PRI PRINCIPLES FOR RESPONSIBLE INVESTMENT



HOW EXTREME AND RISING ECONOMIC INEQUALITY AFFECTS INVESTORS AND HOW THEY CAN RESPOND

Investor briefing

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About this briefing

This briefing offers research and analysis on extreme and rising economic inequality. It is intended for investors seeking to understand:

- how economic inequality is manifesting within countries;
- key drivers;
- impacts on investment portfolios.

It also discusses how responsible investors can respond to manage inequality-related risks and opportunities, providing practical examples from PRI signatories. The focus of this briefing is economic inequality within developed countries, paying particular attention to the United States due to the size of its capital markets and its pronounced levels of economic inequality.

Insights included in this are drawn from PRI's engagement with over 70 investors, including members of the Human Rights and Social Issues, and Sustainable Systems Investment Managers Reference Groups, as well as expert interviews and a review of academic literature. It is not intended to be comprehensive; it draws on reputable measures of economic inequality, which may at times diverge with other sources.

About the PRI

The Principles for Responsible Investment (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 (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org

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Executive summary

Long-term value creation relies on social cohesion, stability and, ultimately on the flourishing of people: workers, consumers and communities. Extreme and rising economic inequality puts social and economic stability at risk and acts as a significant driver of other system-level risks. While the financial risks posed by the impacts of human rights, climate change and nature loss are increasingly well documented, causal evidence of inequality-related financial and economic risks is still emerging. However, as evidence accumulates, the case for managing inequality-related risks in investment portfolios is growing stronger.

Key insights

Extreme and rising economic inequality undermines the foundations of investment value by contributing to three types of interconnected system-level risks that affect investors.[1] For institutional investors whose returns are determined by overall market performance, these risks can translate into broad based losses that drag down portfolio value across virtually all holdings.

- **Societal stability risk:** extreme and rising economic inequality can contribute to political polarisation, volatile policy responses and social unrest, undermining the effectiveness of economic and policy institutions and creating a drag on markets and economic performance.
- **Macroeconomic risk:** the erosion of human capital and labour market exclusion can reduce productivity, innovation and aggregate demand.
- **Financial stability risk:** concentration of wealth can lead to riskier asset allocation and asset price inflation, increasing the likelihood of credit crises and broader market instability.

Investors can identify and prioritise drivers of extreme and rising economic inequality. This briefing highlights four major drivers that investors can influence.

1. **Diverging labour market and capital outcomes are hollowing out the middle class.** Impacts on people, such as stagnant wages, reduced benefits and rising prices, fall disproportionately on lower- and middle-income households, while top income gains and capital returns concentrate among the wealthy.
2. **Technological change and automation are intensifying existing inequalities as AI adoption accelerates.** Job displacement, uneven access to digital infrastructure and the technology sector's growing influence over information flows may exacerbate economic inequalities and political divides.
3. **Declining corporate tax rates, alongside tax avoidance and evasion, are weakening government capacity to fund public services** that mitigate inequality-related risks and invest in human capital.
4. **Climate change and nature loss are deepening inequality.** Physical climate impacts, transition pressures and the impact of biodiversity loss and nature degradation are eroding asset values, livelihoods, and human and natural capital. Inequality heightens vulnerability to future shocks and shapes the policy choices and business practices that influence sustainability outcomes.

Responsible investors are drawing on established practices to understand and manage inequality-related risks. Actions they are taking include:

- **integrating inequality into investment analysis** by assessing portfolio exposure at the country, sector and company level, and prioritising key drivers of extreme and rising economic inequality. This can build on existing human rights due diligence processes;
- **incorporating inequality into investment decision-making** to manage inequality-related risks. Designing and allocating capital to capture new growth opportunities, improve access to products and services, and reduce inequality;
- **engaging with investees on how they manage inequality-related risks and opportunities.** This includes participating in collaborative stewardship initiatives, and developing a coherent investor perspective on priority inequality drivers;
- **laying foundations for an enabling environment by engaging policy makers, data providers and standard setters on priority inequality drivers.** This includes engagement on sustainable finance and real economy policy, as well as with standard setters and initiatives such as the Taskforce on Inequality and Social-related Financial Disclosures (TISFD). Responsible investors can also benefit from considering how the political engagement of external managers, consultants and companies is aligned.

[1] As categorised by the TISFD Framework (Beta Version 0.1)

Economic inequality and the financial system

Ten years on from the adoption of the Sustainable Development Goals, which include a clear goal to reduce inequalities, we are witnessing the reverse: economic inequality has reached an extreme level and is rising in many countries.

Economic inequality refers to the uneven distribution of wealth, income and consumption between individuals or groups.[2] The World Economic Forum's 2026 Global Risks Perception Survey, which captures insights from over 1,300 global experts, identifies economic inequality as the most interconnected risk – it is a consequence and driver of other risks.[3] Human capital – the skills, knowledge, health and capabilities of people – composes 60% of the world's wealth,[4] but inequalities threaten the productivity of human capital, which is crucial to value creation.

Extreme and rising economic inequality is likely to exacerbate system-level risks.[5] For institutional investors whose returns are determined by overall market performance, these risks can trigger broad-based losses, dragging down portfolio value across virtually all holdings.[6] With time horizons that extend beyond political cycles and ownership of companies and debt, investors are uniquely positioned to engage companies and policy makers in support of market incentives that align with the achievement of a sustainable and prosperous financial system, founded on resilient societies.

