

STATE  
STREET  
CIVIL  
RIGHTS  
AUDIT



RELMAN COLFAX





# PREFACE

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We commend State Street for its decision to conduct this Civil Rights Audit and its willingness to hold a mirror up to itself. An undertaking of this nature requires transparency and cooperation, and throughout the process, State Street has provided both. Too few financial institutions have taken this step. State Street's decision reflects an important act of leadership.

From the outset, State Street made clear that it wanted an honest and objective assessment of its policies, practices, products, and services. State Street opened itself up to us at every level. It gave us wide latitude to speak with clients, potential clients, and its most outspoken critics. When we met with the Audit's executive sponsors in September 2022 to deliver our preliminary findings, they responded to our unvarnished findings and recommendations with equal measures of humility and resolve.

This spirit of cooperation and transparency was reflected at every rank within State Street. Most, if not all, interviews with a State Street line of business resulted in follow-up conversations and document requests, which we incorporated into our findings. We had candid conversations not just with heads of business units but with employees from the diverse employee networks. We pressure-tested every assumption and pushed every team to set higher goals. Not every conversation was easy, but State Street employees continued to welcome us in.

The final assessment reflects the transparency and cooperation that State Street shared. We could not have done our job the way it needed to be done without a company that was willing to do its part to make this a meaningful inquiry.

Our Report reflects State Street exactly as we see it—with all its potential and its deficiencies; the places where it is on the right track and those where it could be doing better. We offer equal measures of praise where we think deserved and criticism where we think warranted. Most importantly, we set out the steps we believe the Company needs to take to become a leader in advancing civil rights and racial equity.

The fact that this Report identifies places where the Company is falling short does not reflect doubt on our part that State Street can or wants to be a leader in advancing civil rights and racial equity. This conclusion rests on a few important observations.

*First*, State Street already has an institutional commitment to advancing civil rights and racial equity where it matters most—at the top. When we met with Executive leadership and members of State Street's Board of Directors, they shared a core conviction about the wide reaching and long term harm that racism and bigotry have on our society. They also impressed us with their perspective that, as a corporate citizen and as a company that hopes to thrive for generations to come, State Street needs to focus on advancing civil rights and racial equity.

Second, State Street operates at a size and scale that creates a unique opportunity to direct capital and increase diverse spend in ways that bring much-needed benefits and opportunities to BIPOC (Black, Indigenous, and People of Color) communities. At the end of 2022, the custody and servicing side of State Street's business held \$36.7 trillion in assets; State Street Global Advisors (Global Advisors or SSGA) managed and invested \$3.5 trillion in assets.

Third, State Street has scores of employees throughout its ranks that are committed to, and energized by, the prospect of doing better when it comes to civil rights and racial equity. Throughout this past year, we had the privilege of speaking to numerous members of State Street's many lines of business. Teams within these business units invest significant time and resources in researching, collaborating on, and pitching products and strategies that help promote civil rights and racial equity. Oftentimes, this work is done on top of their "core" business duties. Employees report a sense of fulfillment and invigoration from their work on these issues.

All that is to say that the Company has the resources and the leadership to use the findings, analyses, and recommendations contained in this Report to build on the strengths that it has and to take the steps needed to become a leader in advancing civil rights and racial equity. The task will not be accomplished in the first six months or the first year. It will take time. What matters most now is to summon the resolve, set the goals and timelines to measure progress, and stay the course.

# ACKNOWLEDGMENTS

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In preparing this Report, we spoke with some of the country's foremost experts on civil rights and racial equity issues, including:

- Activest
- Adasina Social Capital
- Climate Safe Lending Network
- Color of Change
- Croatan Institute
- Impact Shares
- Majority Action
- National Bankers Association
- National Community Reinvestment Coalition
- National Fair Housing Alliance
- Service Employees International Union (SEIU)
- The Leadership Conference on Civil & Human Rights
- The Urban Labs
- Amir Ali, Executive Director, MacArthur Justice Center
- Deval Patrick, Former Governor of Massachusetts
- George Brown, Executive Director, Stanford Center for Racial Justice
- Keisha Deonarine, Director of NAACP's Opportunity, Race, and Justice
- P. Wayne Moore, Deputy Chief Investment Officer, City of Hartford
- Roy Swan, Director of Mission Investments, Ford Foundation
- Shawn Cole, John G. McLean Professor of Business Administration, Harvard Business School
- Witold Henisz, Vice Dean & Faculty Director, ESG Initiative, The Wharton School at the University of Pennsylvania

We are grateful for the thoughtful engagement of State Street employees. We particularly acknowledge the State Street Audit Core Team and Executive Sponsors, who provided invaluable advice and assistance throughout the process.



# TERMINOLOGY AND FONTS

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## A MESSAGE ABOUT LANGUAGE AND FONT SELECTION

The focus of this Report is on civil rights and racial equity. Our intention is to discuss and approach all communities with inclusivity, solidarity, and respect. This extends to our choices regarding language and font.

### LANGUAGE

We acknowledge the importance of language, especially the words we use to identify the communities referenced in this Report. We further acknowledge that across the United States and the globe, there is no consensus on which words to use to appropriately identify populations by race and ethnicity, and that the nomenclature used is evolving.

We use the term BIPOC (Black, Indigenous, and People of Color) to collectively describe racial and ethnic groups in the United States that have been disadvantaged by systemic racism and oppression. We chose to use this term because it acknowledges the specific and unique history of Black and Indigenous groups in the United States and the harm Black and Indigenous communities have experienced because of slavery, genocide, and Jim Crow. The usage of the term BIPOC is not intended to exclude or undermine the experiences of other racial and ethnic groups in the United States, but to demonstrate solidarity between communities of color.

When talking about an issue that affects a particular group, we are specific about the community or identity we are referring to (e.g., Black investors, Latino vendors). Racial and ethnic groups are designated by proper nouns and are capitalized. Further, while many terms are used to describe the Hispanic/Latinx/Latine community, we use the term Latino throughout the Report, with the intention of including those who identify as Hispanic, Latinx, or Latine.

### FONT SELECTION

The font used in this Report is sans serif. The font size is 12 point or larger. We also use colors with high contrast. We made these choices to make the Report easier to access and use by people with visual impairments.

## FINANCIAL GLOSSARY

- ESG** An acronym for Environmental, Social, and Governance. The ESG framework helps stakeholders understand how an organization manages risks and opportunities related to sustainability issues.
- Greenwashing** Making false or misleading statements that exaggerate the extent to which practices or services take ESG factors into account. Greenwashing misleads investors and creates regulatory risk.
- S** Our use of S is intended to be broader than, but inclusive of, how it is sometimes understood in the ESG framework. Our use encompasses racial equity and civil rights more generally, including civil rights and racial equity issues affecting the workforce, BIPOC communities, clients, partners, and vendors.
- Sustainability** We use this term in the Report to refer to an approach to investing that prioritizes a range of practices that promote long term environmental or social value. It describes an overarching approach to investing and corporate behavior that is not limited to looking at short term financial gains but focuses instead on the bigger picture of how investments contribute to a society in which a company’s growth and performance can endure. It is a way of saying “the long game matters.” A commitment to sustainability is important if a company is going to be a leader in advancing civil rights and racial equity.
- Value and values** “Value” indicates positive financial performance. It is used in this Report primarily in connection with the belief that investments promoting civil rights and racial equity, and sustainability in general, can perform as well or better than investments that disregard these considerations, and is consistent with an asset manager’s fiduciary duty to the client.
- “values” indicates a belief that something is inherently the right or moral thing to do, without regard for financial or other such considerations.



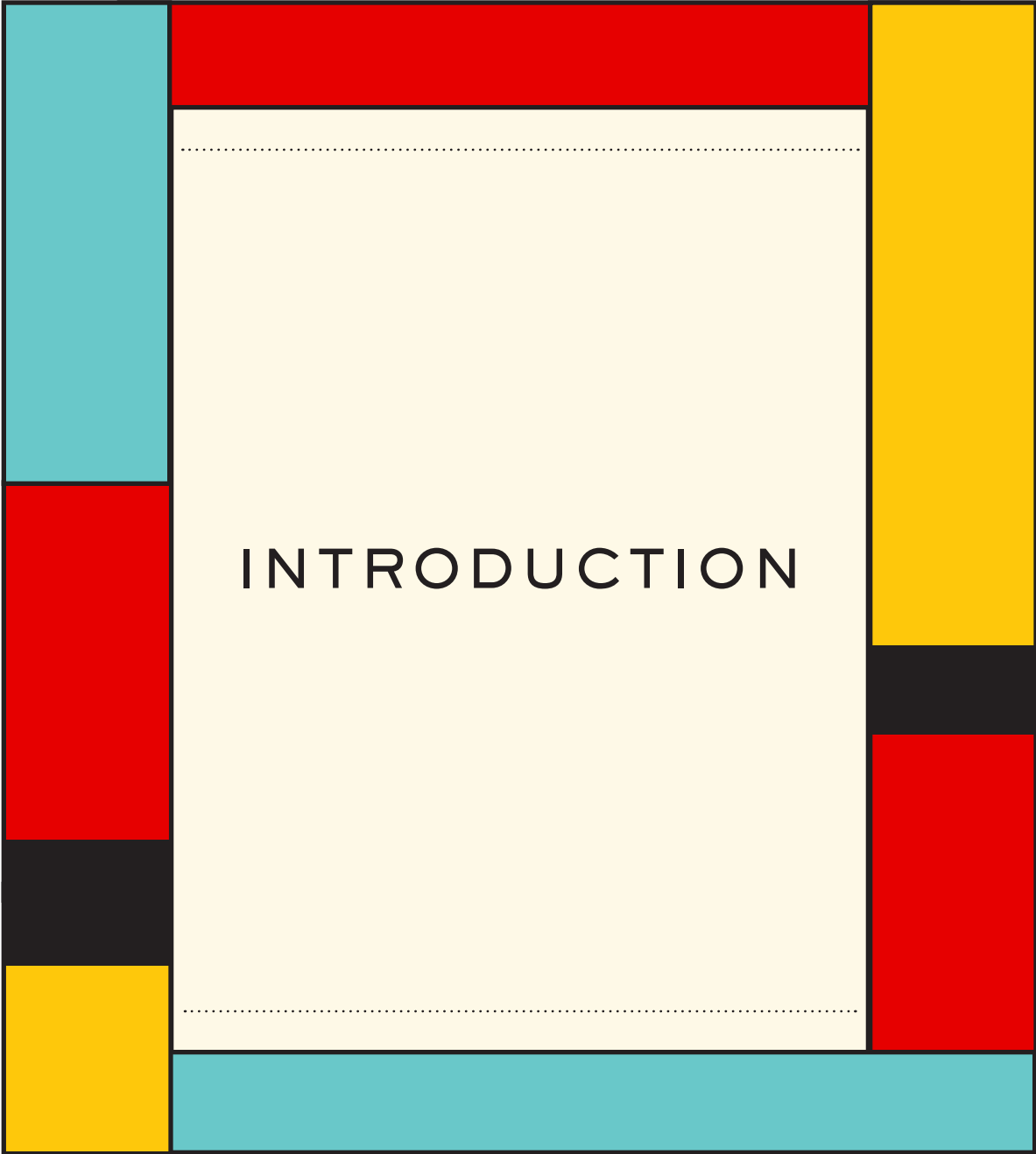
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# INTRODUCTION

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## PURPOSE AND SCOPE OF AUDIT

State Street Corporation (State Street) initiated this Audit in late 2021 to examine its current business practices from a civil rights perspective and identify actions it can take to accelerate progress toward racial equity in the United States. The following parameters defined our charge and the Audit's scope:

- Focus on people of color in the United States using an intersectional approach.
- Assess business policies, practices, products, and services.
- Recommend changes to help State Street become more equitable.
- Identify mechanisms to monitor accountability and effectiveness.

We were directed not to assess State Street's workplace practices from a diversity, equity, and inclusion (DEI) perspective, or its philanthropic work. These subjects are being studied separately.\* Though not our focus, DEI practices are vitally important when assessing a company's performance with respect to racial equity and are linked to many of the Report's findings and recommendations.

Racial equity audits can take many forms and have different focuses. While our charge was broad and the Report addresses many civil rights issues, we focused on how State Street can reduce the longstanding racial wealth gap and promote positive economic outcomes for historically undercapitalized and underserved BIPOC communities in the United States.

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\* Because it was not part of our charge, this Report does not address or evaluate the commitments and progress that State Street has made in these areas. We have observed, however, that much work has been done by the Company to address workforce issues over the last several years. In 2020, State Street initiated the [10 Actions to Address Racism and Inequality](#), which assesses IDE practices including workforce and human capital issues. State Street also participates in the [Management Leadership for Tomorrow](#) Black Equity at Work (BEW) and Hispanic Equity at Work (HEW) Certification programs. BEW and HEW establish comprehensive Black and Hispanic equity standards under 5 pillars: representation, compensation, workplace culture, business practices, and contributions and investments. State Street leverages these certifications to audit and assess its progress on workplace practices. Additionally, the State Street Foundation has engaged an independent, external consulting partner, The Philanthropic Initiative, to evaluate its current grant portfolio from a racial equity perspective. Racial equity was added as a central funding focus in 2021.

The potential ripple effects of promoting wealth and prosperity for BIPOC communities are enormous. Economic inequality extends broadly to all aspects of life. It impacts access to housing, education, healthcare, and jobs with implications for financial inclusion, environmental health, infant mortality, life expectancy, voting rights, and more. State Street can help address these inequities by increasing its focus on directing capital to BIPOC communities. This will spur progress on racial equity across the financial industry and contribute to transformational change.

The ripple effects are not limited to BIPOC communities. The benefits of socially responsible policies, practices, products, and services that generate wealth and promote equity are felt throughout the economy. They are essential to sustainable investment strategies and the long term profitability of financial institutions like State Street.

## METHODOLOGY

This Report and its recommendations are the culmination of a year-long process.

We interviewed more than 70 State Street employees, managers, executives, and board members. Additional interviews were conducted with State Street clients, partners, and third-party suppliers. Focus groups were held with members of State Street's employee networks covering product development, ESG, innovative solutions, external partnerships, supplier diversity, and client engagement. The primary objective of these interviews and focus groups was to determine the extent to which State Street's policies, practices, products, and services promote equity for historically underrepresented groups and for people of color in particular.

A crucial first step was learning about State Street's business model. State Street is not a conventional retail bank. It is comprised of a custody bank that, at the end of 2022, held and serviced \$36.7 trillion in assets, and State Street Global Advisors (Global Advisors), which at that time managed and invested \$3.5 trillion in assets. State Street's clients include some of the world's largest corporations, institutions, and pension funds. It does not provide services to individuals, and there are no retail branch locations where a customer can take out a loan or deposit a check. Understanding the full breadth and scope of State Street's business was essential to understanding how its products and services impact civil rights and racial equity—both where that impact is positive and where there are gaps or deficiencies. In addition to interviews with State Street personnel, our understanding was informed by public and non-public State Street documents concerning its policies and business practices.

More than 40 interviews were conducted with thought leaders who have deep expertise in ESG practices, banking and asset management services, corporate responsibility and disclosures, and the unique needs of Black-owned banks and other diverse businesses and institutions. We spoke with some of the country's foremost experts on racial equity issues, including leaders of well-known and influential civil rights organizations. Government leaders with business expertise were also interviewed. The primary purpose of our discussions with people not connected to State Street was to obtain information and insights on industry best practices and civil rights-related concerns. These



interviews were informative about cutting-edge work being done today and helped establish benchmarks against which to assess State Street. The priorities of advocates and experts, and how they perceive State Street, inform the recommendations in this Report.

We also conducted extensive research on the Report's central topics to situate State Street's business model in the context of financial industry trends and emerging market demands. Assertions made by State Street staff and external experts were checked for accuracy. Our research and fact-checking included reviewing reports by consultancy groups, think tanks, academic thought leaders, non-profit advocacy groups, and State Street's competitors.

We worked in consultation with a Core Team comprised of State Street employees and executive sponsors. The Core Team assisted in coordinating interviews with employees and executives, providing introductions to State Street's suppliers and clients, and managing other logistics. A preliminary set of recommendations was shared with members of this team. Their feedback was incorporated in the Report's final set of recommendations, but only to the extent the authors deemed it justified and supported by the facts.

The project's independence was carefully maintained throughout the Audit's duration. All of the Report's findings, analysis, and recommendations are our own. They reflect our independent judgment and are based on our experience and expertise as civil rights advocates.

## FRAMING QUESTIONS

Three framing questions guided our assessment:

- Where does State Street stand vis-à-vis peers?
- Does State Street want to be a leader on racial equity?
- What does State Street need to do to become a leader?

### **Where does State Street stand vis-à-vis peers?**

Understanding where State Street stands vis-à-vis peers is important. It allows us to better evaluate State Street's performance and appreciate the full scope of possibilities. Comparing State Street's efforts to the actions that other financial institutions are taking to advance racial equity helps us assess what State Street is doing well and identify what more it could be doing to promote racial equity.

Overall, we found that State Street is well intentioned but does not distinguish itself as an industry leader. Nor is it perceived as a leader by the public or external stakeholders. It is not top of mind for those looking for racial equity products and strategies, ESG opportunities, or equity leadership. In most areas important to achieving progress on racial equity, State Street sits in the middle of the pack, failing to distinguish itself from peers. That said, in no area is it behind the pack; in three areas,

it is an emerging leader, well positioned to become a leader; and in one area—Global Treasury—it is already operating as a leader.

### Does State Street want to be a leader on racial equity?

It is one thing for State Street to recognize that racial equity is important and take small steps in that direction. It is an entirely different thing to commit to doing what is necessary to become an industry leader on racial equity. Understanding State Street's motivations and goals, and where within the Company there may be differing views, was necessary to identify the scope of changes that are needed.

From some parts of the Company, we heard that State Street wants to be a leader on racial equity. This is the position of top leadership and many board members. In other parts of the Company, particularly among mid-level managers, we found a number of managers and team leaders who expressed hesitation and ambivalence.

The answer to this question should be—and needs to be—“yes.” From the values perspective, State Street *should* want to be a leader on racial equity because it is the right thing to do. As a Value proposition, State Street *needs* to be a leader to hold and grow market share and remain profitable and sustainable over the long term. If the Company aims for less, it will fall behind its peers. Other institutions will seize the opportunity to supply racial equity-centered financial products, and they will gain the long term advantages that come with moving first.

The need to answer “yes” is the result of transformational change that is rapidly affecting our economy, technology, and demographics. The economy is changing quickly, driven by accelerating technological innovation. [Demographic diversity](#) is increasing at a pace even quicker than expected. And an estimated \$68 trillion is beginning to transfer from baby boomers to millennials, who prioritize social responsibility when making investment decisions. State Street's own studies show that 82% of millennials say they “always or sometimes consider a company's social, political or environmental impact in their decision to invest or not.” These changes will drive increased demand for ESG products.

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Companies that fail to adapt to changing market conditions and demands will lose market share and decline. This will happen with unprecedented speed because of technological innovation. McKinsey [predicts](#) that by 2027, companies in the S&P 500 will have been on the list for an average of only 12 years, down from 35 years in the late 1970s. For a company like State Street, financial stability and



future growth require recognizing and responding today to market changes that are driving an increasing demand for ESG strategies and products. Evidence of that growing demand is widespread and well documented. PwC [found](#) that, “[since 2020], we’ve seen an unprecedented acceleration in . . . ESG-oriented investments.”

As discussed in depth in *Focus Area 1: Communicate Mandate from Leadership*, there are other important reasons why sustainable investing focused on racial equity is critical to the Value proposition. Failure to address the racial wealth gap will have consequences for the growth of gross domestic product (GDP) and the stability of democracy that is foundational to capital markets.

### **What does State Street need to do to become a leader?**

This is the focus of our recommendations. If implemented, the recommendations included in this Report will position State Street as an industry leader on policies, practices, products, and services that advance civil rights and racial equity.

State Street does not have to adopt each and every one of the recommendations included in the Report to become a leader. The recommendations are not intended to be formulaic or prescriptive. Rather, they are designed to highlight the areas where more work needs to be done, and the types of steps that can be taken to address deficiencies and drive positive civil rights outcomes. State Street may choose to adjust or adapt some of the recommendations in ways that better suit its business practices and still drive the benefits for which they were intended. We welcome that innovation if it serves the ultimate purpose of this Audit.



# EXECUTIVE SUMMARY

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## AREAS OF FOCUS

Our recommendations cover the collective activities of State Street Corporation, inclusive of its investment servicing and its investment management (State Street Global Advisors or SSGA) businesses. They fall into ten focus areas where new thinking, new resources, and new commitments are required for State Street to become a leader in advancing civil rights and racial equity:

- Communicate Mandate from Leadership
- Expand Investments in BIPOC Communities and Companies
- Build Best-in-Class Racial Equity Data Repository
- Develop New SSGA Racial Equity Products and Strategies
- Enhance and Strengthen Racial Equity Stewardship
- Grow Diverse Clients and Partnerships
- Increase Diverse Supplier Spend
- Redesign Website
- Expand Physical Footprint and Community Engagement
- Hold Yourself Accountable

This Report is divided into ten chapters, each devoted to one focus area. There are three components to each chapter—*Findings*, *Analysis*, and *Recommendations*. *Findings* summarizes the key factual findings from our Audit that speak to State Street’s operations—what it is doing, how it is doing those things, and what it is not doing—as they pertain to civil rights and racial equity. *Analysis* more broadly addresses the rationale for recommendations that we are making, and what it means to be an industry leader in promoting civil rights and racial equity. *Recommendations* draws on *Findings* and *Analysis* to identify the specific action steps State Street should take if it wants to distinguish itself from peers and become an industry leader in advancing civil rights and racial equity.

For each focus area, we select one of three terms to describe State Street’s performance relative to its peers: “In the Pack,” “Emerging Leader,” or “Industry Leader.” We do not use a fourth term such as “Behind the Pack” because it would not be accurate in any area.

While our recommendations are forward looking and focus on areas of opportunity, it is important to recognize that the failure to seize opportunities can also be seen as doing affirmative harm. That is clearly the case where existing rules, policies, or practices—while neutral on their face—perpetuate disparities that adversely affect BIPOC communities. The Report identifies places where that is happening and changes that could be made.

## COMMON THEMES

Certain themes from our recommendations reappear across multiple focus areas. Summarized at a high level, they provide a cohesive and comprehensive strategy to make State Street's business operations and client-facing offerings more equitable, foster an internal culture at State Street that prizes thinking about how to accelerate progress on civil rights and racial equity, and ultimately propel State Street to industry leadership.

**Communicate Values and Priorities.** State Street's senior leaders recognize the moral and business importance of advancing civil rights and racial equity, but their views and reasoning are not well known to employees and external stakeholders. Those inside and outside the Company should know where State Street stands and see that the Company is living up to the racial equity goals and commitments it sets for itself.

**Rethink Norms and Business as Usual.** State Street has a long history and has done many things the same way for a long time. Leadership requires embracing new ideas and change. New thinking, products, and approaches to conducting business will be required for State Street to distinguish itself as an industry leader on civil rights and racial equity.

**Set New Targets.** State Street is on the right track in many areas, but that is not enough to distinguish it from peers. To be a leader will require setting aggressive new goals, including in areas where there have been no goals related to civil rights and racial equity.

**Invest More Capital in BIPOC Communities.** Lack of adequate access to capital is a central cause of racial inequity. Leadership will require seizing opportunities to use the Company's control and influence over vast capital flows to direct more to BIPOC communities.

**Reprioritize Resources Inside the Company.** A number of business leaders in senior management and some in mid-level management want to do more in keys areas but are held back by resource constraints. Redirecting resources to help meet racial equity goals will be needed if State Street is to become a leader.

**Share Ideas Across Business Units.** Critical information, new ideas, and research are essential to progress and innovation on civil rights and racial equity, but often are not shared between and among research teams and lines of business across the company. Better communication across business units is needed.



**Build New Relationships.** Diverse partnerships and clients provide the pipeline of talent, connections, ideas, and perspectives needed to expand investments in BIPOC communities. New, diverse relationships are needed beyond the institutional clients State Street has traditionally thought of as its core client base if it is to develop this critical pipeline.

**Gather and Share More and Better Data.** Progress on civil rights and racial equity requires new and better data. The development of quality racial equity data and metrics lags behind environmental data and metrics. Advances in developing racial equity data are being made throughout the industry. Leadership requires State Street to be at the forefront of these developments.

**Accelerate Internal Diversity.** Although human capital is out of scope for this Report, it is clear that progress on racial equity products, policies, and services is hampered by the lack of diversity in senior and mid-level management. To implement the recommendations set out in this Report, State Street will need to move faster to meet and exceed the workforce diversity goals it set for itself through the *10 Actions to Address Racism and Inequality*.

# SUMMARY OF FINDINGS, ANALYSIS, AND RECOMMENDATIONS

## Focus Area 1: Communicate Mandate From Leadership

A mandate from State Street's leaders is essential if the Company is to become an industry leader and make truly important progress on racial equity. It is foundational to the success of all the other recommendations in this Report. The mandate must explain to the Company and its stakeholders the importance of sustainability, and articulate what the Company is doing to advance racial equity. State Street's commitment to sustainability as a Value proposition is shared and articulated within the Executive leadership team and the Board of Directors, but it is not being heard clearly throughout the Company or coming across to external stakeholders. Peers are out-performing State Street in communicating their commitment to sustainability. In this regard, State Street currently sits undistinguished IN THE PACK, missing an important opportunity to be a leader.

### Key recommendations include:

- Issue clear, periodic statements from the Chief Executive Officer about State Street's commitment to sustainability, civil rights, and racial equity.
- Identify one or more "north stars" that provide thematic coherence to State Street's efforts.
- Prioritize resources to drive innovation and progress on racial equity.
- Share ideas related to racial equity across business units.
- Set more aggressive goals.
- Make clear the importance of holding the Company accountable for the commitments it undertakes as a result of this Audit.

## Focus Area 2: Expand Investments In BIPOC Communities And Companies

The custody and servicing side of State Street's business held and serviced \$36.7 trillion in assets at the end of 2022. The size and scale of this part of State Street's business creates a unique opportunity to direct capital in ways that help address the racial wealth gap and bring much-needed benefits to BIPOC communities. This section of the Report addresses three of its business groups—Global Treasury, Tax Advantage, and Global Credit Finance—that are especially well positioned to contribute to this goal because of the discretion and control State Street has over their portfolios.

Global Treasury is already an INDUSTRY LEADER. Through its work to place deposits in BIPOC financial institutions, sustainable bonds, partnership with diverse firms, and more, Global Treasury is demonstrating how to make a difference through the creative and purposeful use of fixed income

investments. It should set even more aggressive targets, though, including a goal of 2% of cash reserves in BIPOC financial institutions or funds. Tax Advantage is doing important work to support affordable housing through tax credit investments. It is an EMERGING LEADER and can become a true leader by intentionally targeting that work to benefit BIPOC communities across the country. Global Credit Finance supports majority-minority local governments and affordable housing but is currently only IN THE PACK and is not distinguishing itself from peers. It could be more effective if restrictions on its investment options are modified or eliminated.

