

DISCUSSION PAPER:

# WHY AND HOW MIGHT INVESTORS RESPOND TO ECONOMIC INEQUALITY?



# THE SIX PRINCIPLES

- 1** We will incorporate ESG issues into investment analysis and decision-making processes.
- 2** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4** We will promote acceptance and implementation of the Principles within the investment industry.
- 5** We will work together to enhance our effectiveness in implementing the Principles.
- 6** We will each report on our activities and progress towards implementing the Principles.



## PRI'S MISSION

"We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation."

## ACKNOWLEDGEMENTS

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# OVERVIEW

Economic inequality, understood as the gap between the rich and poor in income and wealth, has received extensive and continuing attention in public and academic discourse across the globe since the financial crisis.<sup>1</sup> New research on the nature, causes and consequences of inequality seems to come every week, and considerable political discussion occurs within and between governments. In some ways, the contours of the discourse on inequality parallel those of climate change – in terms of responsible investment, inequality is emerging as a paradigmatic instance of the S in ESG, as climate risk is to the E.

Furthermore, there are active calls on private sector investment to redress inequality. Perhaps most prominently, the United Nations explicitly calls on private investors to engage on the Sustainable Development Goals – and SDG 10: Reduced Inequalities – is perhaps a sign that a focus on inequality reduction may become part of the political-economic environment in which investors work.

The PRI roundtable series is a key opportunity to advance the discussion about the impact of economic inequality on the long term performance of investment portfolios and the potential strategies investors can employ to mitigate the risks of inequality. Following this series, research will be commissioned that addresses questions raised from the events. We look forward to your feedback.

## HOW DOES ECONOMIC INEQUALITY IMPACT THE LONG TERM PERFORMANCE OF INVESTMENT PORTFOLIOS?

Responsible investment, as a discipline, argues that investors are better served by enhancing their investment decisions through the integration of ESG information. Further, responsible investment, as a field, is premised on the belief that, over the long-term, the interests of investors and society as a whole are likely to converge.<sup>2</sup>

From this perspective, there are at least three reasons why investors might see inequality as an important topic to address:

- Inequality (and its growth) might have negative

consequences to investors' long-term investment performance.

- The emergence of inequality as a topic of domestic and global concern may change the risks and opportunities that affect the available universe of investment opportunities.
- Inequality might negatively affect the financial system in which investors participate, and the world in which beneficiaries live.<sup>3</sup>

## NEW RESEARCH AND ATTENTION

Inequality has entered the political mainstream, becoming the subject of scrutiny by global policymakers at events like the World Economic Forum annual meetings in Davos and intense civic mobilizations like Occupy Wall Street. In the United States, President Obama has called inequality “the defining issue of our time.” Political events with significant economic implications – such as the recent vote in Great Britain to leave the European Union – have been viewed as manifestations of risk associated with economic inequality.<sup>4</sup>

Research has highlighted dramatic growth in inequality, especially in developed countries in the latter part of the 20th century. The attention received by Thomas Piketty's *Capital in the 21st Century*, which highlights sharp spikes in wealth at the very top of the developed world's economies, in addition to work by Piketty and Emmanuel Saez focused on the United States, helped spark popular focus on “the 1%.”<sup>5</sup>

Additional research on inequality suggests widespread growth of in-country inequality in both developed and developing world national economies over the same period, with a variety of potential causes.<sup>6</sup>

This does not necessarily mean that inequality is increasing globally. Branko Milanovic's recent work, *Global Inequality: A New Approach for the Age of Globalization*,<sup>7</sup> argues that the world's global population has become more equal, largely due to the growth of a middle class in large developing world economies, particularly China. Milanovic also argues however that the growth of in-country inequality can lead to political instability that may endanger global gains and that, for reasons of equity, welfare and social cohesion, in-country inequality is a salient topic.

1 It is important to note that economic inequality is a complicated topic – wealth and income inequality are not the same things for instance – and major issues of racial and gender equity among other important issues are deeply linked to but not the same as economic inequality. This briefing focuses broadly on economic inequality in light of recent research on the subject.

2 On this topic see David Wood, “What do we mean by the S in ESG: Society as a Stakeholder in Responsible Investment”, Routledge Handbook on Responsible Investment. London and New York, 2015.

3 For a previous effort to address this problem, see David Wood and Jay Youngdahl, “How might responsible investors address income inequality?” Paper presented to the PRI Academic Network Conference, Montreal 2014.