Interdependence between investors and people

As managers of the savings and financial livelihoods of hundreds of millions of the world's citizens, institutional investors are intrinsically linked to people. Investors and companies can impact people in many ways. For example, investors can contribute to regional stability and prosperity through investment decisions that support:

- the sustainable provision of infrastructure, real estate and services;
- broad prosperity which drives consumer demand and economic growth.
- Conversely, inappropriate company land acquisition and use can impact community livelihoods, poor workplace conditions can affect worker mental and physical health, and capital allocation can exacerbate conflict in certain regions.

Investment outcomes also depend on people; investors can rely on and affect people in varied ways, for example:

- asset owners, such as pension funds, depend on the long-term stability of social systems and thriving workforces;
- public equity and credit investors can influence workplace standards and community impacts through their stewardship and investment decisions;
- private market investors' land use, workplace practices and community engagement can support or undermine livelihoods;
- sovereign debt investors determine creditworthiness in part based on the strength of labour markets, rule of law and demographic trends; their investment flows and return expectations can affect government capacity to fund public services;

Human rights and economic inequality

Under the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, investors and companies have a responsibility to respect the human rights of all. In turn, people's rights and well-being provide the foundation for human and social capital, which are essential for the economy, upon which portfolio performance depends. Human rights and inequalities are closely interlinked – both ultimately centre on the state of people.[7]

[2] European Commission (accessed 2026) Reducing inequalities

[3] World Economic Forum (2026) Global Risks Report

[4] World Bank (2024) The Changing Wealth of Nations 2024: Revisiting the Measurement of Comprehensive Wealth[5] For further academic literature on these system-level risks, see: TISFD (2026) Framework (Beta Version 0.1)

[5] For further academic literature on these system-level risks, see: TISFD (2026) Framework (Beta Version 0.1)

[6] Jon Lukomnik, James P. Hawley (2021) Moving Beyond Modern Portfolio Theory

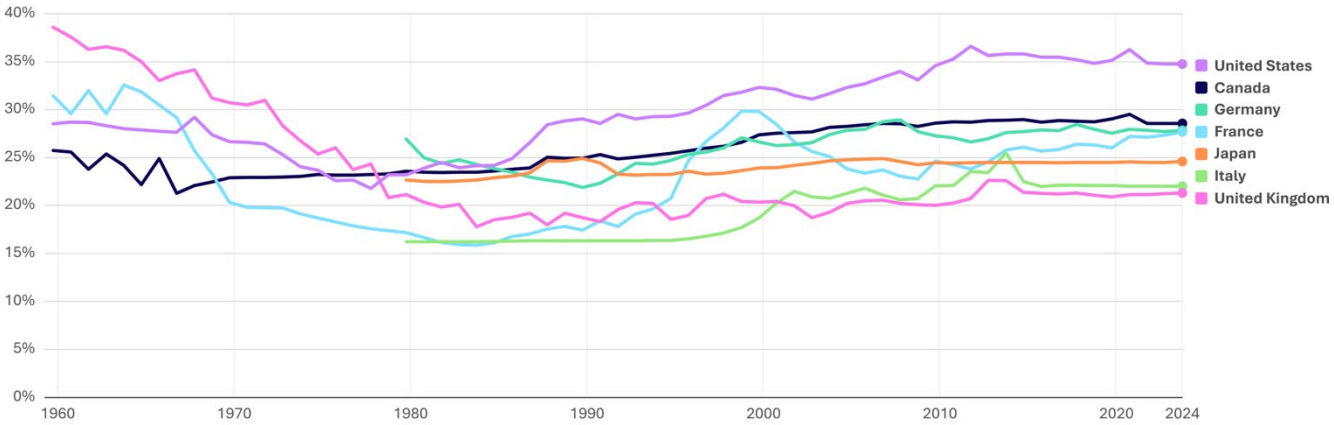
[7] TISFD (2026) Framework (Beta Version 0.1)

Increasingly extreme economic inequality

Income and wealth inequality

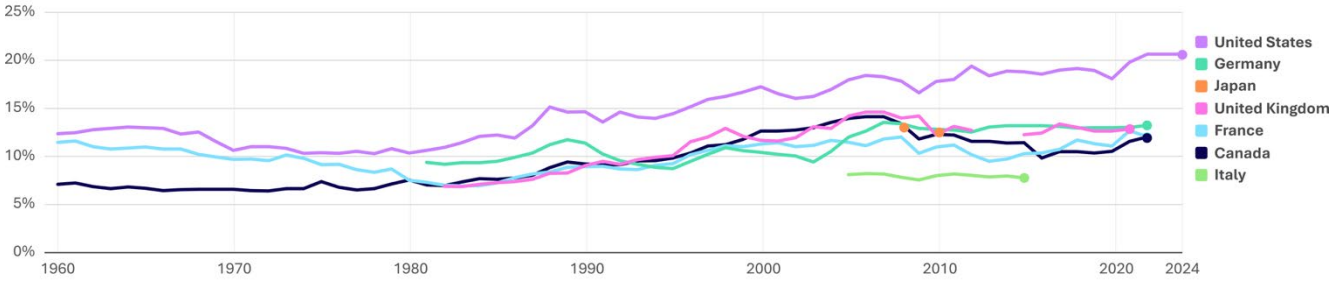
The world's richest 1% now own more wealth than 95% of humanity, and hold nearly 43% of all global financial assets.[8] Tracking of wealth inequality over recent decades (Figure 1)[9] shows a rising amount of wealth held by the upper 1% of the distribution, led by the US, where the assets of the top 0.1% reached their highest share on record (12.6%) in 2025.[10]