### *Key recommendations include:*

#### **Global Treasury**

- Maintain and enhance leadership by setting higher goals for Treasury's existing racial equity investments and making new ones.
- Examine and reallocate Treasury's investment portfolio to optimize investments that positively impact BIPOC communities.
- Adopt ESG responsible investing policy.
- Mentor diverse firms that State Street works with.
- Embrace role as thought leader.

#### **Tax Advantage**

- Establish a strategy and goals for affordable housing investments that maximize the benefits to BIPOC communities.
- Make larger investments in affordable housing.
- Seek Community Reinvestment Act (CRA) credit for affordable housing investments outside of eastern Massachusetts.

#### **Global Credit Finance (GCF)**

- Expand GCF's mandate and lending power.
- Eliminate or modify restrictions that keep GCF from making important investments to benefit BIPOC communities.
- Substantially increase GCF's lending to BIPOC communities, companies, and institutions.

### Focus Area 3: Build Best-In-Class Racial Equity Data Repository

No company is at the forefront in providing comprehensive racial equity data. The industry's lack of a best-in-class repository hampers the growth and development of new, quality racial equity products. A repository where asset managers can access such quality raw data would advance racial equity in multiple ways. It would provide asset managers with a critical tool they need to create new products and leverage market forces and competition among asset managers to incubate new products and strategies. This would be transformative and position State Street as a leader in the field.

Currently State Street is an EMERGING LEADER on racial equity data with a prime opportunity to reach the next level. The findings, analysis, and recommendations discussed in this focus area set out the Value proposition in leveraging Alpha to build a best-in-class racial equity data repository.

#### Key recommendations include:

- Prioritize resources to support the design and build-out of a best-in-class racial equity data repository, using Alpha's ESG Hub or another business unit.
- Accelerate the growth of the ESG Hub's racial equity data repository.
- Enhance ESG Hub reporting functions.

### Focus Area 4: Develop New State Street Global Advisors Racial Equity Products And Strategies

State Street Global Advisors (Global Advisors) should develop a suite of new racial equity products and strategies that advance civil rights. As discussed in *Focus Area 1: Communicate Mandate from Leadership*, racial equity is an important Value proposition, and the growing demand for these products and strategies reflects the growing recognition that it is important to the long-term success of portfolio companies. Global Advisors currently offers only a few racial equity and civil rights products, however, and does little to promote racial equity investment strategies. Much more progress can and should be made.

Benchmarked against peers, Global Advisors stands IN THE PACK. None of Global Advisors's direct competitors offer much in the way of racial equity products and strategies, but others in the industry are out-performing Global Advisors. Global Advisors is one of the three largest asset managers in the United States. The size and scale of Global Advisors's investment assets and its high visibility to the public mean that the actions Global Advisors takes with respect to investment products and strategies not only offer an important opportunity to benefit BIPOC companies, institutions, and communities, but will have a significant impact on the public perception of the Company. With the right investment of resources and attention, Global Advisors can quickly distinguish itself from its peers in an area that is properly viewed by key external stakeholders as an important measure of racial equity leadership.



### Key recommendations include:

- Develop a suite of racial equity and civil rights products and strategies.
- Engage with non-profits and other entities that understand BIPOC and community-based interests.
- Centrally coordinate the development of racial equity and civil rights products.
- Prioritize staffing to ensure employees have experience developing racial equity and civil rights products.
- Reallocate the budget for racial equity and civil rights product research and development.
- Improve the capability to identify and assess risks related to racial equity and civil rights.
- Develop an internal culture that values and prioritizes performance goals that promote the development of racial equity and civil rights products.

## Focus Area 5: Enhance And Strengthen Racial Equity Stewardship

Through asset stewardship, Global Advisors seeks to manage risk related to racial equity and long-term Value, consistent with its fiduciary obligation to its clients. The Company has taken important steps, but there is more it can do. Global Advisors is an **EMERGING LEADER** in the field and is positioned to assume industry leadership if, consistent with its fiduciary status, it moves beyond its current focus on workforce and board diversity to develop concrete policies and processes for stewardship that address the full range of civil rights risks that companies face. Resources should be reallocated to make this happen.

### Key recommendations include:

- Evaluate additional civil rights risks beyond DEI for inclusion in voting and engagement practices.
- Prioritize staffing of the Asset Stewardship team.
- Enhance analysis of DEI risks.
- Publish more information on vote rationales and engagement activities.

## Focus Area 6: Grow Diverse Clients and Partnerships

Building relationships with Minority Depository Institutions (MDIs), Historically Black Colleges and Universities (HBCUs), Hispanic-Serving Institutions (HSIs), and other diverse institutions in ways that help grow their wealth and that of the communities they serve is a critical part of advancing racial equity. A diverse rolodex provides the pipeline of ideas, perspectives, and talent that mainstream institutions like State Street need to be a leader on racial equity issues. State Street has relatively few majority BIPOC-owned or -operated clients and partners. Changing this will require a proactive approach centered on increasing awareness of the Company's racial equity work, helping potential clients and partners navigate the Company, and forming new relationships.

A handful of peers are better known among diverse networks, even if they have not distinguished themselves in developing a critical mass of diverse clients and partners. Using that framework to benchmark State Street against peers places it IN THE PACK. But peers are actively targeting these potential clients and partners with growing success, meaning that State Street will fall behind if it does not act quickly.

### *Key recommendations include:*

- Proactively engage with diverse businesses and institutions to build a critical mass of new diverse clients and partners.
- Increase awareness of State Street's support of racial equity among the public generally and with leaders of BIPOC-owned institutions and the communities they serve.
- Reallocate resources to expand sales team to prioritize focus on gaining new diverse clients.

## Focus Area 7: Increase Diverse Supplier Spend

Increasing spend with diverse businesses addresses the racial wealth gap by helping to redirect capital to BIPOC communities. It is a critical measure of racial equity leadership. State Street is well positioned to distinguish itself from peers and demonstrate leadership in this area because of its size, the scale of its spend, and Company leadership's commitment to increasing diverse spend.

Based on diverse supplier spend and goals, and related policies and programs, State Street is IN THE PACK. With respect to diverse spend and goals, State Street has not distinguished itself from peers. Although State Street has a number of policies and programs in place to support diverse suppliers, including a “fit for form” procurement process that is intended to limit requirements to ones related to the work to be performed, the process takes time and is arduous. It is a significant obstacle to improving diverse spend. There are a number of important steps State Street should take to distinguish itself as a leader. The Company should further streamline the procurement process and increase opportunities for diverse suppliers. These include creating a high-level task force charged with reforming the procurement process and prioritizing diverse spend enterprise wide, launching a grant program to help diverse firms compete for contracts, increasing mentorship, developing strategic partnerships, and redirecting additional resources to the Supplier Diversity Team. These initiatives will distinguish State Street as a leader.

### Key recommendations include:

- Increase spend with diverse suppliers.
- Reexamine the “fit for form” request for proposal (RFP) process.
- Create a high-level task force to address procurement barriers and oversee strategic planning for diverse spend enterprise wide.
- Launch a grant initiative to help diverse suppliers navigate the procurement process.
- Establish strategic partnerships with a select group of diverse suppliers.
- Prioritize State Street’s commitment to diverse suppliers within the company.
- Redirect resources to the Supplier Diversity Team.

## Focus Area 8: Redesign Website

State Street’s website is its front door to the world. The website provides a critical opportunity to communicate its commitment to racial equity, explain what it is doing in support of that commitment, and expand access to diverse communities. Financial institutions that target their website to institutional clients miss the opportunity to build the diverse pipeline of talent, connections, ideas, and perspectives that different, more diverse clients may offer. State Street’s website provides an opportunity to speak to diverse vendors, partners, and institutions that provide the pipeline needed to expand investments in BIPOC communities.

State Street has not seized this opportunity. The racial equity messaging on its website is more diffuse and buried than on peers’ websites. It is difficult to gain a comprehensive understanding of where the Company stands and what it is doing. Peers capitalize on their websites as a financial

literacy education tool, whereas financial sophistication is needed to grasp large portions of State Street’s website. Access for non-English speakers lags. These shortcomings leave State Street IN THE PACK, behind some peers.

#### *Key recommendations include:*

- Revise website to make clear State Street’s commitment to racial equity and civil rights and the actions it has taken or plans to take.
- Capitalize on the website as an opportunity to attract users who are new to, or lack sophisticated knowledge about, investment and wealth management.
- Enhance language access.

### **Focus Area 9: Expand Physical Footprint and Community Engagement**

State Street is not leveraging its significant corporate footprint and associated spending to benefit local communities and promote racial equity. It lacks a cohesive strategy for using its offices to support BIPOC businesses, restaurants, and vendors. While State Street has opened its buildings for use by some BIPOC and other organizations for events and gatherings, it can be more intentional about ensuring it is responsive to community needs. When it chooses a new office, local communities are not consulted about how State Street’s presence impacts property values or neighborhood affordability. A mandate from leadership should include a commitment to advancing racial equity everywhere the Company has an office and an associated strategic plan.

Closely related is the need for State Street to expand its definition of community, which is excessively Boston-centric. This is reflected in the disproportionate share of grantmaking directed to organizations in eastern Massachusetts and the Company’s limited grantmaking elsewhere. State Street should prioritize engagement with and support for BIPOC communities everywhere in the country it has an office. Because the Company does not do this, it is for the most part IN THE PACK and behind some peers.

#### *Key recommendations include:*

- Redefine the concept of State Street’s “community” to recognize the importance of its physical footprint.
- Existing offices should increase opportunities for engagement with BIPOC businesses, non-profit organizations, and local communities.

- Support the local BIPOC community with the new flagship headquarters.
- Consideration of racial equity and engagement with local community groups and BIPOC stakeholders should be built into the process for selecting and building out new offices.

## Focus Area 10: Hold Yourself Accountable

The ultimate test by which any commitment is measured is in the follow through. Commitments undertaken as a result of an audit are no different. In the words of Rashad Robinson, President of Color of Change: “Racial equity audits exist to drive changes in policy, not rhetoric.” It is critical that State Street hold itself accountable for following through on the commitments it makes as a result of this Report. It should establish a high-level task force or similar structure to oversee and monitor progress enterprise wide.

The compliance department should be involved in establishing, implementing, and enforcing the protocols used to monitor the business units. The audit department should review the work of the compliance department and report directly to the Board of Directors. The compliance department should report to the high-level task force, which in turn should report to the CEO and the Board of Directors. Progress should be measured in each of the 10 focus areas by a clear set of metrics that can be tracked semi-annually and year over year. Failure to live up to its commitments will undermine the opportunity for State Street to become a leader on racial equity and civil rights in the financial sector and create reputational risk.

### Key recommendations include:

- Create a centralized high-level task force charged with ensuring that State Street meets its racial equity commitments arising from this Audit.
- The compliance department should be assigned responsibility for establishing, implementing, and enforcing protocols enterprise wide to ensure adherence to commitments undertaken as a result of the Audit.
- The audit department should audit the work of the compliance department.
- Ensure monitoring of greenwashing risk as civil rights commitments expand.
- Prioritize the resources needed to ensure commitments undertaken as a result of the Civil Rights Audit are met.







# FOCUS AREA I: COMMUNICATE MANDATE FROM LEADERSHIP

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## OVERVIEW

A mandate from State Street’s leaders is essential if the Company is to become an industry leader and make truly important progress on racial equity. It is foundational to the success of all the other recommendations in this Report. The mandate must explain to the Company and its stakeholders the importance of sustainability, and articulate what the Company is doing to advance racial equity. State Street’s commitment to sustainability as a Value proposition is shared and articulated within the Executive leadership team and the Board of Directors, but it is not being heard clearly throughout the Company or coming across to external stakeholders. Peers are out-performing State Street in communicating their commitment to sustainability. In this regard, State Street currently sits undistinguished IN THE PACK, missing an important opportunity to be a leader.

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A mandate is foundational to the success of all  
the other recommendations in this Report.

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## FINDINGS

### State Street’s Leadership Recognizes That a Commitment to Sustainability as a Value Proposition Is Essential to Promoting Racial Equity

State Street’s Executive leadership and Board of Directors share a genuine commitment to sustainability as a Value proposition and understand why it matters in promoting racial equity. Leadership understands the growing demand for socially responsible products, services, and strategies. This is important, as it is our view—for reasons discussed below—that racial equity issues will play a large role in determining whether companies like State Street are able to maintain market share, compete effectively, and navigate the transformational changes that are currently re-shaping the economy, demographics, and technology.

## Leadership Has Not Made the Case for Why Sustainability Matters in a Way That Resonates with Mid-Level Management and External Stakeholders

Despite this commitment and understanding at the top, leadership has not made the case clearly and effectively to mid-level management and external stakeholders. It is not amplifying the evidence supporting the Value proposition and the connection to racial equity. This includes evidence about the growth in demand for ESG products, including products promoting civil rights and racial equity, and the sound returns provided by these products.

## There Is Little Recognition Throughout the Company or by External Stakeholders That Leadership Values Sustainability, and Contrary Views Are Not Uncommon in Mid-Level Management

Because the Company has not been clear about it, many of State Street's own employees and external stakeholders do not know that leadership views sustainability as an important Value proposition. The absence of a clear, well-reasoned explanation from leadership has left many employees in important mid-level positions with significant doubt that racial equity products and strategies are consistent with the Company's fiduciary duties. Even the heads of some business units are skeptical that ESG products and strategies—especially S—can perform well, that there is significant demand for them, or that there is sufficient reliable data to develop them. Many employees do not know that other industry players and investment firms are successfully delivering Value with racial equity products.

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Many of State Street's own employees and external stakeholders do not know that leadership views sustainability as an important Value proposition.

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## State Street Has No Unifying Message and Set of Priorities on Racial Equity Products and Strategies

State Street lacks a unifying message, and set of priorities, about how it believes racial equity can best be served through its products, services, strategies, and investments. There is no clearly defined, easily recognized, memorable “north star” or “north stars” that unify State Street's racial equity efforts across business units. As discussed in *Focus Area 2: Expand Investments in BIPOC Communities and Companies*, State Street is doing important work at tremendous scale in many areas—like affordable housing—that it could use to focus its efforts in a way that helps bind its commitment to racial equity company-wide and makes it more likely its commitment will be heard and resonate with external stakeholders.

## **The Company Has Not Deployed the Resources Needed in Key Areas to Drive Transformative Progress on Racial Equity**

Teams in several key areas are too small and lack adequate resources to implement many of the changes recommended in this Report. If employees are asked to implement recommendations on top of their “core” duties, as frequently happens with racial equity efforts, success is unlikely. More employees and other resources would facilitate the level of sustained focus that is required. Key areas requiring more resources include (but are not limited to) asset stewardship, to facilitate consideration of the full range of racial equity issues; Alpha’s ESG Hub or another team, to develop a best-in-class repository of racial equity data; State Street Global Advisors (Global Advisors) product development, to develop a suite of racial equity products and strategies; and sales, to facilitate and prioritize gaining new diverse clients.

## **Lack of Communication Across Business Units Hampers Innovation and Progress on Advancing Racial Equity**

State Street has not prioritized the effective and efficient communication of racial equity ideas and innovation in developing its cross-company channels of communication. Efforts undertaken by different business units are often siloed. This hampers synergy and productivity, limiting what State Street is able to accomplish with respect to racial equity.

# **ANALYSIS**

## **Leadership on Racial Equity Requires a Clear Mandate from the Top**

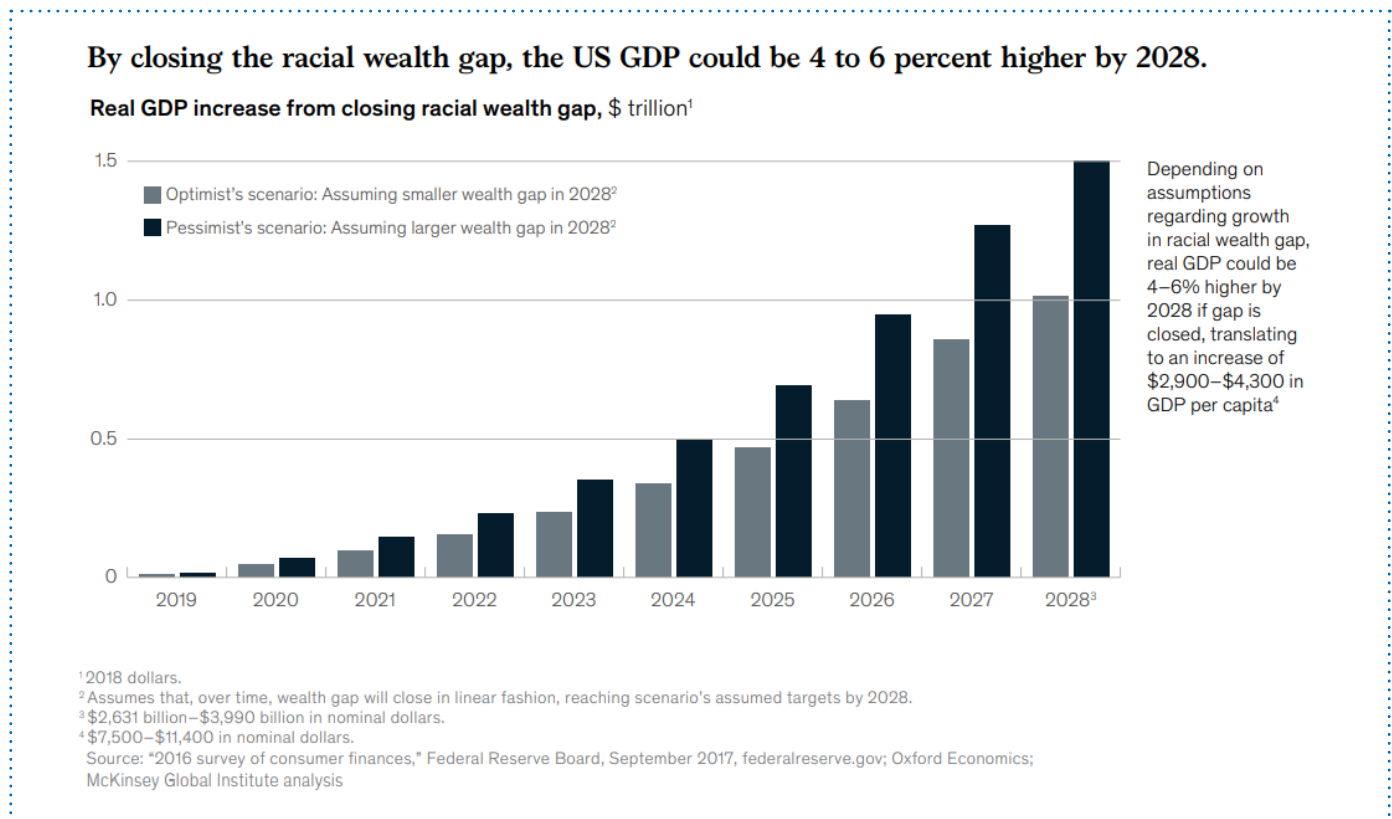
A clear mandate from a company’s senior managers is an essential component of leadership on sustainability and racial equity. A company must consistently and frequently highlight its commitment in simple and direct terms.

Any lack of clarity from the top will prevent the message from reaching external stakeholders. Likewise, buy-in from middle managers will be limited at best—conflicting views will proliferate and the commitment to sustainability will not become part of a company’s culture. Actions will stall, and goals will not be achieved. In short, a company cannot distinguish itself from peers and be a true leader in support of sustainability and racial equity unless external stakeholders and the entire company know where it stands and why.

## **The Message from the Top Must Explain Why Racial Equity and Civil Rights Are Important Components of Sustainability**

The reasons for a company’s commitment must be part of the message from senior leadership. There are two leading explanations for why racial equity is a vital element of sustainability. Both should be amplified.

First, a growing racial wealth gap hurts the economy. By sidelining BIPOC talent and constraining the capital available to BIPOC businesses, it limits economic potential. The negative impact on GDP is quantifiable. In 2019, [McKinsey](#) estimated that the racial wealth gap’s “dampening effect on consumption and investment will cost the U.S. economy between \$1 trillion and \$1.5 trillion from 2019 to 2028—4 to 6 percent of the projected GDP in 2028.” [Citi](#) estimated in 2020 that closing the gap would add up to \$5 trillion to U.S. GDP over the next five years, and that failing to do so has cost \$16 trillion over the last twenty years. The [W.K. Kellogg Foundation](#) puts the annual gain in U.S. GDP from closing the earnings gap at \$8 trillion by 2050.



From McKinsey, [The Economic Impact of Closing the Racial Wealth Gap](#).

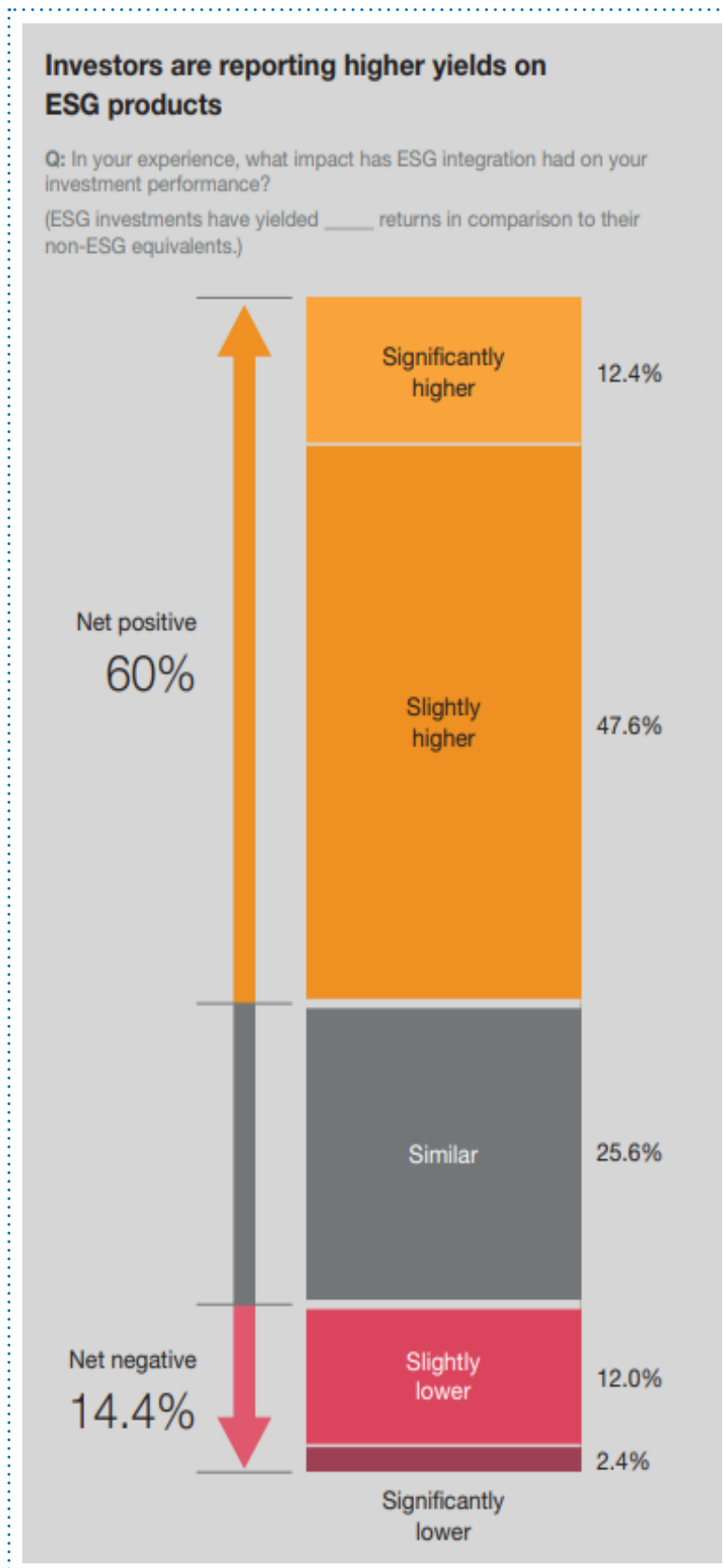
Second, the widening wealth gap and racial inequality create political instability and threaten the health of democratic institutions. Without a healthy democracy, free markets do not flourish. As a recent Harvard Business Review [article](#) put it, “American business needs American democracy.”

“Strengthening democracy is the only way to ensure the widespread survival of free-market capitalism, and with it the prosperity and opportunity that has changed the lives of billions of people. It’s also the only way to tackle the world’s biggest threats, from global warming to increasing inequality. And business has to play a leading role—now.”

Rebecca Henderson, Harvard University



## The Message from the Top Must Also Emphasize the Growing Demand and Value for Clients of Racial Equity and Civil Rights Products and Strategies



The message must also explain why an emphasis on racial equity is important to a company's bottom line. Demand and client Value are the key points here.

There is already substantial demand for ESG products and strategies, including those promoting racial equity. State Street's own [research](#) shows that investors increasingly see adherence to ESG principles as part of their fiduciary duty and necessary for regulatory compliance. It found that "the fiduciary duty aspect of ESG is fast becoming more certain, with [59% of North American] respondents seeing it as the key driver of adoption." This will become more important with the maturing of regulatory regimes addressed to ESG.

ESG is fully aligned with asset managers' fiduciary duty to prioritize returns for their clients. Studies show that in both public sector and private equity investing, making socially responsible choices can and does deliver market or better-than-market returns. According to PwC's 2022 [survey](#) of asset managers and institutional investors, 60% found that ESG investments have yielded higher returns. ESG is an approach to asset management that generates Value.

From PwC, [Exponential expectations for ESG](#).

## ESG AT THE TIPPING POINT

*“ESG investing has clearly reached a tipping point where institutional investors cannot afford to ignore it—either for the risk that it may pose or, perhaps even more compellingly, the opportunities it presents.”*

In 2019, State Street Global Advisors published *Into the Mainstream: ESG at the Tipping Point*. Based on a survey of over 300 institutional investors, the study analyzed how they are implementing ESG strategies and the challenges they face in doing so. Global Advisors partnered with academics, researchers, and industry leaders on the study.

The results provide important insights into the upward trend of ESG strategies and the barriers to achieving the most effective ESG outcomes. The three key findings are:

- Fiduciary duty, regulation, and mitigating ESG risk are the key push factors driving investors towards ESG globally.
- Data quality, internal resource constraints, and the need for expertise are the key factors pulling investors away from ESG globally.
- Effective risk measurement is critical for all, regardless of investment path taken.

Fiduciary duty is the leading push factor in North America:

### Factors leading to ESG adoption in North America



## Remaining Competitive Depends on Recognizing That Transformational Changes Are Placing ESG at the Center of the Investment Landscape

We are in a period of transformational change. Many aspects of the economy are changing quickly, driven by rapid and accelerating technological innovation. Demographic diversity is increasing at a pace even quicker than [predicted](#). Enormous wealth is beginning to transfer to younger people from the large and influential—but aging—baby boomer generation, with millennials expected to inherit [\\$68 trillion](#) in the coming decades.