4 Darvas, Z. 'Brexit Vote Boosts Case For Inclusive Growth.' <http://bruegel.org/2016/07/brexit-vote-boosts-case-for-inclusive-growth/> [Accessed 30 August 2016]

5 Thomas Piketty, *Capital in the 21st Century*, tr. Arthur Goldhammer, Cambridge 2014; Thomas Piketty and Emmanuel Saez, “Inequality in the Long-Run,” *Science* 344, 2014, pp. 838-843.

6 For one overview, see the International Monetary Fund's webpage on its research on inequality, found at <http://www.imf.org/external/np/fad/inequality/> [Accessed June 12, 2016].

7 Branko Milanovic, *Global Inequality: A New Approach for the Age of Globalization*, Cambridge. 2016.

# IMPACT ON ECONOMIC GROWTH

One strain of recent research has argued that inequality can have negative consequences for economic growth (and that reducing it can therefore have positive consequences).<sup>8</sup> In 2014, the IMF summarized this in a paper entitled, *Redistribution, Inequality, and Growth* by stating:

“Our work built on the tentative consensus in the literature that inequality can undermine progress in health and education, cause investment reducing political and economic instability, and undercut the social consensus required to adjust in the face of shocks, and thus that it tends to reduce the pace and durability of growth.”<sup>9</sup>

In its report on “inclusive growth,” *In It Together: Why Less Inequality Benefits All*, the OECD reaches similar conclusions:

“For many OECD countries inequality is today at its highest since data collection started. This long-run increase in income inequality does not only raise social and political but also economic concerns: income inequality tends to drag down GDP growth, and it is the rising distance of the lower 40% from the rest of society which accounts for this effect.”<sup>10</sup>

In contrast to past conventional wisdom that there is an essential trade-off between equality and growth, these papers assert that in circumstances of excessive inequality, policies to promote equality can improve economic performance.

This research is echoed in the UN's SDG 10, which states that:

“While income inequality between countries may have been reduced, inequality within countries has risen. There is growing consensus that economic growth is not sufficient to reduce poverty if it is not inclusive and if it does not involve the three dimensions of sustainable development – economic, social and environmental.”<sup>11</sup>

## SOME MECHANISMS BY WHICH INEQUALITY MIGHT NEGATIVELY AFFECT GROWTH<sup>12</sup>:

**Reduced consumer demand:** the wealthy tend to save more than other consumers, so wage stagnation and the resulting inequality may reduce the spending power of the poor and middle classes; in addition to reduced ability to save for retirement.

**Increased economic instability:** inequality may drive bubbles, as those without economic resources take on debt for consumption.

**Rent-seeking and political power:** concentration of wealth may lead to increased political power and influence, capturing economic rents at the expense of productive activity.

**Exacerbation of social instability:** as the gap between the haves and the have nots grows, so might social tension, and political and social instability. Inequality can even directly harm human well-being, being linked for instance to poor health outcomes, and reduced investment in education and development.

How much inequality is too much remains a difficult question to answer, and is clearly linked to particular economic, political and cultural circumstances, but this research has at least given investors cause to consider the question. James Galbraith suggests a biological metaphor: inequality is like blood pressure. When too high, blood pressure is a potential cause of harm to the body, and a potential sign of other troubling activity in the system.<sup>13</sup>

In sum, recent research and discourse on inequality has suggested that:

- In-country economic inequality is growing in many places;
- Inequality may have harmful effects on economic growth;
- Inequality may be a sign of unproductive economic activity, rent-seeking, or economic instability, and
- Inequality is becoming a concern in political and civil society that may have implications for investors and their beneficiaries.

8 For one iteration of these arguments see Jared Bernstein, “The Impact of Inequality on Growth,” Center for American Progress. December 2014.

9 Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, “Redistribution, Inequality, and Growth,” IMF Staff Discussion Note. 14/02, Washington DC 2014. p.4.

10 OECD, *In It Together: Why Less Inequality Benefits All*, p.3, OECD Publishing, Paris 2015.

11 The goals are found at <https://sustainabledevelopment.un.org/?menu=1300/> [Accessed June 12, 2016].

12 For an example of efforts to track causes see: Jared Bernstein, “The Impact of Inequality on Growth,” Center for American Progress. December 2014.