Figure 1: Share of national wealth held by the richest 1% of population in G7 countries (1960–2024)



While income growth was broadly evenly distributed across US income groups between 1946 and 1980, recent gains have been led by top earners[11] – a pattern that is replicated globally[12] (Figure 2)[13]. Across 20 OECD countries, between 1995 and 2021 the top 10% of earners saw gains of over 50% in real income, compared to just 37% for the bottom decile.[14]

Figure 2: Share of total national income going to the top 1% of earners before tax in G7 countries (1960 to 2024)



The hollow middle

One key trend in economic inequality is the "hollowing out" of the middle class. A strong and prosperous middle class supports healthy economies and societies. Since the mid-1980s, middle incomes have grown significantly less than higher incomes across OECD countries, exacerbated by the global financial crisis.[15] Globally, middle income earners have lost their share of total income in both advanced and developing market economies.[16]

[8] Oxfam (2024) Multilateralism in an Era of Global Oligarchy

[9] World Inequality Database, Our World in Data (accessed 2026) Wealth share of the richest 1%, 2024

[10] Oxfam (2025) Richest 1% in the US grabbed at least 987 times more wealth per household than bottom 20% since 1989, new Oxfam research shows[11] Emmanuel Saez, Gabriel Zucman (2020) The Rise of Income and Wealth

[11] Emmanuel Saez, Gabriel Zucman (2020) The Rise of Income and Wealth

Inequality in America: Evidence from Distributional Macroeconomic Accounts

[12] World Inequality Lab (2026) World Inequality Report

[13] World Inequality Database, Our World in Data (accessed 2026) Income share of the richest 1%, 2024 (before tax)

[14] OECD (2024) Society at a Glance 2024: OECD Social Indicators

[15] OECD (2019) Under Pressure: The Squeezed Middle Class

[16] World Inequality Lab (2026) World Inequality Report

Extreme and rising economic inequality is impacting investors

Extreme and rising economic inequality threatens the economic, political and environmental conditions on which institutional investors' long-term returns rely. While financial materiality will vary between investors, inequality poses present and foreseeable system-level risks that cannot be diversified away from. The risks explored in this section are based on the Taskforce on Inequality and Social-related Financial Disclosures' (TISFD) categories and can be further explored in this Predistribution Initiative report.

Societal stability risk

The societal effects of extreme and rising economic inequality can undermine the effectiveness of economic and policy institutions, and create a drag on markets and economic performance.

Economic inequality has been shown to drive polarisation,[17,18] increasing the likelihood of social unrest,[19] a potential cause of reduced economic activity.[20,] Polarisation, which is at a historic high in several major global economies,[21] can also lead to "democratic backsliding" – an erosion of democratic integrity – manifesting in entrenched positions, radical policy shifts and legislative gridlock.[22] Rising income inequality can also contribute to protectionism, which can heighten geopolitical tensions and trade disputes, with potential implications for asset prices and market volatility.

The concentration of wealth can be accompanied by a concentration of political influence among the wealthiest individuals and companies. This can lead to policy and institutional decisions that may entrench existing economic advantages and undermine the effectiveness of policy responses to externalities, crises and shocks.

At the global level, the UN finds that increasing inequality is one of the driving factors of conflicts.[23] The economic impact is considerable, transmitted through multiple channels, including disruptions to supply chains, volatility in commodity prices and inflationary pressures.[24]

Macroeconomic risk

Inequality can constrain economic growth through labour market exclusion and the erosion of human capital, which can reduce productivity, innovation and aggregate demand.[25]

While a certain level of economic inequality is considered to be an intrinsic feature of market economies,[26] extreme and rising economic inequality can have a negative effect on economic growth.[27] [28] OECD analysis suggests that growth in the US, UK, Sweden, Finland and Norway would have been over one-fifth higher had income inequality not increased.[29] IMF research similarly finds that higher income shares for the top 20% reduce growth, while increases for the bottom 20% support it.[30]

As inequality constrains consumption among lower-income households, it can also reduce aggregate demand. By 2018, income inequality increases since 1979 are estimated to have reduced US aggregate demand by roughly 1.5% of GDP.[31]

[17] Lukas Stoetzer, Johannes Giesecke, Heike Klüver (2021) How does income inequality affect the support for populist parties?

[18] Yanfeng Gu, Zhongyuan Wang (2021) Income Inequality and Global Political Polarization: The Economic Origin of Political Polarization in the World

[19] Seth Warner (2025) Partisan animosity and protest participation in the United States

[20] Metodij Hadzi-Vaskov, Samuel Pienknagura and Luca Antonio Ricci (2021) The Macroeconomic Impact of Social Unrest

[21] Our World in Data (accessed 2026) Political Polarization Score

[22] Andreas Schedler (2023) Rethinking Political Polarization

[23] UNDESA, UNU-WIDER (2025) World Social Report 2025: A New Policy Consensus to Accelerate Social Progress

[24] JP Morgan (2024) Geopolitical unrest: Assessing market implications

[25] OECD (2024) Policy Approaches to Reduce Inequalities While Boosting Productivity Growth

[26] Thomas Piketty (2014) Capital in the Twenty-First Century[27] Andrew Berg, Jonathan D. Ostry, Charalambos G. Tsangarides, Yorbol Yakhshilikov (2018) Redistribution, inequality, and growth: new evidence

[27] Andrew Berg, Jonathan D. Ostry, Charalambos G. Tsangarides, Yorbol Yakhshilikov (2018) Redistribution, inequality, and growth: new evidence

[28] Lukasz Rachel, Thomas Smith (2015) Secular drivers of the global real interest rate

[29] OECD (2014) Trends in Income Inequality and its Impact on Economic Growth

[30] Era Dabla-Norris, Kalpana Kochhar, Nujin Suphaphiphat, Franto Ricka, Evridiki Tsounta (2015) Causes and Consequences of Income Inequality: A Global Perspective

[31] Josh Bivens, Asha Banerjee (2022) Inequality's drag on aggregate demand[32] Luis Bauluz, Filip Novokmet, Moritz Schularick (2022) Anatomy of the global saving glut

Financial stability risk

Concentration of wealth can lead to riskier asset allocation and drive bubbles whose bursting can affect the entire economy.

