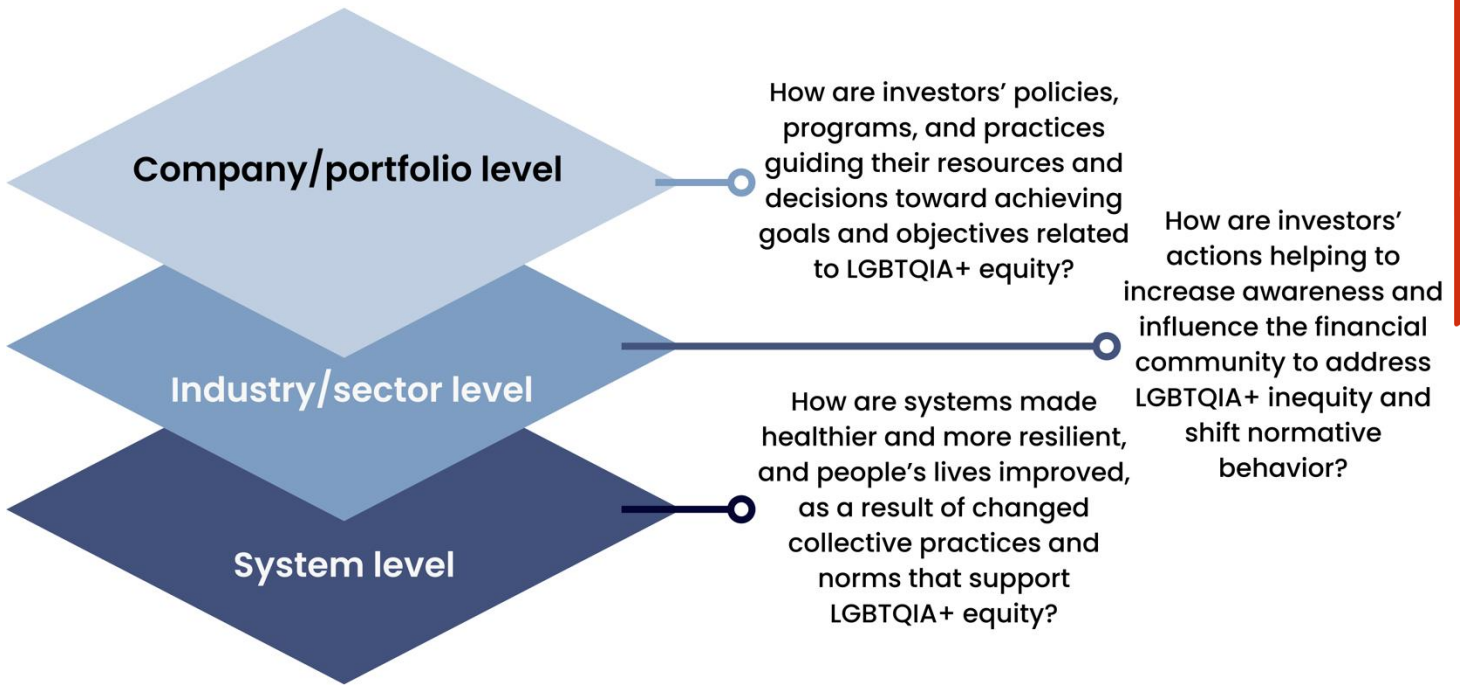
We assert that the impact of an investor's actions is amplified and gains momentum through collaborative efforts across the financial system. Aligning the actions of investors with varying resources, areas of influence, and capabilities is crucial to achieving system-level goals that can support stable systems.¹¹ Coordinated action like this is only possible if players in the financial system have access to shared, useful data of the kind explored and envisioned here.

The guidance that follows is designed to provide a framework for investors to reduce systemic risks, improve portfolio performance, and strengthen the health and resilience of environmental and social systems. An effective system-level approach requires that investors target and assess impact from portfolio-, sector- and system-level standpoints.

Investors face a moral and economic imperative to upend discriminatory social and financial structures and adopt new practices that champion LGBTQIA+ equity and inclusion.

¹¹This section draws from and adapts The Investment Integration Project's (TIIP's) "(Re)Calibrating Feedback Loops: Guidance for Asset Owners and Institutional Investors Assessing the Influence of System-level Investing", TIIP The Investment Integration Project, 2023.

Figure 7: Investors Can Assess Progress Towards System-Level Goals at Three Levels



To employ a system-level approach to addressing LGBTQIA+ inequity, investors should:

- 1** Set goals and objectives related to specific target groups and system-level outcomes
- 2** Extend portfolio management tools and adopt advanced techniques
- 3** Assess progress

Ultimately, these steps aim to enhance investor ability to effectively invest in solutions to LGBTQIA+ inequity, encourage corporations to use resources or to develop products and services to address LGBTQIA+ inequity, encourage governments and other regulators to facilitate investment in solutions to LGBTQIA+ inequity, and discourage investments that might perpetuate it. The

following sections outline how to incorporate the steps above into a system-level investment approach that addresses LGBTQIA+ inequity.