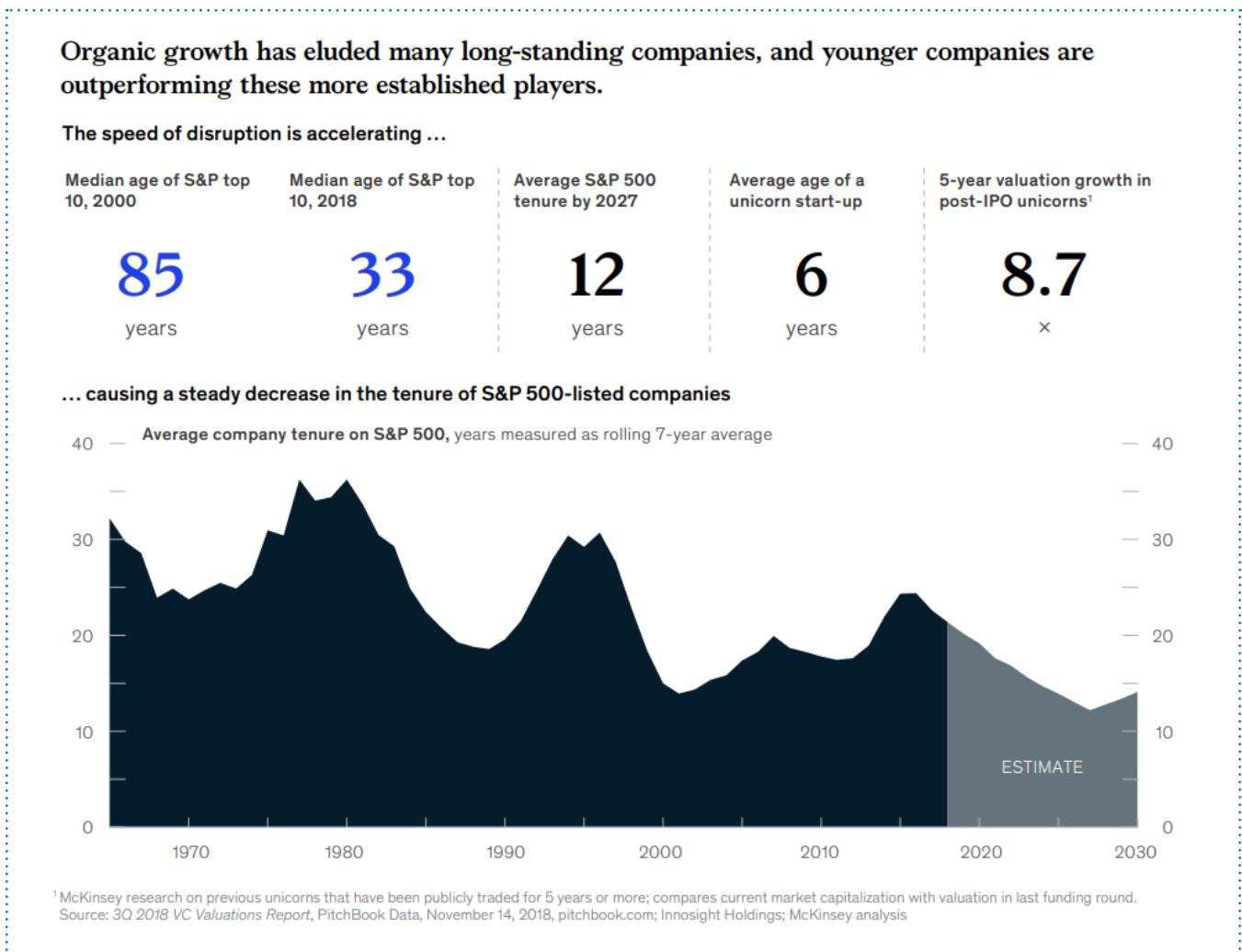
These changes will drive increased demand for ESG products. State Street’s own research published in 2021 shows that younger generations prioritize social responsibility when making investment decisions:

[A] high proportion of millennial (age 23-38) investors (82%) indicates that they always or sometimes consider a company’s social, political or environmental impact in their decision to invest or not in ESG. Almost 70% of Gen X (age 39-54) indicated that a company’s social, political or environment impact always or sometimes influences their decision to invest or not. Furthermore . . . younger investors, in particular, [are] planning to increase their allocation to ESG investments.

Morgan Stanley likewise [found](#) that “Millennial investors . . . are twice as likely as the overall pool to invest in companies or funds that target social or environmental outcomes.” And PwC [explained](#) that “[since 2020], we’ve seen an unprecedented acceleration in . . . ESG-oriented investments . . .” As millennials assume leadership positions as institutional investors, and increasingly form the investment/investor base of these institutions, they will bring these values and priorities with them.

In a time of rapid and transformational change, companies that fail to adapt to changing market demands will decline if not disappear. They will lose market share, and advances in technology will allow others to compete with and overtake them with unprecedented speed. McKinsey [predicts](#) that by 2027, companies in the S&P 500 will have been on the list for an average of 12 years, down from 35 years in the late 1970s, and down from 85 years in 2000. The dominant financial institutions of tomorrow will be the ones—old or new—that recognize and respond to the pivotal place that ESG is assuming for investors.

A company’s leaders must communicate this message clearly so that its employees, clients, and other stakeholders understand why it is pursuing racial equity and join in supporting those efforts.



From McKinsey, *Traditional company, new businesses: The pairing that can ensure an incumbent’s survival.*

### A Mandate Can Only Lead to Strong Results If Backed by Sufficient Resources, Prioritization, and Goals

Employees must be given the tools and opportunity to prioritize the issue. Resources are only part of this. It entails revising job responsibilities so that advancing racial equity is a key component, not merely an add-on to be pursued when time permits. It also extends to making structural changes to facilitate the sharing of information and innovative ideas across the company to promote efficiency, synergy, and collaboration. Siloes must be eliminated because they inhibit innovation and progress.

Aggressive and specific goals must be set regarding the aspects of racial equity where a company wants to accelerate progress.

The mandate from senior managers should be accompanied by advances in each of these areas, or at minimum a commitment to making them. This will both drive home the importance of racial equity as a corporate priority and enable the company to produce concrete results.

## RECOMMENDATIONS: MANDATE

### 1. Issue Clear, Periodic Statements from the Chief Executive Officer About State Street's Commitment to Sustainability, Civil Rights, and Racial Equity

- The Chief Executive Officer should issue statements that clearly communicate State Street's commitment and make the case for it. They should explain the Value proposition, why the commitment is consistent with the Company's fiduciary duties to clients, the growing demand for socially responsible products and strategies, and what State Street is doing to improve racial equity investing (e.g., developing quality data and metrics). The message should focus on racial equity and explain why it is a critical part of sustainability.
- The medium for communicating this message should be bold. Possibilities include a letter to the investment community prominently displayed on State Street's website; a full page ad in leading publications; and town hall-style meetings with employees led by the CEO.

### 2. Identify One or More "North Stars" That Provide Thematic Coherence to State Street's Efforts

- State Street is already doing significant work to support affordable housing, which is an important area for BIPOC communities. It could decide to add healthcare, education, or infrastructure to its priorities. These are only examples, and the decision is for the Company to make, but choosing a north star (or more than one) is important because it will help define what racial equity means to State Street.

### 3. Prioritize Resources to Drive Innovation and Progress on Racial Equity

- A mandate from leadership to pursue racial equity, no matter how clear and persuasive, will not produce results on its own. The mandate should also include a commitment to prioritize resources as necessary to drive innovation and progress on racial equity. Resources should be redirected to increase the capacity of teams where needed to make State Street a leader in advancing racial equity. The teams include:
  - Asset stewardship, to facilitate consideration of the full range of racial equity issues.

- Alpha’s ESG Hub or another team, to develop a best-in-class repository of racial equity data.
- Global Advisors product development, to develop a suite of racial equity products and strategies.
- Sales, to facilitate and prioritize gaining new diverse clients.

#### 4. Share Ideas Across Business Units

- The mandate should also include a commitment to create efficient and effective means for sharing ideas and progress regarding racial equity across business units.
- This should include adding detailed resources to the Company’s intranet describing racial equity products and strategies, identifying diverse vendors, and providing a forum for questions and an exchange of ideas.

#### 5. Set More Aggressive Goals

- Leadership should make plain how and where it is prioritizing racial equity by setting and publicizing aggressive new goals. This will help ensure that senior management’s commitments permeate the Company and distinguish it from peers. The Company has done this with respect to the *10 Actions to Address Racism and Inequality*. A similar goal-oriented framework is needed with respect to products, policies, programs, and services. Goals might address, for example, new or expanded investments in BIPOC communities, increasing diverse spend, or other topics covered in this Report.
- Managers should prioritize the inclusion of performance goals that promote racial equity objectives as part of their regular evaluation of employee performance. Focusing on racial equity goals will motivate and drive employee performance in meeting the commitments State Street undertakes as a result of this Report.
- It is imperative that the Company stay focused on the goals that it sets and hold itself accountable for meeting them, as discussed in *Focus Area 10: Hold Yourself Accountable*.

### SHORT TERM NEXT STEPS

Over the next six months, State Street should (1) identify one or more north stars to unify its racial equity efforts, (2) develop a plan to redirect staffing and other resources to key areas, (3) develop a plan for sharing ideas related to racial equity across business units, and (4) use advertising or other means to communicate to the public the steps it is going to take to implement recommendations in this Report.





2.  
EXPAND  
INVESTMENTS  
IN BIPOC  
COMMUNITIES  
AND  
COMPANIES



## FOCUS AREA 2:

# EXPAND INVESTMENTS IN BIPOC COMMUNITIES AND COMPANIES

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## OVERVIEW

*Given its influence over capital flows and economic opportunities, the investment community has a critical role to play in enabling and accelerating racial equity outcomes across the U.S.*

– Croatan Institute

The custody and servicing side of State Street’s business held and serviced \$36.7 trillion in assets at the end of 2022. The size and scale of this part of State Street’s business creates a unique opportunity to direct capital in ways that help address the racial wealth gap and bring much-needed benefits to BIPOC communities. This section of the Report addresses three of its business groups—Global Treasury, Tax Advantage, and Global Credit Finance—that are especially well positioned to contribute to this goal because of the discretion and control State Street has over their portfolios.

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The custody and servicing side of State Street’s business held and administered \$36.7 trillion in assets as of year end 2022.

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**Global Treasury** is already an INDUSTRY LEADER. Through its work to place deposits in BIPOC financial institutions, sustainable bonds, partnership with diverse firms, and more, Global Treasury is demonstrating how to make a difference through the creative and purposeful use of fixed income investments. It should set even more aggressive targets, though, including a goal of 2% of cash reserves in BIPOC financial institutions or funds. **Tax Advantage** is doing important work to support affordable housing through tax credit investments. It is an EMERGING LEADER and can become a true leader by intentionally targeting that work to benefit BIPOC communities across the country. **Global Credit Finance** supports majority-minority local governments and affordable housing but is currently only IN THE PACK and is not distinguishing itself from peers. It could be more effective if restrictions on its investment options are modified or eliminated.

Each of these groups is already doing valuable work to provide capital to BIPOC communities, businesses, and institutions, but they can do more. Together they can make State Street the clear industry leader in directing assets to enable and accelerate racial equity.

# FINDINGS: GLOBAL TREASURY

## Global Treasury Has Taken Important Steps to Incorporate Racial Equity Initiatives in Its Management of State Street's Balance Sheet

State Street's Global Treasury Group (Treasury) is responsible for managing the Company's portfolio, which as of December 31, 2022 was \$105 billion. Treasury has increased the portfolio's allocation to ESG-related investments and is leading an impressive array of racial equity initiatives.

- **Deposits in BIPOC Financial Institutions.** In 2021, Treasury set a goal of placing \$200 million in BIPOC financial institutions or funds such as Black-owned banks, Community Development Financial Institutions (CDFIs), and Minority Depository Institutions (MDIs) and/or Black-equity investment funds. Treasury intends to negotiate below market deposit rates for multi-year CD deposits with these BIPOC financial institutions.

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State Street has set a goal of placing \$200 million in BIPOC financial institutions or funds.

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We are not aware of any peer institutions making commitments at this scale. Industry thought leaders, including leaders of national minority trade organizations, are impressed by State Street's commitment of capital to BIPOC banks and funds.

Internal impediments are preventing Treasury from reaching its target, however. Some of the resistance is because the minority banks it wants to place funds with are smaller than the depository institutions that State Street traditionally works with.

- **Issuance of Racial Equity-Related Sustainable Bond.** A sustainable bond is a bond where the proceeds finance green or socially responsible projects and which has built-in requirements for project monitoring and reporting.

Treasury issued its first [sustainable bond debt](#) in late 2022. The issuance totals \$500 million and adheres to State Street's new [Sustainability Bond Framework](#). The proceeds can be used to support affordable housing, socioeconomic advancement, and employment, education, healthcare, and environmental infrastructure and services. Projects like these are important to BIPOC communities and addressing racial equity.

Treasury's goal is to issue at least one sustainable bond per year. It currently has \$2 billion in additional eligible expenditures but expects this to increase every 12 to 18 months.

## SUSTAINABLE BOND FRAMEWORK

Sustainable bonds raise money to support projects addressing critical environmental, social, and economic issues.

State Street announced its inaugural Sustainability Bond Framework in October 2022. Its purpose is to enable the issuance of Green Bonds, Social Bonds, and Sustainability Bonds that directly support the company's ESG strategy. Proceeds will fund or refinance projects that fall within at least one of eight United Nations Sustainable Development Goals identified by State Street as areas where it can be most impactful. The projects can include affordable housing, socioeconomic advancement, and employment (with a focus on racial equity, social justice, education, and workforce development), essential services—such as education and healthcare, environmental infrastructure and services like clean transportation and sustainable water management—as well as other ESG projects.

The Framework prohibits direct support for fossil fuels, human rights exploitation, private for-profit prisons, immigration detention centers, weapons, gambling, adult entertainment, tobacco, and alcohol.

State Street launched its first sustainable bond under the Framework in November 2022. The underwriting syndicate included diverse firms CastleOak Securities, L.P., R. Seelaus & Co., LLC, Academy Securities, Inc., and Samuel A. Ramirez & Company, Inc. The issuance is for \$500 million.

- **Impact Investment Fund.** The Treasury team has explored the possibility of launching an impact investment fund. An impact fund would invest capital with qualified CDFIs, including ones that primarily serve BIPOC communities, through debt or equity.

We are unaware of any custody bank that has announced or launched an impact fund. Many retail banks have created impact funds in amounts ranging from \$100 million to \$500 million.

- **Syndicate Diversification.** Treasury has increased its collaboration with diverse underwriters and other syndicates. 41% of Treasury's underwriting fees paid from its senior debt offerings in 2022 went to diverse bookrunners and co-managers. It **partnered** with Black-owned investment firms (Siebert Williams Shank & Co., LLC, Loop Capital Markets LLC, CastleOak Securities, LP, and Blaylock Van, LLC) to issue an aggregate of \$1.5 billion of senior unsecured debt. State Street also **issued** \$750 million of senior notes in partnership with Latino-owned underwriting firms (Cabrera Capital Markets LLC, Great Pacific Securities, Penserra Securities LLC, and Samuel A. Ramirez & Company, Inc.) and **issued** \$500 million in senior unsecured

debt with women-owned broker-dealers (R. Seelaus & Co., LLC, Siebert Williams Shank & Co., LLC, MFR Securities, Inc., Stern Brothers & Co., and Tigress Financial Partners, LLC). State Street has worked with some of these diverse firms for a number of years; others are new partners.

- **ESG Responsible Investing Policy.** The Treasury team has proposed an ESG Responsible Investing Policy for implementation across State Street’s balance sheet. If approved, investments in all asset classes will be examined for ESG-related consequences. State Street already prohibits investments in private prison companies in its own investment portfolio. As discussed in *Focus Area 4: Develop New State Street Global Advisors Racial Equity Products and Strategies*, civil rights experts are focused on private prison companies because of their role in perpetuating mass incarceration, which disproportionately impacts BIPOC communities.

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State Street already prohibits investments in private prison companies  
in its own investment portfolio.

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- **Internal Thought Leadership.** Treasury has developed and distributed white papers within the Company on responsible investing, including DEI. One paper, for example, focuses on the use of specific Sustainability Accounting Standards Board (SASB) metrics to assess company performance on racial diversity, including board and workforce diversity.

### Treasury Can Do More to Support Racial Equity

Treasury is in the process of determining which of its investments impact BIPOC communities and how it could do more to advance racial equity. It is, for example, currently in the process of evaluating its Commercial Mortgage-Backed Securities/Mortgage-Backed Securities (CMBS/MBS) holdings. Treasury has significant investments in Freddie Mac. Many of these investments are in affordable multifamily housing, but little analysis has been done to determine where the affordable housing is being built and the extent to which it benefits BIPOC communities.

The same can be said for sustainable bonds. Treasury invests in these instruments but is not intentional about using these investments to benefit BIPOC communities. Work remains to be done in these areas and across other portfolios and sectors to determine how Treasury’s investments can be optimized to promote racial equity. This is critical to the strategic decisions that need to be made in setting new goals and targets for how Treasury’s \$105 billion portfolio can be safely and profitably invested in ways that benefit BIPOC communities.

## Treasury's Racial Equity Work Is Not Evident Outside the Company Because of Poor Communications

Clients, potential clients, the civil rights community, and ESG thought leaders are largely unaware of Treasury's industry-leading work to invest State Street's own funds in support of racial equity. When key stakeholders were told in interviews about Treasury's initiatives, including its goal to place deposits with BIPOC institutions and funds, they were impressed and eager to hear more about Treasury's progress.

## Treasury Lacks a Formal Mentoring Program for Diverse Underwriters and Syndicates

As discussed in *Focus Area 7: Increase Diverse Supplier Spend*, State Street does not have sufficient mentoring programs for the diverse firms it works with. Peers have created these programs to help diverse firms succeed and grow.

## Treasury's Support of Racial Equity Contributes to Employee Job Satisfaction

Interviews made clear that Treasury employees and managers are proud of their work supporting civil rights and racial equity. They find it exciting and invigorating. Their shared dedication boosts team morale and positively influences how they approach all components of their jobs.

# ANALYSIS

## BIPOC Communities Struggle to Access Capital

Growth requires access to capital. Insufficient access impacts everything from infrastructure to entrepreneurship to health and safety. Civil rights advocates have for this reason focused on increasing investment and capital in BIPOC communities. A financial institution with large amounts of investment capital has an enormous opportunity to advance racial equity. It can infuse much-needed capital in underserved communities in ways that help address the racial wealth gap and drive long term growth by being intentional about how it invests its money. Optimizing this opportunity is an important component of leadership on civil rights.

A custody bank like State Street can make these investments in BIPOC communities in many ways that are safe and profitable, even when limited to a fixed income portfolio. It can support local governments and infrastructure projects in majority-minority municipalities through municipal bond strategies. Capital can be invested in diverse banks, CDFIs, firms, and entrepreneurs, as well as with other financial institutions that serve BIPOC communities. The breadth of opportunities also means that funds can be reallocated based on measurable impact and performance to meet an institution's goals.



## Companies Should Publicly Celebrate Their Efforts to Improve Racial Equity

Companies should publicize their efforts to advance racial equity, including the goals they set for themselves to do more and how they intend to meet these goals. Beyond internal and business benefits, bringing attention to these efforts builds critical momentum by encouraging more companies to pursue sustainability.

## RECOMMENDATIONS: GLOBAL TREASURY

### 1. Become the Industry Leader by Setting Higher Goals for Treasury's Existing Racial Equity Investments and Making New Ones

- Treasury is well positioned to become the industry leader in racial equity investing in the bank portfolio sector. The Company should make clear that this is a priority. This should be part of the mandate from leadership.
- State Street should set a goal of placing at least 2% of its cash reserves in BIPOC banks and institutions. As State Street's reserves grow, so should its commitment to BIPOC banks and institutions. In the near term, State Street should realize in full its goal of placing \$200 million in deposits in BIPOC banks and institutions.
- State Street should establish an impact fund. A pilot could involve the placement of \$100 million in CDFIs using proceeds from sustainable bonds as well as Treasury's own resources. Consideration should also be given to including BIPOC businesses and MDIs in addition to CDFIs.
- Leadership should set more aggressive targets for Treasury's racial equity programs that are already underway. As eligible expenditures increase, State Street should increase the number of sustainable bonds it issues. At least one bond should be devoted exclusively to furthering civil rights and racial equity. Targets for the use of diverse syndicates should be increased above the substantial levels that have already been achieved.
- Treasury should identify and propose to leadership necessary changes in internal processes to fast track the evaluation and implementation of potential new programs, consistent with an acceptable level of risk. Leadership should promptly consider the proposed changes and provide a timeline for the implementation of those it approves.

## 2. Examine and Reallocate Treasury's Investment Portfolio to Optimize Investments That Positively Impact BIPOC Communities

- Treasury should expand its evaluation of the impact of its investments on BIPOC communities from Agency CMBS/MBS to all holdings and portfolio sectors. Based on the findings, it should consider reallocating its portfolio to investments that will have a greater impact. This could lead to an increased allocation to sustainable and social bonds. It could lead to utilizing a municipal bond strategy that, as described later in this focus area, relates to Activest's work. These are just examples. The important thing is to allocate investments to maximize their effectiveness.

## 3. Adopt ESG Responsible Investing Policy

- Treasury should implement an ESG Responsible Investing Policy. The purpose of the policy would be to examine investments in all asset classes for ESG-related consequences.

## 4. Mentor Diverse Firms That State Street Works With

- Treasury should become a leader in mentoring the diverse firms it invests in and partners with to help them grow. Peer firms are ahead of State Street in systematic mentoring, as discussed in *Focus Area 7: Increase Diverse Supplier Spend*. To catch up, State Street should establish regular touchpoints between diverse firms and senior management, including the heads of business units. Treasury should play a leading role in developing and implementing strategic partnerships with State Street's diverse partners.

## 5. Embrace Role as Thought Leader

- State Street should publish more of the research and analysis that underpin its investments in support of racial equity and other S issues. There is little in the public discourse about how custody banks can align their social justice values with their investment portfolio. Treasury should build on its internal work on ESG and DEI scorecards to become the industry thought leader on how bank portfolios can have a positive impact on civil rights.

## SHORT TERM NEXT STEPS

Over the next six months, State Street should (1) implement a plan and timeline to meet its commitment of placing cash reserves in BIPOC financial institutions or funds, and (2) adopt the ESG Responsible Investing Policy.

# FINDINGS: TAX ADVANTAGE

## State Street Supports Development of Affordable Housing by Investing in Government Tax Credit Programs

State Street's Tax Advantage Group uses government tax credit programs to invest in affordable housing and renewable energy. The tax credits are used to offset State Street's tax liabilities. Investments in these programs are capped at the amount of those liabilities.

Investments in affordable housing tax credits are under the federal Low Income Housing Tax Credit (LIHTC) program and state equivalents, of which Massachusetts is the primary one. State Street and its co-investors' funding is responsible for creating more than 1,300 affordable housing properties. State Street describes these investments in its [2021 ESG report](#) as part of the Company's "broad-based commitment to integrating ESG goals and considerations throughout our business."

## State Street Has Directed More Than \$1.7 Billion to Affordable Housing Nationwide Over the Last Decade Through Tax Credit Investments

State Street's tax credit investments over the last ten years have totaled approximately \$3.5 billion split roughly evenly between affordable housing and renewable energy projects. This means it has made investments averaging approximately \$175 million annually in affordable housing and renewable energy through government tax credit programs.

The division between these areas has favored affordable housing in the last three years. State Street has invested in tax credits to support affordable housing properties in 52 states and territories. Its annual investment in LIHTC tax credit programs is larger than the Commonwealth of Massachusetts's allocation in 2022.

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**\$175 million is invested annually in affordable housing through government tax credit programs, but State Street does not prioritize funds that invest in areas that will benefit BIPOC communities.**

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## State Street Invests in Funds That Do Not Identify Racial Equity Priorities for Selecting Developers or Project Locations

State Street utilizes syndicators that pool funds to invest in affordable housing projects on the Company's behalf. The syndicators—not State Street—choose which developers to invest with. State Street does not prioritize funds that invest in affordable housing projects in areas that will benefit BIPOC communities. No consideration is given to whether a fund focuses on a diverse city or region where increased affordable housing would be accessible to BIPOC communities.

State Street could prioritize syndicators that focus their work on projects in diverse Metropolitan and Micropolitan Statistical Areas (MSAs). This would require emphasizing the impact on BIPOC communities as well as the return on investment and risk management underwriting criteria, not just the latter. The Company is well-equipped to identify such syndicators and funds across the country that have an impact on BIPOC communities. It has extensive contacts with national housing and industry groups that allow it to identify syndicators and funds that will invest in affordable housing projects that benefit BIPOC communities.

## ANALYSIS

### Investments in Affordable Housing Are Critical to Advancing Racial Equity

Increasing access to housing is a fundamental component of any racial equity strategy. Access to housing profoundly affects all other critical determinants of life outcomes. As a Kellogg Foundation [report](#) explains, “housing [i]s the first and most important domain, because where we are born and raised affects everything else—our ability to grow and stay healthy, the quality of schools in our neighborhood, our exposure to violence and crime, our access to employment opportunities, and even our hopes and expectations for the future.”

Place and economic outcomes are likewise strongly related to race. [Recent research](#) by Harvard professor Raj Chetty has found that areas with a higher fraction of African Americans have much lower observed rates of upward mobility, but children who move to areas of opportunity earn more and have better life outcomes. The LIHTC program has proven critical in assisting families of color move to opportunity. This is particularly true where capital has been invested in ways that prioritize the development of affordable housing in areas where communities of color have access to better schools, jobs, and life outcomes. As National Fair Housing Alliance CEO Lisa Rice explains, “investments in affordable housing are critical to overcoming the legacy of discrimination by expanding access to resources and opportunities for communities of color.”

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“Investments in affordable housing are critical to overcoming the legacy of discrimination by expanding access to resources and opportunities for communities of color.”

Lisa Rice, National Fair Housing Alliance CEO

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Any institution that prioritizes investments in affordable housing is positioned for leadership in advancing racial equity because it is so critical to reducing the racial wealth gap. This is especially true when the scale of those investments matches the institution’s size and influence in the industry, and they are designed in ways that increase housing for BIPOC communities.

# RECOMMENDATIONS: TAX ADVANTAGE

## 1. Establish a Strategy and Goals for Affordable Housing Investments That Maximize the Benefits to BIPOC Communities

- State Street should rethink its affordable housing investment strategy to ensure that it benefits BIPOC individuals, families, and communities.
- State Street should prioritize the selection of funds and syndicators that support the construction of LIHTC affordable housing projects located in areas of opportunity for BIPOC communities.
- State Street would benefit from a greater diversity of partners in designing its strategy. As a first step, it should form a strategic partnership with national civil rights organizations such as the National Fair Housing Alliance. These organizations can help State Street determine how and where to invest in affordable housing to maximize the benefit to BIPOC communities. They can also assist State Street in identifying syndicators and developers with experience working to promote racial equity by providing affordable housing for these communities.
- As part of its strategy, State Street should establish targets for dollar amount or percentage of its total LIHTC tax credit investment that go to projects benefitting BIPOC communities and/or are located in MSAs that have significant minority populations.