Savings have been increasing in major economies, driven in part by a growing concentration of wealth.[32] While the rising savings of wealthier households are disproportionately allocated to riskier financial assets[33] – which can suppress interest rates – lower-income households may depend on debt to maintain consumption levels,[34] encouraging the expansion of credit, at times to unsustainable levels, to support consumption.[35] This behaviour contributes to the expansion of the non-bank financial sector and heightens systemic vulnerabilities, particularly during periods of market stress.[36]

Extreme and rising economic inequality can also undermine government revenue – for example through lower tax collection on higher earners – and constrain fiscal capacity to absorb related shocks and provide essential goods and services. It also drives higher public borrowing, for instance to provide social safety nets for those who aren't adequately compensated via market mechanisms, thereby raising the risk of financial crises and sovereign default.[37]

Drivers of extreme and rising economic inequality

When developing their approach to managing inequality-related risk, responsible investors may find it helpful to identify and prioritise the drivers of extreme and rising economic inequality that have the greatest impact on their portfolios and that they have the greatest potential to tackle (see How investors can respond).

Here, we examine four illustrative drivers, selected for their contribution to extreme and rising economic inequality and the potential for investor influence.

1. Diverging labour market and capital outcomes

Impacts of the diverging labour market, such as stagnant wages, reduced benefits and rising prices, fall disproportionately on lower- and middle-income households, while income gains and capital returns concentrate among the wealthy.

Between 1979 and 2025, productivity has grown 2.7 times as much as pay in the US.[38] Over this period, the labour share of income has decreased globally, irrespective of the level of development.[39]

Cumulative human and labour rights violations – including low wages, discrimination and unequal treatment, unsafe working conditions and a lack of access to collective bargaining, social protection and benefits – have contributed to extreme and rising economic inequality.

This trend has been exacerbated by the growing prevalence of non-standard work, which accounted for more than one-third of employment in OECD countries in 2019.[40] Jobs – predominantly low-wage – are increasingly being 'fissured' (outsourced, often to gig workers), allowing companies to shed responsibility for decent work or environmental provisions and outcomes.[41]

At the same time, rising earnings among the highest-paid segments of the workforce have significantly outpaced wage growth for most workers, further widening the income distribution gap. For example, in the US, the CEO-to-worker pay ratio – often the most visible example of this trend – increased from 31:1 to 281:1 between 1978 and 2024.[42]

This divergence in labour market outcomes has coincided with rising costs of basic goods and services that disproportionately affect lower-income individuals.[43] In parallel, returns to capital have outpaced returns to labour, contributing to the concentration of wealth among higher-income groups.

[32] Luis Bauluz, Filip Novokmet, Moritz Schularick (2022) Anatomy of the global saving glut

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[34] Martin Čihák and Ratna Sahay (2020) Finance and Inequality

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[37] Juan Pablo Bohoslavsky (2016) Economic Inequality, Debt Crises and Human Rights

[38] Economic Policy Institute (2025) The Productivity-Pay Gap

[39] CEIC database: Loukas Karabarbounis, Brent Neiman (2014) National authorities, OECD, IMF

[40] OECD (2019) Pensions at a Glance

[41] David Weil (2014) The Fissured Workplace

[42] Economic Policy institute (2025) CEO pay increased in 2024 and is now 281 times that of the typical worker

[43] OECD (accessed 2026) Inflation and cost of living

2. Technology advancement and automation

Technological change and automation risk intensifying existing inequalities as AI adoption accelerates. Job displacement, uneven access to digital infrastructure and the technology sector's growing influence over information flows may further widen economic and political divides. However, if managed correctly, technological advancements have the potential to reduce inequalities, including through digital inclusion and new employment opportunities.

Historically, technology has been associated with a reduction in labour's share of income despite boosting labour productivity and output.[44] The increased accessibility of digital labour platforms – such as those across the gig economy – is accelerating the ongoing fissuring of the employment relationship. There is a lack of social protection and labour rights afforded to these workers, who are largely operating as independent contractors. The geographically transferrable nature of digital work exposes workers to a "planetary-scale labour market",[45] eroding collective bargaining power and increasing exposure to human rights risks and decent work deficits.

High- and low-skilled workers are predicted to capture a disproportionate share of gains, while middle-skill roles are increasingly squeezed, which may reinforce income inequality, shrink the middle class and risk amplifying inequalities.[46] "Superstar" earners may see salaries surge, widening income inequality in the short term, amplified by accelerated AI adoption and aggressive hiring for top talent. [47] Over time, even these may go down if AI accelerates the ongoing decline in labour's share of income and returns shift towards the owners of capital.