Step 1: Set goals and objectives

Core to setting system-level goals to address LGBTQIA+ inequity is ensuring that an investor's policies, programs, and practices are aligned with that overarching mission. To do so, the investor 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.

In this report, we use four indicators of system health and resilience (adapted from TIIP; see appendix B) to frame the following goals to advance LGBTQIA+ progress:¹

- **Promoting LGBTQIA+ equity at U.S. corporations and financial institutions:** In 2022, over 20% of respondents to a survey conducted by the Center for American Progress (CAP) reported being fired, denied a promotion, equal wages or training opportunities because of their identity.¹⁴⁰
- **Increasing access to capital for the broad LGBTQIA+ community:** On average, in the U.S., LGBTQ+ adults have fewer assets and lower incomes than non-LGBTQ+ adults, according to the Federal Reserve Bank of St. Louis.¹⁴¹
- **Improving wealth-generating financial outcomes for LGBTQIA+ founders:** A 2022 study conducted by Shanaev et al. found that stocks led by LGBTQIA+ CEOs significantly outperform the market by a monthly alpha of 0.69%–1.08% in both raw and risk-adjusted terms.¹⁴²
- **Contributing to the development of LGBTQIA-equitable social structures:** CAP summarized from their 2022 survey: “LGBTQ+ individuals continue to experience significantly higher rates of discrimination than non-LGBTQ+ individuals, a trend that holds true in virtually every setting surveyed—including health care, employment, housing, and public spaces.”¹⁴³
- **Driving financial inclusion to spur economic growth and social cohesion:** Lee Badgett’s research demonstrates that exclusion of LGBTQ+ individuals impedes economic growth.¹⁴⁴
- **Improving data capture and infrastructure related to dimensions of LGBTQIA+ progress:** Currently the census and American Community Survey (ACS) only collects data on married or cohabiting same-sex couples — meaning that single LGBTQIA+ individuals are excluded from the dataset.¹⁴⁵

To illustrate how an investor can help advance these goals, Table 1 below details activities that Colorful Capital pursues at the company/portfolio-level, industry/sector-level, and system-level.

¹We developed these goals to be applicable to the entire LGBTQIA+ community, though several of the supporting studies referenced only focus on segments of the community (i.e., LGBTQ+ or LGBT without the additional categories).

Table 1. Example of how Colorful Capital is leveraging our capabilities towards advancing goals and objectives related to LGBTQIA+ equity

<p>Company/Portfolio-level Impact Goal:</p> <p>Increase access to capital for LGBTQIA+-leaders, including expanding the world of VC impact capital available beyond CC investment</p>	<p>Industry/Sector-level Impact Goal:</p> <p>Engage the financial community to increase capital flows toward LGBTQIA+ equity and implement new behavior norms</p>	<p>System-level Impact Goal:</p> <p>Drive economic growth and social cohesion, particularly for the LGBTQIA+ community, as we further the financial inclusion of LGBTQIA+ leaders</p>
<p><i>Colorful Capital focuses investments in promising LGBTQIA+-led start-ups and enterprises, and supports them by.</i></p>	<p><i>Colorful Capital influences other investors and key stakeholders to drive industry-wide change by.</i></p>	<p><i>Colorful Capital collaborates with the investment community, policymakers, and key stakeholders towards this goal by.</i></p>
<p>Bridging the funding gap for leaders and entrepreneurs who identify as LGBTQIA+ through intentional sourcing, robust due diligence and direct investments.</p> <p>Expanding the world of impact investment capital that investees are eligible for by helping each establish an impact measurement and management (IMM) process aligned with leading standards (GRI, ISSB & HRC) – spanning sustainability risks and opportunities; sector-specific materiality criteria; and diversity, equity & inclusion.</p> <p>Facilitating investees' long-term sustainability and enterprise growth through Colorful Capital's counsel and networks.</p> <p>Facilitating investees' long-term sustainability and enterprise growth through Colorful Capital's counsel and networks.</p> <p>Reinvesting a portion of Colorful Capital's investment earnings (carry pool) to incrementally increase LGBTQIA+ leaders' access to capital—extending firm's impact even further.</p>	<p>Generating and sharing insights to deepen collective understanding of LGBTQIA+ equity in investing (e.g., “Barriers and Exclusion: A baseline study on the LGBTQ+ Experience in Venture Funding” report, January 2022)</p> <p>Building and joining coalitions with like-minded venture capital firms and market-makers aiming to leverage investing as a tool of economic growth and increased social cohesion.</p> <p>Engaging in public and professional discourse on diversity, equity & inclusion; centering LGBTQIA+ equity with an intersectional lens.</p> <p>Making the empirical case for investor demand of investment options that center LGBTQIA+ equity—and that this demand remains unmet (i.e., the 2023 study on “The Growing Demand for LGBTQ+ Investment Options,” Morgan Stanley Institute for Sustainable Investing, June 2023).</p>	<p>Raising awareness of barriers faced by LGBTQIA+ communities, the need for greater LGBTQIA+ equity and inclusion across systems, and the opportunities related to greater LGBTQIA+ inclusion (i.e., UNDP’s “A Set of Proposed Indicators for the LGBTI Inclusion Index,” by Lee M. V. Badgett and R. Sell).</p> <p>Informing and supporting the development and refinement of data metrics, methods, and sources that cover dimensions of LGBTQIA+ progress (e.g., this report).</p> <p>Driving inclusive policy and regulation regarding diversity, equity & inclusion disclosures, protections, and investment practices—with an intersectional focus on the LGBTQIA+ community (see steps 2 and 3 below for related recommendations).</p>