13 James Galbraith, *Inequality: What Everyone Needs to Know*, Oxford, 2016, p. 134.

# HOW CAN INVESTORS RESPOND TO INEQUALITY?

Here are four potential avenues that investors might consider:

## 1. INEQUALITY AS A LENS FOR INVESTMENT ANALYSIS

Social issues related to inequality may already be integrated into responsible investment analysis and risk management tools used to inform investment decisions and determine shareholder engagement. Related issues include: excessive or poorly aligned executive compensation within firms; efforts to improve corporate reporting on disparities between executive and worker pay; workforce relations and management practices (using indicators such as stable full-time employment, health and safety performance, corporate strategy that views labor as a source of value creation rather than simply a cost center and worker engagement as proxies for quality of management and potential predictors of future performance). In these cases, inequality becomes a central organizing theme linking diverse aspects of investor analysis and engagement.<sup>14</sup>

Investors may look at low wage scales, unsafe working conditions, labor standards violations and the like as sources of reputational and political risk in light of increasing concern over inequality. Investor engagement in particular industries on executive compensation and fair wage practices, for instance, in the fast-food industry in the United States, have made explicit links between changing consumer sentiment on inequality and potential reputational risk<sup>15</sup>.

Global efforts around supply chain management – such as in the garment industry supply chain work after Rana Plaza – provide similar examples.<sup>16</sup> Political and regulatory risk enter this sort of analysis as public policy changes to address the issues of wages and labor standards.

In-country inequality may be used as an indicator for political risk, for example when analyzing sovereign bonds. Inequality may be a risk factor for creditworthiness given its potential impact on economic growth, or a sign of related risk factors including the correlations between corruption and sovereign defaults – part of a general concern voiced in the PRI's Fixed Income Investor Guide, which states that “social factors tend to be given greater weight than environmental factors because of links between political stability, governance, and a country's ability to raise taxes or make reforms.”<sup>17</sup>

## DISCUSSION QUESTIONS

1. Can investors improve long-term investment decision-making by integrating economic inequality risk into investment analysis?
2. What information do investors need to incorporate inequality into their investment decisions and engagement, and what are the most material indicators e.g. the GINI coefficient, pay disparities, labor standards, workforce relations?
3. What are the geographic implications of integrating inequality into investment analysis?
4. How might economic inequality impact companies' financials, e.g. sales, operating costs, discount rate, minimum wage policies, reputational risk, or loss of license to operate in certain countries and therefore loss of earnings?
5. How can the implementation of labor and supply chain management policies be improved and monitored in light of examples such as Apple's supply chain management and Foxconn, or others?

<sup>14</sup> See for example Amanda White, “Worlds Colliding: Growing pay inequality to influence markets in 2016,” Top1000 Funds, January 22, 2016, found at <http://www.top1000funds.com/news/2016/01/22/growing-pay-inequality-to-influence-markets-in-2016/> [Accessed June 12, 2016], and Jonathan Williams, “ESG – Human Capital Management: Human, all too human” Investment and Pensions Europe, March 2015 found at <http://www.ipe.com/investment/esg/esg-human-capital-management-human-all-too-human/10006907.fullarticle> [Accessed June 12, 2016].

<sup>15</sup> A source for investor activism and the fast food industry in the US is Catherine Ruetschlin, Fast Food Failure: How CEO-To-Worker Pay Disparity Undermines the Industry and the Overall Economy, Demos 2014.

<sup>16</sup> Archie Beeching, Fixed Income Investor Guide: Putting Responsible Investment into Practice in Fixed Income, PRI 2014, p. 14.

<sup>17</sup> On investor action after Rana Plaza in particular see the Accord on Fire and Building Safety in Bangladesh found at [bangladeshaccord.org](http://bangladeshaccord.org). [Accessed June 12, 2016].

