

HCMC Introduction, Approach, and Activities

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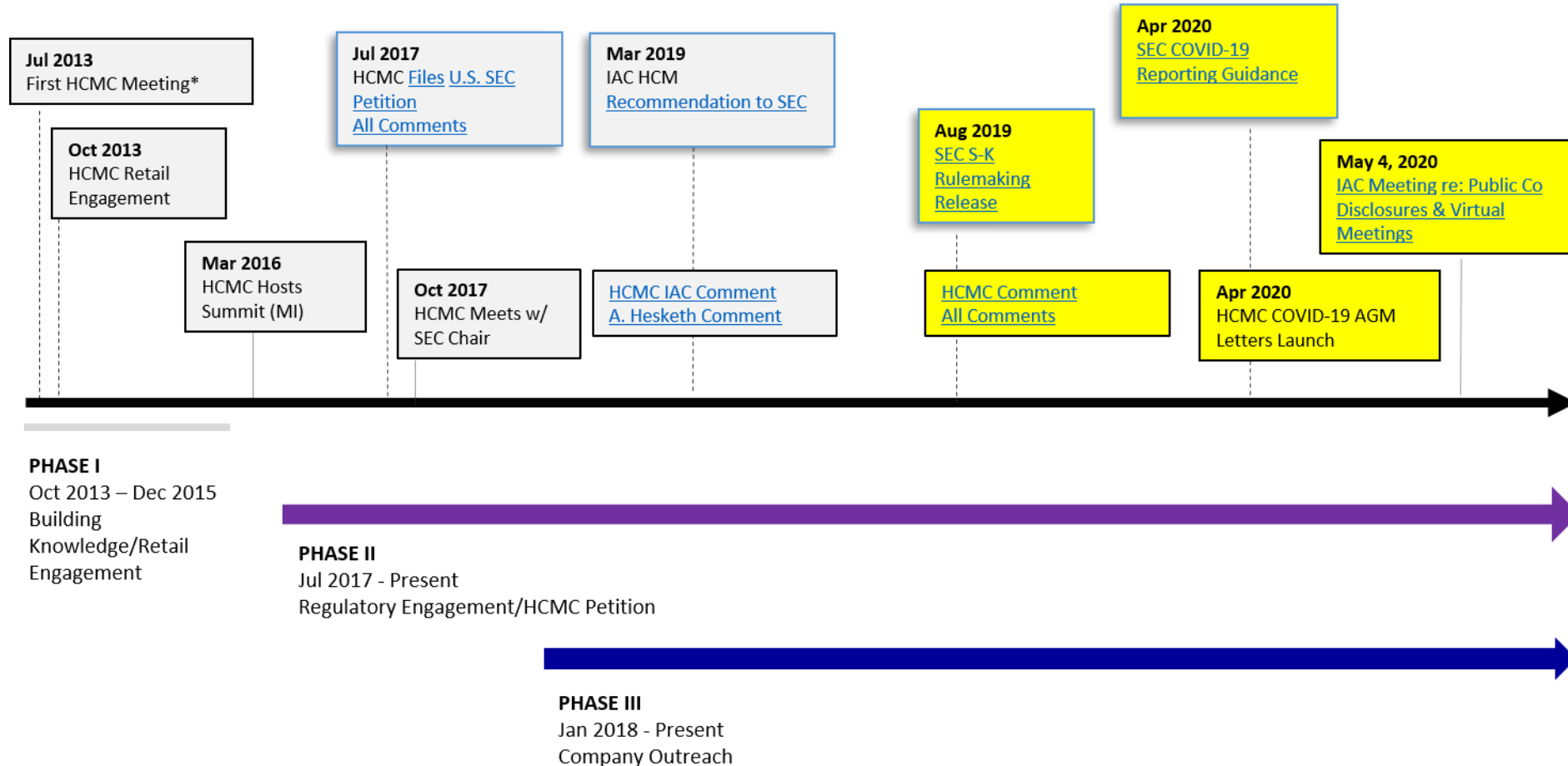
About the HCMC

The [Human Capital Management Coalition](#) (HCMC) is a cooperative effort among [29 global asset owners](#) representing over \$4 trillion in assets to further elevate human capital management as a critical component in company performance. The Coalition engages companies and other market participants with the aim of understanding and improving how human capital management contributes to the creation of long-term shareholder value.