Step 2: Extend conventional portfolio management tools and utilize advanced techniques

Investors can deploy numerous tools to substantiate their goals to address the systemic issue of LGBTQIA+ inequity as identified in Step 1. For example, when emphasizing systemic issues in security selection and portfolio construction, system-level investors should consider the utility of each asset class and take cues from the needs of the system to inform their investment strategies. By fostering a critical awareness of how different asset classes serve distinct societal needs, investors can more effectively address system-level challenges by precisely aligning their use of asset classes to the specific capabilities of each asset class—enabling systems to generate positive outcomes from the start of their engagements, contributing to a rising tide of investment opportunities for all investors.

- **Fixed income investments** naturally drive public benefit when issued by governments.
- **Public equities** are well-suited to influence incremental change in large firms.
- **Venture capital** is a disruptor and innovator of business models and services.
- **Real estate** is key to the built environment.
- **Private equity** can sway management practices towards systemic, social, and environmental outcomes.

Investors can also develop investment belief statements that prioritize LGBTQIA+ equity, establish shareholder engagement programs, and incorporate system-level considerations in manager selection and assessment. What distinguishes system-level investing from conventional approaches is its integration of key tools not just at the portfolio-level management of risks and rewards, but also in exploring their application at the sector/industry-level and system-level.

To address LGBTQIA+ inequity, system-level investors can employ several portfolio management approaches and advanced techniques, including:

Table 2. Examples of Existing Portfolio Management Techniques

Existing Portfolio Management Techniques	System-level Actions
<p>Statements of Investment Beliefs</p>	<p>Develop a Statement of Investment Beliefs that expresses trustees' and their institutions' core beliefs regarding financial markets and their roles within them. This level of transparency and intention holds the potential to guide unified decision-making—impacting LGBTQIA+ inequity through investments across all asset classes.</p>
<p>Security selection and portfolio construction</p>	<p>Assess LGBTQIA+ inequity and its impacts on industries and stakeholders across portfolios—in addition to conventional investment analysis—and intentionally allocate capital to companies, instruments, and opportunities that advance LGBTQIA+ equity. This could involve supporting companies or funds managed by members of the LGBTQIA+ community that have implemented LGBTQIA+-inclusive policies and practices, offered products and solutions that address the community's needs, and/or directed philanthropic efforts to furthering LGBTQIA+ equity.</p>
<p>Manager diligence</p>	<p>Assess managers' skill level for mitigating systemic risks of LGBTQIA+ inequity, support them in improving and implementing system-level investment competencies, and hold them accountable for progress over time. Key factors to assess include:</p> <ul style="list-style-type: none"> • How members of the LGBTQIA+ community are incorporated into leadership and decision-making. • How a manager approaches ESG and impact measurement, management and reporting—including their understanding of, and processes for addressing, systemic risks. • How the company or manager scores based on more nuanced due diligence tools (e.g. Due Diligence 2.0). • How a manager has changed policies and practices to address systemic risks and opportunities over time.
<p>Shareholder engagement</p>	<p>Engage with investee companies and funds to establish the rationale for addressing LGBTQIA+ inequity, and influence how their activities (e.g., adoption of LGBTQIA+-inclusive policies and practices) alleviate systemic and idiosyncratic risks of inequity. While a collective engagement platform does not yet exist for addressing LGBTQIA+ inequity, the United Automobile Workers Retiree Medical Benefits Trust (UAW)—which administers healthcare benefits for General Motors, Chrysler, and Ford retirees and their dependents—serves as a model in their efforts to combat the opioid crisis. The UAW co-chaired Investors for Opioid and Pharmaceutical Accountability (IOPA), a coalition of global institutional investors with 67 members representing over \$4.2 trillion in assets under management (AUM). Their efforts focused on board risk reporting, misconduct clawbacks, separating the role of Board Chair and CEO, bonus deferral and executive compensation reform, lobbying disclosure and assessment, and executive accountability. [i] The UAW's efforts to work across industries—and not solely with individual companies—aimed to improve various components of the broader social system in the U.S.</p>

The Morgan Stanley study referenced earlier reinforces these recommendations—revealing that over 75% of investors seek products and options that support LGBTQ+ equity and inclusion across a variety of investment approaches.¹⁴⁶ To that end, asset managers and advisors should seek out and provide these kinds of products and services for their clients. This underscores a significant business growth opportunity; particularly as younger investors accrue greater wealth over time.