## 2. Make Larger Investments in Affordable Housing

- State Street should increase its affordable housing investments. Because affordable housing is central to advancing racial equity and fits within a preexisting part of the Company's business, expanding this part of its investment strategy fits naturally with a plan for promoting racial equity. State Street should continue and accelerate the recent trend of allocating over half of its approximately \$350 million in annual tax advantaged investments to affordable housing, and grow its affordable housing investments.

### 3. Seek CRA Credit for Affordable Housing Investments Outside of Eastern Massachusetts

- CRA regulations are being [revised](#) by the Federal Reserve and other regulators. Under the new regulations, it is likely that there will be new opportunities to obtain CRA credit for activities nationally, not just in a bank's local assessment area. Tax Advantage should work with State Street's CRA compliance officer to identify, expand, and take advantage of forthcoming opportunities to obtain additional credit for investments in affordable housing outside its assessment area in eastern Massachusetts.

#### **SHORT TERM NEXT STEPS**

In the next six months, State Street should (1) develop a strategic plan for affordable housing investments that maximizes the benefit to BIPOC communities, and (2) set targets for dollar amount or percentage of LIHTC tax credits that benefit BIPOC communities.



# FINDINGS: GLOBAL CREDIT FINANCE

## Global Credit Finance Extends Credit to Develop Affordable Housing and Support Municipalities with Diverse Populations

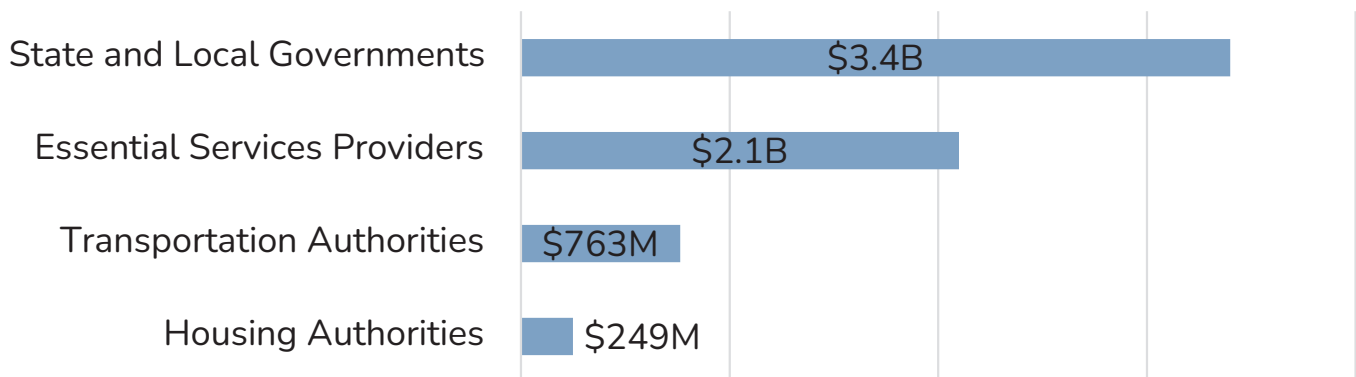
Global Credit Finance (GCF) is the lending arm of State Street. The work of its Municipal Finance and Commercial Real Estate business units is particularly relevant to BIPOC communities, companies, and institutions.

Municipal Finance (MF) provides direct loans, backstop liquidity, and credit facilities to municipalities and not-for-profit organizations. These facilities allow municipalities to access funding in the public capital or private bank market. A majority of MF's portfolio credit commitments also provide credit enhancements that boost clients' credit ratings and help them secure more funding under better terms.

Approximately 83% of MF's \$7.1 billion portfolio serves majority-minority municipalities and counties, including San Antonio, Memphis, Houston, Harris County (TX), Shelby County (TN), Miami-Dade County, and Dallas. Much of MF's financing is for providers of essential services (\$2.1 billion in 2022) and local infrastructure (\$763 million in 2022 for transportation and \$249 million for housing authorities).

### MUNICIPAL FINANCE

In 2022, MF provided issuers with credit enhancements and direct loans to support:



Commercial Real Estate (CRE) makes loans on commercial property. In 2022, CRE had 22 loans backed by multi-family properties in its portfolio. Nine of those properties included affordable units, equal to 14% of available units.

State Street highlighted MF’s and CRE’s achievements in its 2021 [ESG Report](#), demonstrating that it is aware of these teams’ potential to effect positive social and environmental change.

### **Internal Restrictions, Including an Existing Relationship Lending Rule, Hamper Global Credit Finance’s Ability to Increase Its Lending to BIPOC Communities and Businesses**

Company restrictions curb GCF’s ability to impact racial equity. The restrictions are related to State Street’s risk management strategy.

A rule about who GCF may lend to constrains its ability to work with diverse clients—it can only make loans to existing clients or prospective clients of State Street’s Custody business. As discussed in *Focus Area 6: Grow Diverse Clients and Partnerships*, State Street has few diverse clients. MF and CRE do business with affordable housing provider clients, but this only somewhat mitigates the effect of this restriction.

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#### **Company restrictions curb GCF’s ability to impact racial equity.**

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State Street’s risk tolerance has also constrained lending activities that could otherwise benefit BIPOC communities. For example, MF has provided credit to state housing finance authorities to support their affordable single-family housing loan programs but not their multifamily programs. Investment in multifamily housing programs provides opportunities for BIPOC communities and is widely considered safe by industry standards. Historically, GCF has not made this type of investment.

MF’s involvement in the higher education sector is also limited. MF could expand its investments in higher education to include HBCUs, HSIs, and other educational institutions that serve BIPOC communities.

The low tolerance for risk also means that CRE’s portfolio consists mainly of refinancing and acquisition loans of existing properties. It cannot pursue construction loans or bridge lending, which could otherwise be made to diverse developers and businesses that support affordable housing in BIPOC communities.

GCF is also hampered by a lack of discretion in pricing and terms.

GCF’s lending capacity is modest compared to State Street’s overall portfolio. The MF and CRE teams are small, with approximately ten employees each.

## GCF Lacks a Mandate to Take on Projects that Advance Racial Equity

State Street does not set racial equity goals for the GCF team. Efforts are not coordinated as a result. MF and CRE both extend substantial credit to majority-minority municipalities and projects with affordable housing components, but without a uniform objective or strategy to maximize their combined impact.

### Team Members Want to Do More

GCF team members realize that there are opportunities to do more to support racial equity. They would like to investigate how GCF can have a greater impact on BIPOC communities. Initial steps suggested by employees include expanding relationships with non-profit organizations, evaluating partnership opportunities with clients that focus on impact investing, and researching what peer banks are doing.

## ANALYSIS

### BIPOC Communities, Companies, and Institutions Continue to Lack Equal and Adequate Access to Quality Credit

The racial wealth gap in the United States is the direct result of a history of discrimination and redlining that has denied credit to BIPOC communities. Overcoming this history requires connecting BIPOC businesses and institutions to the financial capital necessary to pursue entrepreneurship, make investments, and create jobs.

Access to quality commercial and municipal funding remains inadequate for Black and Latino communities, businesses, and institutions. Diverse real estate developers, for example, often struggle to access the capital necessary to compete for large-scale projects. The Urban Land Institute, a nonprofit organization for real estate and land use experts, [found](#) that only 5% of its members in the United States are African American while 82% are white. Recent research determined that in the bond market, majority-minority municipalities and public institutions receive less favorable terms than their majority-white counterparts, even when controlling for credit risk—a so-called “Black Tax.” Bloomberg [estimates](#) that Shelby County, TN, for example, pays \$5 million extra annually because of its Black population.

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Majority-minority municipalities and public institutions receive less favorable terms than their majority-white counterparts, even when controlling for credit risk—a so-called “Black Tax.”

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## Financial Institutions Should Eliminate Policies That Unnecessarily Prevent BIPOC Communities from Accessing Credit

Policies that are facially neutral often have the effect of perpetuating racial inequities. Responsible institutions regularly examine their policies to modify or eliminate any that unnecessarily interfere with extending credit or making investments that would benefit BIPOC communities.

## Financial Institutions Are Demonstrating Leadership Through Affirmative Efforts to Direct Capital to BIPOC Communities, Companies, and Institutions

Leadership in making investments to support BIPOC businesses and institutions requires financial institutions to rethink existing practices and make affirmative efforts. More companies are beginning to take these steps. Many financial institutions have started or invested in funds that focus on commercial lending to diverse businesses.

One aspect of this is giving business teams discretion to modify terms to facilitate an investment that will promote racial equity. Another is adopting performance goals that prioritize directing capital to BIPOC entities. These approaches require resources but are crucial for reaching historically underserved communities.

Organizations like Activest and JUST Capital are leading efforts to leverage municipal lending to spur civil rights-related reforms. Activest worked with local community organizers to call for policing reforms following the 2020 killing of Breonna Taylor by a Louisville police officer. They capitalized on Louisville's obligation to engage with bondholders that were demanding accountability. JUST Capital recently published a racial equity and inclusion engagement [questionnaire](#). It allows investors and other stakeholders to learn more about the relevant policies and practices of municipal bond issuers.

Financial institutions increasingly utilize special purpose credit programs (SPCPs) to target BIPOC businesses and institutions. SPCPs permit credit to be extended to racial minorities on better terms or under relaxed underwriting requirements than are available to the general population. Examples include programs that provide down payment and closing cost assistance to first-time [homebuyers](#) in Black and Hispanic neighborhoods and down payment assistance to women and minority small business owners for [commercial](#) real estate loans.

# RECOMMENDATIONS: GLOBAL CREDIT FINANCE

## 1. Expand GCF's Mandate and Lending Power

- State Street should embrace GCF's desire and capacity to take on more projects that support racial equity. This means expanding GCF's lending limit. More projects benefitting BIPOC communities and businesses will require more capital.
- It also means equipping GCF with the tools necessary to do more. The team should be expanded, and new performance objectives for team members should be created that emphasize winning bids on projects related to racial equity.

## 2. Eliminate or Modify Restrictions That Keep GCF from Making Important Investments to Benefit BIPOC Communities

- Restrictions that limit GCF's ability to make investments that advance racial equity should be reevaluated and modified or eliminated. To the extent these restrictions are driven by a risk management strategy, the strategy should be reassessed, and alternatives should be considered. Outright prohibitions based on a low risk tolerance should be replaced—if they cannot be eliminated—by appropriate underwriting, servicing, and monitoring guidelines.
- GCF should be permitted to expand its lending pool to include entities that are not clients or potential clients. The current restriction perpetuates existing disparities because the majority of State Street's clients are not diverse.
- MF should be permitted to prioritize investments that benefit BIPOC communities. These investments include multifamily housing, HBCUs, HSIs, and other educational institutions serving minority communities. CRE should be permitted to make construction loans that will have a positive impact on BIPOC communities.

## 3. Substantially Increase GCF's Lending to BIPOC Communities, Companies, and Institutions

Top leadership should set aggressive new goals for increased lending by GCF that supports BIPOC communities and businesses. As part of this mandate, GCF should be directed to:

- Set goals specific to affordable housing. Through CRE and MF, GCF should expand its lending to (1) BIPOC businesses that develop or rehabilitate affordable housing, (2) developers that build or rehabilitate affordable housing benefitting BIPOC communities, and (3) affordable housing authorities. An affordable housing strategy should be developed with the assistance of outside experts.
- Maintain the current client base of majority-minority municipalities and proactively work to recruit more majority-minority municipalities as clients.

- Engage experts to determine the feasibility of establishing special purpose credit programs and affordable housing impact funds.
- Leverage its existing products and services to benefit BIPOC communities.

## **SHORT TERM NEXT STEPS**

In the next six months, State Street should (1) review the limitations it applies to GCF investments, (2) set goals specific to affordable housing, and (3) create a plan to expand credit and lending support to BIPOC communities and businesses.

3.  
BUILD  
BEST-IN-CLASS  
RACIAL EQUITY  
DATA  
REPOSITORY

Category	Value
Bar 1	3.12
Bar 2	3.47
Bar 3	4.14



## FOCUS AREA 3:

# BUILD BEST-IN-CLASS RACIAL EQUITY DATA REPOSITORY

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## OVERVIEW

No company is at the forefront in providing comprehensive racial equity data. The industry's lack of a best-in-class repository hampers the growth and development of new, quality racial equity products. A repository where asset managers can access such quality raw data would advance racial equity in multiple ways. It would provide asset managers with a critical tool they need to create new products and leverage market forces and competition among asset managers to incubate new products and strategies. This would be transformative and position State Street as a leader in the field.

Alpha's ESG Hub has the potential to become this best-in-class repository. The Hub is on the path but not there yet. Getting there will require obtaining more high-quality raw data, as well as other enhancements to the Hub's functionality and thorough training for sales staff on its capabilities.

Whether or not State Street concludes that Alpha or another business unit is the best platform, taking meaningful steps to create the leading repository of raw racial equity data will give State Street a unique product that is critical to promoting racial equity. If done through Alpha, it will also distinguish Alpha from its leading competitors.

Currently State Street is an EMERGING LEADER on racial equity data with a prime opportunity to reach the next level. The findings, analysis, and recommendations discussed in this focus area set out the Value proposition in leveraging Alpha to build a best-in-class racial equity data repository.

## FINDINGS

### State Street Alpha<sup>SM</sup> Is Critical to Revenue Generation

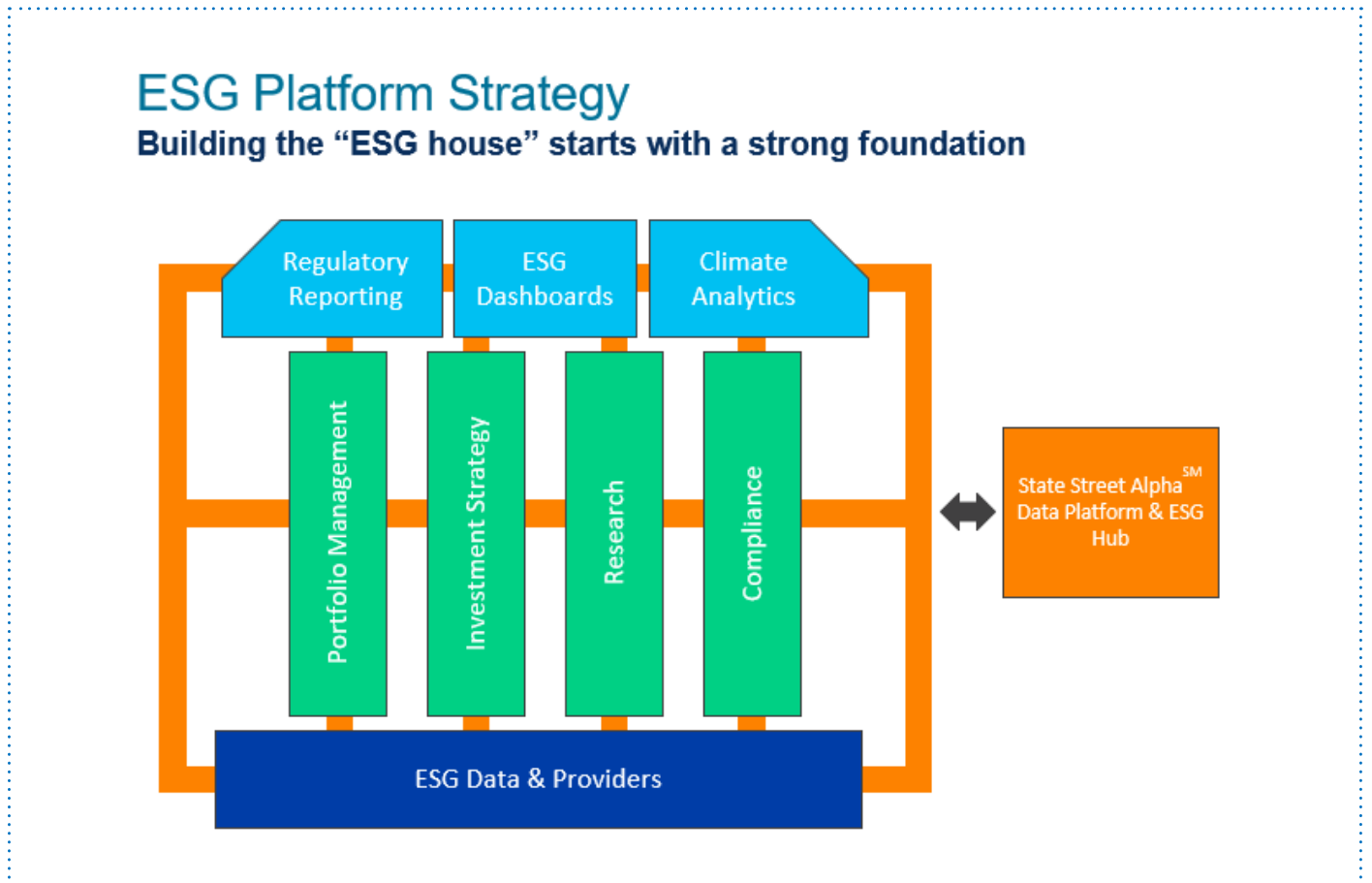
The Alpha platform is a signature State Street product that connects State Street's back and middle office functions with a client's front office. Back- and middle-office services are a core aspect of the servicing functions that State Street provides to clients and are services for which it is known as an industry leader.

### State Street's Competitors Offer Similar Products

Some of State Street's competitors offer similar products to Alpha. While they do not offer the same functionalities, benefits, and Value proposition, they are competitors in terms of how they position State Street in the market in pursuit of new front-office clients or asset managers.

## Alpha's ESG Hub Is a Distinguishing Feature of the Platform

Alpha's ESG Hub is a key selling point because it includes raw data, including ESG data, that clients can easily access and use to design their own ESG products and make investment decisions, and because it offers unique functionalities that simplify reporting to regulators and clients by providing transparency on ESG performance.



From State Street, Alpha Overview and ESG Capabilities.

## The ESG Hub Allows Clients to Make Their Own Decisions

The ESG Hub's focus is not to deliver ESG metrics selected by State Street or dictate to clients which ESG data points to use. The Hub is designed instead to provide abundant, high-quality, best-in-class raw data regarding the full range of ESG concerns. This allows clients to identify the data that is most relevant to their purposes, whatever they may be.

# ANALYSIS

## **There Is an Opportunity for Leadership Because Nobody Is Providing Comprehensive Racial Equity Data and the ESG Hub Is Well Positioned to Fill the Industry Gap**

No company is at the forefront in providing comprehensive racial equity data. The industry's lack of a true best-in-class repository, coupled with the capabilities of Alpha's ESG Hub, means that State Street is well positioned to distinguish itself by making the Hub that best-in-class repository. Doing so would require State Street to develop and/or obtain more and better racial equity data for the Hub.

## **Clients Can Do More to Advance Racial Equity If State Street Accelerates the Development of Its Racial Equity Data Repository**

Independent of State Street's own product offerings, increasing the amount of quality data on racial equity issues available to the market would advance racial equity. The more robust Alpha's repository of such data, the better equipped the Company's clients will be to offer their own customized, progressive racial equity products and strategies. This would promote innovation in the racial equity space through competition among asset managers to win the business of the increasing number of investors interested in these issues. It would grow the number and type of racial equity products by leveraging market forces in ways that use competition among asset managers as a laboratory to incubate new products.

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Increasing the amount of quality data on racial equity issues available to the market would advance racial equity.

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## **Prioritizing the Resources Required to Rapidly Expand State Street's Racial Equity Data Repository Would Be Good for Business and for Advancing Racial Equity**

For the reasons above, expanding the ESG Hub to provide a comprehensive repository of racial equity data would be a win-win for State Street. It would fill an industry gap, and by combining transparency and reporting functions with access to best-in-class data, make the Company the industry leader on access to racial equity data, increase the number and quality of racial equity products and strategies available to investors, and promote Alpha sales. In short, accelerating the optimization of the ESG Hub is good for promoting racial equity, good for positioning State Street as a racial equity leader, and good for the bottom line.

# RECOMMENDATIONS: DATA REPOSITORY

## 1. Prioritize Resources for the Design and Build-Out of a Best-in-Class Racial Equity Data Repository

- State Street should create a plan and timetable for building a best-in-class racial equity data repository.
- If State Street decides to leverage Alpha to achieve this goal, it should redirect the resources needed to accelerate the build-out and optimization of the ESG Hub's capabilities on a timetable that recognizes the first mover advantage that will come with filling this industry gap. This means redirecting resources to permit the hiring of more engineers, data scientists, and other professionals needed for implementation and expansion of cloud infrastructure.
- Once the repository is created, State Street should ensure that it is accessible to research teams in other business units enterprise wide.

## 2. Accelerate the Growth of the ESG Hub's Racial Equity Data Repository

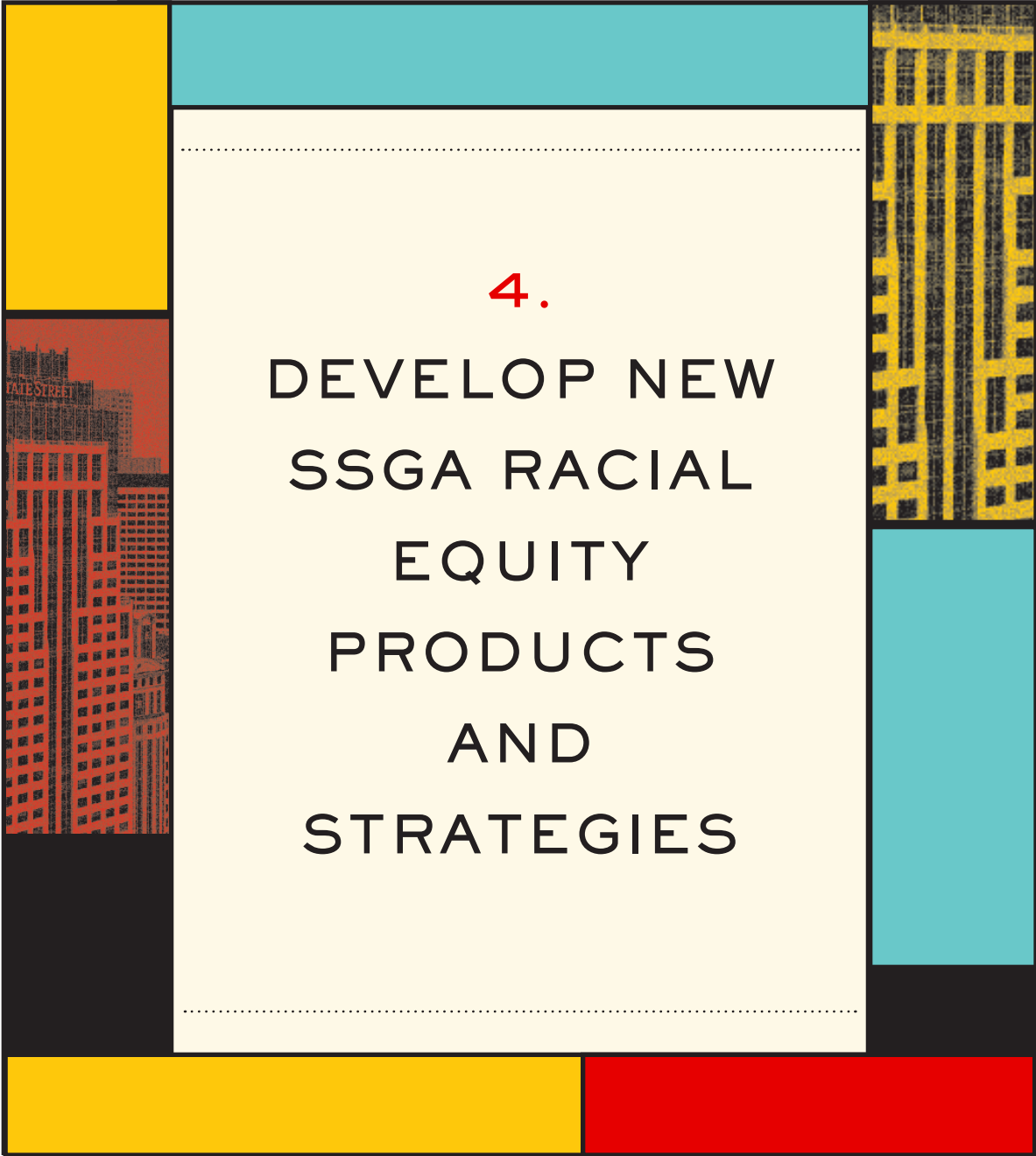
- There are two primary ways to dramatically increase racial equity data on the ESG Hub. State Street can work with new, innovative providers to obtain cutting-edge raw data, whether by partnering or investing in them or simply purchasing their data. And it can buy more raw data from established providers it is already working with. State Street should pursue both of these options so that in the near term it can offer clients an unmatched and comprehensive set of raw data they can use to accomplish their racial equity goals.

## 3. Enhance ESG Hub Reporting Functions

- Accelerated build out and optimization requires more than just expanding the Hub's data capabilities. The reporting function is important to clients because it simplifies reporting to regulators and clients by providing transparency on ESG performance. Accelerating optimization of reporting functions will increase demand and help Alpha sales.

## SHORT TERM NEXT STEPS

In the next six months, State Street should (1) determine how it will redirect resources over the next two years to support the design and build out of a best-in-class racial equity data repository, and (2) decide if and how it will use Alpha's ESG Hub to fulfill this goal.



4.

DEVELOP NEW  
SSGA RACIAL  
EQUITY  
PRODUCTS  
AND  
STRATEGIES

## FOCUS AREA 4:

# DEVELOP NEW SSGA RACIAL EQUITY PRODUCTS AND STRATEGIES

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## OVERVIEW

State Street Global Advisors (Global Advisors) should develop a suite of new racial equity products and strategies that advance civil rights. As discussed in *Focus Area 1: Communicate Mandate from Leadership*, racial equity is an important Value proposition, and the growing demand for these products and strategies reflects the growing recognition that it is important to the long-term success of portfolio companies. Global Advisors currently offers only a few racial equity and civil rights products, however, and does little to promote racial equity investment strategies. Much more progress can and should be made.

Benchmarked against peers, Global Advisors stands IN THE PACK. None of Global Advisors's direct competitors offer much in the way of racial equity products and strategies, but others in the industry are out-performing Global Advisors. Global Advisors is one of the three largest asset managers in the United States. The size and scale of Global Advisors's investment assets and its high visibility to the public mean that the actions Global Advisors takes with respect to investment products and strategies not only offer an important opportunity to benefit BIPOC companies, institutions, and communities, but will have a significant impact on the public perception of the Company. With the right investment of resources and attention, Global Advisors can quickly distinguish itself from its peers in an area that is properly viewed by key external stakeholders as an important measure of racial equity leadership.

## FINDINGS

### Global Advisors Currently Offers a Small Number of Civil Rights/Racial Equity Products

Global Advisors has launched two products related to civil rights and racial equity in recent years: SPDR MSCI USA Gender Diversity ETF (SHE) and Opportunity Share Class.

SHE ETF was built by the Global SPDR ETF Business and launched in 2016. It is designed to match the performance of large- and mid-cap U.S. companies that lead their sectors in gender diversity and representation. It tracks the SPDR MSCI USA Gender Diversity Select Index, which scores companies on their gender diversity across all organizational levels and their commitment to promoting advancement through gender diversity policies and programs.



