CLOSING THE RACIAL WEALTH GAP

THESIS BY RAQUEL SCOTT

Who is Raquel Scott?

At the time this thesis was completed, Raquel Scott was working as an Associate in Commercial Real Estate Investment Banking at J.P. Morgan. In this role, Raquel provided debt financing to a variety of commercial real estate investors, including institutional corporations, pension funds, and family offices. Raquel also completed an internship in Public Finance at J.P. Morgan, where she gained experience working with local governments, healthcare organizations and non-profit institutions.

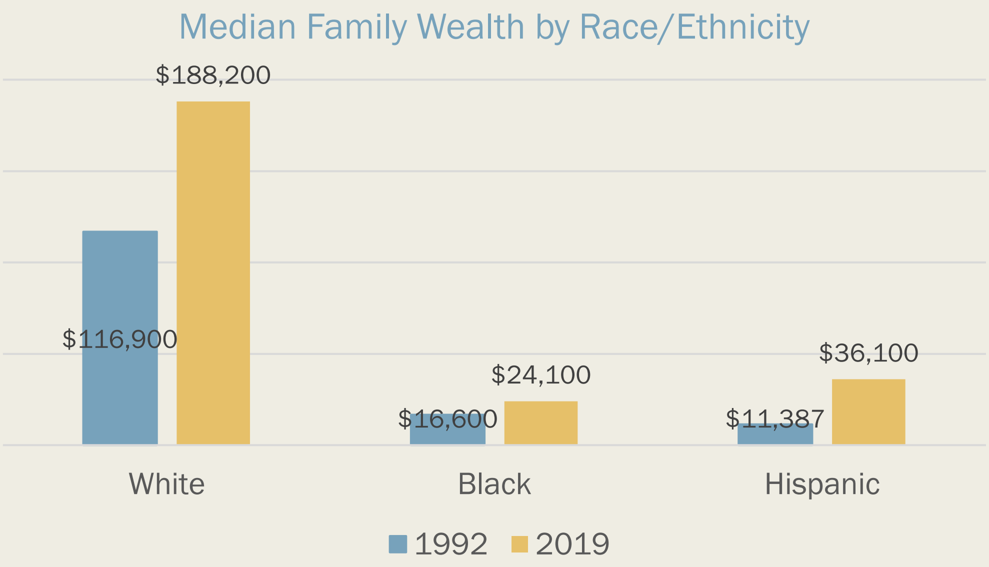
Raquel received General Securities Representative (Series 7) and Uniform Securities Agent State Law (Series 63) certifications from FINRA. Outside of her day-to-day work, Raquel served as a representative at J.P. Morgan Advancing Black Leaders summits to provide networking and career advice for Black and LatinX interns.

Prior to J.P. Morgan, Raquel graduated cum laude with a B.A. in Economics from the College of the Holy Cross. Raquel was one of five students in her graduating class selected to the Economics Honors College and was a four-year member of the Women’s Basketball team, serving as captain her senior year. Raquel also served on the Executive Board of the Finance Club and volunteered in various community programs, including Student Programs for Urban Development, Working for Worcester, and the Janssen Leadership Academy.

Raquel aspires to promote equity and inclusion in the investment community and is looking forward to starting at Columbia Business School this Fall (2021) to study venture capital and entrepreneurship.

What is the Racial Wealth Gap?

- The Racial Wealth Gap refers to the **disparity in assets** of typical households across race and ethnicity.
- Income inequality, housing policies, limited educational opportunities, and a lack of support structures are **just some of the factors** that contribute to the gap.
- Despite recent efforts in the investment community to address racial inequity in capital distribution, reports show that the **racial wealth gap is widening.**
- The typical White family has **8X** the wealth of the typical Black family and **5X** the wealth of the typical Hispanic family.
- From 1992 to 2019, the racial wealth gap between black and white households increased from **$100,000 to $164,000.**



Sources: United States Federal Reserve, Citi Group Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S., 2020

Why Should You Care?

The wealth gap between black and white individuals has cost the U.S. Economy $16 trillion over the past 20 years.

Closing the Black Wage Gap could have added $2.7 trillion in income or +0.2% to GDP per year.

Facilitating easy access to higher education for Black students could have increased lifetime incomes $90-$113 billion.

Improving access to housing credit might have added an additional 770,000 Black homeowners and $218 billion in sales and expenditures.

Providing fair and equitable lending to Black entrepreneurs might have resulted in the creation of 6.1 million jobs per year.

The racial wealth gap is not just a human problem. It is a detriment to the US economy as a whole.

Source: Citi Group Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S., 2020

What are the Investment Opportunities?

The wide range of issues at the root of the racial wealth gap creates an opportunity to invest across diversified industries while still focusing on a central mission.

Education Technology ("EdTech"): EdTech companies that provide access to education are a crucial component of closing the wealth gap, as higher education typically leads to higher wages which in turn generates more wealth.

Notable EdTech companies: Roblox, Coursera, Masterclass, Campus Logic, Course Hero, Brainly, Udacity

Financial Technology ("FinTech"): FinTech companies increase access to and use of basic financial services, which can raise income, provide wealth management, and improve financial wellbeing for underserved individuals and communities.

Notable FinTech companies: Affirm, Klarna, Square, Bread, Credit Karma, Robinhood, SoFi, Upstart

Property Technology ("PropTech"): PropTech companies that create marketplaces for real estate investing help democratize access to real estate ownership, which is one of the largest contributors to wealth creation in the United States.

Notable PropTech companies: Cadre, CrowdStreet, Fundrise, Opendoor, Credifi, Zillow, LendInvest

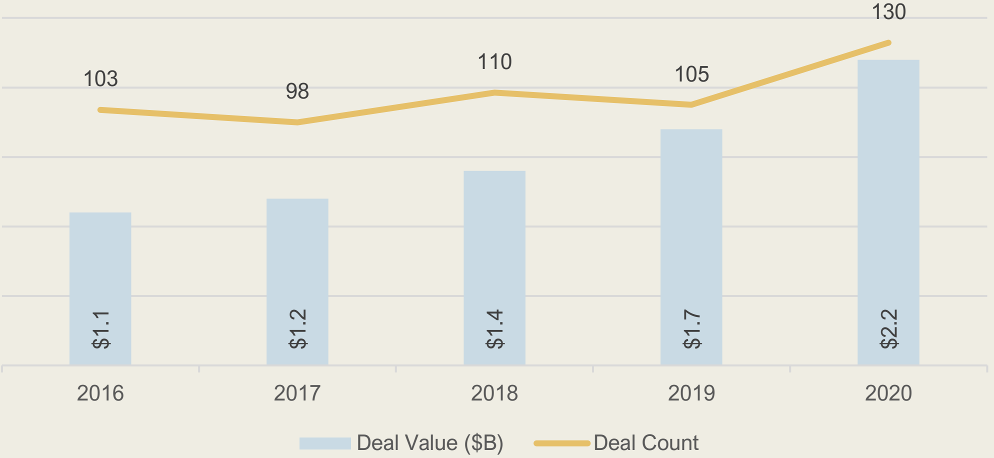
Furthermore, Investing in Black entrepreneurs can create jobs and generate wealth within the Black community.

Industry Deep Dive: EdTech

Industry Overview

- **Education Technology ("EdTech")** companies introduce **computer hardware and/or software** into the educational sector to **facilitate learning for kids and adults.**
- The increasing presence of technology in education isn't limited to traditional schoolhouses and universities, and digital education has created access to education for groups of all ages independent of geography or socioeconomic background.
- COVID-19 also increased the speed of the EdTech revolution due to the implementation of lockdowns and increase in at-home learning.
- EdTech is here to stay, with 92% of teachers believing that technology is going to have a major impact on the way they educate in the near future.
- Notable verticals of EdTech products include:
  - **Higher Education:** Offer an online, lower-cost alternative to access higher education courses regardless of geography.
  - **Upskilling:** Create opportunities to learn additional skills or enhance existing abilities, often with the goal of advancement.
  - **Tech Providers:** Provide hardware designed to enhance teacher-led learning in classrooms and improve students' education outcomes.

Market Size



- The EdTech market is expected to triple to over $200 billion by 2027, with a compound annual growth rate (CAGR) of 15.3%.
- In 2020 alone, American EdTech companies raised $2.2 billion in VC and PE funding across 130 deals.
- The $2.2 billion marks the highest investment total in a single year for the U.S. EdTech industry, representing a 30% increase from the $1.7 billion invested in 2019.