In addition to portfolio-level techniques, system-level investors can adopt advanced techniques designed to fortify environmental, social, and financial systems. Investors can take collaborative action, build shared knowledge bases, set industry standards, and create a rising tide of investment opportunities for all investors. Here are some examples of investor approaches in this vein:

Table 3. Examples of Advanced Techniques^{J,K,L}

Advanced Techniques	System-level Actions
Field building^J	<ul style="list-style-type: none"> • Join or establish organizations or associations that build the financial system’s capacity to address LGBTQIA+ inequity • Disseminate information about LGBTQIA+ inequity to peers, clients, and the public to build the trust and consensus necessary to establish shared goals and pursue effective collaborative action • Amplify public policy debates about governmental rules and regulations that impact exposure to the risks of LGBTQIA+ inequity • Encourage accountability for commitments to LGBTQIA+ equity within policy and political processes
Investment enhancement^K	<ul style="list-style-type: none"> • Develop standards and norms related to LGBTQIA+ equity that provide the basis for engagement with, investment in, or divestment from industries and potential investees • Pursue investments and promote business models that help to resolve LGBTQIA+ inequity, rather than ignore or profit from it • Utilize a diverse range of investment approaches to maximize overall positive impact on LGBTQIA+ equity
Opportunity generation^L	<ul style="list-style-type: none"> • Evaluate the inherent worth of the systemic intangibles of social and human capital • Focus investments within a specific geographic region to increase its resilience to LGBTQIA+ inequity • Intervene at a point in the capital stack where there is an unmet need • Maximize the societal uses of specific asset classes—for which they were explicitly created—to address LGBTQIA+ inequity

^J Building organizations that can pool resources and act collectively, develop a shared knowledge base regarding systems’ complexities, and work to assure alignment of investors’ goals with those of government and other influencers of public policy and vice versa.

^K The objectives of investment enhancement techniques are to make systems more adaptable to major shocks and disruptions; provide greater clarity about a system’s challenges by increasing the coherence, flow, access to, and transparency of information about a system; connect stakeholders by establishing and adhering to policies and practices that bolster the system; and create market incentives that encourage positive changes by stakeholders of the system.

^L These techniques help serve currently neglected needs; address systemic challenges at a local level; incorporate the difficult-to-quantify value of social, financial, and environmental systems into decision-making; and use the distinct natural function of each investment asset class to enhance that value.

Step 3: Assess progress

While this report focuses on assessing sector- and system-level influence in the context of LGBTQIA+ inequity, the continued importance of portfolio-level impact measurement and management cannot be overstated

System-level investors must assess how their activities address LGBTQIA+ inequity, how they influence the financial community to similarly address this issue, and how certain actions accelerate the shift toward equity. Assessing progress on the previously outlined goals (in step 1) and techniques (in step 2) aimed at improving the health and resilience of the LGBTQIA+ community at the system level requires expanded context and guidance.

While this report focuses on assessing sector- and system-level influence in the context of LGBTQIA+ inequity, the continued importance of portfolio-level impact measurement and management cannot be overstated. When done correctly, impact measurement and management can help to: assess

quantifiable value for impact investors and their stakeholders; mobilize more impact investment capital, thus increasing the aggregate impact of the approach; and increase transparency and accountability toward stated impact goals and objectives.¹⁴⁷

The purpose of analyzing investor actions in the context of system-level progress is rooted in the investor's portfolio and influence on investees, as well as efforts to leverage their clout to alter the behavior of other investors, thereby fueling collective action of the financial community. Here, we provide here guidance for each level of assessment:

Table 4: Guidance for Investor Assessment Related to LGBTQIA+ Equity

<p>Company/Portfolio-level assessment:</p> <p>Are the investor’s policies, programs, and practices guiding its resources and decisions toward achieving LGBTQIA+ equity?</p>	<p>Industry/Sector-level assessment:</p> <p>Are the investor’s actions helping to address LGBTQIA+ inequity across the financial community by increasing awareness and/or implementing new behavior norms?</p>	<p>System-level assessment:</p> <p>How are systems made healthier and more resilient, and people’s lives improved, as a result of changed collective practices and norms that support LGBTQIA+ equity?</p>
<p>Ultimately, an investor must identify what positive impact they are hoping to achieve as it relates to LGBTQIA+ equity (e.g. greater board representation, higher proportion of funds directed to LGBTQIA+-led ventures, or increased charitable contributions). Sustainable and impact investors, and many investors with long-term investment horizons (e.g., pension plans), share a commitment to ensuring that individual investments and portfolios “do no harm” to society or the environment— and that their investments and portfolios proactively achieve positive social or environmental impact.</p>	<p>Gathering momentum for collective behavior requires many investors to make substantial and consistent commitments to shifting the dynamics of systems under stress. The thresholds vary depending on the issue: however key market signals for LGBTQIA+ equity include</p> <ol style="list-style-type: none"> 1. Establish legitimacy and recognition of LGBTQIA+ inequity as a systemic issue. 2. Changes in culture and generally accepted practice. 3. Full realization of discernible changes in the system, so that LGBTQIA+ equity becomes the norm. <p>When it comes to tracking the momentum of collective influence, industry-wide associations and initiatives are well-positioned to support and survey the progress of their members’ efforts to increase the financial community’s awareness and action on systemic issues. Industry associations and initiatives are primed to leverage their network capabilities to evaluate industry-level progress on changes in investor behavior.</p>	<p>Investors committing their firms to system-level change and collaborating with like-minded investors can measure their potential influence by layering system-level considerations onto industry standards and frameworks for impact measurement. In the context of assessing LGBTQIA+ equity, these additional layers of analysis would gauge to progress on addressing: criminal justice & persecution, physical and mental healthcare, education & LGBTQIA+ youth development, financial stability (e.g., income disparity, housing, retirement support), workplace equity, and corporate leadership. Assessing system-level progress across these categories requires improvements in data availability and quality, which would address information and structural gaps so that investors have decision-useful insights related to LGBTQIA+ inclusion and equity.</p>

Table 5 below includes select indicators that investors might consider using to understand progress on LGBTQIA+ equity at the company/portfolio level, industry/sector levels, and system level. While each of the proposed goals can be applied to the broad LGBTQIA+ community, the available metrics shared below vary – the HRC Index focuses on LGBTQ segments, UNDP’s indicators related to LGBTI, and TIIP’s sector-level framework on LGBTQIA+. See Appendices C, D, and E for more examples. It is important to note that the interoperability between the metrics identified below and the measurement and disclosure standards currently utilized by sustainable and impact investors is limited. The infrastructure of data sources for tracking progress on the metrics identified below are not (or are inconsistently) available, and only cover partial subsets of the LGBTQIA+ community, among other considerations.

Table 5. Select Indicators for Assessing System-level Progress Related to LGBTQIA+ Equity^{148,149,150}

<p>Company/Portfolio-level</p> <p>Select indicators from the Human Rights Campaign’s 2023 Corporate Equality Index:</p>	<p>Industry/Sector-level</p> <p>Select indicators adapted from The Investment Integration Project’s proposed goals for understanding collective behavior change in the financial industry:</p>	<p>System-level</p> <p>Select indicators from the United Nations Development Programme’s LGBTI Inclusion Index:</p>
<p>Strategy and Governance</p> <ul style="list-style-type: none"> Senior management/executive performance measures include LGBTQ diversity metrics <p>Recruitment, Retention, and Promotion Rates</p> <ul style="list-style-type: none"> Data collection forms that include employee race, ethnicity, gender, military and disability status—as well as – optional questions on sexual orientation and gender identity. <p>Benefits and Services</p> <ul style="list-style-type: none"> Equivalency in same- and different-sex spousal/domestic partner medical and soft benefits Equivalency in spousal and domestic partner family formation benefits regardless of sex Equal health coverage for transgender individuals without exclusion for medically necessary care <p><i>See Appendix C for more.</i></p>	<p>Field Building</p> <ul style="list-style-type: none"> Percentage of investors join or establish organizations that build the financial system’s capacity to address LGBTQIA+ inequity Percentage of investors participate in and otherwise amplify public policy debates about governmental rules and regulations that impact exposure to the risks of LGBTQIA+ inequity. <p>Investment Enhancement</p> <ul style="list-style-type: none"> Percentage of investors who help to establish standards and norms related to LGBTQIA+ inequity that provide the basis for engagement with, investment in, or divestment from industries and potential investees Percentage of investors pursue investments and promote business models that help to resolve LGBTQIA+ inequity, rather than profit from it. <p>Opportunity Generation</p> <ul style="list-style-type: none"> Percentage of investors who use financial products explicitly designed to address LGBTQIA+ inequity and design new products when necessary. Percentage of investors who maximize the utility of specific asset classes for addressing LGBTQIA+ inequity. <p><i>See Appendix D for more.</i></p>	<p>Financial Stability</p> <ul style="list-style-type: none"> Ratio of average annual earnings for individual LGBTI people to average individual earnings for overall population Number of LGBTI-owned or LGBTI-led businesses divided by country population (times 10,000) <p>Workplace Equity and Corporate Giving</p> <ul style="list-style-type: none"> Percentage of LGBTI people who report experiencing employment discrimination in the last 12 months Ratio of percentage of LGBTI labor force that is unemployed to percentage of overall labor force that is unemployed <p><i>See Appendix E for more.</i></p>