# SHE GENDER DIVERSITY ETF



From State Street Global Advisors, [Fearless Girl](#).

State Street Global Advisors SPDR® MSCI USA Gender Diversity ETF— known as SHE— invests in U.S. companies that lead their sector in demonstrating a commitment to promoting and supporting gender diversity throughout all levels of the organization. Launched in 2016, as of December 2022 it tracks the MSCI USA Gender Diversity Select Index. This recent enhancement allows Global Advisors to incorporate more expansive gender diversity data. The index utilizes a gender diversity score, which is based on the representation of women (75%) and diversity management (25%). Through its SHE Impacts donor advised fund, Global Advisors makes an annual donation to charitable organizations that focus on teaching and preparing girls for careers in Science, Technology, Engineering, and Math.

The Opportunity Share Class was built by the Cash team and launched in 2021. The money market funds offering Opportunity Shares have a philanthropic component: twenty percent of Global Advisors’s management fee is donated to non-profit organizations that align with State Street’s racial equity and social justice commitments. This year, Opportunity Share Class donated money to [A Better Chance](#), an organization that places high-performing students of color in top independent and public schools.

The two products appeal to a client base interested in aligning their investment strategy with civil rights and racial equity values. They are not marketed in tandem, however. SHE ETF has much more brand recognition inside and outside State Street. This is due in part to its longer existence, but also to more aggressive promotion by Global Advisors, beginning when the product was launched in 2016.



## Global Advisors Lacks a Suite of Products and Strategies to Appeal to Clients Who Seek to Support Racial Equity with Their Investments

Global Advisors does not currently possess a suite of racial equity-related products and strategies. Notwithstanding the two products described above, the Company's offerings are insufficient for investors focused on racial equity to have confidence that Global Advisors can provide products and strategies that match their risk and impact profile. Just as clients have differing tolerances for balancing risk and return when it comes to conventional investments, those that seek to support racial equity with their investments may have differing appetites for balancing risk, return, and social impact. Global Advisors's offerings do not adequately speak to this important client need. This affects the public's perception of the Company, as well.

There are some strategies that Global Advisors implements upon client request, but they are not marketed generally. For example, upon request, Global Advisors will set up negative screens for industries or companies that exacerbate racial injustice. But because Global Advisors does not proactively offer these strategies, they do not contribute meaningfully to clients' or the public's perception of Global Advisors's engagement on racial equity issues.

### STATE STREET OPPORTUNITY SHARE CLASS

The Opportunity Share Class is a share class within State Street Global Advisors's money market investment lineup. Global Advisors donates 20% of its net management fees to charitable organizations that align with State Street's *10 Actions to Address Racism and Inequality*. The first recipient is [A Better Chance](#), which provides students of color in grades 4 through 9 with access to educational opportunities. Cash team members discussed the product and its development with us:

#### ***Do you have advice for those looking to stand up a racial equity product?***

"This was a bottom-up, not top-down development process. Keep fighting to end up with a product where you can make a difference, stay on track, and meet your goals. . . . People will push back. Don't take skepticism from your boss as the final answer."

#### ***What are you most proud of?***

"The impact goes beyond the actual number of dollars (\$2-\$3 billion) in the share class and has led to many constructive and valuable conversations with current and prospective clients alike. Many institutional cash investors

are focused on maximizing the impact they can make through their balance sheet and liquidity holdings, and we are able to help them achieve the goal. This solution also aligned well with State Street and is congruent with State Street's *10 Actions*. It wasn't an obvious solution. We had to develop a product that aligned with corporate and social values and something that would resonate with cash investors."

### ***What are your takeaways and lessons learned?***

"As a standalone investment product, \$1 billion would be considered successful. \$2-3 billion has exceeded my expectations and we are optimistic for its continued success. Something that would have made the product more powerful would be an investment from State Street Corporate to further showcase the Firm's commitment. It is important to provide employees with the platform and access to showcase their ideas. Creativity and innovation are hallmarks of our organization and we are grateful for the opportunity to have launched this product."

## **Global Advisors Does Not Offer Index Products That Address the Racial Equity Problem of Private Prisons**

One key platform for racial equity advocates is the role of financial institutions in supporting private prisons. Global Advisors has been strongly criticized by advocates for not removing companies that own private prisons and immigration detention centers from its index funds. The Racial Justice Investing Coalition asked Global Advisors to divest its index funds from two companies that own private prisons and immigration detention centers, CoreCivic and GEO Group. Global Advisors declined to do so. Short of divesting, Global Advisors could instead launch alternative products that continue to track underlying indices but exclude those two companies. Global Advisors has not taken this step. Alternatively, Global Advisors could advocate to the indices that it tracks that companies that own private prisons be excluded from the indices.

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**State Street Global Advisors has been strongly criticized by advocates for not removing private prison companies from its index funds.**

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Advocates and institutional investors we spoke with are focused on private prison companies because of their role in perpetuating mass incarceration, which disproportionately impacts BIPOC communities. Recently there has been a significant market shift toward divestment. CalPERS, the largest pension fund in the country, has divested completely from private prisons. JP Morgan Chase, Wells Fargo, Bank of America, and SunTrust Bank have committed to stop lending to companies that

manage private prisons. State Street no longer invests its own funds in private prison companies, as discussed in *Focus Area 2: Expand Investments in BIPOC Communities and Companies*, but it still offers index funds that include private prisons.

### **Global Advisors’s Direct Competitors Have Not Distinguished Themselves Through Racial Equity Products and Strategies, Though Others in the Industry Have**

While State Street’s direct competitors do not offer a meaningful suite of products addressed to advancing racial equity, innovative social justice investing products are being created by boutique investment firms and non-profit organizations. These organizations and others employ a community-based approach to product development so that their products reflect criteria that BIPOC communities care about. For example, for-profit firms Adasina Social Capital and JUST Capital have created social justice indices. Both assert that their products deliver competitive returns.

#### **ADASINA SOCIAL CAPITAL**

**Adasina Social Capital, a Black-owned investment advisory firm, works with clients to create investment approaches that connect social justice movements to financial markets.** Its investment strategies are designed to reflect social justice values and advance progressive movements for change. It developed the Adasina Social Justice Investment Criteria to guide its investment decisions. The Criteria have five components: racial justice, gender justice, economic justice, climate justice, and movement aligned. Companies are screened out based on metrics associated with each.

Adasina’s municipal bond strategy invests in fiscal opportunities in Black communities. In 2020, it launched the Adasina Social Justice All Cap Global ETF, which uses the Criteria to select holdings. The fund placed in the top half of the global large-stock blend Morningstar category in 2021 and 2022.

*Adapted from Croatan Institute’s October 2021 paper, “Capital at a Crossroads: Accelerating Racial Equity Investment Across Asset Classes.”*

**Impact Shares**, a non-profit, partnered with the NAACP to create the NACP ETF. The NACP ETF focuses on companies with a demonstrated commitment to empowering people of color, using screens around board diversity, anti-discrimination policies, and diverse supplier social programs. The ETF is designed to reflect values and investments that the NAACP believes will benefit BIPOC communities. This makes Impact Shares attractive to investors who share the values and support the mission of the NAACP. Impact Shares' net profits go back to the NAACP. Like Adasina and JUST Capital, Impact Shares asserts that its ETF delivers competitive returns.

Adasina and Impact Shares are just two examples of companies and organizations that have developed products that serve investors seeking a racial justice-oriented investment strategy and deliver competitive returns. No large asset manager, however, has meaningfully incorporated products like them at scale into its suite of offerings.

### **Global Advisors Lacks the Infrastructure Necessary to Foster Incubation and Development of Products Focused on Racial Equity**

Global Advisors's ability to develop a suite of racial equity products and strategies is hindered by several key factors.

There is no centralized coordination of efforts to identify, learn about, collaborate on, or build racial equity products. There is a process for internal product development, which the Cash team utilized to develop the Opportunity Share Class, and an annual internal "Shark Tank" competition to hear product pitches focused on a certain theme. But Global Advisors has not utilized these product development channels to communicate or support an interest in developing racial equity products.

As discussed in *Focus Area 1: Communicate Mandate from Leadership*, many in Global Advisors mid-level management doubt that there is sizable demand for racial equity products. Though this skepticism is misplaced—demand is growing and will continue to grow—it leaves employees reluctant to spend time developing and pitching racial equity product ideas.

Aside from Asset Stewardship, Global Advisors has not cultivated relationships with researchers, experts, or community organizers working in the field of racial equity investing. It has not engaged with non-profit organizations and boutique investment firms on these issues. The Company has not prioritized potential collaboration opportunities with these entities or incentivized employees to engage in discussions with potential partners.

### **Global Advisors Needs Better Data to Develop Quality Racial Equity Products**

The primary metric that Global Advisors uses to create and evaluate ESG products and strategies is R-Factor. R-Factor relies on the SASB materiality map. The materiality map is not designed to address racial equity specifically. It does, however, list S factors, some of which affect racial equity.

The data on which R-Factor is based does not reflect sufficient input from BIPOC community organizations, and Global Advisors has not partnered with non-profit organizations to lead in the development of new types of S data and metrics.

## ANALYSIS

### Racial Equity Products and Strategies Are an Essential Part of Providing Comprehensive Investment Choices

An asset manager's aim is to deliver high-quality products across the spectrum of investment goals and risk appetites. One investment goal is to support sustainability through ESG products and strategies, including ones that seek to advance racial equity.

Clients who share that goal will nonetheless differ on how much they want their portfolio to accentuate social responsibility and racial equity. Asset managers require a full range of options to meet their clients' unique needs and demands. As a State Street Board member explained, "Ultimately, having ESG strategies is no different from having risk diversification. We diversify our level of risk, [and similarly] you should be able to choose how much ESG you want." Offering a full range of ESG products and strategies assures clients and prospective clients that whether their appetite for risk and level of interest in socially responsible investing are large or small, State Street is the right firm for them.

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"Ultimately, having ESG strategies is no different from having risk diversification. We diversify our level of risk; you should be able to choose how much ESG you want."

Julio Portalatin, State Street Board Member

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### There Is an Unmet Demand from Institutional Investors for Products and Strategies Related to Racial Equity

Institutional investors want more innovation and more research in the field of racial equity investing. They see no clear leader but recognize that State Street is positioned to fill that gap. The deputy chief investment officer of a State Street client stated that if State Street invested in developing civil rights and racial equity products, "It would give a firm with already significant scope a considerable competitive advantage in the marketplace. It would give us something new as part of asset allocation that other managers are not currently bringing to us."

These institutions have been given mandates by their investors to prioritize racial equity and DEI in their investment choices. Investor interest in racial equity and DEI is reflected in the growing number of client requests for State Street to disclose demographic information about its employee and vendor supplier base and diversify each.

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### Institutional investors want more innovation and more research in the field of racial equity investing.

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The racial equity products an asset manager offers are of great interest to these institutions. They are experiencing growing demand to align investment portfolios with their clients' core values, which increasingly focus on DEI. As the Executive Director of a prominent civil rights organization looking for an investment manager told us, "We're realizing that it's hugely important to have an asset manager that can invest in a way that is consistent with our values. We care deeply about racial equity and justice issues, so when we make this decision, we want to hear about the strategies and positions asset managers have taken on those issues." If an asset manager were to provide a suite of racial equity products and strategies, these institutions would want to learn about it right away. Neither Global Advisors nor any of its direct competitors are currently equipped with products and strategies to meet this demand.

State Street's clients emphasize the importance of leadership when it comes to racial equity product innovation and research. These views are not limited to a handful of institutions. They are widespread. Global Advisors's own [Into the Mainstream—ESG at the Tipping Point](#) report demonstrates the importance of ESG products, options, strategies, and capabilities to much of Global Advisors's existing client base. *Into the Mainstream* concluded that "ESG resources are sorely needed but not yet there for many institutions." PwC likewise [found](#) that 88% of institutional investors "believe that asset managers should be more proactive in developing new ESG products," and that 89% "have already rejected or stopped working with a specific asset manager (39%) or would consider doing so (50%) due to shortcomings in the manager's ESG investments strategies."

### Boutique Advisory Firms and Non-Profit Organizations Have Created Racial Equity Products That Lead to Financially Sound Returns

As discussed above, boutique advisory firms and non-profit organizations have been taking the lead in developing relationships with BIPOC communities and community organizers to design investment vehicles that advance racial equity. The present product development focus is on social justice indices, screens, and ETFs.

There is an opportunity for large asset managers to form partnerships with these organizations and firms. Together they could develop and offer a comprehensive suite of products and strategies to further racial equity. Smaller investment firms have already started to execute this strategy.

## Research and Development Is Needed to Bring Environmental Justice and Municipal Bond Products and Strategies to Market at Scale

It is well established that environmental issues disproportionately harm BIPOC communities. The [Center for American Progress](#) has summarized the heavy toll of environmental hazards on people of color, including higher rates of exposure to air pollution, toxic waste facilities, lead poisoning, extreme weather/natural disasters, and water contamination. Racial equity products need to reflect this close connection between S and E. Research and development resources are needed to make this happen.

Important work is being done to advance racial equity through municipal bond investments. As discussed in *Focus Area 2: Expand Investments in BIPOC Communities and Companies*, [Activest](#) and [JUST Capital](#) are leveraging bondholder engagement to spur civil rights-related reforms. But these approaches are not being conducted at scale and are not widely available to investors. Research and development are key to building investment capacity and facilitating the flow of investment dollars to municipal bond products and strategies that advance racial equity.

Both areas are a subject focus of civil rights leaders and advocacy groups, and products that address these concerns are likely to be met with high demand.

### Innovation Requires Investments in Data and Infrastructure

There is opportunity for large asset managers to develop innovative racial equity products internally, too. Doing so requires a commitment from the top. That commitment must be backed by an investment of resources for product development data and research and requires bringing together a team of employees with substantial experience in racial equity-focused product development.

Filling the industry gap when it comes to racial equity data requires developing new ways to measure race equity outcomes and source new raw data. This is where partnerships with the boutique firms and non-profits highlighted above can play an important role. These organizations and companies are pioneering new ways of gathering and measuring racial equity data. Some of it centers on relationships with community organizations that are closest to BIPOC communities and have the best line of sight on the companies, policies, practices, and investments that help and hurt these communities. There is much to be learned from these relationships, and large asset managers like [Global Advisors](#) would benefit in their efforts to develop new and better racial equity data and metrics by joining in these efforts.

A byproduct of investing in the internal development of racial equity/civil rights products is employee engagement. Members of the Cash team that developed the Opportunity Share Class reported a sense of pride, invigoration, and fulfillment that they associate with lifting up a successful product that has already had a positive impact for civil rights and racial equity.



# RECOMMENDATIONS: SSGA PRODUCTS AND STRATEGIES

## 1. Develop a Suite of Racial Equity and Civil Rights Products and Strategies

- Global Advisors should launch a suite of new products across different product lines that target racial equity and civil rights-focused investors. Global Advisors could work with other entities to develop these products or promote its internal research and development. This requires specific sales research to determine what type of racial equity product would best meet demand. Products to consider developing are:
  - An alternative index product that screens out private prison companies and reduces Global Advisors's management fee.
  - A racial equity ETF that leverages relationships with innovative partners.
  - More social justice screens (positive for companies that promote racial equity or negative for companies that exacerbate injustice, such as private prisons, for-profit college companies, and companies that refuse to disclose political donations).
  - A product, like Opportunity Share Class, that contributes a certain percentage of Global Advisors's management fees to charities that promote civil rights and racial justice.
- Global Advisors should approach product development with the goal of providing—and promoting—a range of racial equity options suitable to addressing different client needs when it comes to balancing tolerances for risk, return, and social impact.

## 2. Engage with Non-Profits and Other Entities That Understand BIPOC and Community-Based Interests

- An essential part of developing long term, sustainable racial equity and civil rights-based products is engaging with affected communities to learn their perspectives and priorities. Non-profit organizations and other companies are already doing this. Global Advisors should partner with them to support and gain insight from their work, and to develop its own direct relationships.
- As a first step, Global Advisors should contact organizations that are developing racial equity products in consultation with community organizers, with the purpose of supporting these efforts.

### **3. Centrally Coordinate the Development of Racial Equity and Civil Rights Products**

- The development of a suite of new racial equity products should be centrally coordinated by senior management. Products and strategies that appeal to the full range of client appetites cannot be assured without coordination. Senior leadership is needed to deliver a robust effort and timely results, particularly given the skepticism among many mid-level managers.

### **4. Prioritize Staffing to Ensure Employees Have Experience Developing Racial Equity and Civil Rights Products**

- Global Advisors should prioritize staffing to ensure that employees have substantial experience developing racial equity products. The factors that are relevant to racial equity products are distinct, and Global Advisors should not assume that experience with other types of products is transferable or sufficient. Equipping Global Advisors with employees that have experience and expertise specific to racial equity products in house will allow Global Advisors to develop the highest quality and fullest range of products and adapt them as necessary over time.

### **5. Reallocate the Budget for Racial Equity and Civil Rights Product Research and Development**

- More funding should be allocated for developing racial equity products in addition to what is needed to support new hires. Funds are needed for data, consultants, and building out infrastructure.
- The focus of research and development should include environmental justice and municipal finance.

### **6. Improve the Capability to Identify and Assess Risks Related to Racial Equity and Civil Rights**

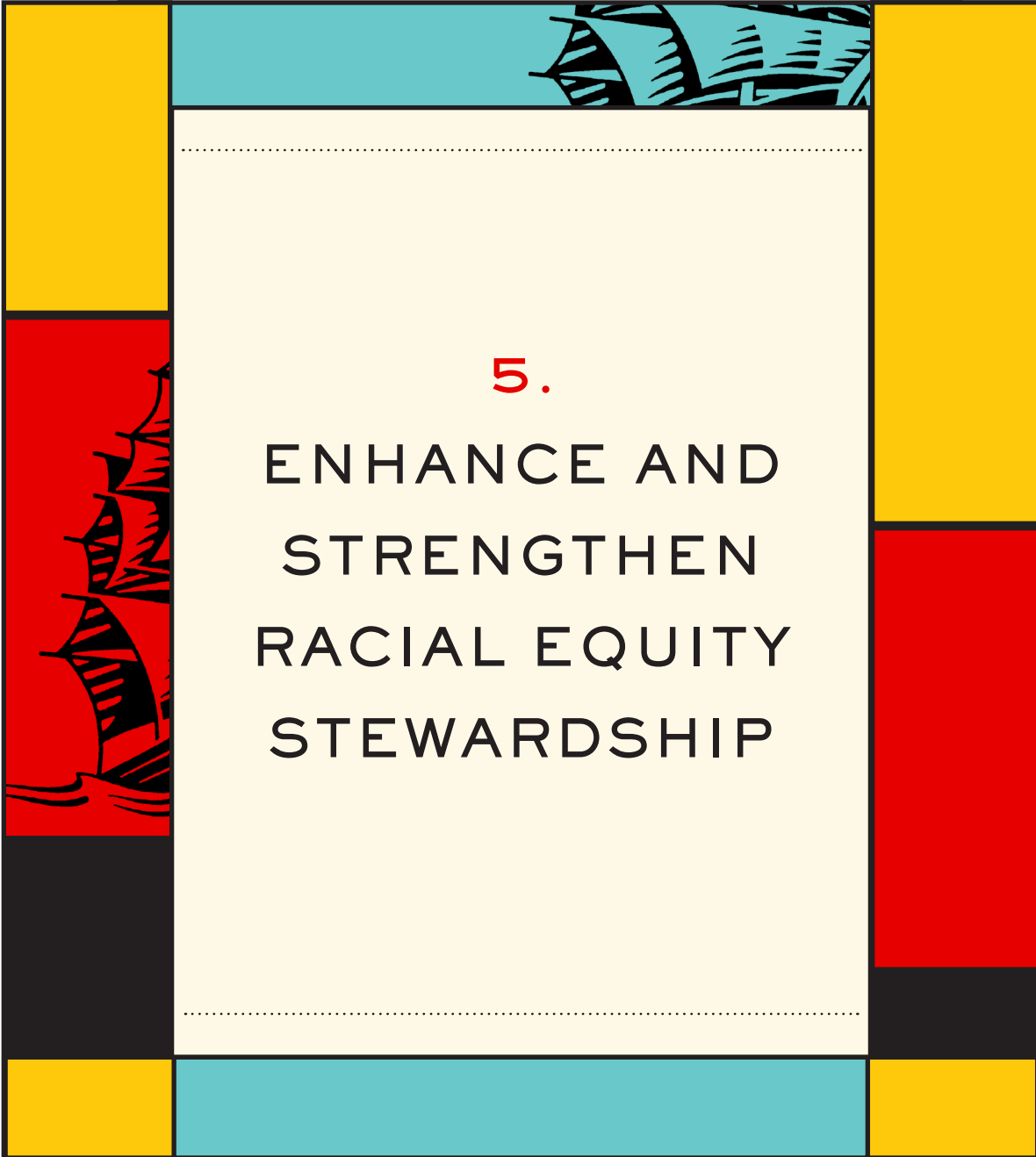
- Global Advisors should invest the necessary resources so it can rely less on the SASB materiality matrix and make more and better use of raw data in its metrics and scores.
- This requires identifying measures to assess whether a company is likely to face civil rights risks and utilizing them in product development. This is related to *Focus Area 5: Asset Stewardship* and is a critical component of product development. It will allow Global Advisors to more effectively assess many S-related risks in its analyses. With better metrics, Global Advisors will be able to more reliably identify and build products that invest in sustainable companies while screening out unsustainable ones.

## 7. Develop an Internal Culture That Values and Prioritizes the Development of Racial Equity and Civil Rights Products

- Leaders of Global Advisors should make clear that they value the internal development of racial equity products.

### SHORT TERM NEXT STEPS

In the next six months, Global Advisors should (1) create a task force to oversee and coordinate the development and rollout of a suite of racial equity products that offer a range of strategies, and (2) prioritize the staffing of research teams with expertise developing racial equity products.



5.

ENHANCE AND  
STRENGTHEN  
RACIAL EQUITY  
STEWARDSHIP

# FOCUS AREA 5: ENHANCE AND STRENGTHEN RACIAL EQUITY STEWARDSHIP

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## OVERVIEW

Through asset stewardship, State Street Global Advisors (Global Advisors) seeks to manage risk related to racial equity and long-term Value, consistent with its fiduciary obligation to its clients. The Company has taken important steps, but there is more it can do. Global Advisors is an EMERGING LEADER in the field and is positioned to assume industry leadership if, consistent with its fiduciary status, it moves beyond its current focus on workforce and board diversity to develop concrete policies and processes for stewardship that address the full range of civil rights risks that companies face. Resources should be reallocated to make this happen.

## FINDINGS

### Global Advisors Has Taken Important Steps Forward in Asset Stewardship

DEI topics have been a focus of Global Advisors's Asset Stewardship in recent years. Global Advisors's [CEO letter](#) lists DEI as one of the 2023 stewardship priorities along with effective board oversight, climate risk management, and human capital management. Global Advisors has clearly [stated](#) that “[it] believe[s] companies have a responsibility to effectively manage and disclose risks and opportunities related to diversity, equity, and inclusion, particularly regarding gender, race, and ethnicity;” that “research suggests that diversity can drive returns;” and that “companies that neglect this topic face risks to their reputation, productivity, and overall performance.”

The Company partnered with the Ford Foundation and Russell Reynolds Associates to issue a [report](#) on best board oversight practices for advancing racial and ethnic DEI. It published proxy voting policies that include an expectation that portfolio companies will disclose meaningful DEI information and pursue workforce and board diversity. Hundreds of engagements with individual companies in 2021 and 2022 likewise included DEI. Those conversations centered on understanding the DEI goals of portfolio companies, their progress toward achieving them, and expected improvements in DEI-related disclosures. These actions are valuable enhancements to the Company's Asset Stewardship program.

## The Scope of Global Advisors's Analysis of DEI Risks Remains Too Narrow

Advocates focus on two key ways SSGA can improve how it addresses DEI issues at portfolio companies. First, by looking beyond headcounts and board representation to scrutinize whether people of color are truly integrated in a full range of roles, including managerial decision making. And second, by focusing on disability and sexual orientation in addition to race and gender.

## Global Advisors Should Consider a Broader Range of Civil Rights Risks

Asset Stewardship should increase the range of civil rights risks upon which it focuses. For example, risks associated with employment discrimination or products and services that may be harmful to BIPOC communities have not yet drawn significant focus. As discussed in *Focus Area 1: Communicate Mandate from Leadership*, State Street's leaders understand that an array of civil rights issues present sustainability risks that portfolio companies should consider and address for their long-term success. While Asset Stewardship has made efforts to address civil rights audit proposals, racial equity risks beyond DEI have not received as much attention. Global Advisors has not incorporated these risks in its voting policies or made them a specific engagement priority. An executive at an existing client told us that the institution would like to see State Street become a thought leader in this area and would be more likely to remain with State Street if it does.

Advocates expect State Street to do more. As one interviewee said, "If State Street incorporates into its stewardship policies and practices the reality that an economy founded on inclusion works better for everyone, then it will enable the asset manager to simultaneously fulfill its fiduciary duty to its clients and operate in line with its stated values as a company."

## Increased Support for Racial Equity Audit Proposals Would Help Global Advisors Manage Racial Equity Risks

Global Advisors has increasingly voted to support racial equity audits, but its overall voting record on these proposals remains mixed. It supported 12.5% of such proposals in 2021 and 52% in 2022. Three asset managers, including Northern Trust Investments, voted in favor of 100% of the proposals. Morgan Stanley and UBS each supported more than 85%. BlackRock's record in 2022 was similar to State Street's.

Asset Stewardship's stated reason for voting against many racial equity audits is that it wants to continue to engage with companies to make progress outside of the audit context. But if conducted properly, racial equity audits help identify and address a company's long term civil rights risks. More racial equity audits will improve Asset Stewardship's understanding of its portfolio companies and their long term health. This allows engagement to be more effective. Audits and engagement work together; they do not present an either/or choice.

Shareholder advocates also express frustration that while Global Advisors engages with advocates, it does not always clearly explain or justify votes against racial equity measures, and its votes do not appear consistent with its public positions. This has made the advocacy community concerned about the quality of Global Advisors's analyses and lowered its confidence in Global Advisors. Votes against racial equity audits of Wells Fargo and Home Depot are examples.

### **Global Advisors Should Ask Portfolio Companies to Provide Detailed and Standardized DEI Disclosures**

DEI disclosures by portfolio (and other) companies are not standardized. This substantially reduces the utility of the data. Global Advisors has not taken a leadership role in pressing for a standardized disclosure format that goes beyond the limited information on EEO-1 forms.

### **Insufficient Staffing Hampers Improvement in Asset Stewardship**

Global Advisors's Asset Stewardship team is small relative to peer organizations. Substantial resources are needed to assess long-term risks to portfolio companies.