Technology can also perpetuate systemic discrimination[48] and exacerbate political polarisation by reshaping how information is produced, distributed and consumed.[49] While these systemic harms will be widely felt, the benefits of AI-driven productivity gains are likely to concentrate among a small number of capital owners, despite these systems being built on publicly funded research and digital infrastructure, and the data of billions of citizens.[50]

3. Declining corporate tax rates and tax avoidance and evasion

Sustainable economic and social systems depend on effective tax revenue collection and distribution. However, top tax rates have declined globally from an average of 28% in 2000 to 21% in 2024,[51] as companies have become increasingly sophisticated in the use of strategies that reduce their overall tax burden. The IMF estimates that tax revenues in 60 countries fall below the 15% of GDP threshold needed to generate the domestic resources needed for investment in health, education and infrastructure.[52]

Corporate tax avoidance and evasion contribute to extreme and rising economic inequality by redistributing resources from lower-income groups to higher-income segments of society.[53] Some investors view externalising costs by aggressively reducing corporate tax payments as potentially undermining long-term portfolio value. Recent international corporate tax reforms, such as the OECD's Pillar Two global minimum tax and ongoing UN Tax Convention negotiations represent emerging efforts to tackle this erosion.

4. Societal impacts of climate change and nature loss

Social, nature and climate systems are inherently connected. Rising temperatures are already reducing worker productivity and increasing injury rates, with over 2.4 billion workers exposed to excessive heat, particularly in sectors such as agriculture and construction.[54] Inaction on climate risks further exacerbating inequalities through climate-induced displacement, loss of livelihoods and deteriorating health outcomes, disproportionately affecting vulnerable populations.[55]

The unprecedented loss of biodiversity and the continued degradation of nature is underway, placing at risk the stability and resilience of environmental systems crucial to human wellbeing, climate and earth-

[44] ILO (2024) World Employment and Social Outlook: September 2024 Update

[45] University of Oxford (2024) The hidden cost of AI: In conversation with Professor Mark Graham

[46] Florence Jaumotte, Jaden Kim, David Koll, Elmer Z. Li, Longji Li, Giovanni Melina, Alina Song, and Marina M. Tavares (2026) Bridging Skill Gaps for the Future: New Jobs Creation in the AI Age

[47] Reuters (2025) OpenAI, Google and xAI battle for superstar AI talent, shelling out millions

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[51] OECD (2025) Corporate Tax Statistics[52] Raul Felix Junquera-Varela, Bernard Haven (2018) Getting to 15 percent: addressing the largest tax gaps

[52] Raul Felix Junquera-Varela, Bernard Haven (2018) Getting to 15 percent: addressing the largest tax gaps

[53] PRI (2021) What is tax fairness and what does it mean for investors?

[54] ILO (2024) Ensuring safety and health at work in a changing climate

[55] Cambridge Institute for Sustainability Leadership (2026) Breaking Down Silos: Navigating the Intersection of Environmental and Social risks for Investors

system regulation, supply chain dependencies and economic stability. Coastal habitat degradation places an estimated 100 to 300 million individuals at heightened risk of flooding and hurricanes, while the annual loss of pollinators threatens up to US$577 billion in global crop production.[56]

Extreme and rising economic inequality can exacerbate climate change and nature loss as it drives emissions- and resource-intensive consumption and production.[57] At the same time the impacts of climate change and nature loss disproportionately impact the less wealthy who are often exposed to overlapping inequalities.[58,59]

Inequality can also create conditions that weaken the social foundations of collective action and public support for climate policy, while concentrating political influence among the wealthiest individuals and companies that disproportionately contribute to, and profit from, carbon- and resource-intensive activities.[60] Extreme and rising economic inequality also drives polarisation and short-term policymaking, sidelining long-term issues like sustainability. This has been particularly visible in the US, where climate change has become a partisan issue.

Societal impacts of transition planning

Companies are increasingly responding to the climate crisis through transition planning and the creation of transition plans.[61] Failure to consider social factors in these plans could worsen inequalities and exacerbate environmental vulnerability. Without a just transition, feedback loops between economic inequality and environmental risk could derail transition progress. Despite this, a 2023 assessment of 150 Climate Action 100+ companies found 76% have yet to commit to a just transition to net zero, 6% have committed to a just transition without defining principles, and only 7% have defined principles - but not explicitly committed to them.

How investment structures and approaches can shape inequality-related risks

Responsible investors can also consider how investment structures and approaches can shape inequality-related risks.[62] Performance evaluations and benchmarks that prioritise short-term returns over long-term value creation, and that undervalue people and nature, can encourage investees to externalise these costs. This may act counter to efforts to manage other drivers of inequality-related risk.

For example, short-term investment structures and return expectations may encourage companies to erode wages, negatively affecting labour market outcomes. Similarly, unsustainable debt burdens may prevent capital from reaching vulnerable populations (who might otherwise be active consumers) or drive continued reliance on fossil fuel revenues to service debt, exacerbating the societal impacts of climate change and nature loss.

[56] IPBES (2019) The global assessment report on biodiversity and ecosystem services

[57] Fergus Green, Noel Healy (2022) How inequality fuels climate change: The climate case for a Green New Deal

[58] Martino Gilli, Matteo Calcaterra, Johannes Emmerling, Francesco Granella (2024) Climate change impacts on the within-country income distributions

[59] Ida Kubiszewski, Caroline Ward, Robert Costanza (2023) The complex relationships between economic inequality and biodiversity: A scoping review

[60] Shaye Wolf et al. (2025) Scientists' warning on fossil fuels

[61] PRI (2026) Investor brief: Towards transition intelligence - navigating a multi-speed transition

[62] Delilah Rothenberg, Raphaele Chappe, Amanda Feldman (2021) ESG 2.0: Measuring & Managing Investor Risks Beyond the Enterprise-level

How investors can respond

Tackling extreme and rising economic inequality will depend on a collaborative effort from policy makers, investors, companies, labour organisations, academia and civil society. Institutional investors – a critical part of this effort – can address inequality-related risks as part of their fiduciary obligations.[63]

Responsible investors are increasingly identifying inequality and related drivers as material and devising strategies to manage impacts, risks and opportunities. Below we explore, with examples, how this can be done across the investment cycle.