Conclusion

The LGBTQIA+ experience in the United States is marked by entrenched systems that perpetuate outsized inequities, and reflect long-standing societal biases in politics, healthcare, education, and criminal justice. To effectively address these systemic barriers to access and success for LGBTQIA+ people, private financial markets must work in tandem with public institutions. This necessitates a shift in public policy that answers the unceasing marginalization of LGBTQIA+ communities—and consequent rise of social discontent reflected in the recent regressive shift in public sentiment after 9 years of progress—with a system-level investment approach, alongside intentional corporate and financial practices that support LGBTQIA+ equity.

As it stands, our financial systems—influenced by investment strategy, corporate leadership, and market behaviors—fail to account for the negative externalities wrought by the exclusion of LGBTQIA+ people. This omission leaves our markets exposed to economically significant impacts and risks. In fact, current market practices invite and even foster social and environmental dysregulation and dysfunction that decrease financial up-sides for everyone. This inequitable treatment contradicts the long-held belief that markets are objective and efficient in their pursuit of returns and produce social externalities that are inconsequential to investment outcomes.

The financial community must recognize and invest in the resilience, potential, and achievement of LGBTQIA+ leaders and innovators in business. Companies led by LGBT CEOs significantly outperform the market by a monthly alpha of 0.69%–1.08% in both raw and risk-adjusted terms,¹⁵¹ and firms with LGBT executives experience positive impacts on financial performance and value compared to firms with no LGBT leadership.¹⁵² Adopting LGBT-inclusive policies and cultivating a culture of LGBT friendliness correlate with increased stock market valuations and profitability.¹⁵³

Investments in LGBTQIA+ equity and inclusion hold immense potential for economic impact and growth. Current trends indicate increasing investor appetite for investment opportunities that advance LGBTQ+ equity and inclusion—largely propelled by increasing demand from younger generations.¹⁵⁴ To capitalize on this opportunity and desire, investors and financial institutions across asset classes can employ system-level approaches that drive outsized impact for LGBTQIA+ people. These include: 1) ensuring LGBTQIA+ equity at U.S. corporations and financial institutions, 2) increasing access to capital for the broader LGBTQIA+ community, 3) improving wealth generating financial outcomes for LGBTQIA+ founders, 4) contributing to the development of LGBTQIA+ equitable social structures, and 5) driving financial inclusion that will spur economic growth and social cohesion.

Outsized opportunities not only exist but also promise to deliver parallel benefits of investment returns, social progress, and equality. When we dismantle the socially and systemically enforced closet that marginalizes the LGBTQIA+ community, we catalyze social and economic prosperity.

About the Project

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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>

Appendix A

Select Tools, Frameworks, and Organizations that can Further Guide Investor Action on LGBTQIA+ Inequity

The Williams Institute is a think tank that conducts independent research on sexual orientation and gender identity laws and public policy. Started in 2001 by Charles Williams, the think tank seeks to inform policy makers about LGBTQ individuals to make sure policies regarding the community are based on facts. More information: williamsinstitute.law.ucla.edu

StartOut is a non-profit organization that supports LGBTQ+ entrepreneurs. The organization helps investors understand the disadvantages LGBTQ+ entrepreneurs face in accessing capital and it supports members of the community in developing their ventures. More information: startout.org

The Association of LGBTQ+ Corporate Directors provides services, support and networking for current and aspiring LGBTQ+ board members. Founded in 2022 by Fabrice Houdart, the organization's goal is to counteract the passive discrimination which prevents LGBTQ+ individuals from joining the board room or to be openly out as board members. More information: lgbtdirectors.org

Out in Finance is an organization that seeks to make finance a safe space for the LGBTQIA+ community by collaborating with firms and networking events for LGBTQIA+ professionals. More information: outinfinance.org

Open for Business is a coalition of leading global companies focused on highlighting the economic rationale behind LGBTQ+ inclusion at the global level. Their interdisciplinary research seeks to set the economic and business evidence in favor of LGBTQ+ inclusion around the world. More information: open-for-business.org

National LGBT Chamber of Commerce (NGLCC), which was founded in 2002, is an advocacy group for the expansion of the economic position of LGBTQ individuals. NGLCC is the only third party that offers LGBTQE certifications, a certification which enables investors to access the partners of NGCLL (more than a third of Fortune 500 businesses recognize the certification and partner with NGCLL). NGCLL's LGBTQ-owned businesses represent \$1.7 trillion in economic impact. More information: nglcc.org