## **ANALYSIS**

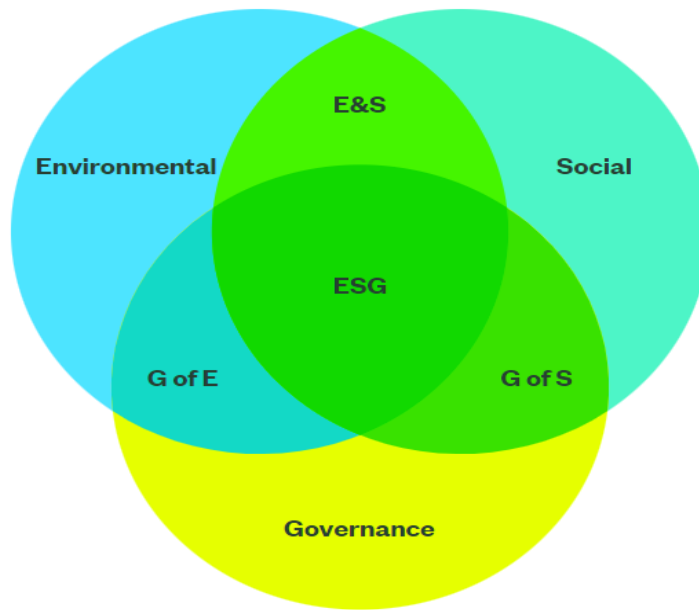
### **Global Advisors Has an Opportunity for Leadership in Asset Stewardship**

Global Advisors is well positioned to be a leader in asset stewardship. As a large asset manager, it has significant market presence. Portfolio companies and civil rights organizations expect leadership from Global Advisors. Global Advisors could do more to publicize its asset stewardship work generally, making its positions clear and well known. This applies to its position regarding racial equity, as well.

### **Nobody in the Industry Is Leading the Development of Specific Asset Stewardship Policies and Processes That Connect Fiduciary Duties with Civil Rights Risks**

As discussed in *Focus Area 1: Communicate Mandate from Leadership*, racial equity concerns can impact portfolio companies significantly. These factors present risks regarding litigation, reputation, employee attraction and retention, and regulatory action. They also present opportunities, as companies with strong records on race may have an advantage in attracting investment and customers. Asset stewardship can be broadened to consider the full range of E, S, and G Risks and how they overlap.





From State Street Global Advisors, [Asset Stewardship Priorities](#).

Many of Global Advisors's peers have spoken generally to these points, but there has been little development of practical, executable ways for asset managers to address civil rights and other risks. Large companies with many holdings are particularly well-suited to fill this void by leading that development.

E issues are instructive. Today, there are recognized principles to guide asset stewardship with respect to environmental sustainability. Not long ago, there were not. The principles had to be developed, subjected to scrutiny, and refined. They became mainstream in time because some companies led the way. Racial equity and other S issues will follow the same path but are far behind. This includes environmental justice, where E and S overlap. Leadership from a large company will speed up the development of stewardship principles that incorporate S issues and increase adoption across the industry of meaningful measures that address risks related to racial inequity.

### **Civil Rights Risks Extend Beyond DEI**

DEI factors are a significant source of risk related to civil rights, and many companies have begun to address them. Other important civil rights-related risks have not received equal attention. Civil rights advocates emphasize risks that a company may, for example, be engaging in employment discrimination or producing products that are harmful to BIPOC communities. They also emphasize how environmental hazards disproportionately harm communities of color. Being attuned to and proactively confronting the full range of civil rights concerns is an important component of managing racial equity risk.

## Substantial Resources Are Needed to Lead the Development of Asset Stewardship Measures that Address Risks Related to Racial Inequity

A company must have a robust asset stewardship team and infrastructure to develop a comprehensive and detailed approach to corporate engagement, proxy voting, and thought leadership on civil rights risks and opportunities. Asset Stewardship has done considerable thinking about how to assess racial equity risks that portfolio companies face. The team is exploring ways it can be a thought leader on this issue. A desire to lead is essential but insufficient. Substantial resources are needed to assess long-term risks to portfolio companies.

## RECOMMENDATIONS: ASSET STEWARDSHIP

### 1. Evaluate Additional Civil Rights Risks Beyond DEI For Inclusion in Voting and Engagement Practices

- Global Advisors should evaluate Asset Stewardship's consideration of civil rights risks and opportunities beyond the current emphasis on portfolio companies' workforce and board diversity. Examples include the treatment of BIPOC employees, marketing practices for products and services that may be harmful to BIPOC communities, and environmental justice issues. A company's litigation, reputational, and regulatory exposure regarding the full range of risks related to civil rights should be assessed. Companies should be asked whether they are conducting a racial equity audit or a pay equity analysis.
- The asset stewardship team should consult regularly with civil rights and industry experts to help identify additional civil rights risks that portfolio companies need to focus on. Discussions with external stakeholders should aim to enhance Global Advisors's understanding of the full range of civil rights concerns that present long-term risks to portfolio companies.
- Once identified, Global Advisors should inform the boards of portfolio companies of the civil rights risks beyond DEI that it expects them to manage. And it should hold accountable those that fail to properly oversee those risks.

### 2. Prioritize Staffing of the Asset Stewardship Team

- Broadening the focus from DEI to the full range of factors that impact racial equity requires more engagement with portfolio companies, more relationships with the civil rights community, more expertise, more thought leadership, and the development of an infrastructure and framework. This cannot be accomplished without the Asset Stewardship team, its civil rights expertise, and its diversity.

### 3. Enhance Analysis of DEI Risks

- Risk assessments should be conducted for all forms of diversity, including disability and sexual orientation.
- The focus of DEI risk assessment should go beyond headcounts and board diversity to consider whether diverse groups are genuinely integrated at all levels of a company.
- Global Advisors should do more to enhance the quality and utility of corporate DEI disclosures. Standardized and comprehensive data facilitates the rigorous assessment of civil rights performance and risk. Global Advisors should encourage companies to enhance their public disclosures and utilize a specific format. Added transparency will allow Global Advisors to conduct better analyses, help companies improve their DEI performance, and prompt increased industry discourse on standardization of DEI data.

### 4. Publish More Information on Vote Rationales and Engagement Activities

- Asset Stewardship should use vote bulletins or other mechanisms to provide clear and comprehensive explanations of its proxy votes on issues related to racial equity on a more consistent basis. The Spring 2022 bulletin on two Johnson & Johnson votes is a good and commendable example.
- Quality public explanations serve two important goals. First, helping the advocacy community and other stakeholders better understand Global Advisors's reasoning results in productive conversations and better relationships. Second, it holds Global Advisors accountable for adhering to its stated voting frameworks and policies.

## SHORT TERM NEXT STEPS

In the next six months, Global Advisors should (1) evaluate and develop a plan to redirect resources to prioritize the asset stewardship team's diversity and expertise on racial equity topics, and (2) commit to providing fuller explanations of asset stewardship decisions that impact racial equity to external stakeholders.



6.  
GROW DIVERSE  
CLIENTS AND  
PARTNERSHIPS

## FOCUS AREA 6:

# GROW DIVERSE CLIENTS AND PARTNERSHIPS

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## OVERVIEW

Building relationships with Minority Depository Institutions (MDIs), Historically Black Colleges and Universities (HBCUs), Hispanic-Serving Institutions (HSIs), and other diverse institutions in ways that help grow their wealth and that of the communities they serve is a critical part of advancing racial equity. A diverse rolodex provides the pipeline of ideas, perspectives, and talent that mainstream institutions like State Street need to be a leader on racial equity issues. State Street has relatively few majority BIPOC-owned or -operated clients and partners. Changing this will require a proactive approach centered on increasing awareness of the Company's racial equity work, helping potential clients and partners navigate the Company, and forming new relationships.

A handful of peers are better known among diverse networks, even if they have not distinguished themselves in developing a critical mass of diverse clients and partners. Using that framework to benchmark State Street against peers places it IN THE PACK. But peers are actively targeting these potential clients and partners with growing success, meaning that State Street will fall behind if it does not act quickly.

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Leaders of Black institutions we spoke to expressed interest in learning more about what State Street can offer them and potentially becoming clients but need to know more about the Company.

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## FINDINGS

### State Street Has Few, If Any, Majority BIPOC-Owned or -Operated Clients

Employees we interviewed could not identify a single BIPOC-owned or -operated client. They offered the explanation that State Street clients are largely institutional. What to draw from this is unclear.

## Black Institutions Have Little Familiarity with State Street

Leaders of Black institutions, including MDIs and HBCUs, report having little knowledge about State Street. They do not know what State Street is doing to meet the needs of BIPOC communities. They were impressed when informed of State Street’s efforts—working to place deposits with MDIs, diverse spend goals, and sustainable bond issuances—but were otherwise unaware of it. They do know what competitors are doing in support of racial equity.

Likewise, these institutions know who to talk to at competitors about services they can provide as asset managers and what they are doing regarding racial equity. They lack comparable relationships with State Street.

Leaders of Black institutions we spoke to expressed interest in learning more about what State Street can offer them and potentially becoming clients but need to know more about the Company. They explained that the likelihood of their usage of a financial institution is greater if it exhibits leadership on racial equity and can talk meaningfully about advancing financial literacy and other ways of closing the racial wealth gap. As an executive of one HBCU put it, leadership on racial equity would “put a thumb on the scale” when the institution considers whether to do or increase business with a financial institution. Another said that while returns are important, to win its business a financial institution must be known for “doing good.”

## State Street’s Approach to Recruiting Diverse New Clients Is Reactive, Not Proactive

There is no person or group of business leaders at State Street in charge of recruiting diverse clients. Nobody has responsibility company-wide for initiating, driving, coordinating, and tracking recruitment efforts.

There is no system in place to help potential diverse clients navigate State Street, including potential clients who already have high-level contacts in the Company. They are left to their own devices to figure out who they need to speak with to get the information they need.

# ANALYSIS

## Relationships with MDIs, HBCUs, and Other BIPOC Companies and Institutions Are Essential to Any Effort to Advance Racial Equity

BIPOC-owned and operated companies and institutions, including MDIs, HBCUs, and HSIs, are trusted cornerstones of their communities. Many were formed to fill educational and financial gaps left by mainstream institutions that failed or refused to provide services to BIPOC communities. They are uniquely situated to connect large financial institutions, which hold and control capital, with communities that are struggling to find ways to access capital and close the racial wealth gap.

## Mainstream Financial Companies Need Diverse Relationships to Be Leaders on Racial Equity

Diverse clients and partnerships are a key pipeline for ideas, perspectives, talent, and connections that mainstream institutions like State Street need to become leaders on racial equity issues. They deepen asset managers' understanding of how and where to invest to optimize the benefits to BIPOC communities. They help increase a company's internal diversity and diverse spend by connecting a company to diverse talent and vendors. And the benefits compound, as diverse relationships lead to more diverse relationships, and better performance on racial equity issues helps recruit new diverse clients.

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Diverse clients and partnerships are a key pipeline for ideas, perspectives, talent, and connections that mainstream institutions like State Street need to become leaders.

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## Establishing Diverse Partnerships Requires Raising Awareness About a Company's Commitment to Racial Equity and Efforts to Benefit BIPOC Communities

There are many ways a financial institution can build relationships by partnering with diverse institutions. Many, if not all, involve raising public awareness about a company's commitment and efforts. In addition to growing valuable relationships, these partnerships directly promote racial equity and create opportunities to recruit new diverse clients.

A financial institution can, for example:

- Enter secondment arrangements with or provide mentoring opportunities to MDIs.
- Subcontract with MDIs or otherwise help them gain access to transactions that generate revenue, such as by providing financial custodial services.
- Place deposits with MDIs.
- Offer financial services, scholarships, and education programs at HBCUs and HSIs.
- Promote financial literacy.
- Participate in government-led coalitions.

State Street's peers are engaged in these kinds of activities. Opportunities for meaningful partnerships with diverse entities are vast.



## Competitors Are Actively Pursuing Diverse Clients

State Street's competitors actively pursue diverse companies and institutions because they are an underserved and growing market. Competing for this business is triply important: it is a critical component of maintaining and growing market share; it helps new, diverse clients and partners achieve their financial goals which advances racial equity; and it is essential for industry leadership.

## RECOMMENDATIONS: DIVERSE PARTNERS AND CLIENTS

### 1. Proactively Engage with Diverse Businesses and Institutions to Build a Critical Mass of New Diverse Clients and Partners

- State Street should shift from its current reactive posture to a proactive model for recruiting diverse clients and forming diverse partnerships. Short- and long-term plans should be adopted, setting out how critical mass will be achieved in building large- and small-scale relationships with MDIs, HBCUs, HSIs, and other minority-led businesses and institutions. The plans should include specific targets and numerical goals for onboarding new diverse clients within a specific timeframe.
- The Company should designate a champion or high-level task force to initiate, drive, coordinate, and track recruitment efforts companywide. The champion should be responsible for identifying opportunities to develop new diverse clients and partners among MDIs, HBCUs, HSIs, and other BIPOC entities and enhancing relationships with existing diverse clients.
- Points of contact within each line of business should be designated to assist potential new diverse clients with navigating the Company and understanding its resources, business model, and the opportunities it offers.

### 2. Increase Awareness of State Street's Support of Racial Equity

- To develop new diverse clients and relationships, State Street must raise awareness about its commitment to racial equity among the public generally, and with leaders of BIPOC-owned institutions and the communities they serve. To do so, it should:
  - Establish and publicize high profile new strategic partnerships with HBCUs, organizations serving BIPOC communities, or Black businesses.
  - Identify opportunities to provide capital and revenue to MDIs by helping them participate in transactions they would not otherwise have access to.
  - Publicize the Company's commitment to placing 2% of cash reserves in BIPOC financial institutions.

- Provide secondment opportunities for State Street employees to work for a limited period of time with MDIs to contribute expertise.
- Implement some or all of the financial services education programs and scholarships, financial literacy initiatives, and government coalition approaches taken by peers.

### 3. Re-Think Sales Approach and Pitch

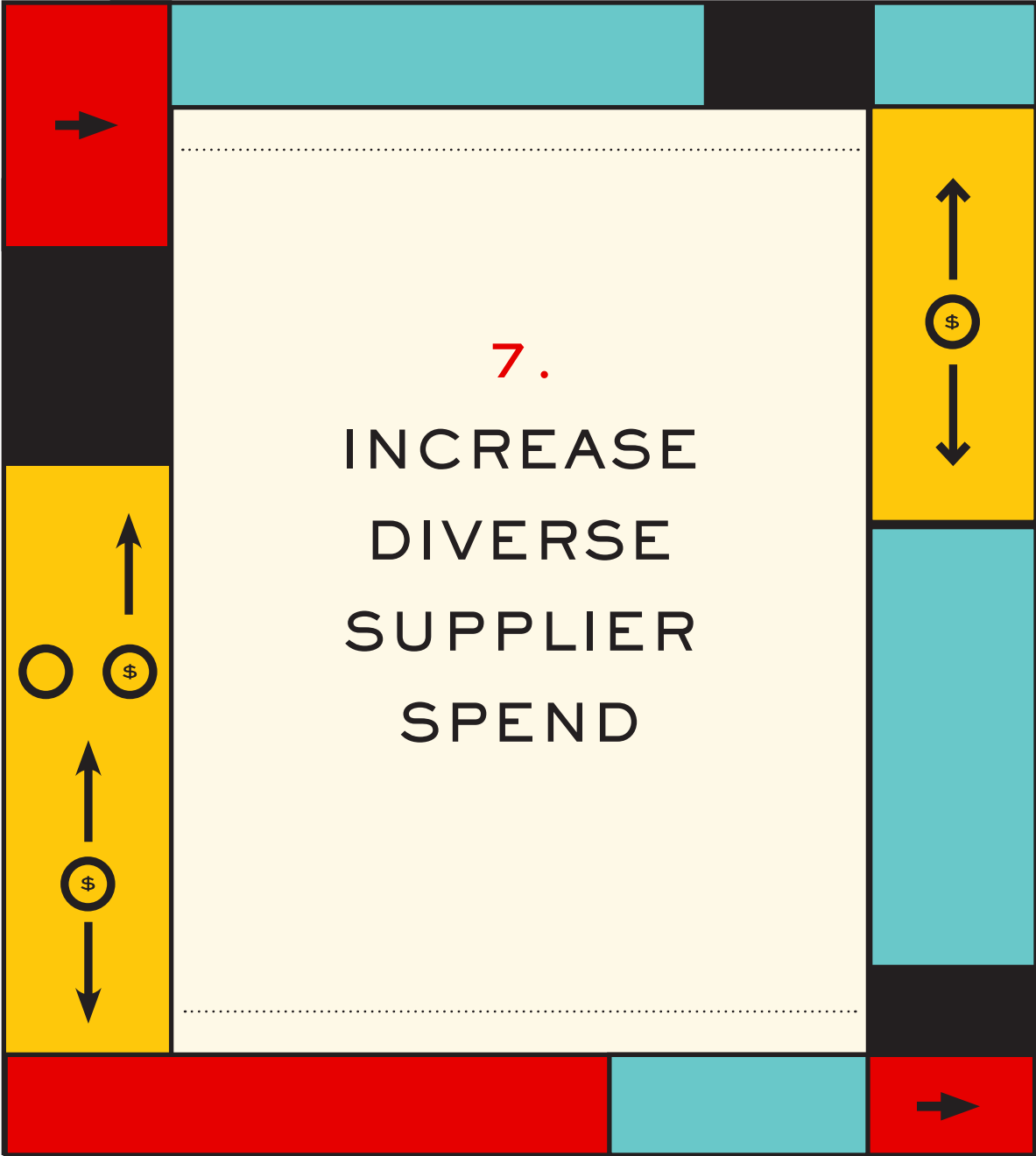
- Growing a new and diverse base of clients and partners requires an effective and targeted sales approach. State Street should revamp its approach to recruiting new diverse clients and enhancing relationships with existing ones.
- Messaging on racial equity should be sharpened in several ways. A media strategy should be designed to reach BIPOC investors and communicate that State Street is actively working to address the needs of BIPOC communities. Racial equity products and strategies should be highlighted. The pitch should be included at multiple touchpoints with existing and potential clients and partners. At the same time, State Street should present its full range of investment options and not assume diverse clients are only interested in ESG products and strategies.

### 4. Reallocate Resources to Expand Sales Team to Prioritize Focus on Gaining New Diverse Clients

- Resources should be reallocated so that the sales team can proactively target outreach to potential new diverse clients. This outreach should make clear the priority that State Street places on diversifying its client base. In crafting this message, it is important that sales team members understand the reasons why diverse clients and partners are critical to State Street's success, both from a business or Value standpoint and to promote equity. Team members should communicate this message in ways that make new contacts feel valued as clients and business partners.
- Create new performance objectives for team members that prioritize the recruitment of new diverse clients.

## SHORT TERM NEXT STEPS

In the next six months, State Street should (1) designate a champion or create a high-level task force to establish a plan for targeting potential new diverse clients and partners, (2) announce at least three new high-profile client or partner relationships with HBCUs, diverse institutions, or BIPOC-owned businesses, and (3) highlight the commitments the Company is making as a result of this Report.



# FOCUS AREA 7: INCREASE DIVERSE SUPPLIER SPEND

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## OVERVIEW

Increasing spend with diverse businesses addresses the racial wealth gap by helping to redirect capital to BIPOC communities. It is a critical measure of racial equity leadership. State Street is well positioned to distinguish itself from peers and demonstrate leadership in this area because of its size, the scale of its spend, and Company leadership's commitment to increasing diverse spend.

Based on diverse supplier spend and goals, and related policies and programs, State Street is IN THE PACK. With respect to diverse spend and goals, State Street has not distinguished itself from peers. Although State Street has a number of policies and programs in place to support diverse suppliers, including a "fit for form" procurement process that is intended to limit requirements to ones related to the work to be performed, the process takes time and is arduous. It is a significant obstacle to improving diverse spend. There are a number of important steps State Street should take to distinguish itself as a leader. The Company should further streamline the procurement process and increase opportunities for diverse suppliers. These include creating a high-level task force charged with reforming the procurement process and prioritizing diverse spend enterprise wide, launching a grant program to help diverse firms compete for contracts, increasing mentorship, developing strategic partnerships, and redirecting additional resources to the Supplier Diversity Team. These initiatives will distinguish State Street as a leader.

## FINDINGS

### State Street's Procurement Spend on Diverse Suppliers Is Significant but Less Than Peers

Total diverse spend is substantial in absolute dollar terms. In 2021, State Street's diverse supplier spend was \$229 million and comprised 7.5% of its procurement dollars; in 2022, diverse spend decreased to \$209 million although the proportion increased to 8.2%. These figures encompass Tier 1 and Tier 2 spend. Tier 1 spend is the amount of money State Street spends on diverse vendors itself. Tier 2 spend is what State Street's suppliers spend on diverse vendors to fulfill State Street contracts but is not money spent by State Street directly. State Street has direct control over its Tier 1 spend and encourages suppliers to meet their own contracting needs with diverse firms through its Tier 2 program.

In 2022, State Street's Tier 1 diverse spend was \$141 million. State Street's Tier 2 spend was \$68 million, which was a 56% increase over 2021.

With respect to dollars spent, State Street is being out-performed by some of its peers. A 2022 report by the Financial Services Roundtable for Supplier Diversity found that in the banking/financial services industry, the average Tier 1 diverse spend in 2022 was \$233 million.

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As a proportion of total procurement dollars, State Street's combined Tier 1 and Tier 2 diverse spend increased from 7.5% in 2021 to 8.2% in 2022. In absolute dollar terms, however, combined Tier 1 and Tier 2 diverse spend decreased by \$20 million from \$229 million in 2021 to \$209 million in 2022.

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State Street's participation in MLT's Black Equity at Work [program](#) has led to increased spend with Black-owned businesses. The program requires setting goals on key metrics like hiring Black-owned suppliers. State Street met its Cycle 1 goal of percentage spend with Black-owned businesses and is finalizing a higher Cycle 2 goal. State Street is the first Global Systemically Important Financial Institution to be [awarded](#) Black Equity at Work Bronze Certification. It has developed Cycle 1 goals for MLT's Hispanic Equity at Work, as well.

### **State Street Does Not Distinguish Itself from Peers in Setting Goals**

State Street's diverse spending goal for 2023 is 9%, up from its target of 8.5% in 2022. Interviews with diverse suppliers indicate that a goal of spending 9% of procurement dollars on diverse suppliers is typical for the industry. The Company committed to increasing spend with diverse suppliers in its *10 Actions to Address Racism and Inequality* (Action #5, "Increase Spend with Black and Latinx Suppliers") but is not doing enough to set itself apart from direct competitors or other peer institutions. Many of these institutions are aiming higher.

Among companies that set diverse spend goals, the 2022 Financial Services Roundtable for Supplier Diversity report found an average Tier 1 goal of 9.6%. A 2021 [survey](#) conducted by The Hackett Group of large companies (median revenue of \$11.8 billion) found that the average goal for diverse spend in 2023-25 is 13%. For the quartile with the highest goals, the average is 20%.

## State Street's Policies Encourage Reliance on Diverse Suppliers

A number of policies and programs support diverse suppliers. State Street requires at least one diverse supplier for each RFP and scoring rubrics give consideration to company diversity. Procurement requirements are intended to be “fit for form” to avoid unnecessarily onerous requirements that may be difficult for some firms, especially smaller ones, to satisfy. Diverse-owned businesses are offered enhanced terms. Additionally, the Supplier Diversity Team polls business units on their satisfaction with diverse vendors’ performance and shares feedback with the vendors so they have opportunities for improvement. Along with other efforts by the Supplier Diversity Team, each of these helps maintain and grow spend with diverse suppliers.

A recent analysis by JUST Capital ranked [State Street](#) in a tie with [Northern Trust](#) for second place among Capital Markets companies in Opportunities for Local Businesses. A component of the rankings is internal programs and policies that promote use of diverse suppliers.

A 2023 evaluation of corporate value chain diversity programs by the Massachusetts Competitive Partnership found that State Street is “achieving” but not “leading.” The study considered a variety of factors, including enterprise wide communications and trainings, governance and accountability structures, diverse supplier identification and onboarding processes, and tracking and reporting systems.

## State Street's Leadership Is Committed to Increasing Spend on Diverse Suppliers

Executive leadership and the Board of Directors view increasing spend with diverse suppliers as a priority that is good for business and necessary to advance racial equity. It is one of the 10 Actions to *Address Racism and Inequality*. The Company understands that its size creates enormous diverse spend opportunities and that it can do more in this area.

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State Street's Treasury department and the Global Advisors trading desk have strong relationships with diverse suppliers. A sustainability bond released by Treasury in November 2022 included a syndicate with a diverse bookrunner and three diverse-owned co-managers.

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## Some Business Units Are Especially Conscientious About Engaging Diverse Suppliers

State Street's Treasury department and the State Street Global Advisors trading desk have strong relationships with diverse suppliers, including underwriters, investment firms, and brokers. Two percent of Treasury's total U.S. trading volumes were executed by diverse firms from 2021Q1 through 2022Q2. A sustainability bond benefitting environmental and socioeconomic projects released by Treasury in November 2022 included a syndicate with a diverse bookrunner and three diverse-owned co-managers.

Similarly, diverse suppliers describe the Global Advisors trading desk as a “true partner” that proactively seeks out additional opportunities for collaboration.

Other parts of the Company engage with diverse businesses through product innovation. State Street partners with diverse firms through its [Fund Connect](#) portal, which provides diverse firms with private labeling on state-of-the-art trading platforms that they can use under their own name. This gives smaller firms that may lack resources to build their own technologies access to powerful tools. Fund Connect also connects co-branded partners with asset managers to launch diverse share classes.

## FUND CONNECT

Fund Connect is a global trading platform created by State Street for money market execution, settlement, and risk management. It gives smaller firms private labeling opportunities, which allows them to sell services on the platform as their own. The platform tool is typically provided to small firms at no charge in exchange for a revenue share or introducing broker fees. Diverse firms are disproportionately small, and this allows them to meet client demands for a high performing, state-of-the-art trading tool that provides access to over 400 funds globally. The Fund Connect platform increases State Street’s opportunities to form new relationships and partnerships with diverse firms.

**“If the goal is how to help limit the gap, what we’ve done here eliminates that wealth/power gap. We’re giving diverse firms the full power of State Street so when they walk out the door, they’re selling a top of market product. That’s unique, that’s our biggest selling point.”**

**- Senior Managing Director at State Street**

Fund Connect also introduces co-branded partners to asset managers so they can launch diverse share classes. This allows asset managers to sell these share classes on the Fund Connect portal and to the rest of their clients.

### State Street’s Supplier Diversity Team Supports Increased Diversity but Has Limited Capacity

The Supplier Diversity Team maintains lists of diverse-owned suppliers that employees can consult when inviting vendors to respond to an RFP. The Team seeks to grow its lists by attending diverse supplier conferences, publicizing State Street’s racial equity commitments, and participating in member organizations like the Financial Services Roundtable for Supplier Diversity. Despite efforts to share information about this Team within the Company, many employees are not aware of its accomplishments and resources.



## Large Contracts Are Usually Awarded to Non-Diverse Suppliers

Although spend on diverse suppliers is significant, most larger contracts, such as those for technology and technology services, go to non-diverse firms. This limits the potential to increase significantly the overall percentage of procurement dollars that go to diverse suppliers.

Interviews revealed skepticism within management as to whether diverse suppliers have the scale and sophistication required for the biggest contracts. Some in management expressed reluctance to try new suppliers or grow the pool to add suppliers beyond the familiar list of vendors State Street has grown to rely on.

## The Procurement Process Is an Obstacle to Obtaining Diverse Suppliers

As a Systemically Important Financial Institution, State Street is subject to strict regulatory compliance requirements. The procurement system as a whole, however, could be better adapted to bolster the Company's efforts to grow the pool of diverse suppliers and increase diverse spend. The process takes time and is arduous. Potential suppliers are subject to time and resource intensive document and security checks, which place diverse-owned suppliers at a disadvantage because they frequently lack the reserve capital to meet these requirements and, if necessary, operate unpaid for an extended period. Despite State Street's "fit for form" process, there is significant opportunity to improve the procurement process to integrate more efficient risk controls adapted to the needs of diverse suppliers.

In a fast-paced business environment where delay impedes progress, the path of least resistance can be attractive. That may result in using suppliers that have already successfully navigated the procurement process, most of which are non-diverse. This keeps new diverse businesses from having a chance to compete. And the company lacks incentives that would encourage reliance on diverse suppliers.

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The procurement system as a whole could be better adapted to bolster the Company's efforts to grow the pool of diverse suppliers and increase diverse spend.

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## Responsibility for Increasing Spend with Diverse Suppliers Is Too Diffuse

Boosting spend on diverse suppliers requires an enterprise wide strategy and centralized implementation. Much of the work is instead left to individual business units. Some units have asked employees to take on these duties, but they must do so in their spare time. The Company has taken steps to improve the procurement process, but more can be done. It could, for example, do a better job of integrating suggestions from all business lines in this effort. There has been insufficient high-level strategic planning and coordination to identify high-value contracts that could be performed by diverse-owned businesses. This limits effectiveness and communicates the wrong message if the goal is to grow diverse spend.

## State Street Lacks Formal Mentoring Opportunities for Diverse Suppliers

Some of State Street's direct competitors, as well as other peers, offer formal mentorship opportunities for diverse suppliers that include regular feedback, trainings, and other avenues for continuing education. This helps diverse suppliers develop greater expertise and grow their businesses. State Street does not have a formal mentorship program for diverse suppliers.

## ANALYSIS

### Increasing Diverse Spend Advances Racial Equity by Redirecting Capital to BIPOC Communities

Increasing spend with diverse businesses addresses the racial wealth gap by helping to redirect capital to BIPOC communities. Contracts awarded to diverse suppliers provide more capital for these businesses and help build wealth for their employees and the communities they serve. With more revenue, diverse suppliers can expand, hire more employees, and reinvest earnings back into their communities.

### Many Leading Financial Institutions Are Prioritizing Support for Diverse Suppliers

Several major financial institutions, including State Street's closest competitors [BNY Mellon](#) and [Northern Trust](#), have committed to prioritizing spend with diverse suppliers. Last year, JPMorgan launched a [diverse supplier grant initiative](#) to help address procurement barriers. Grant recipients can use the funds to satisfy RFP requirements that are often cost-prohibitive, such as upgrades to cyber-security, insurance, or disaster recovery. JPMorgan has committed \$5 million to the initiative and will match contributions from other corporations dollar-for-dollar. Grants range from \$25,000 to \$200,000.

Some companies have adopted a strategic partnership approach to working with diverse suppliers. They prioritize five to seven suppliers to receive the bulk of their procurement dollars. This ensures that diverse spend is not diluted across numerous suppliers, and that each strategic partner has opportunities for high-value contracts and access to a wide breadth of opportunities across a company. Strategic partnerships like this are considered industry best practice and are preferred by diverse suppliers.

### Clients and Policymakers Are Focused on the Use of Diverse Suppliers

Clients of large financial institutions increasingly demand that work be performed by diverse suppliers. This is especially common with institutional clients like pension funds and government entities. Some require specific volumes of transactional activity to go through diverse brokers, with consequences for falling short. Clients are not satisfied with companies working with diverse suppliers in only one or two capacities; they want to see increased partnerships with diverse suppliers across all lines of business.

Government interest in companies' use of diverse suppliers is also growing. The SEC asks regulated entities to submit a [Diversity Assessment Report](#). One question is whether “The firm includes diversity and inclusion considerations as part of its strategic plan for contracting with vendors and suppliers.” Though the form is voluntary, it reflects increased focus by regulators on diverse spend.

## Mentoring and Training Are Important for Diverse Suppliers

Diverse suppliers benefit from mentoring and training opportunities. Suppliers gain insights into RFP processes, hone their business strategies, develop relationships that lead to future business opportunities, and receive valuable performance feedback to better serve existing and future clients. This benefits the company providing these opportunities, as more knowledgeable and capable suppliers deliver superior services.

# RECOMMENDATIONS: DIVERSE SPEND

## 1. Increase Spend with Diverse Suppliers

- State Street should significantly increase the amount it spends with diverse suppliers to equal or exceed the average spend in the banking/financial services industry.
- State Street should increase its 2023 goal for diverse supplier spend above its current 9% goal. It should strive to reach at least 14% over the next two years, with a longer term goal of reaching 20%. Based on 2022 total supplier spend, reaching 14% would mean an increase of over \$125 million in diverse spend; reaching 20% would mean an increase of nearly \$300 million.

## 2. Reexamine the “Fit for Form” RFP Process

- State Street should reexamine its “fit for form” RFP process to identify additional ways to streamline onboarding, consistent with business and security requirements.
- The Supplier Diversity Team should be consulted as part of this reexamination. The Team has important insights into the unique barriers experienced by diverse suppliers throughout the RFP process, which the revised process should be designed to remedy. Diverse vendors should also be consulted to help identify existing hurdles, share industry best practices, and recommend potential solutions.

### **3. Create a High-Level Task Force to Address Procurement Barriers and Oversee Strategic Planning for Diverse Spend Enterprise Wide**

- Substantially increasing spend on diverse suppliers requires strategic thinking and a coordinated effort across the enterprise. State Street has undertaken procurement process improvements. These improvements should be overseen by a high-level task force comprised of executives and employees across departments and business lines to examine existing processes, guide their reform, and oversee planning related to increasing diverse spend.
- The task force should lead efforts to enhance opportunities for diverse suppliers across the Company by streamlining the procurement process; identifying new and expanded opportunities to utilize diverse suppliers; identifying RFPs with significant spend before they are announced; leading annual assessments of significant spend projects; and partnering with the Supplier Diversity Team to proactively identify diverse suppliers that could fulfill the Company's needs and otherwise coordinate with the Team.

### **4. Launch a Grant Initiative to Help Diverse Suppliers Navigate the Procurement Process**

- State Street should establish a grant initiative similar to JPMorgan's that provides diverse suppliers with the necessary funds to overcome cost-prohibitive RFP requirements. Equaling JPMorgan's commitment of \$5 million and dollar-for-dollar matching would place the Company in a leadership position within the industry. State Street could set itself apart by doubling the initial commitment to \$10 million.
- A grant initiative will aid diverse suppliers that may still be challenged by the more tailored requirements of a "fit for form" process, as well as those suppliers seeking contracts that continue to have more comprehensive requirements.

### **5. Establish Strategic Partnerships with a Select Group of Diverse Suppliers**

- State Street should select five to seven diverse suppliers as strategic partners and focus substantial spend on them. Diverse strategic partners should receive regular mentorship, including 360° performance feedback and customized advice for growing their business.
- Training and continuing education should be made available to the strategic partners and all other diverse suppliers. Topics should include RFP strategies, marketing tactics, client development, and predicting market trends.

### **6. Prioritize State Street's Commitment to Diverse Suppliers Within the Company**

- State Street should reinforce its commitment to diverse spend and support of diverse vendors by ensuring that procurement policies and practices related to diverse spend are fully understood and communicated enterprise wide.

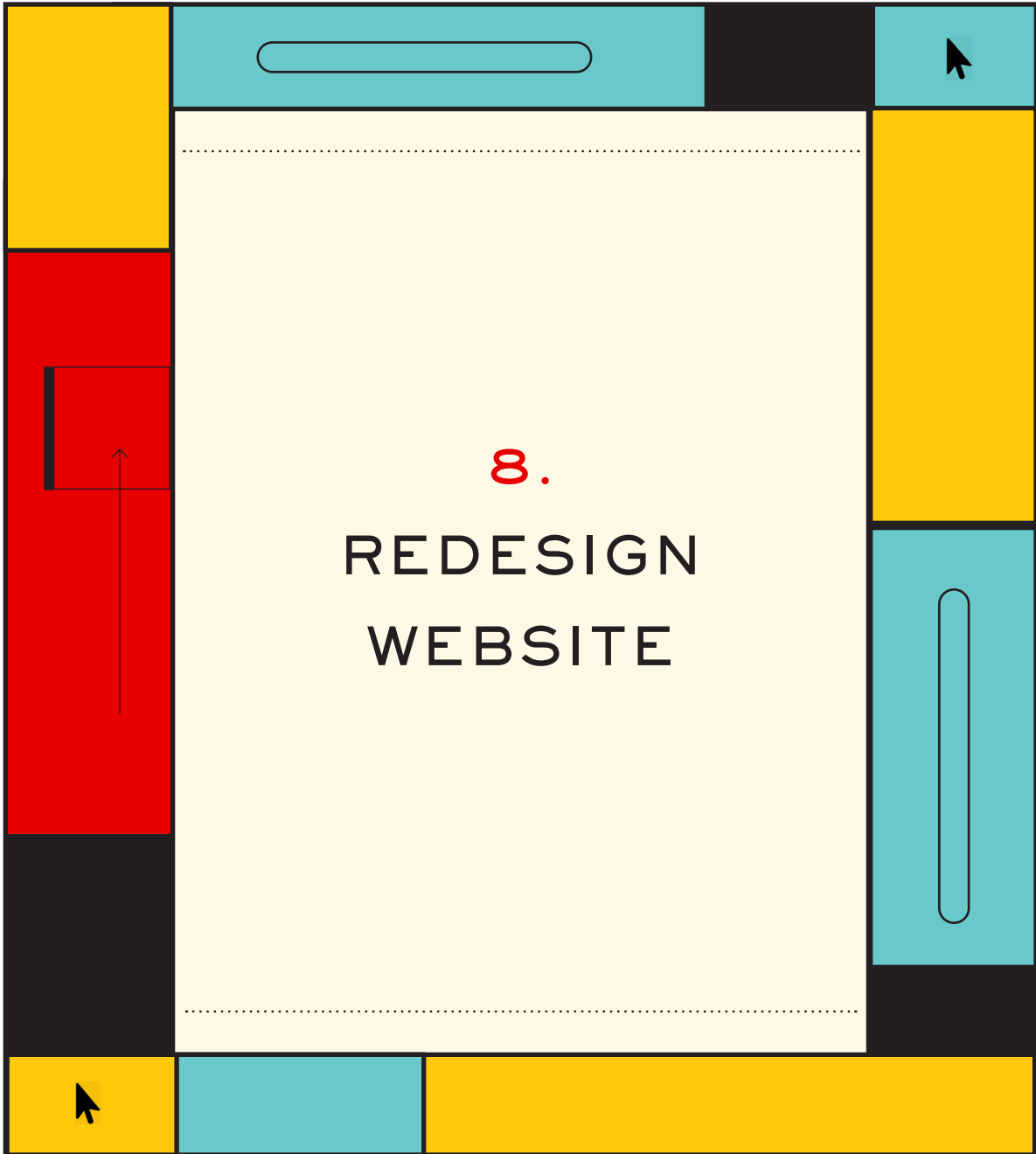
- Internal communications should highlight diverse spend goals, resources available to help meet those goals, procurement requirements, and successful relationships with diverse suppliers. The Supplier Diversity Team should meet with all business units as part of this effort.

## 7. Redirect Resources to the Supplier Diversity Team

- Additional resources should be redirected to the Supplier Diversity Team. This will allow the Team to communicate more effectively within the Company, develop relationships with and promote State Street to more potential diverse suppliers, and provide more assistance to diverse suppliers in the procurement process.

## SHORT TERM NEXT STEPS

In the next six months, State Street should (1) create a high-level task force that will address procurement process reform related to diverse spend and oversee strategic planning for diverse spend, (2) initiate a strategic partnership pilot program, and (3) announce a grant initiative to help potential diverse suppliers meet procurement requirements.



# FOCUS AREA 8: REDESIGN WEBSITE

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## OVERVIEW

State Street's website is its front door to the world. The website provides a critical opportunity to communicate its commitment to racial equity, explain what it is doing in support of that commitment, and expand access to diverse communities. Financial institutions that target their website to institutional clients miss the opportunity to build the diverse pipeline of talent, connections, ideas, and perspectives that different, more diverse clients may offer. State Street's website provides an opportunity to speak to diverse vendors, partners, and institutions that provide the pipeline needed to expand investments in BIPOC communities.

State Street has not seized this opportunity. The racial equity messaging on its website is more diffuse and buried than on peers' websites. It is difficult to gain a comprehensive understanding of where the Company stands and what it is doing. Peers capitalize on their websites as a financial literacy education tool, whereas financial sophistication is needed to grasp large portions of State Street's website. Access for non-English speakers lags. These shortcomings leave State Street IN THE PACK, behind some peers.

## FINDINGS

### Focus of Website Review

We evaluated the [State Street](#) and State Street [Global Advisors](#) website from the following perspectives:

- Does it communicate clearly and directly that racial equity is a core State Street value?
- Can interested viewers easily locate information about the Company's work and products related to racial equity?
- Is it comprehensible to viewers who are not versed in the terminology and jargon of the financial sector?
- Is it accessible to people who are not proficient English speakers?

Although there are two websites, we refer to them in the singular except where differences are relevant. We also compared State Street's website to those of its peers on these measures.



## State Street Does Not Effectively Communicate that Racial Equity Is a Core Value

The [State Street](#) and [Global Advisors](#) “About Us” pages are where a viewer would expect to find a statement of the Company’s core values. Racial equity is absent.

State Street’s page describes its purpose as “help[ing] create better outcomes for the world’s investors and the people they serve.” It identifies core values (trust; global force; local citizen; always finding better ways; stronger together) and core traits (choose to own it; break through silos; deliver results with integrity and speed; do better every day; care for our colleagues, client, and community), but values and traits related to racial equity are not part of the message. Speed, efficiency, and digital services are also discussed, but sustainability (including diversity and inclusivity) is not.

State Street does have its DEI page linked to the “About Us” fly out menu. But embedding the language in the original “About Us” page would give racial equity a broader focus than just workforce and hiring issues and make it more of a statement about State Street’s core brand.

The Global Advisors page is only slightly better. It includes some references to sustainability, but they are limited and vague. Its mission is identified as “invest[ing] responsibly to enable economic prosperity and social progress.” It states that it shares in State Street’s stated mission (“help create better outcomes . . .”). Midway down a nested page reached by clicking “Who We Are,” four Guiding Principles are set forth. One is “Invest as Stewards,” which is elaborated as “We help our portfolio companies see that what is fair for people and sustainable for the planet can deliver long term performance. As fiduciaries, we believe good stewardship is good investing.” This general statement does not link to anything else. While the principle of stewardship is identified here, racial equity is not.

Northern Trust’s “About Us” [page](#) describes its mission as: “We strive to be our clients’ most trusted partner and to lead as a socially responsible member of our global communities. . . . A key aspect of our fiduciary heritage involves our focus on the integration of environmental, social and governance factors as cornerstones of investing. As world citizens, we recognize that we must focus on advancing the long term educational, cultural, and social welfare of our communities . . . .” It also links to pages on “Corporate Sustainability, Inclusion and Social Impact,” “Sustainable Investing,” and “Diversity, Equity & Inclusion.”

BNY Mellon does not discuss ESG, diversity, or sustainability explicitly as values, but they feature prominently across its “About Us” [page](#).

## Peers Do Better than State Street in Conveying the Breadth of DEI's Importance

State Street's DEI [webpage](#) was introduced in the 2022 website overhaul. It includes a list of values and "Key Highlights," the *10 Actions to Address Racism and Inequality* among them. The link to the 10 Actions leads to more information about State Street's commitments and progress made on each Action, but the progress reports concern 2021 activities.\*\* Global Advisors has an Inclusion & Diversity [webpage](#), but it is only accessible to institutions and financial professionals. If a user accesses the site as an individual investor, the webpage does not appear.

## It Is Difficult to Locate Information About State Street's Racial Equity Work and Products

State Street's website does not effectively lead viewers who want to learn about the Company's racial equity work and products to that information.

As discussed in *Focus Area 2: Expand Investments in BIPOC Communities and Companies*, and elsewhere in this Report, Treasury, Municipal Finance, Tax Advantage, and other lines of business have done substantial work identifying and implementing measures that benefit BIPOC communities. This work demonstrates how the Company has operationalized racial equity values, but it is not featured prominently anywhere on the website. To find it, a viewer would need to navigate to the [ESG page](#) and select "2021 ESG Report," which is halfway down the page with no description, and then peruse the 224-page [report](#). There are also press releases about these commendable actions, but there are no relevant [sorting options](#) a viewer could use to find them easily.

Similarly, the [Insights](#) portal lacks a racial equity or civil rights filter. There is a [sustainability](#) filter for thought leadership pieces, but it is limited to research on environmental issues. While there is content about DEI, content about racial equity is absent.

Information about Global Advisors's product offerings that are designed to further civil rights and racial equity is hard to locate on the website. Apart from a press release, information about this Audit is not found on the website.

Some financial institutions have addressed the diffuseness of racial equity messaging by creating a racial equity landing page. This is different from a DEI webpage in that its racial equity focus is broader than workplace and hiring initiatives.

## Unexplained Financial Jargon Is Prevalent

Across its website, State Street relies on acronyms and terminology that are understandable only to people well-versed in the world of finance and investments. There is no accompanying glossary or

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\*\* We have learned that State Street's 2023 website goals include additional DEI content, including a message from the CEO and a framework for the Global IDE team (which is responsible for DEI initiatives). These are not considered here as they have not yet been implemented.

other explanatory device. This assumes a substantial level of knowledge and/or communicates a lack of interest in or concern for those who are less financially sophisticated.

BlackRock takes a very different approach. Its webpages define important basic terms—such as ETF, equities, and bonds—and it also provides an online [financial literacy education center](#). Other financial institutions have invested in financial education portals, as well, including [Invesco](#) and [Wells Fargo](#).

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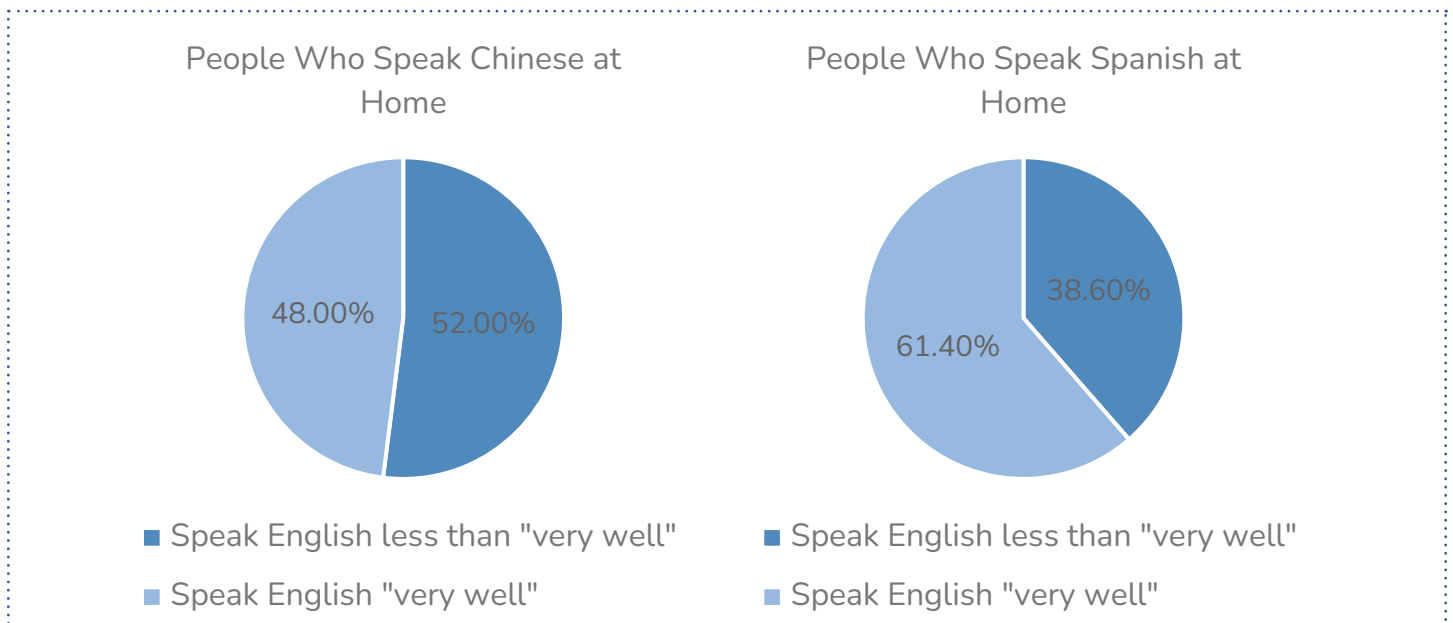
### Differences Between the State Street and Global Advisors Websites Diminish Their Effectiveness

Differing content between the State Street and Global Advisors websites results in inconsistencies in emphasis and effectiveness in communicating with viewers about racial equity issues, and creates uncertainty about where the Company stands.

### State Street's United States Website Is Only Available in English

The State Street and Global Advisors websites for United States readers can only be viewed in English. Documents available through embedded links are also only available in English. After English, Spanish and Chinese are the country's most-used and commonly spoken languages. 38.6% of Spanish speakers, and 52% of Chinese speakers, speak English [less than very well](#).

BlackRock and BNY Mellon's websites are accessible in Spanish and Chinese for readers worldwide.



From Migration Policy Institute, [United States Language and Education](#).

# ANALYSIS

## A Financial Institution's Website Is an Important Vehicle for Providing Access to Diverse Communities

A website should communicate a clear and consistent message to all stakeholders about a financial institution's commitment to sustainability and racial equity. This allows the company to reach people who prioritize these issues, increases the likelihood that the company's message will be heard in diverse communities and networks, creates a welcoming point of entry for diverse clients and potential clients, and brings important perspectives into the company's orbit that may otherwise be missing.

Financial institutions that target their website only to institutional clients miss the opportunity to build the diverse pipeline of talent, connections, ideas, and perspectives that different, more diverse clients may offer. State Street's website provides an opportunity to speak to diverse vendors, partners, and institutions that provide the pipeline needed to expand investments in BIPOC communities.

## A Successful Website Design Makes It Easy for Viewers to Learn What a Company Is Doing About Racial Equity

Centralizing access to all of a company's information about racial equity—perspectives, accomplishments, current activities, future plans—serves important objectives. Some potential clients are more likely to choose an asset manager that takes racial equity seriously, as an HBCU told us about itself, and centrality of focus demonstrates that seriousness. It provides accountability to employees, external stakeholders, and the public generally. Diffusing this information across various ESG, DEI, and other webpages weakens the message about these issues and their interconnectedness and does not signal leadership.

## A Website Can Provide Valuable Financial Education for Viewers Less Experienced in Wealth Management and Investing

Financial literacy is a critical building block of racial equity. It helps bridge the wealth gap by equipping people from BIPOC communities with the tools they need to invest responsibly and grow their wealth. It can increase diversity among those who choose careers in the financial sector. The websites of financial institutions in particular are well-suited to offer this type of education. They can include distinct financial literacy components as well as explain concepts as they arise across the site.

Providing financial literacy tools also directly benefits the companies that offer them. It is part of demonstrating social responsibility to potential clients and vendors, diverse and otherwise. It also creates positive ties with people who could become employees or clients in the future.

The opposite approach—maintaining a website that is difficult to understand because it assumes and requires financial sophistication—is not just neutral, it is counterproductive. By discouraging engagement, interest, and learning, it reinforces inequities in the status quo.

## An Accessible Website Allows a Company to Diversify All Aspects of Its Business

In the increasingly digital world, a company's website is where potential clients, partners, vendors, and employees are most likely to go to learn about the business. An inaccessible website is a locked front door. This is counterproductive to advancing equity and hinders efforts to maintain or grow market share.

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An inaccessible website is a locked front door. This is counterproductive to advancing equity and maintaining or growing market share.

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Translating a website into at least Spanish and Chinese significantly promotes accessibility and diversity because, after English, they are the languages most commonly spoken in the United States. Presenting information in other languages sends a message that State Street welcomes business from people whose primary language is not English.

## RECOMMENDATIONS: WEBSITE

### 1. **Revise Website to Make Clear State Street's Commitment to Racial Equity and Civil Rights and the Actions It Has Taken or Plans to Take**

- State Street's commitment to racial equity and sustainability, and the priorities it defines as its "north star(s)," should be given greater prominence on its website.
- DEI should be addressed in a manner that recognizes the inherent connections between diverse talent, sustainability, and fiduciary duties.
- Diverse content should be increased, reflecting the views of people of color and addressing a broad range of matters connected to racial equity.
- A racial equity landing page should be created on both websites. It should provide ready, centralized access to all of State Street's racial equity accomplishments and goals, market all racial equity products and services, and highlight all thought leadership on racial equity issues.
- The Company should reexamine how the State Street and Global Advisors websites relate to each other. The focus should be whether viewers of one receive the same message and gain the same information about the Company's advancement of racial equity as viewers of the other.

## 2. Capitalize on the Website as an Opportunity to Attract Users Who Are New to, or Lack Sophisticated Knowledge About, Investment and Wealth Management

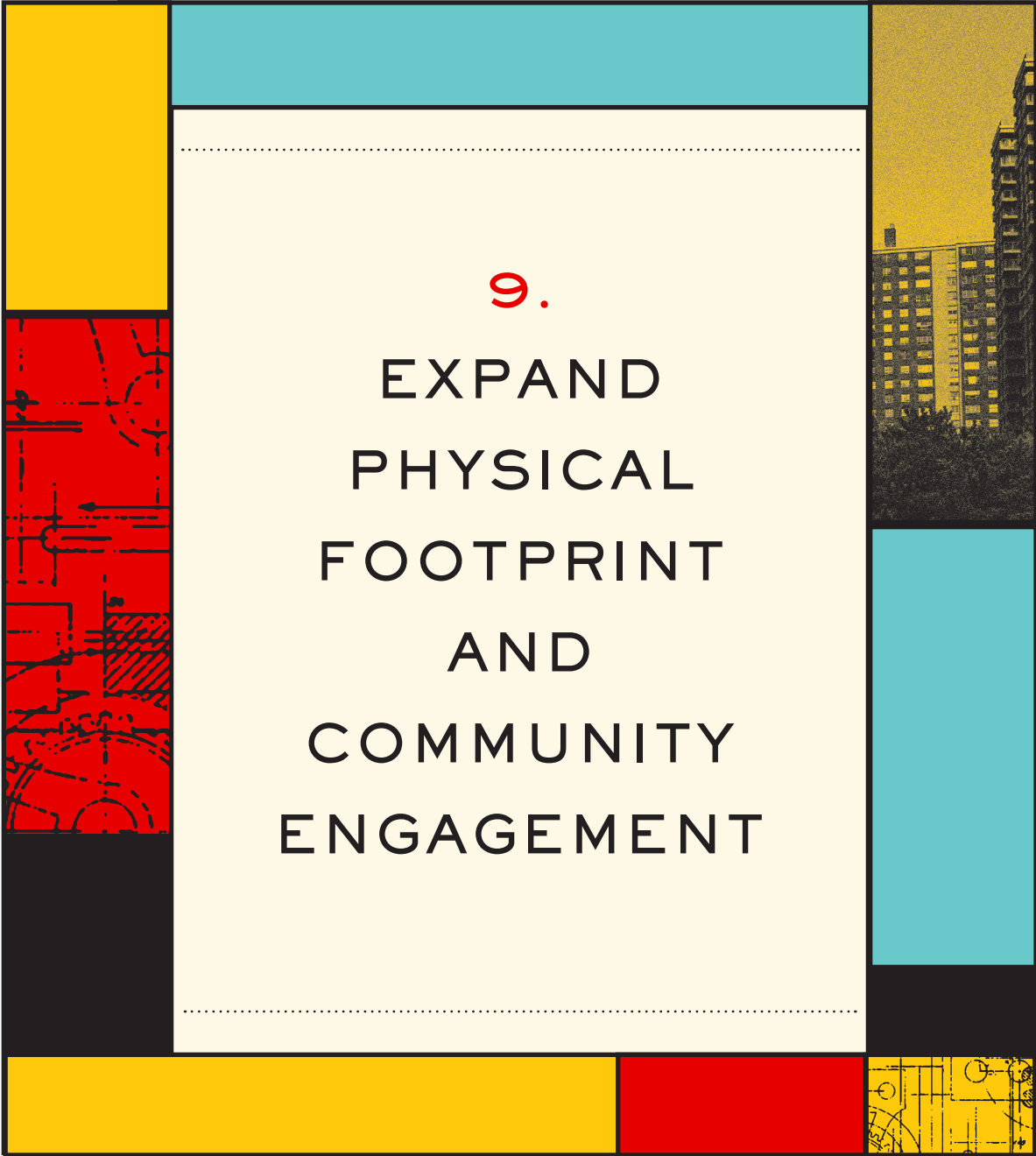
- State Street should create a glossary of investment-related terms and State Street product types that pages across the site can connect to via embedded links or otherwise.
- Website content should be reviewed and revised to diminish financial jargon where possible, increasing the utility and approachability of the site for many.
- State Street should work with consultants and partners to build out financial literacy initiatives.

## 3. Enhance Language Access

- Language Access
  - The website and linked documents should be available in the most commonly-spoken languages in the United States, beginning with Spanish and Chinese.
  - A plan should be adopted for the ongoing translation of website content. Resources for implementing and monitoring the quality of translations should be prioritized.
- Training
  - Ongoing trainings should be provided to digital content staff on language access.

## SHORT TERM NEXT STEPS

In the next six months, State Street should (1) update its DEI webpage, and (2) adopt a plan for other website revisions recommended above.



9.  
EXPAND  
PHYSICAL  
FOOTPRINT  
AND  
COMMUNITY  
ENGAGEMENT



## FOCUS AREA 9:

# EXPAND PHYSICAL FOOTPRINT AND COMMUNITY ENGAGEMENT

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## OVERVIEW

State Street is not leveraging its significant corporate footprint and associated spending to benefit local communities and promote racial equity. It lacks a cohesive strategy for using its offices to support BIPOC businesses, restaurants, and vendors. While State Street has opened its buildings for use by some BIPOC and other organizations for events and gatherings, it can be more intentional about ensuring it is responsive to community needs. When it chooses a new office, local communities are not consulted about how State Street's presence impacts property values or neighborhood affordability. A mandate from leadership should include a commitment to advancing racial equity everywhere the Company has an office and an associated strategic plan.

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State Street is not leveraging its significant corporate footprint and associated spending to benefit local communities and promote racial equity.

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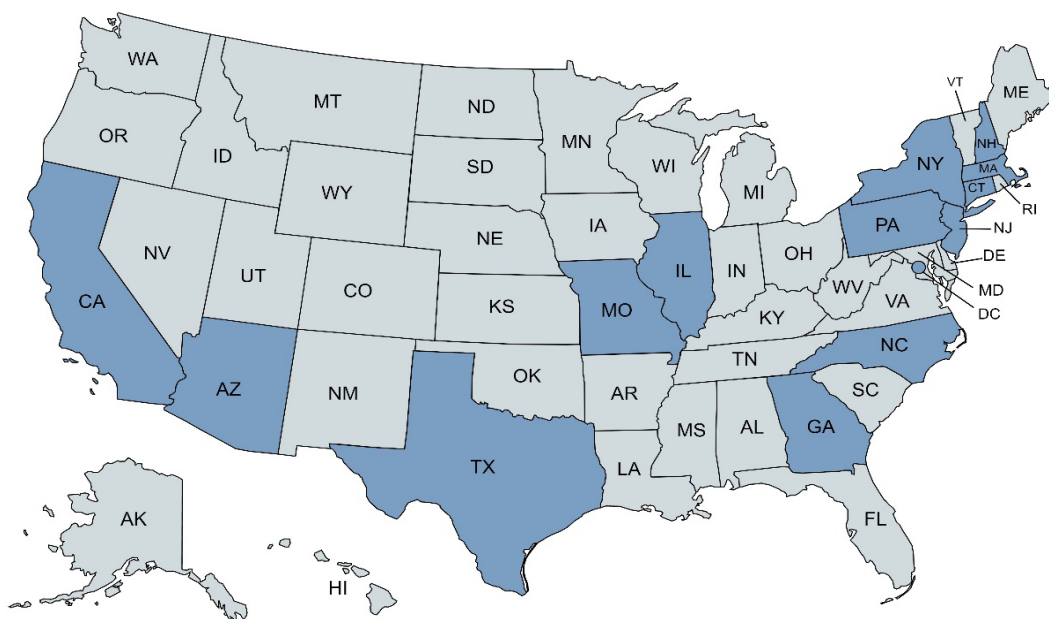
Closely related is the need for State Street to expand its definition of community, which is excessively Boston-centric. This is reflected in the disproportionate share of grantmaking directed to organizations in eastern Massachusetts and the Company's limited grantmaking elsewhere. State Street should prioritize engagement with and support for BIPOC communities everywhere in the country it has an office. Because the Company does not do this, it is for the most part IN THE PACK and behind some peers.

## FINDINGS

### State Street Has a Large Physical Footprint in the United States

State Street has 23 offices in the United States. They are spread across 13 states and Washington, D.C. Its headquarters is in Boston, and 9,000 of the Company's more than 11,000 United States employees work in eastern Massachusetts.

## STATES WHERE STATE STREET HAS OFFICES IN THE UNITED STATES



From State Street, [Office Locations](#).

### The Potential to Advance Racial Equity Is Not Considered When State Street Selects a New Office Location

There are no formal processes or policies for engaging with local communities when selecting and building out new office locations. Engagement with or consideration of local community groups or businesses is not required and is not typical. How the location of a property may promote or unintentionally impede racial equity is not part of the decision-making process.

### State Street Lacks a Comprehensive Strategy for Using Its Offices to Support Racial Equity Locally

There are some ways in which State Street uses its office locations to support its local communities. Local volunteerism by employees is encouraged at all office locations, and employees have significant flexibility to choose community-based causes they find meaningful. The Company opens its buildings to some national and local community groups, has hosted job fairs, leadership summits, and vendor events centered on diversity, and has lent out space to diversity-focused organizations.

These efforts are laudable, but there is no cohesive strategy for leveraging State Street’s many offices to support local BIPOC groups and businesses. BIPOC-focused events are not systematically tracked and are held predominantly in Massachusetts. Employees are not required to hire BIPOC-owned or -operated businesses for any portion of their onsite services or other needs.

### **State Street Has Not Seized the Opportunity Presented by Its New Headquarters to Advance Racial Equity**

The new One Congress Tower in Boston, which will soon be State Street’s headquarters, was a \$1 billion project. State Street is a 50% lessee of the building. This gave State Street enormous leverage to insist during contract negotiations that the developer provide significant opportunities to BIPOC businesses to assist with design and construction. State Street satisfied the equity targets required by the City of Boston in its standard building permits. For example, as of February 3, 2023, 27% of the labor hours were performed by residents of Boston, 40% of the hours were performed by minorities, and 8% were performed by females. That said, had it begun negotiations with the developer using a more intentional approach, State Street could have leveraged the price it was committing to spend on the lease to do more to benefit BIPOC businesses and communities.

State Street was more intentional with the Quincy, Massachusetts building it owns, where a female-owned general contractor was hired for an approximately \$25 million project.

Racial equity can still inform State Street’s approach to its new headquarters. When the space officially opens, it can be used to expand engagement with the local community and to lift up BIPOC businesses and communities. As a step in that direction, State Street is exploring art lending programs that would allow it to feature BIPOC artists at the new building.

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The new One Congress Tower in Boston, which will house State Street’s headquarters, was a \$1 billion project.

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### **State Street’s Boston-Centric Culture Is Inconsistent with Its National Presence**

State Street’s culture and image of itself are Boston-centric. A common refrain from employees is that decisions affecting local communities are made with a Boston-based set of assumptions. This parochial focus is inconsistent with the Company’s national (and global) presence, reach and influence. The mismatch between self-image and reality leads to a skewed sense of community. This has implications for where the Company decides to engage and contribute.

Within the United States alone, 20% of State Street’s employees work outside of Massachusetts. Its clients are much more dispersed. Yet approximately 90% of State Street Foundation’s U.S. grantmaking is directed to recipients in eastern Massachusetts. Organizations in other places with State Street offices receive just a small portion of the many millions of dollars granted by the Foundation annually. Progress toward racial equity in these locations could be enhanced if additional grant dollars were made available.

### **State Street Operates Community Support Programs but Should Do More to Promote Them**

State Street operates a Community Support Program (CSP) in ten locations where it has a significant presence. Each is run by an employee-led committee that reviews local grant applications and plans volunteer activities in its local communities. State Street Foundation gives a grantmaking budget to each local CSP. These efforts are not featured prominently on State Street’s website or otherwise well-publicized.

## **ANALYSIS**

### **Where a Company Chooses to Locate Impacts Racial Equity**

The location of a company’s offices has a widespread impact on matters that are relevant to racial equity. It affects the types of partnerships the company pursues, vendor options, workforce makeup, and even client development. It can support local businesses, lead to improved infrastructure and community investment, and increase real estate values. Conversely, it can lead to gentrification that forces people of color to move away or adversely impact the area’s environment.

### **Other Financial Institutions Demonstrate Leadership in Supporting Their Communities Across the Country**

Peers publicize how they support communities where they have a significant presence, not just where their headquarters are located. Vanguard’s website, for example, features testimonials from participants in its [Hometown Grants Program](#), which supports nonprofit organizations in the communities where Vanguard operates. JPMorgan’s [website](#) highlights four “signature cities” in the United States and reflects significant community-centered programs and engagements in these and other cities that are part of its market.

# RECOMMENDATIONS: COMMUNITY ENGAGEMENT

## 1. **Redefine the Concept of State Street’s “Community” to Recognize the Importance of Its Physical Footprint**

- State Street should move beyond thinking about Boston and eastern Massachusetts as its community. Everywhere it has a physical presence is part of its community. A mandate from leadership should communicate renewed commitments to all the communities in which State Street has a physical footprint.
- State Street should publicly commit to engaging with and positively impacting all the places in which it is present. The budget for grantmaking should be increased so the Company can make significant contributions in all its locations, not just in Boston or eastern Massachusetts. Managers should encourage employees in all locations to take advantage of local volunteer activities and otherwise contribute locally.

## 2. **Existing Offices Should Increase Opportunities for Engagement with BIPOC Businesses, Non-Profit Organizations, and Local Communities**

- Engagement with local BIPOC communities, businesses, and non-profits should be embraced as a key corporate value expected of every office in the country. Each office should develop a strategic plan for how it can positively impact local communities and avoid contributing to gentrification.
- Each office should develop clear policies and protocols for using diverse-owned businesses for catering needs, donating office space to community groups, and hosting job fairs and racial equity events in coordination with local organizations. BIPOC institutions should have a local State Street contact to encourage feedback and enhanced collaboration.
- State Street should track each office’s efforts and results and publicize them.

## 3. **Support the Local BIPOC Community with the New Flagship Headquarters**

- State Street’s new One Congress building is a rare opportunity to support local BIPOC groups and businesses because of its immense size and anticipated operating budget. State Street should develop and publicize a strategic plan to hire BIPOC businesses to provide catering and other services for the building. It should include plans to host public events on racial equity-related issues and make space available to community groups at no or reduced cost. Consideration should be given to how State Street can support local businesses in the area of Boston where the new building is located and prevent them from being driven out by gentrification and larger brand chains.

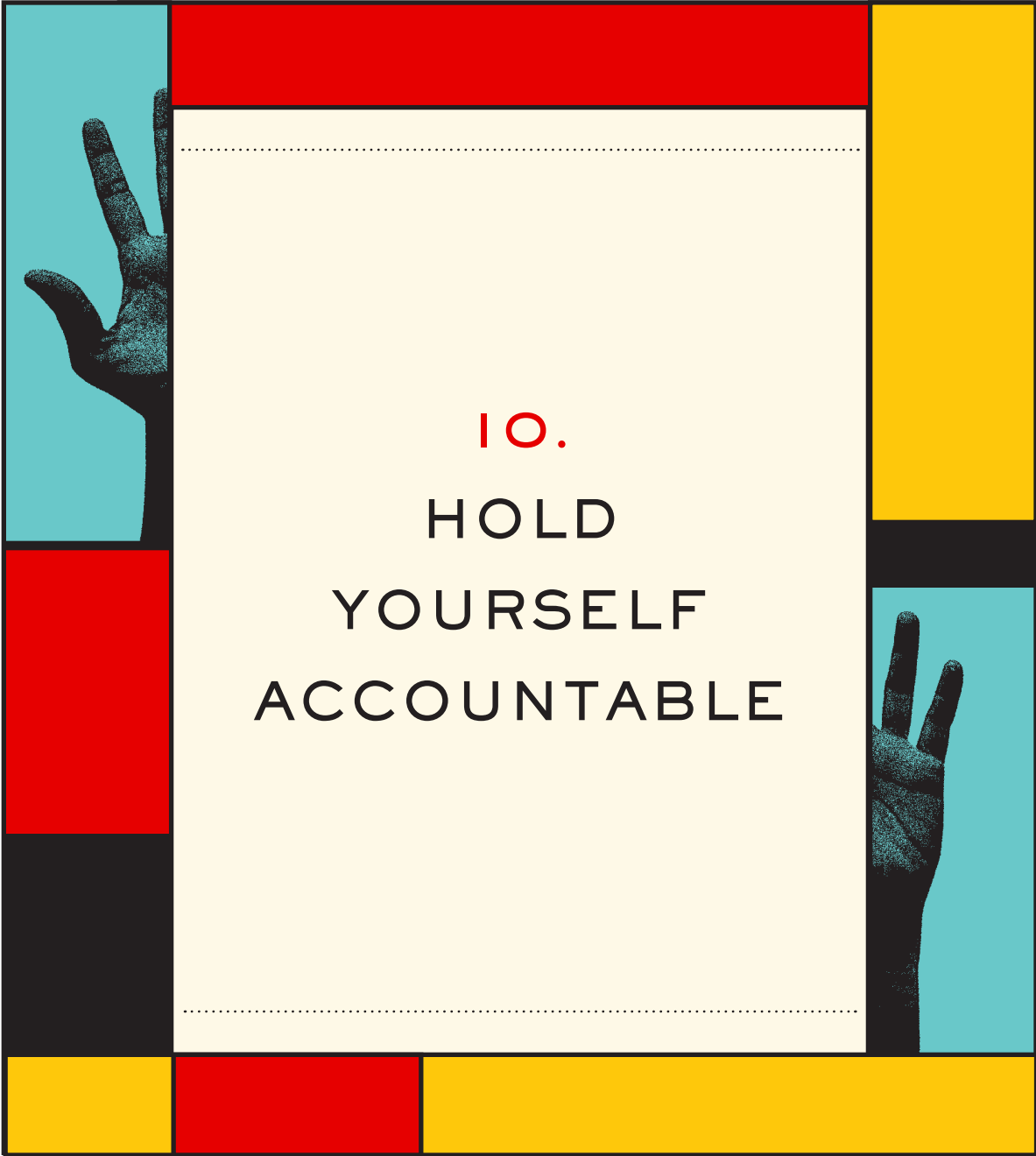
- State Street should track and publish an accounting of dollars it has invested to support BIPOC communities in eastern Massachusetts through its Foundation and otherwise.

#### 4. **Consideration of Racial Equity and Engagement with Local Community Groups and BIPOC Stakeholders Should Be Built Into the Process for Selecting and Building Out New Offices**

- Engaging with local community groups and BIPOC stakeholders should be a mandatory component of choosing and building new office space. Formal procedures should be adopted that require considering locations in diverse communities and employing diverse suppliers, such as real estate brokers, architects, construction companies, and law firms. This parallels the discussion in *Focus Area 7: Increase Diverse Supplier Spend*. Advancing racial equity should be a goal of the process from the start.

### **SHORT TERM NEXT STEPS**

Over the next six months, State Street should (1) identify opportunities to utilize and support BIPOC businesses in the area surrounding its new flagship headquarters, and (2) develop a strategic plan for engaging with and positively impacting all the places in which it is present.



10.  
HOLD  
YOURSELF  
ACCOUNTABLE



# FOCUS AREA 10: HOLD YOURSELF ACCOUNTABLE

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## OVERVIEW

The ultimate test by which any commitment is measured is in the follow through. Commitments undertaken as a result of an audit are no different. In the words of Rashad Robinson, President of Color of Change: “Racial equity audits exist to drive changes in policy, not rhetoric.” It is critical that State Street hold itself accountable for following through on the commitments it makes as a result of this Report. It should establish a high-level task force or similar structure to oversee and monitor progress enterprise wide.

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“Racial equity audits exist to drive changes in policy, not rhetoric.”

Rashad Robinson, President of Color of Change

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The compliance department should be involved in establishing, implementing, and enforcing the protocols used to monitor the business units. The audit department should review the work of the compliance department and report directly to the Board of Directors. The compliance department should report to the high-level task force, which in turn should report to the CEO and the Board of Directors. Progress should be measured in each of the 10 focus areas by a clear set of metrics that can be tracked semi-annually and year over year. Failure to live up to its commitments will undermine the opportunity for State Street to become a leader on racial equity and civil rights in the financial sector and create reputational risk.

## FINDINGS

### Compliance Believes It Is Well-Suited to Monitor Adherence to New Commitments Regarding Racial Equity

State Street will be making new commitments related to racial equity as a result of this Report. Interviews with compliance department leaders made clear that the compliance department believes it is well-suited to monitor the Company’s progress toward satisfying those commitments.

### The Audit Department Provides an Independent Check on the Work of the Compliance Department

State Street’s internal audit department is responsible for periodically reviewing the work of the compliance department. This includes determining whether compliance has in place an appropri-

ate framework for fulfilling its obligations. This function is conducted with an especially high level of autonomy and independence from operational responsibilities. In performing this independent check, State Street’s audit department provides a “third line of defense” after the first two lines—the business and the compliance department—that is considered essential in most large corporations and financial institutions. This is often referred to as the “three lines of defense” model.

### “Greenwashing” Is an Enforcement Priority of the SEC

The SEC recently [fined](#) Goldman Sachs Asset Management \$4 million for policy and procedure lapses connected to ESG claims. The fine resulted from the work of the SEC’s Climate and ESG Task Force, created just two years ago.

Greenwashing-related compliance obligations are not only internal. They extend to oversight of vendors and counterparties.

## ANALYSIS

### Monitoring Progress on State Street’s Racial Equity Commitments Is Critically Important

Leadership requires follow through. State Street cannot be a leader on racial equity unless it lives up to the commitments it makes as a result of this Report. Failure to do so would undermine efforts to lead, compromise the integrity of the Audit itself, and create significant reputational risk. Companies that do not follow through on their commitments open themselves to suspicion about the intent of the audit. Color of Change’s Rashad Robinson minces no words: “Committing to racial equity means committing to the changes that bringing about true racial equity inevitably requires. . . . Corporations that use racial equity audits to delay, derail, or dodge their responsibility to enact real change are no friend to Black communities.”

Ensuring that State Street delivers on its commitments requires proper compliance protocols, effective allocation of monitoring responsibilities, and benchmarking against metrics to quantify progress in meeting goals.

### The Distinct Roles of the Compliance and Audit Departments Each Have an Important Place in Monitoring Progress on Racial Equity Commitments

Compliance and audit departments play different but complementary roles in the well-established “three lines of defense” model.

Compliance departments traditionally focus on statutory and regulatory requirements enterprise wide. Compliance personnel are trained to operate with protocols designed to achieve the highest levels of discipline and attention to detail. Stakes are high, and the work is prioritized because of the economic and reputational risk of legal violations. The similarity with monitoring follow through on racial equity commitments is substantial—the stakes of failure are high, great care and precision are

needed, and the commitments cut across business units. This argues for giving compliance departments a central role in designing, implementing, and enforcing the protocols used to monitor progress in meeting goals, targets, and timetables.

Audit departments traditionally provide an independent review and report to the Board. Given audit's traditional, complementary role and the importance of racial equity commitments, there is every reason to include audit in reviewing progress in meeting commitments.

### **Individual Business Units Are Not Well Positioned to Monitor Progress Because a Broader Companywide Perspective Is Needed**

A bird's eye view across all business units is needed to monitor a company's racial equity commitments. Progress in one area will affect progress in another because the recommendations made in an audit are interconnected. If responsibility for compliance is allocated task-by-task to different business units or leaders, the overall effort will be fractured, siloed, and less successful. Effective monitoring requires centralized oversight. Without that, the ability to demonstrate leadership in this important part of the audit process will be compromised.

### **A Company That Emphasizes ESG Products and Strategies Must Make Monitoring for Greenwashing Risk a Priority**

Greenwashing risks are unavoidable for any company improving how it prioritizes, features, and promotes ESG products and strategies. Regulatory and reputational risks are already heightened and will continue to increase as racial equity becomes a more prominent investment goal. Prompt and thorough responses to questions and challenges are critical.

## **RECOMMENDATIONS: ACCOUNTABILITY**

### **1. Create a Centralized High-Level Task Force Charged with Ensuring That State Street Meets Its Racial Equity Commitments Arising from This Audit**

- A high-level task force that is diverse and broadly representative of the involved components of the Company should own responsibility for State Street's adherence to its civil rights and racial equity commitments. This team should oversee monitoring efforts across all business units. Where possible, it should ensure quantifiable metrics are used to measure progress in meeting goals, targets, and timetables. One approach would be the Objectives and Key Results (OKR) framework, which relies on a collaborative goal-setting methodology to set challenging goals with measurable results. Progress should be tracked and reported to the CEO regularly and to the Board of Directors semi-annually.

- Findings made by the compliance and audit departments with respect to progress made in meeting State Street’s commitments should be reported on a regular basis to the task force. Those findings should be included in the information conveyed by the task force to the CEO and the Board of Directors and accompanied by plans to address any shortcomings identified.
- 2. The Compliance Department Should Be Assigned Responsibility for Establishing, Implementing, and Enforcing Protocols Enterprise Wide to Ensure Adherence to Commitments Undertaken as a Result of the Audit**
    - The compliance department should monitor adherence to racial equity commitments enterprise wide. It should collaborate with all relevant business units as it does in fulfilling traditional compliance functions. In designing protocols to monitor adherence to commitments, the compliance department should create and employ metrics that can be used to measure progress in meeting goals, targets, and timetables.
  - 3. Ensure Monitoring of Greenwashing Risk as Civil Rights Commitments Expand**
    - The task force should ensure that the compliance department has adequate processes and controls in place to minimize the risk associated with the marketing and promotion of new ESG practices and services resulting from Audit commitments.
  - 4. The Audit Department Should Audit the Work of the Compliance Department**
    - The audit department should fill its traditional role of providing an independent check on the work of the compliance department. It should confirm that compliance has the proper framework to monitor efforts by the business to fulfill State Street’s racial equity commitments. The audit department should report its findings to the Board of Directors.
  - 5. Prioritize the Resources Needed to Ensure Commitments Undertaken as a Result of the Civil Rights Audit Are Met**
    - Effective monitoring of commitments undertaken as a result of this Audit will require reallocating resources to the compliance and audit departments. This will be a new compliance function requiring knowledge of new issue areas and the creation of new protocols and metrics for evaluation. Investments in funding and personnel should be made so that monitoring is carried out at the highest level.

## **SHORT TERM NEXT STEPS**

Over the next six months, State Street should establish a high-level task force or similar structure to oversee and monitor progress enterprise wide.



## ABOUT THE ARTISTS

**Oliver Munday** is a designer and writer. Along with his current role as Creative Director of the Atlantic magazine, he is the author of *Don't Sleep*, a design monograph. His work focuses on racial equity and income inequality, with the greater aim of redressing social injustices through visual communication.

**Mark Harris** is a multidisciplinary designer and illustrator. His clients include The New York Times, the New Yorker, the Atlantic, and many more.



## ABOUT RELMAN COLFAX

Relman Colfax PLLC is a national civil rights law firm with a litigation practice focused on combating systemic discrimination, exclusion, and segregation in the areas of housing, lending, employment, public accommodations, education, and police accountability. The firm's practice includes individual and class action lawsuits on behalf of people and organizations who have experienced discrimination on the basis of race, national origin, color, religion, sex (including sexual orientation and gender identity), disability, age, familial status, and source of income.

Relman Colfax also provides legal counsel to financial institutions, internet-based companies, housing providers, government agencies, nonprofits, and other entities that are committed to promoting civil rights, advancing equity and inclusivity, and developing effective regulatory compliance programs. It has long helped institutions of all sizes—including many of the largest financial institutions, FinTechs, and non-financial technology-based companies—to equitably meet the needs of the diverse communities they serve. The firm puts a premium on advancing these goals through practical and actionable recommendations, taking into account the specific business needs of its clients.

Relman Colfax has experience with complex civil rights audits. In conjunction with Laura Murphy, it conducted Facebook's Civil Rights Audit, a two-year project that involved analysis and recommendations in seven different areas and included three public reports. The firm assisted with an audit of Airbnb's civil rights policies and practices, including conducting a review of its fair housing policies. Similarly, Relman Colfax has conducted several comprehensive fair lending and fair housing assessments for financial entities. It currently serves as an independent fair lending monitor of Upstart Network, arising from Upstart's agreement with the NAACP Legal Defense Fund and the Student Borrower Protection Center.

Relman Colfax's civil rights audits are informed by its decades of work advancing equity and inclusion. As a civil rights law firm, it is uniquely positioned to conduct audits because of its credibility within the civil rights and advocacy communities, extensive experience working with financial institutions, and longstanding relationships with regulatory and enforcement agencies such as the Department of Justice, the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, and the Department of Housing and Urban Development.