## 2. EFFORTS TO MITIGATE INEQUALITY

In many countries, there is a tradition of economically targeted investment where investors seek products that target specific underserved geographies or marginalized communities who may lack access to resources. In the United States, Michael Porter's work on the "competitive inner city" was influential in helping develop a practice of investing in poorer neighborhoods in urban areas to promote economic development.<sup>18</sup> Housing is a focus of, for instance, the Dutch pension fund manager PGGM, which has invested in workforce multi-family housing in the United Kingdom on the theory that this can help mitigate the inequality-exacerbating rise in housing prices and support urban regeneration in strategic areas.<sup>19</sup>

Globally, the rise of microfinance as an asset class has been specifically linked to the idea of "financial inclusion," increasing access to needed financial services and opportunities for economic development for poor communities in both developing and developed markets – though research has not always demonstrated the inequality mitigating effects of microfinance. More generally, Bottom of the Pyramid strategies, that focus on the delivery of goods and services to the poor, have been put forward as a means to mitigate poverty and so reduce inequality.<sup>20</sup>

Institutional investors, frequently labor-affiliated, have introduced responsible contractor policies particularly to engage private equity, real estate, and infrastructure funds on labor practices, and in the process have helped give rise to investment vehicles that explicitly call for fair labor standards, access to collective bargaining and quality job creation.<sup>21</sup> These may be seen as addressing the "hollowing out of the middle class" associated with growth in in-country inequality. The French pension fund ERAFP, for instance, has an explicit commitment to favor issuers with strong labor standards and a commitment to democratic labor relations. These types of investment practices can be expected to gain support as the literature shows that increased union density plays a positive role in mitigating inequality.<sup>22</sup>

The field of practice for mitigating inequality may grow, as the international community focuses on the Sustainable Development Goals and national government tackle the challenges of inequality. Investment opportunities generated through "blended finance," attracting subsidy from institutions such as development finance institutions, promotional banks, and from governments, may target explicit social objectives such as inequality mitigation, with opportunities for private capital to participate.<sup>23</sup> The IFC has released an "inclusive growth" bond, parallel to the emerging market of green bonds, as one such instrument.<sup>24</sup> The need for clear markers for the social value of such investment opportunities, and clear ways to distinguish how private capital contributes to achieving them, has a clear parallel in efforts to ensure that climate-friendly investments succeed in mitigating carbon-equivalent emissions or helping adapt to climate change consequences.

### DISCUSSION QUESTIONS

1. What investment opportunities already exist for investors to mitigate inequality?
2. Which sectors have the highest risk exposure related to economic inequality? Which sectors can provide investable solutions for investors (e.g. affordable housing, mobile banking, and targeted economic development)? Where are the investment opportunities?
3. How can investors work with other institutions to create new growth opportunities which may mitigate inequality?
4. Is there a role for company engagement, and if so, with which companies? Is it more about policy dialogue than engagement?
5. How can we identify and measure when the private sector adds social value on goals such as SDG 10?
6. What investment policies can be implemented to facilitate economic equality and drive long term value creation?

18 See Michael Porter, "The competitive advantage of the inner city," Harvard Business Review, May 1995, pp.282-295.

19 For a press release announcing this strategy see "Legal & General and PGGM announce 3000 new homes with 600 million euro partnership" 27 January, 2016, found at: <https://www.pggm.nl/english/who-we-are/press/Pages/Legal-and-General-and-PGGM-announce-3000-new-homes-with-600M-build-to-rent-partnership.aspx> [Accessed June 16, 2016].

20 Prahalad, C. K. The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits, Wharton School Publishing, 2004.

21 For a catalogue of some ETI funds see Tom Croft, Up from Wall Street: The Responsible Investment Alternative, Pittsburgh, 2009; see also Tessa Hebb and Rajiv Sharma, "New finance for America's cities," Regional Studies, 48(3), pp. 485-501.

22 For ERAFP see the Charter on Socially Responsible Investment 2006, found at: [https://www.rafp.fr/en/sites/rafp\\_en/files/publication/file/charter\\_on\\_socially\\_responsible\\_investment.pdf](https://www.rafp.fr/en/sites/rafp_en/files/publication/file/charter_on_socially_responsible_investment.pdf) [Accessed June 12 2016]; on the relationship between union density and inequality see for instance Larry Summers and Ed Balls, Report of the Commission on Inclusive Prosperity, Center for American Progress, 2015, p. 14.

23 OECD and World Economic Forum, Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders September 2015, found at: [http://www3.weforum.org/docs/WEF\\_Blended\\_Finance\\_A\\_Primer\\_Development\\_Finance\\_Philanthropic\\_Funders\\_report\\_2015.pdf](http://www3.weforum.org/docs/WEF_Blended_Finance_A_Primer_Development_Finance_Philanthropic_Funders_report_2015.pdf) [Accessed June 16 2016].