The Movement Advancement Project (MAP) is a think tank established in 2006 to transform America and how Americans think by providing rigorous research on issues of equal opportunity. Their publications include interactive maps on LGBTQIA+ and democratic issues. More information: www.lgbtmap.org

Appendix B

Characteristics of System Health

Systems dynamics thinkers assert that individuals seeking to influence system-level change do so by intervening at “leverage points” within systems, or places where even small or otherwise seemingly isolated actions can lead to fundamental shifts. In her work *Thinking in Systems: A Primer*, field leader Donella H. Meadows identified 12 leverage points—or types of influence—that system influencers can achieve.¹⁵⁵ These leverage points can be usefully condensed and adapted into a subset of four characteristics of environmental, societal, and financial systems that investors can act independently and collectively to influence (i.e. to enhance the wealth-creating potential of):^M

- **Adaptability:** The environment, society, or the financial system’s ability to adjust to shocks and major disruptions (high adaptability, or self-regulation, helps systems better adjust to unanticipated external shocks).
- **Clarity:** The coherence, flow, access to, and transparency of information about and within a system (more information flows among actors and about system components—and their interrelationships—increase investors’ ability to understand their influence and act accordingly).
- **Connectivity:** The quality of interconnection between key stakeholders and dimensions of a system, addressing gaps and underserved components of a system (i.e., systems so structured have positive feedback loops that increase their health and resilience).
- **Directionality:** Market incentives structured to encourage positive changes in stakeholder behavior (healthy systems are those in which influential actors enhance positive characteristics and align their actions with the systems’ fundamental goals).

^MFor instance, where systems dynamics treat concepts like goals (i.e., the purpose of function of the system), paradigms (i.e., the mind-set out of which the system—its goals, structure, rules, delays, parameters—arises) and transcending paradigms as separate leverage points, we’ve integrated core features of each into our fourth type of influence: *directionality*. Similarly, we’ve translated leverage points like numbers (i.e., constants and parameters such as subsidies, taxes, standards), buffers (i.e., the sizes of stabilizing stocks relative to their flows), stock-and-flow structures (i.e., physical systems and their nodes of intersection), delays (i.e., the lengths of time relative to the rates of system changes, balancing feedback loops (i.e., the strength of the feedbacks relative to the impacts they are trying to correct), and reinforcing feedback loops (i.e., the strength of the gain of driving loops) into the discrete concept of *adaptability*. Other leverage points such as information flows (i.e., the structure of who does and does not have access to information), rules (i.e., incentives, punishments, and constraints), and self-organization (i.e., the power to add, change, or evolve system structure) show up in our vernacular as *clarity* and *connectivity*.

Appendix C

Assessing Investor Action at the Company/Portfolio Level

Investor action at the company/portfolio level

Assessing progress at the company and portfolio level closely aligns with use of the industry standards and frameworks as best practice in impact investing includes tracking against investment and portfolio level performance indicators.

Select indicators from the Human Rights Campaign's 2023 Corporate Equality Index.¹⁵⁶

Strategy and Governance

- Senior management/executive performance measures include LGBTQ diversity metrics
- LGBTQ employee recruitment efforts with demonstrated reach of LGBTQ+ applicants (required documentation may include a short summary of the event or an estimation of the number of candidates reached)

Recruitment, Retention, and Promotion Rates

- Data collection forms that include employee race, ethnicity, gender, military and disability status — as well as optional questions on sexual orientation and gender identity.

Customer Inclusivity

- Marketing or advertising to LGBTQ consumers (e.g.: advertising with LGBTQ+ content, advertising in LGBTQ media or sponsoring LGBTQ organizations and events)

Worker Voice and Protection

- Policy includes sexual orientation and gender identity/gender identity or expression for all operations
- New hire training clearly states that the non-discrimination policy includes gender identity and sexual orientation and provides definitions or scenarios illustrating the policy for each
- Supervisors undergo training that includes gender identity and sexual orientation as discrete topics (may be part of a broader training), and provides definitions or scenarios illustrating the policy for each
- Integration of gender identity and sexual orientation in professional development, skills-based or other leadership training that includes elements of diversity and/or cultural competency
- Integration of intersectionality in professional development, skills-based, or other training
- Anonymous employee engagement or climate surveys conducted on an annual or biennial basis allow employees the option to identify as LGBTQ+

- Gender transition guidelines with supportive restroom, dress code and documentation guidance
- Policies/procedures that allow for optional sharing of gender pronouns

Benefits and Services

- Equivalency in same- and different-sex spousal medical and soft benefits
- Equivalency in same- and different-sex domestic partner medical and soft benefits
- Equivalency in spousal and domestic partner family formation benefits regardless of sex
- Equal health coverage for transgender individuals without exclusion for medically necessary care
- LGBTQ+ Benefits Guide
- Trans-inclusive restroom/facilities policy
- Gender-neutral dress code