Notable Companies

ROBLOX coursera MASTERCLASS campuslogic Course Hero BRAINLY UDACITY

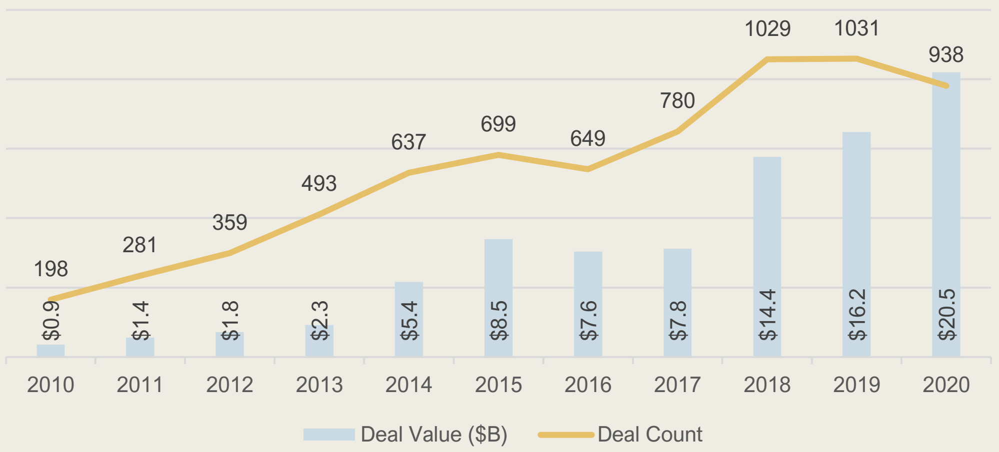
Sources: CB Insights, PitchBook, PWC, McKinsey, Q4 2020 Pitchbook NVCA Venture Monitor, Crunchbase

Industry Deep Dive: FinTech

Industry Overview

- **Financial Technology (“FinTech”)** companies are disrupting the traditional financial services industry by using technology to offer **digitized financial products and services to consumers.**
- FinTech was a response to the shortcomings of the traditional financial services industry which came under pressure during and after the 2008 global financial crisis.
- COVID-19 accelerated consumer adoption of FinTech due to lockdowns, sanitary concerns, and increased e-commerce.
- FinTech creates a better customer experience by eliminating manual processes, automating tasks, decreasing costs, and personalizing services.
- Notable verticals of Consumer FinTech products include:
  - **Payments:** Improve the ease of digital payments, transfers and purchases.
  - **Alternative Lending:** Provide more efficient lending services to the underserved.
  - **Personal Finance:** Give consumers more control over their money. Examples include wealth management tools, savings & brokerage accounts, or robo advisors

Market Size



- US FinTech VC market has increased at a CAGR of 36.7% from 2010 to 2020
- In 2020, US FinTech VC deal value totaled a record $20.5 billion across 938 deals

Notable Companies

PayPal affirm robinhood Klarna. credit karma Square Bread

Sources: CB Insights, PitchBook, PWC, McKinsey, Business Research Fintech Market Report 2020, World Bank Group Global Findex Database 2017, Citi Group Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S., 2020, PWC Global FinTech Report 2017, Q4 2020 Pitchbook NVCA Venture Monitor Crunchbase

Industry Deep Dive: PropTech

Industry Overview

- **Property Technology ("PropTech")** companies use technology to **optimize the way people research, rent, buy, sell, and manage real estate.**
- PropTech startups are attempting to make the real estate industry better, more efficient, and easier to navigate for all parties involved, and are addressing issues such as the lack of affordability and housing options in dense cities.
- Although COVID-19 negatively impacted some real estate markets, the adoption of new technology skyrocketed in 2020, including virtual tours, data-driven real estate decisions, or remote property management. This new adoption serves as a tailwind for PropTech in the near future.
- Notable verticals of PropTech products include:
  - **Investment/Crowdfunding:** Allows individuals to pool their funds together and divide the costs of investing in real estate.
  - **Mortgage and Lending:** Provide more efficient lending services to individuals looking to acquire real estate.
  - **Leasing and Renting:** Offer tools to address rental and asset management issues for both residential and commercial real estate.

Market Size

PropTech VC Investments by Month, 2020 (bn)

Month	$ Amount
January	$1.15
February	2.12
March	4.25
April	1.66
May	2.23
June	3.06
July	1.27
August	2.56
September	1.30
October	1.01
November	1.33
December	1.81
Total Funding	**$23.75**

- According to the Center for Real Estate Technology & Innovation, $23.8 billion was invested in PropTech deals in 2020 across 425 investments.
- The top 10 PropTech deals of 2020 accounted for $2.0 billon in total funding.

Notable Companies

CADRE

CS CROWDSTREET

Opendoor

CREDiFi

Zillow

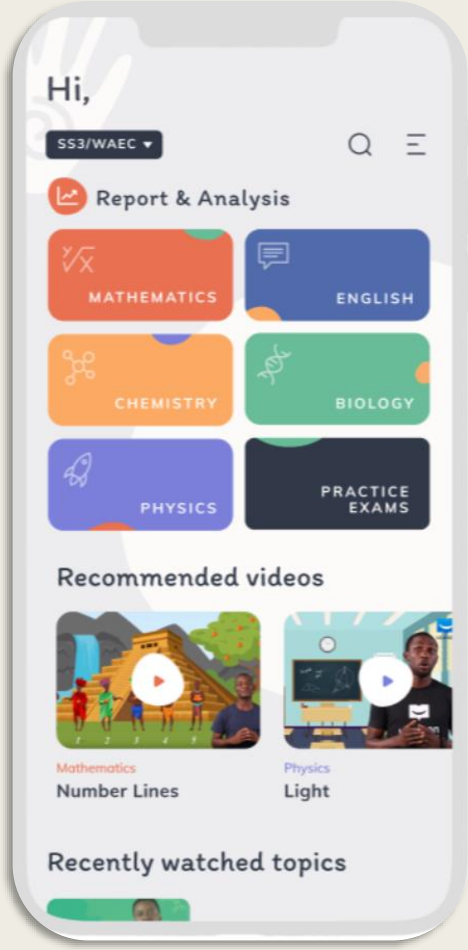
lendinvest

Sources: CB Insights, PitchBook, PWC, McKinsey, Q4 2020 Pitchbook NVCA Venture Monitor, CBRE, CH Alliance Proptech: Innovation in Real Estate Finance, Center for Real Estate Technology & Innovation (CRETI)

EdTech Case Study: uLesson

Company Overview

- **The Problem:** Traditional educational settings do not offer personalized courses for each student, and in a remote learning environment, many students have difficulty learning at their own pace.
- **The Solution:** uLesson is an education technology business whose mission is to deliver high-quality, affordable, and accessible education to all Africans.
- **How it Works:** The uLesson app hosts thousands of educational video tutorials, which are delivered by experts in education. Their lessons are delivered in pre-recorded (asynchronous) video formats, giving users a personalized experience with increased interactivity.
- **Differentiation:** uLesson creates personalized learning experiences for students in junior and senior secondary school, provides a depth of content, and was built to specifically serve the needs of African students, making it the first app of its kind in Africa.
- **Business Model:** uLesson features a freemium subscription model with a free option as well as monthly and annual subscriptions. They also partner with schools and organizations to provide access to all their students.
- **Founded:** 2019
- **Headquarters:** Jos, Plateau, Nigeria
- **Funding:** $10.6 million
- **Founders:** Sim Shagaya

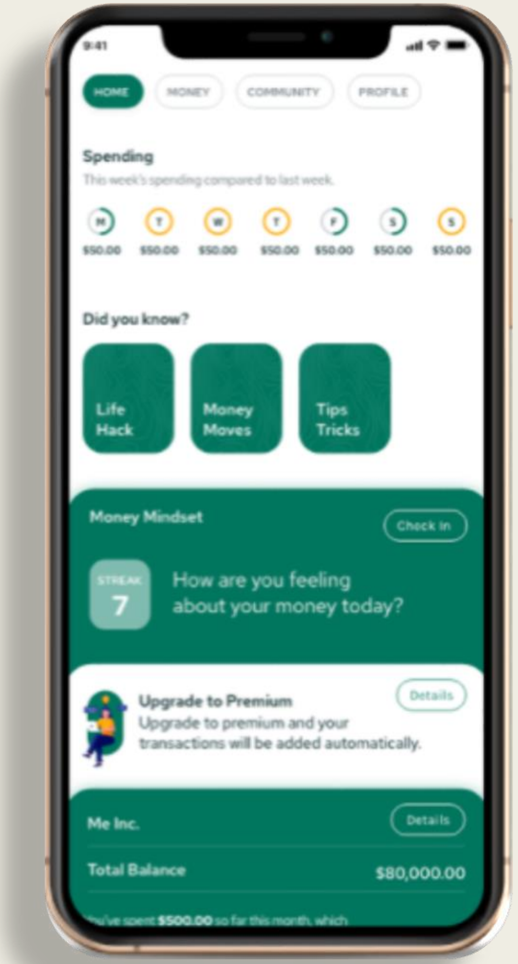


Sources: Crunchbase, Pitchbook, uLesson website

FinTech Case Study: Nav.it

Company Overview

- The Problem: Most adults stress about finances, with 76% of Americans under 45 reporting financial anxiety, 58% reporting that finances control their lives, and 45% reporting stress about managing their debt.
- The Solution: Nav.it helps users bank well so they can stress less. “Be well, bank well”.
- How it Works: Nav.It offers a three-tier banking approach to financial health with personalized budgeting, savings, and debt minimizing tools. Users can see all accounts in one place, set up savings goals to pay down debt or save for big life purchases, and learn from calculators, benchmarking data and analytics.
- Differentiation: Unlike many other banking apps, Nav.It integrates money, mindfulness, and fitness data so users can track daily, weekly, and monthly spending and compare how they feel to see what’s causing highs and lows each month. Nav.igators also have access to a Financial Community Feed where peers can celebrate money moves and cheer on others towards their goals.
- Business Model: Nav.it makes money primarily on Premium product offerings. They also make money on partnership agreements and retain a small fee from banking partners for hosting Nav.it Savings accounts.
- Founded: 2017
- Headquarters: Seattle, WA
- Funding: Seed round raised in Feb 2021. Select investors include ThirdStream Partners, Copper Wire Ventures, David Ehrich
- Founders: Erin Papworth, MPH, Maia Monell



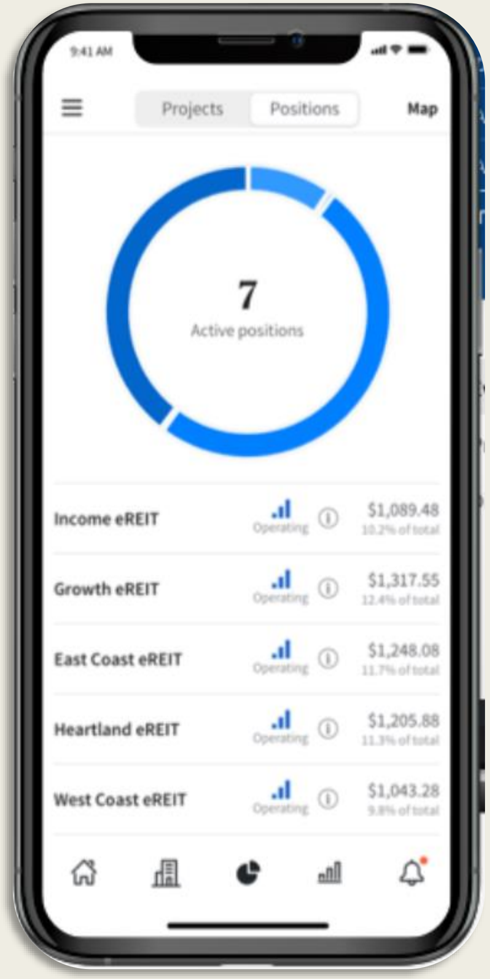
Sources: Crunchbase, Pitchbook, Nav.it company website, Google Play Store

PropTech Case Study: Fundrise

FUNDRISE

Company Overview

- **The Problem:** While historically profitable, the real estate investing industry is notorious for its high advisory fees, hidden management fees, and return-limiting performance fees. This denies many individuals the opportunity to invest in real estate.
- **The Solution:** Fundrise allows investors to invest in portfolios of commercial real estate in a more low-cost way than was previously available.
- **How it Works:** Fundrise handles virtually every piece of the real estate business in-house, working directly with real estate developers and operators, handling their own financials, and managing their own deals to eliminate intermediaries and keep expenses low.
- **Differentiation:** Fundrise allows any U.S. citizen above the age of 18 (regardless of accreditation status) to invest in their portfolio. By decreasing fees and allowing flexible investment minimums Fundrise is helping democratize access to real estate investing.
- **Business Model:** Investors pay a 0.15% annual investment advisory fee, which may be waived under certain circumstances. Separately, the funds in their standard portfolios pay a 0.85% annual asset management fee.
- **Founded:** 2010
- **Headquarters:** Washington, D.C.
- **Funding:** $55.5 million raised over 7 rounds
- **Founders:** Benjamin Miller, Brandon Jenkins, Daniel Miller, Kenny Shin



Sources: Crunchbase, Pitchbook, Fundrise website

Contact Me!

If you have any feedback or questions, or just want to chat, please feel free to reach out to me at any of the following. I’d love to hear from you!

Personal Website

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