Investment analysis

Investors seeking to integrate economic inequality into investment analysis can benefit from looking beyond the effects of social trends on individual securities and considering how those trends impact portfolios and the economy overall. This can include assessment and prioritisation of how business practices, investment approaches and portfolios contribute to extreme and rising economic inequality (such as through capital structuring and allocation), and how inequality and its drivers (such as decent work deficits and aggressive tax planning) can create a drag on the economy and depress portfolio performance.

Assessing portfolio exposure

Given the breadth of impacts and dependencies on people across diversified portfolios, responsible investors may benefit from identifying the most significant risks so they can prioritise action to safeguard long-term value. The PRI's human rights prioritisation framework provides a practical starting point, identifying three levels of risk analysis; country, sector and company.

Each can include systemic inequality-related indicators to understand how investment decisions influence inequality drivers, and how extreme and rising economic inequality harms long-term portfolio value, such as:

- **Country level:** exposure to countries with extreme and rising levels of economic inequality, demographic pressures, or political polarisation.
- **Sector level:** exposure to sectors with heightened social risks stemming from systemic dynamics in sectors such as technology (e.g. automation and political polarisation) or entrenched supply-chain risks in industries like mining and textiles.
- **Company level:** exposure to systemically important companies, whose decisions can have outsized effects on overall market returns and industry norms and practices (e.g. wage practices, AI accountability and access to and affordability of critical products and services).

Embedding these considerations throughout the investment process can support more resilient long-term value creation.

Prioritising drivers of extreme and rising economic inequality

Through portfolio analysis and examination of the broader evidence base, investors can prioritise the most material drivers of extreme and rising economic inequality according to portfolio composition, mandate, objectives and leverage. The four example drivers outlined above may serve as a useful starting point in that process.

Systems-thinking tools, such as identifying leverage points and feedback loops, can help investors to better map the relationship between their investments and system-level conditions.

[63] Freshfields Bruckhaus Deringer, Commissioned by The Generation Foundation, UNEP FI and PRI Association (2021) A Legal Framework for Impact: sustainability impact in investor decision-making

Country-level case study: How inequality impacted Robeco's investment assessment of France
Robeco

Robeco's country ESG score uses 50+ indicators from leading global institutions to support sovereign bond decisions. Indicators have been selected based on their influence on a country's ongoing fiscal solvency and economic growth prospects. Inequality is assessed using two dimensions:

1. Income/wealth inequality which, if extreme, can hinder consumption and human-capital investment, and can lead to social unrest. Income/wealth inequality is measured via investment in education and the income inequality coefficient.
2. Gender inequality, which is important for economic prosperity and full usage of economic potential. Gender-equal societies are usually healthier and safer. Gender inequality is measured using the UNDP gender inequality index.

These ESG insights are integrated into country reports which guide investment decisions. As an example, inequality indicators influenced an overall negative sustainability view on France.

Read the full case study.

Sector-level case study: Social Inequality Tool
Brightwell Pensions

Brightwell is developing a Social Inequality Tool to understand, identify and prioritise social factors across public and private portfolios. This is motivated by Brightwell's belief that better understanding and mitigating the risks of inequalities (as far as it can) could impact the economic and financial system that it relies on to generate the investment outcomes, and lead to better risk management and a narrower range of investment outcomes for its clients.

Brightwell's analysis is rooted in the Shift Project's Business Model Red Flags and is used to inform stewardship activities by identifying and prioritising high social risks across 44 different sectors. Initial results have shown the tool to be effective in identifying material social risks that are often underrepresented in traditional ESG frameworks.

Company-level case study: Framework for acting on corporate inequality drivers
BNP Paribas Asset Management

BNP Paribas introduced a framework to assess how key corporate actions can impact inequality for a company's workers (both its own workforce and those in the value chain), communities, consumers and others. Its assessment spans a company's business operations, corporate governance and business ethics, and products and services, and helps it to identify and promote best practices, and address areas for improvement.



Case study: Human rights due diligence to manage investment risk and advance inclusive growth
Manulife Investment Management

Manulife believes that robust human rights due diligence (HRDD) is a strong step towards addressing inequalities in line with its fiduciary duty, while preventing legal, financial and reputational harm. Although issues such as child labour may seem isolated, they can escalate into systemic inequalities that cause long-term, intergenerational damage to people, economies and societies, ultimately posing broader risks to financial markets.

In response, Manulife works within its scope of influence, through asset management, stewardship and its product offerings, to identify opportunities that enhance financial, climate, nature and health equity, supporting its aim of delivering competitive returns.

Read the full case study.

Investment decision-making

Investors can use the insights from investment analysis to manage inequality-related risks and opportunities across the investment chain. Which investment decision-making activities are most appropriate will depend on the inequality drivers an investor has prioritised, the investor type and its mandate and objectives.

Case study: Labour principles
CalPERS

In 2024, CalPERS had approximately 14.3% (or $78.7 billion) of its portfolio invested in California, benefiting not only businesses and projects receiving allocated capital from CalPERS but also suppliers, workers and the public sector more broadly through tax revenues.