Management/Owner/Board Demographics

- Board (or other governing body) member demographic data collection include the option for individuals to report their sexual orientation and gender identity or self-identity as LGBTQ+

Supply Chain

- Supplier diversity program with demonstrated effort to include certified LGBTQ+ suppliers
- Contractor/supplier non-discrimination standards AND Philanthropic Giving Guidelines

Community Actions

- Philanthropic support of at least one LGBTQ+ organization or event (e.g., financial, in kind or pro bono support)
- Demonstrated public support for LGBTQ+ equality under the law through local, state or federal legislation or initiatives

Appendix D

Assessing Investor Action at the Industry/Sector Level

Collective behavior at the industry/sector level

Assessing progress at the industry and sector level looks at thresholds for change, which are reflected in emerging industry trends and standards of best practice. These changes can be reflected in many contexts including market opportunity, regulatory environment, reporting and disclosure standards, and risk and reward assessments.

Select indicators adapted from TIIP's proposed measures for understanding collective behavior change in the financial industry:¹⁵⁷

Field building

- A substantial percentage of investors join or establish organizations that build the financial system's capacity to address LGBTQIA+ inequity.
- A substantial percentage of investors disseminate information about LGBTQIA+ inequity to peers, clients, and the public - to build trust and increase the alignment necessary to establish shared goals and pursue effective collaborative action.
- A substantial percentage of investors participate in and otherwise amplify public policy debates about governmental rules and regulations that impact exposure to the risks of LGBTQIA+ inequity.
- A substantial percentage of investors identify opportunities to collaborate with other investors to amplify messaging and influence about LGBTQIA+ and intersectional bias in governance, personnel, and pay norms, policies, practices, and procedures across the financial industry, in investee companies, throughout their supply chains and within their investment practices.

Investment Enhancement

- A substantial percentage of investors help to establish standards and norms that provide the basis for engagement or investment in/divestment from industries related to LGBTQIA+ inequity.
- A substantial percentage of investors pursue investments and promote business models that help to resolve LGBTQIA+ inequity, rather than profit from it.
- A substantial percentage of investors utilize a diverse range of investment approaches to maximize overall positive impact on LGBTQIA+ equity.
- A substantial percentage of investors identify or develop and utilize standards for the disclosure of data on the disaggregated LGBTQIA+ composition and pay of leadership teams and personnel at financial institutions, investee companies, and throughout their supply chains.

- A substantial percentage of investors identify or develop and utilize standards for engaging with industries and your investee companies there within to about the LGBTQIA+ and ethnic composition and pay of leadership teams and personnel.

Opportunity generation

- A substantial percentage of investors use financial products explicitly designed to address LGBTQIA+ inequity and design new products when necessary.
- A substantial percentage of investors maximize the utility of specific asset classes for addressing LGBTQIA+ inequity

Appendix E

Assessing Investor Action at the System Level

Beta building at the system level

Assessing progress at the system level means aligning signals of change with the goals and objectives established. These signals help investors determine whether systems under stress are demonstrating less stress and more stability as certain investor actions gather momentum.

Select indicators from the UNDP set of Proposed Indicators for the LGBTI Inclusion Index:¹⁵⁸

Criminal Justice & Persecution

- Legal gender recognition of self-determined gender
- Laws, regulations, judicial decisions protecting against non-consensual "normalizing" medical interventions for children born with variations of sex characteristics

Healthcare

- The presence of non-discrimination laws and policies by providers that specifically include SOGIESC (recognizing the right to care for all regardless of SOGIESC)
- Presence of gender-affirming care for those who need or want it
- Variations in sex characteristics, sexual orientation, and gender identity and expression are considered healthy in medical guidelines, protocols and classifications

Mental Health, Education and LGBTQIA+ Youth

- Presence of a law, constitutional provision, policy, or regulation that prohibits discrimination against student in educational settings based on SOGIESC
- Ratio of percentage of LGBTI people who have completed upper secondary education to percentage of total population that have completed upper secondary education
- Proportion of persons subjected to physical, psychological, or sexual violence in previous 12 months on the basis of real or perceived SOGIESC

Financial Stability: Income Disparity, Housing, and Retirement Support

- Ratio of percentage of LGBTI population below poverty threshold to the percentage of overall population below poverty threshold
- Number of LGBTI owned or led businesses divided by country population (times 10,000)
- Ratio of average annual earnings for individual LGBTI people to average individual earnings for overall population

Workplace Equity and Corporate Leadership

- Percentage of LGBTI people who report experiencing employment discrimination in the last 12 months
- Ratio of percentage of LGBTI labor force that is unemployed to percentage of overall labor force that is unemployed

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