24 See the IFC "Inclusive Business Bonds Factsheet" found at <http://www.ifc.org/wps/wcm/connect/2d3b368046121a35a415bd9916182e35/Inclusive+Business+Bonds+factsheet+January+2015.pdf?MOD=AJPERES> [Accessed June 12, 2016].

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### 3. FINANCIALIZATION AND INEQUALITY

The growth of inequality has been linked to “financialization,” understood as the relative rise in the role of finance in economic affairs, the proliferation of financial products and instruments, and the extension of financial practices into new areas. In his recent survey, *Inequality: What Everyone Needs to Know*, Galbraith notes that “a common pattern in inequality measures around the world is the influence on the overall measure of inequality of increasing (and sometimes decreasing) incomes in the financial sector.”<sup>25</sup>

There are a variety of mechanisms through which financialization might affect inequality. One familiar line of argument to responsible investors is the link between short-termism in the market and inequality. The fees paid for financial services have received considerable attention since the financial crisis, as compensation schemes - which at the higher end of finance have become emblematic of increasing inequality - are linked to short-term risk taking and speculative investing at the expense of long-term productive activity. This charge extends beyond the finance industry itself. The link between executive compensation and share price performance may encourage short-termism and inequality generating compensation schemes by corporate executives. Cash allocation practices, such as share buybacks, may extract value from companies in the short term at the expense of wage increases and other investments that might drive long term value creation.<sup>26</sup>

As highlighted above, inequality has also been linked to economic instability – Galbraith further notes that “the financial sector influences inequalities in a second way, by concentrating the growth of investment, and therefore the associated incomes, in a small quadrant of economic activity at any one time.” Within finance, the growth of speculative bubbles can reward a small group of first movers at the expense of general economic growth that mitigates inequality. In a feedback loop, disparities in income may also drive the increase of consumer debt, feeding instability and further inequality.<sup>27</sup>

There are debates over the optimal level of financial activity. Broadly construed: finance serves vital purposes, but too much finance may promote instability and harmful inequality. The links between financialization and inequality may bring responsible investors to look at their own role in (de)stabilizing the system. These are the sorts of questions being asked by UNEP’s Inquiry into a Sustainable Financial System with particular respect to climate change. The key question of financial stability and the measure of a financial system that benefits “society as a whole” is also raised in PRI’s recent consultation paper on *Sustainable Financial Systems, Principle, Impact*.<sup>28</sup>

#### DISCUSSION QUESTIONS

1. How can investors review their strategies in light of concerns about financialization contributing to inequality?
2. How could this review take place across the agency chain of owner-consultant-manager?
3. How does concern about inequality tie into consideration of the financial system as a whole?
4. How might a link between financialization and inequality change behavior within the investor community?
5. How does the financial regulatory environment foster or provide barriers to equality? What regulatory changes to corporate disclosure, for instance, on pay disparities, supply chain management or lobbying activities would help investors?

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<sup>25</sup> James K. Galbraith, *Inequality: What Everyone Needs to Know*, Oxford University Press, 2016

<sup>26</sup> William Lazonick, “Profits Without Prosperity,” *Harvard Business Review*, September 2014. <https://hbr.org/2014/09/profits-without-prosperity> [Accessed 2 September 2016].

<sup>27</sup> Galbraith, *Inequality*, pp. 100-1; on financialization as a topic see also Mike Konczal and Nell Abernathy, *Defining Financialization*, Roosevelt Institute 2015, found at [http://rooseveltinstitute.org/wp-content/uploads/2015/10/Defining\\_Financialization\\_Web.pdf](http://rooseveltinstitute.org/wp-content/uploads/2015/10/Defining_Financialization_Web.pdf) [Accessed June 12 2016].

<sup>28</sup> UNEP, *The Financial System We Need: Aligning the Financial System with Sustainable Development*, 2015 found at: <http://web.unep.org/inquiry/publications> Accessed June 12 2016; PRI Consultation, *Sustainable Financial System, Principles, Impact* 2016 found at: [https://unpri.org/page/pri\\_website\\_base.pri-formal-consultations](https://unpri.org/page/pri_website_base.pri-formal-consultations) [Accessed June 12 2016].



## 4. INVESTOR ROLE IN BROADER POLICY DISCUSSIONS

Most of the recent literature on inequality focuses not on investors, but on the potential policy levers in the public sector to mitigate harmful growth in inequality. Government – at the local, national, and international levels – will bear the primary responsibility of responding to inequality. What is the role for investors in these discussions?