The CalPERS Labor Principles reflect its belief that effectively managed human capital drives value creation for investors. CalPERS conducts a selection process for managers and investments to ensure business partners uphold the "CalPERS Labor Principles" and reduce the risk of labour-related issues in portfolio companies. When an issue is identified, CalPERS engages with investment managers, companies and stakeholders to address short- and long-term labour risks and opportunities. Where CalPERS becomes aware of apparent violations of its labour principles, this may result in a reassessment of its business relationship with an external manager.

Case study: P² Investment – people x planet
Nippon Life

Nippon Life believes that, to build a sustainable financial system, it is essential to consider the interconnectedness of environmental and social sustainability issues. To this end, it has reframed its investment process by introducing the concept of "P² (P-Squared) investment", which represents the multiplication of people x planet. This concept is based on the premise that if either people or planet is valued at zero, so too is the overall outcome.

Equality-related opportunities

Strategies that address inequality-related risks, including through engagement with intermediaries in the value chain, can create long-term value for investors and portfolio companies. For example, sustainability can drive value creation in private markets at both the investment firm and portfolio company level.

Investors are increasingly recognising opportunities which support more inclusive asset ownership, such as employee ownership[64] or affordable housing. These can deliver sustainable risk-adjusted returns while underpinning long-term value creation by mitigating rising extreme inequality.[65]

Investors can also employ strategic asset allocation to strengthen portfolio resilience and support solutions that address inequality-related risks. Opportunities range from project-specific financing mechanisms such as social bonds,[66] to collaboration with public institutions to develop and contribute to projects in key markets. For example, the European Commission's European Affordable Housing Plan seeks to attract long-term capital from institutional investors for a pan-European housing strategy,[67] providing public policy stability across economic cycles.

Investors seeking to mitigate inequality-related risks may consider the use of sustainably structured and priced direct asset allocation. For example, investors could deploy capital in left-behind regions to build productivity and infrastructure or improve access to essential services. Setting return expectations at sustainable levels and taking long-term horizons can better place investors to achieve resilient value creation over time.

Investment activities causing significant harm

Investment analysis may indicate that certain investments either significantly contribute to, or have the potential to mitigate, inequality-related risks. In these cases, responsible investors may benefit from tilting portfolios or reallocating capital as a signalling or escalation strategy, or to achieve additionality. Identification of these activities can be based on:

- international standards (e.g. ILO Core Conventions and OECD recommendations on Base erosion and profit shifting and Due Diligence Guidance for Responsible AI);

[64] Cindy Perman (2026) Investment in employee ownership funds surged in 2025

[65] Impact Investing Institute (2021) Is there an investment case for social and affordable housing in the UK?

[66] ICMA (2025) Social Bond Principles

[67] European Commission (accessed 2026) The European Affordable Housing Act

- economic factors which undermine system stability (e.g. aggressive tax practices or excessive executive compensation);
- policy-aligned characterisations found in sustainability taxonomies.

Once relevant activities have been identified, investors may consider:

- exclusions: exclusionary screening rules that specify the types of activities that materially contribute to systemic harm (e.g. PGGM OECD-Screening);
- thresholds: to assess whether activities meet exclusion criteria (e.g. La Caisse de dépôt et placement du Québec requires investees to be subject to a minimum consolidated tax rate of 15%).

Case study: Executive remuneration
Triodos Investment Managers

Triodos integrates inequality concerns into its investment strategy and activities at multiple levels. The overall investment process rests on three pillars:

- selection of companies that make a positive impact;
- exclusion of companies that do not meet Triodos' minimum standards;
- engagement with companies on material sustainability and financial topics during the entire investment period.

Triodos addresses challenges in jurisdictions' legal and tax systems through advocacy in the financial sector and leveraging its public voice. It also employs active stewardship with investees to curb executive remuneration.

Investment structures and approaches

Responsible investors can seek to mitigate system-level risks by considering the broader impacts the design and allocation of their investments can have on extreme and rising economic inequality. Some investors are exploring the following strategies:[68]

- aligning internal incentive structures with long-term performance;
- integrating real-world systemic factors into financial analysis;
- setting clear expectations throughout the investment chain to ensure that mandates, strategies and oversight are aligned with long-term considerations related to inequality;
- integrating long-term inequality considerations into the financial products, pricing and monitoring of investments, such as pricing capital at sustainable rates on sovereign debt;
- allocating capital to diverse and emerging managers to reduce wealth inequality; engaging financial authorities to highlight investor challenges that hinder a sustainable financial system.

Stewardship with investees and assets

Investors can engage with their investees to better manage inequality-related risks and opportunities, and navigate associated social, macroeconomic and financial instability.

To broaden their reach or where leverage is insufficient, investors can employ a range of strategies to signal their concerns.

- They can endorse or participate in collaborative stewardship initiatives such as Advance, Platform Living Wage Financials, or Collective Impact Coalition for Ethical AI which amplify investor influence and improve access to corporate decision-makers.
- Investors can, through their own independent analysis, develop expectations for companies (e.g. Guiding Principles of Collective Bargaining and the Tax Code of Conduct) and collaborate to present a coherent investor perspective.
- They may also engage investees on guardrails – investor-defined parameters within which companies operate – to safeguard diversified portfolio value.[69] For example, guardrails on pay practices can steer companies away from externalising social and economic costs, while signalling market readiness for regulation.[70]

[68] Delilah Rothenberg, Hubert Danso and Frank Van Gansbeke (2025) Investing to reconnect financial value with people, nature, and the real economy

[69] The Shareholder Commons (accessed 2026) What are guardrails?

[70] The Shareholder Commons (2023) Living wage & the engagement gap: Using a Systems Lens to Build Portfolio Value Through Improved Wages

Case study: Inequality Stewardship Plan
University Pension Plan Ontario (UPP)

As a diversified, long-term investor, UPP believes that its ability to realise adequate investment returns and provide retirement benefits depends on stable and low levels of inequality in opportunities and outcomes across society. In line with its fiduciary duty and beneficiary interest, its Inequality Stewardship Plan sets out how UPP exercises active ownership to support the mitigation of inequality through the promotion of market guardrails, measures of success, stewardship commitments and collaboration with external managers.

Case study: Engaging on a living wage to mitigate income inequality
Legal & General Asset Management

L&G believes that poverty and income inequality in the workplace are inextricably linked, and that the impact on workforce productivity, and the knock-on effect of low aggregate demand for goods and services, render this a financially material issue with the potential to affect long-term returns. L&G engages investee companies both directly and collaboratively with NGOs, to ensure workers earn a living wage. As set out in its Active Ownership 2024 report, it undertook more than 30 engagements on income inequality and the living wage during 2024.

System-level engagement for an enabling environment

Policy engagement

Policy makers have significant influence over the drivers of extreme and rising economic inequality, and institutional investors are an important group that can help encourage change. Reducing extreme and rising economic inequality can help boost public trust in governments,[71] strengthen social cohesion,[72] and boost productivity and competitiveness.[73] By engaging policy makers on the drivers of extreme and rising economic inequality, investors can also help to reduce the risk of abrupt policy shifts or market corrections.

To address the drivers of extreme and rising economic inequality, investors can engage with policy makers across two priority areas:

1. **Sustainable finance** – relevant sustainable finance policy tools include:
   - mandated human rights and environmental due diligence, which can help identify areas where human rights and inequality risks and impacts are particularly prominent;
   - investor and corporate sustainability disclosures, which can support investment decisions and evidence-based policy making by examining issues such as pay ratio and human capital management, alongside societal outcomes such as community and stakeholder impact, inequality and broader social wellbeing.
2. **Real economy policy** – investors can engage on real economy policy in support of the creation of conditions that direct capital towards sectors, activities and products that help reduce inequality-related risks. For example, some investors engage on Tax fairness policies on the basis that it can address extreme and rising economic inequality and enable greater public spending. These can be complemented with measures such as living-wage laws or worker-ownership models which can foster market competition.

Responsible political engagement

Investors can assess whether the political engagement of external managers, consultants and companies aligns with their own long-term interests and economic inequality objectives. A review of 300 studies found that lobbying has often resulted in policies that entrench economic inequalities, adverse health outcomes, inaction on climate policy and insufficient regulation to address market failures or distortions. [74] For example, recent research indicated that despite over 130 investors and financial institutions signing a joint statement supporting the inclusion of key sustainability considerations in the European Commission's Omnibus legislation, corporate lobbying, particularly through trade associations, played a major role in weakening the outcome.[75] Investors can leverage data and methodologies such as Social LobbyMap to evaluate the alignment between their own objectives and investee lobbying activities.

[71] OECD (2024) OECD Survey on Drivers of Trust in Public Institutions – 2024 Results: Building Trust in a Complex Policy Environment

[72] UNECE (2023) Social Cohesion Concept and Measurement

[73] Chiara Peroni, Maxime Pettinger, Francesco Sarracino (2022) Productivity Gains from Worker Well-Being in Europe[74] OECD (2021) Lobbying in the 21st Century[75] Social LobbyMap (2024) Financial Sector Lobbying of the EU Corporate Sustainability Due Diligence Directive: a Social LobbyMap Analysis

[74] OECD (2021) Lobbying in the 21st Century[75] Social LobbyMap (2024) Financial Sector Lobbying of the EU Corporate Sustainability Due Diligence Directive: a Social LobbyMap Analysis

[75] Social LobbyMap (2024) Financial Sector Lobbying of the EU Corporate Sustainability Due Diligence Directive: a Social LobbyMap Analysis

Engaging with standard setters and initiatives

Engagement with peers, issuers, industry stakeholders and academia is essential to support evolving integration practices. Investors can engage with standard setters such as the International Sustainability Standards Board (ISSB), and initiatives such as the TISFD, to inform the standardisation of reporting in areas such as inequality and human capital, improving access to decision-useful data. This data can be used to evaluate:

- workers in the company's own workforce and in the value chain;
- affected communities, including in the value chain; and
- people impacted using the company's products or services.

The Taskforce on Inequality and Social-related Financial Disclosures

The TISFD is a global initiative developing recommendations and guidance for businesses and financial institutions so that they can understand and report on impacts, dependencies, risks and opportunities related to people. The Taskforce's aim is to incentivise business and financial practices that create stronger, more resilient societies and economies.

Engaging with data providers

Investors require decision-useful data to assess impacts and dependencies on people, which can accumulate into system-level inequality risks. Data providers play an integral role in this process: in 2025, half of PRI signatories reported using data providers or benchmarks to identify negative impacts on people.[76]

Investors can engage with data providers to set clear expectations and improve access to decision-useful data. Where leverage of a single investor is insufficient, investors can create or participate in collaborative stewardship initiatives.

[76] PRI (2026) PRI reporting data analysis human right and social issues