HCMC Introduction, Approach, and Activities

Cambria Allen-Ratzlaff
Co-Chair, Human Capital Management Coalition
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

**PHASE I**
Building Knowledge/Retail Engagement

**Apr 2020**
IAC Meeting re; Public Co Disclosures & Virtual Meetings

**Oct 2013**
HCMC Retail Engagement

**May 4, 2020**
HCMC COVID-19 AGM Letters Launch

**PHASE II**
Jul 2017 - Present
Regulatory Engagement/HCMC Petition

**Aug 2019**
SEC S-K Rulemaking Release

**PHASE III**
Jan 2018 - Present
Company Outreach

**Jul 2013**
First HCMC Meeting

**Mar 2016**
HCMC Hosts Summit (MI)

**Oct 2017**
HCMC Meets w/ SEC Chair

**Mar 2019**
IAC HCM Recommendation to SEC

**Aug 2019**
SEC S-K Rulemaking Release

**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 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:

```
Rules-Based Turnover Example
(COMPANY A CSR Report)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>4.8%</td>
</tr>
<tr>
<td>2015</td>
<td>4.6%</td>
</tr>
<tr>
<td>2016</td>
<td>3.9%</td>
</tr>
<tr>
<td>2017</td>
<td>4.1%</td>
</tr>
<tr>
<td>2018</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Principles-Based Turnover Example
(COMPANY B 2019 10-K)

"A large number of associates turn over each year, although [COMPANY B]'s turnover has improved in both fiscal 2019 and 2018 as a result of our focus on increasing wages and providing improved tools, technology and training to [employees]."

Our undesired voluntary turnover increased from 4.1% in 2017 to 4.8% in 2018. Over the past five years, our undesired voluntary turnover rate has been below 5%, and our rate is also lower than our industry benchmark. These figures include all regular Intel employees who voluntarily left Intel, but do not include Intel contract employees, interns, or employees who separated from Intel due to divestiture, retirement, voluntary separation packages, death, job elimination, or redeployment.
```