One way that investors often enter into these discussions is through their participation in dialogue over multi-sector codes of conduct, or by adopting these sorts of (often international) norms as guideposts for analyzing investment risks and opportunities. Investors have, for instance, played important roles in discussions on corporate disclosure regimes around core ESG topics related to economic inequality, including information on executive and worker compensation, worker and human rights performance, corporate supply chains, and similar issues.<sup>28</sup> Organized efforts to improve corporate disclosure – such as FSB and SASB – can include many of these issues related to economic inequality. The OECD Guidelines on Multinational Enterprises, for instance, include issues like responsible business practices and labor relations as related to risk management, as do the International Labor Organization's standards around issues like decent work.<sup>30</sup>

The United Nations has increasingly highlighted the role of the private sector generally, and investors in particular, in tackling the world's challenges, including through the Sustainable Development Goals. Investor concern with inequality may lead to broader and deeper participation in

multi-sector efforts to understand, mitigate, and redress potential harm that results from its growth.

There are also specific topics emerging in public discourse in which investors may find a prominent role. One example is the intense focus on tax evasion and avoidance over the past few years, exacerbated both by public sector austerity programs and new availability of information on the scale of the issue. To the extent that tax evasion and avoidance drive inequality and are a sign of rent-seeking and political capture that distinguishes productive from unproductive economic activity, they become important issues for long-term investors concerned with ESG issues.<sup>31</sup>

An obvious analogy here is to carbon pricing – an issue where responsible investors in many cases have moved on from concerns about the negative effects of a policy on particular investments to a broad support for policies that shape markets to address fundamental long-term challenges.

### DISCUSSION QUESTIONS

1. How might responsible investors add their voices, individually or collectively, to broader policy debates related to inequality?
2. What is the appropriate role for investors in multi-sector discussions about inequality? In particular, what role should investors play in policy development?

<sup>28</sup> AFL-CIO, (2016) Valuing America's Greatest Asset: Corporate Disclosure of Human Capital Management. <https://drive.google.com/file/d/oB1hw4csNsPTBUmhjVTRWSDdsTXM/view> [Accessed 28 September 2016].

<sup>29</sup> On this topic, see "Investors Ask SEC for Better Sustainability Disclosure." <http://www.sasb.org/investors-sec-sustainability-disclosure/> [Accessed 28 September 2016]. Also "Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards" <http://www.fsb.org/wp-content/uploads/FSB-Fourth-progress-report-on-compensation-practices.pdf> [Accessed 28 September 2016].

<sup>30</sup> The OECD Guidelines for Multinational Enterprises 2011 Edition are found at: <http://www.oecd.org/daf/inv/mne/48004323.pdf>; the ILO definition of decent work can be found at: <http://www.ilo.org/global/topics/decent-work/lang--en/index.htm> [Accessed June 12 2016].

<sup>31</sup> PRI, Engagement Guidance on Corporate Tax Responsibility: Why and How to Engage Your Investee Companies, 2015.

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# CONCLUSION

Inequality is an important topic in its own right: there are many reasons we might worry about economic inequality without regard to its effect on economic growth and investor portfolios. But, investors in particular have reason to explore how inequality shapes the world in which they invest when:

- Harmful levels of inequality cause, or are a sign of, low growth and financial instability;
- Channels of investment may help mitigate inequality;
- The financial sector may play a particular role in generating harmful inequality, and, just as importantly,
- The effects of inequality cause harm to the beneficiaries of investment that they represent or serve, both in the short and long terms.

Responsible investment can serve as a useful frame for how investors think about their relationship to inequality. Conversely, inequality, as a topic, can help sharpen how responsible investors integrate the S in ESG, and how they tackle challenging issues related to the systemic structure of finance, and investors' role in shaping a financial system that better serves social objectives.

We hope this paper generates discussion on an increasingly prominent topic, and helps point to productive avenues for research and investor engagement.

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## The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles were developed by investors and are supported by the UN. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system.

More information: [www.unpri.org](http://www.unpri.org)



## The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

### United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: [www.unepfi.org](http://www.unepfi.org)



### UN Global Compact

Launched in 2000, the United Nations Global Compact is both a policy platform and practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to catalyse actions in support of broader UN goals. With 7,000 corporate signatories in 135 countries, it is the world's largest voluntary corporate sustainability initiative.

More information: [www.unglobalcompact.org](http://www.unglobalcompact.org)