Our Mission

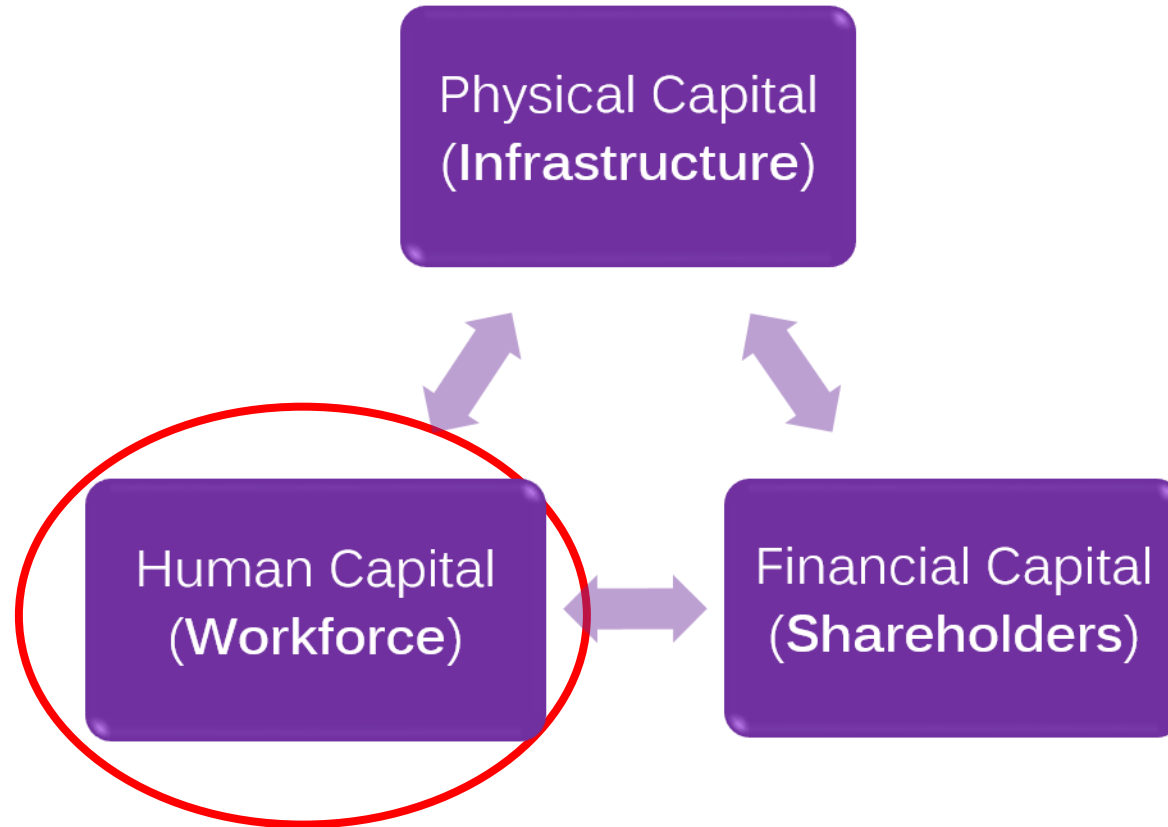
- **Educate** ourselves and other market participants about the role of HCM in company performance
- **Foster an environment of open communication** between asset owners, asset managers, and other key market participants on HCM as a long-term value driver
 - **Identify, assess, and engage** companies on HCM practices and performance
- **Secure stronger disclosure** of HCM practices and KPIs to ensure investors have the information we need to make optimal decisions about how we direct our financial capital and exercise our rights as owners
 - **Encourage adoption** of long-term value-creating HCM practices and performance

Select HCMC Activities & Milestones: 2016-Present



*HCMC Founding Funds: CalPERS, Connecticut Retirement Plans and Trust Funds, New York City Pension Funds, International Brotherhood of Teamsters, Hermes EOS, CtW Investment Group, Amalgamated Bank LongView Funds, UFCW, and the UAW Retiree Medical Benefits Trust

Forms of Capital



Human Capital is a fundamental **asset**.

Human Capital Management Definition

Human Capital Management includes a broad range of corporate practices related to the management of employees, including (but not limited to):

- Hiring and retention
- Employee engagement
- Training, compensation
- Fair labor practices
- Health and safety
- Responsible contracting
- Ethics
- Desired company culture
- Diversity

Why is Human Capital Management Disclosure Important?

- Human capital is a fundamental production input
- Major market shift from primarily physical assets (land, equipment, etc.) to intangibles (human capital, IP)
- Strong connection between effective HCM and outperformance across key financial and operational dimensions
- Current SEC rules outdated; companies only required to report basic headcount
- Voluntary disclosures fragmented, lack consistency, comparability, decision-usefulness for investor decision-making (investment, engagement, voting)
- Current events underline urgent need for more comprehensive treatment of human capital
 - Investor demand for critical insight into COVID-19 financial & operational risk exposures
 - Inclusive companies better positioned to address racial justice while continuing to capture well-established financial and operational gains from diverse workforce

HCMC advocates for a **hybrid approach** to reporting that combines Universal, Mandatory Metrics with Principles-Based, Industry/Company-Specific Metrics

Hybrid Approach: Universal, Mandatory Metrics

- Most appropriate with information that is **quantitative/numeric** in nature and where **consistency, comparability, and benchmarking** are critical to data usefulness and integrity
- Taken **together**, these metrics help investors evaluate the issuer's human capital management skill *and* identify human capital risks and opportunities → They provide a proxy for human capital management quality
- The HCMC supports the following **mandatory** metrics:
 - 1. The number of people employed by the issuer**, broken down by fulltime and part-time employees along with contingent workers who produce its products or provide its services (independent contractors, temporary employees, etc.)
 - 2. The total cost of the issuer's workforce**, including wages, benefits and other transfer payments, and other employee expenses;
 - 3. Turnover** or similar workforce stability metric; and
 - 4. Workforce diversity data**, concentrating on gender and racial/ethnic diversity across different levels of seniority.

Hybrid Approach: Principles-Based Metrics

- Most appropriate for metrics that may change based on industry or even individual companies within the same industry depending on business strategy and/or information that is qualitative/narrative
- Issuers and investors may rely on various existing frameworks and other tools to assist in identifying the most relevant metrics for reporting (SASB, GRI, UN PRI, ISO, etc.)
- **Both** universal, mandatory metrics and principles-based metrics are needed for robust assessment of firm human capital management; risk to overreliance on principles-based disclosure regime:

