

# U.S. SIGNATORY INTERVIEW BRIEFING: HUMAN CAPITAL MANAGEMENT (HCM)

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## ABOUT THE PRI

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 4,500 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$121 trillion in assets under management.<sup>1</sup> 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 (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions.

The PRI supports the United Nations Sustainable Development Goal 8: Decent work and economic growth, which calls for the promotion of inclusive and sustainable economic growth and productive employment and decent work for all. As a baseline, the PRI views the key pillars of decent work as: access to a living wage, access to benefits, health, safety & social protection and equity of opportunity & treatment – All of which are underpinned by workers' voice and social dialogue, and form the basis of the PRI's understanding of human capital management (HCM).

## ABOUT THIS PAPER

In October and November 2021, the PRI interviewed 14 U.S. based signatories with total AUM of ~\$710 billion to explore ways they currently acquire and use human capital management information in their investment processes. For the purposes of this report, “human capital” is considered the combined makeup of the workforce that contributes knowledge, skills and abilities into the operations of a company. Interviews consisted of written responses or video meetings in response to a set of consistent questions. Participants were asked to identify:

- The HCM information considered most important and useful;
- How HCM information is obtained and analyzed;
- How HCM information is utilized in investment processes; and,
- How rules-based disclosure of HCM information could improve investment processes.

In 2020, the US Securities and Exchange Commission (SEC or the Commission) revised its rules regarding disclosure of HCM information to require “human capital resources” and “any human capital measures or objectives that the registrant focuses on in managing the business” to be included in standard financial reporting. While a step in the right direction, these new requirements have already been cited as too broad to provide the necessary decision-useful information for issuers.<sup>2</sup> This interview series is intended to help inform the debate on the usefulness of the current principles-based HCM disclosure system and provide guidance on improving HCM disclosures.<sup>3</sup>

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<sup>1</sup> See PRI signatories, available at: <https://www.unpri.org/signatories/signatory-resources/signatory-directory>.

<sup>2</sup> <https://www.cpajournal.com/2021/10/27/first-look-at-the-human-capital-disclosures-on-form-10-k/>.

<sup>3</sup> Note: This Report represents the findings and conclusions of the PRI based on detailed interviews, independent research and regular engagement with a wide range of industry stakeholders, and does not necessarily reflect the views of project participants. Anonymity was offered to participants in order to gather accurate, unfiltered information.

## KEY FINDINGS

- **All participants considered HCM information to impact value creation and more than half of participants explicitly cited HCM information as having a potential impact on risk and return.**
  - 10 interviewed signatories considered HCM information at the beginning of the investment decision-making process, alongside other information such as financial data.
  - Signatories who relied on investment managers, such as asset owners, generally make sure that the manager considered, and continuously monitored, HCM information.
- **All but one participant agreed that additional mandatory HCM disclosure by issuers would make their investment processes and analysis easier, specifying that it would, for example, reduce staff hours (according to 57% of participants), improve data comparability (50%), create a more effective investment process (50%), and allow for better allocation of capital (21%).**
  - All but one participant indicated that they would utilize additional HCM metrics mandated by the SEC in their investment process.
  - Participants indicated that they would like the SEC to mandate HCM disclosure that goes beyond data required in the Equal Employment Opportunity Commission’s annual reporting requirement (“EEO-1 Component 1” report or “EEO-1”) for certain private companies.<sup>4</sup>
- **Data comparability is important.** More than half of participants specified they would prefer to have disclosed data verified through either audits or a different third-party verification system.
- **Top HCM data mentioned by participants include:**
  - **Pay information**, disaggregated by race and gender, race and gender pay audits and average hourly wages.
  - **Benefits and Eligibility**, including parental leave and support policies and return to work rates, share-based compensation and eligibility, healthcare and retirement benefits, financial and tax counselling and voluntary and involuntary turnover rates.
  - **Health and Safety**, including injury and fatality rates, lost day rate, workplace safety and discrimination information, efforts to reduce exposure to health hazards.
  - **Diversity, Equity, and Inclusion**, including an overview of the issuer’s DE&I policy as well as disaggregated information on race, ethnicity, gender, age and location for all employees.
- **While opinions on which metrics should be mandated differed, 11 participants agreed that all reported HCM data should be disaggregated by race and gender, at minimum.**

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<sup>4</sup> <https://www.eeoc.gov/employers/eoo-1-data-collection>

## WHY PARTICIPANTS USE HCM INFORMATION

### IMPACTING RISK AND RETURN

- All participants argued that HCM is **important to the value of a company, and in some cases the most important asset for companies in the modern economy.**

*“Effective human capital management (HCM) strategies can provide companies a competitive advantage, particularly during periods of labor shortages, that contributes to long-term shareholder value creation. Employers who foster strong HCM practices benefit from increased worker satisfaction and productivity, an enhanced ability to attract and retain top talent, and reduced employee turnover and associated training costs. Moreover, these practices can facilitate economic mobility and help close the opportunity gap within the workplace. Investors require consistent, comprehensive, comparable HCM disclosure to better assess a company’s level of risk and resilience, regardless of industry.” – Boston Trust Walden*

- Some participants viewed HCM information as material across all issuers, while others take a sector specific approach to distinguish levels of materiality. When it comes to identifying sector specific material HCM information, two participants indicated they rely on the SASB materiality map, while others have developed their own internal processes.<sup>5</sup>
- **Half of interviewed signatories specified that they consider HCM an important risk management tool**, for example, by considering operational, legal, regulatory and reputational shortfalls when analyzing HCM at the issuer level. The Covid-19 pandemic, for instance, has shown that paid sick leave is crucial to employee health and wellbeing, as well as economic security. With more than 30 million Americans without paid sick leave<sup>6</sup>, employees may go to work despite feeling sick, further exacerbating the coronavirus pandemic, and increasing the risk to company operations.
- The meatpacking industry is one example where lack of paid sick leave for workers negatively impacted operations during the Covid-19 pandemic.<sup>7</sup> In another example, companies in the US such as Walmart and McDonalds were sued for allegedly failing to take necessary safety precautions for their workers during the Covid-19 pandemic.<sup>8</sup> Other participants described reputational and legal risks, for example from cases of sexual harassment, and health and safety measures designed to prevent workplace injuries.

<sup>5</sup> Value Reporting Foundation, *Materiality Map*, available at <https://www.sasb.org/standards/materiality-map/>.

<sup>6</sup> Pew Research Center, *As coronavirus spreads, which U.S. workers have paid sick leave – and which don't?* (March 2020), available at <https://www.pewresearch.org/fact-tank/2020/03/12/as-coronavirus-spreads-which-u-s-workers-have-paid-sick-leave-and-which-dont/>.

<sup>7</sup> Just Capital, *A Corporate Guide to Paid Sick Leave* (February 22, 2021), available at <https://justcapital.com/news/a-corporate-guide-to-paid-sick-leave/>.

<sup>8</sup> Business and Human Rights Resource Centre, *What are the avenues for corporate liability for COVID-19-related human rights abuses?* (June 16, 2020), available at <https://www.business-humanrights.org/en/blog/what-are-the-avenues-for-corporate-liability-for-covid-19-related-human-rights-abuses/>. More on the PRI's view about COVID-19 and its impact on workers is available at [https://www.unpri.org/covid-19-resources/theme-1-protecting-workers-rights-through-the-covid-19-crisis/6342\\_article](https://www.unpri.org/covid-19-resources/theme-1-protecting-workers-rights-through-the-covid-19-crisis/6342_article).

*“Meatpacking and poultry processing plants emerged as dangerous COVID-19 hotspots in the U.S., leading to the conclusion that workers were not being adequately protected. We raised risk factors with companies to prevent the spread of the virus in their facilities and nearby communities. Through co-filing a proposal at one company and ongoing shareholder engagement at the other, we asked the companies to address crowded working conditions, lack of sick leave, and a workforce that is both poorly paid and often afraid to or unable to raise issues due to language barriers and immigration status. Although the companies assured investors that they had implemented measures to allow infected line employees to take sick leave, and provided PPE and ways to safely distance workers, many poultry processing plants and their nearby communities became COVID-19 hotspots, reflecting that much more needs to be done to ensure that the industry provides safe conditions for its workers. Engagements are ongoing.” - Mercy Investment Services, Inc.*

## MARKET DEMAND

- One participant specifically stated that their **clients increasingly expect them to consider HCM information in their investment decisions**, and others alluded to this point.<sup>9</sup>

## OUTCOMES

- Three participants expressed that consideration of HCM information helps them work **towards goals of creating systemic change** that they see are compatible with their fiduciary duties. Every investment decision has outcomes beyond the provision of funds to a company. Understanding those outcomes can help investors avoid contributing to systemic issues that can have long-term negative impacts on value creation for their portfolios.

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<sup>9</sup> The PRI's recommendations on beneficiary preferences are summarized here: <https://www.unpri.org/download?ac=13321>.

## HOW PARTICIPATING SIGNATORIES USE HCM INFORMATION

Consideration of HCM information varies across investors, and while many common themes were present, no “industry standard” baseline approach crystalized during interviews. While all interviewed signatories reported utilizing HCM information throughout their investment process, the ways in which they find, consider and integrate this information differ significantly. Two primary styles of information consideration emerged throughout the interviews: standard metrics and sector specific metrics.

### STANDARD METRICS

- **Some participants have established a set of metrics that they consider across all issuers.** For example, one signatory considers multiple data points across every investment including employee retention, company diversity, safety and community impact. Importantly, the set of metrics considered across all issuers differed among those interviewed, as each participant had a different investment thesis and focus. Other information frequently considered included EEO-1 data, demographic composition of the workforce and pay equity information, where available.

### SECTOR SPECIFIC METRICS

- Some participants have established **sector specific metrics in addition to a set of common metrics they consider across all issuers, while others exclusively utilize a sector specific analysis.** SASB’s materiality map is a common way for investors to select sector specific metrics, while others use their own models for identifying appropriate information.
- Participants frequently cited that in certain sectors, HCM information must include talent management, as employees are highly skilled and/or in high demand. During the Covid-19 pandemic, investors paid additional attention to employee safety measures, such as in the hospitality industry. Lastly, one signatory made the connection between climate change and HCM in the utilities sector, explaining that they seek qualitative disclosure on the “just transition” - company plans for preparing their workers for the transition to a low-carbon economy.

*In a comparison of two competing software companies, the investor found that one company had a stronger pipeline of products planned for the near future. However, the investor’s ESG process flagged that the company had had initial reports of workplace harassment and there were signs that management was not handling the harassment issues appropriately. While the pipeline of products was the main driver of the investment thesis, the nature of the company meant personnel talent development was also critical to the future success of the company. When factored into the investment decision-making process, the stronger pipeline of products was negated by the risk in product delays driven by the sexual harassment issue. As a result, the investor decided to sell the stock. Two months later, the company announced a product delay. The initial reports of harassment have since revealed a toxic workplace environment with hundreds of reports of sexual harassment. The company is currently battling at least one high-profile lawsuit. - US Asset Manager*

- Some interviewed signatories have periodic reviews once an investment decision has been made, and most respond to human capital related controversies as they arise. Some have exclusionary

screenings where they may not invest in specific sectors like weapons and tobacco, or they may not invest in companies with potential human rights controversies, or without any women on their board.

*“There are two particular investment products that were heavily concentrated on HCM metrics, our Gender Balance investment portfolio and our Social Equity investment portfolio. These investment products exclude our baseline of weapons, tobacco, oil, private prisons and those with high controversy scores. We then layer in top performers in areas of gender equality and social metrics. These metrics are focused on workers rights, access to health care, fair and equal pay, gender balance across an entire organization from its board, executive and leaderships to its vendor policies. We also take into consideration parental leave policies, safety at work, supplier diversity, freedom from sexual and violent practices, employee protection and a commitment to transparency and external review and audit of their practices and policies. From a financial perspective we designed these products to perform like the broader market in an index fashion so there is no sacrifice of capital gains for these ESG integrations.” - Amalgamated Bank*

## ENGAGEMENT

- Participants report engaging with issuers frequently to gather information they could not find in disclosures or anywhere online, as well as in an effort to verify information they were able to find online, but were not able to verify without going directly to the issuer.
- Several participants highlighted the importance HCM plays in their engagement, but also in their proxy voting decisions. For example, many participants include social issues in their proxy voting guidelines, by voting against boards with too few women, or by always voting for the equal application of benefits. Additionally, participants indicated they engage on racial equity and LGBTQ+ issues and they encourage companies to contribute to a fair and equitable society.

## PROCESS AND ALIGNMENT

- Participants who rely on **investment managers** generally require managers to consider HCM information before they make investment decisions and continuously monitor investments for emergent HCM issues.

*“We are a member of the Human Capital Management Coalition (HCMC), a group of investors committed to engaging companies on their human capital management policies. The coalition includes 35 other institutional investors, stewarding approximately \$6.6 trillion in assets under management. In 2020, we actively supported the work of the HCMC’s asset manager subcommittee. Through the committee, we engaged two of our external asset managers regarding their approach to human capital management best practices when evaluating and engaging companies in their portfolios. We believe engaging our asset managers on this issue drives alignment with our own engagement priorities and can lead to real change at portfolio companies. Furthermore, dialogues with our asset managers often reveal qualitative and quantitative information that improves our overall approach to stewardship and the ways in which we evaluate and monitor our managers’ ESG integration.” - Wespath Benefits and Investments*

## IMPROVING ACCESS TO HCM INFORMATION

- **The lack of detailed requirements for issuer disclosure of HCM information has created a complex, inefficient universe of information.** As such, the second part of our signatory interviews sought to identify the challenges the current principles-based reporting system creates, how investors have adapted and what efficiencies they deem would be most helpful.
- In response to the lack of standardized disclosure, participants have established various approaches to obtaining and verifying human capital information. Some are conducting their own analysis utilizing publicly available information gathered from websites, sustainability reports and Glassdoor reviews. Others are relying on various combinations of third-party ratings and information providers including Glass Lewis & Co, Bloomberg, MSCI, Morningstar, Sustainalytics, ISS and others. Participants were quick to explain that information from third-party firms often varies and is sometimes completely contradictory. Further, some investors do not agree with the methodology for rating issuers and therefore prefer to conduct the analysis themselves. One participant stated that they have not been able to find a third-party data provider that fits their needs, while another explained that they include data from as many data providers as possible.

*“Since retention and turnover data is not widely available but has been determined to be financially material, Calvert analysts have developed proxies for turnover to support our analysis of companies and their ESG performance. One example of such a proxy is an in-house proprietary indicator that was developed for the real estate sector to measure and track the forfeiture of stock option grants in order to glean the level of professional turnover at companies that offer stock options as a component of compensation. There are obvious limitations to this approach as it would not apply to sectors and companies where stock options are not a component of compensation. We believe that having a standardized, publicly reported metric for turnover would enhance our ability to more directly measure performance of this important HCM factor across all sectors.” - Calvert Research and Management*



## HOW ADDITIONAL DISCLOSURE OF HCM INFORMATION COULD IMPROVE INVESTMENT PROCESSES

Participants highlighted that a consistent set of mandatory HCM disclosures would benefit their investment process by:

- Saving numerous staff hours of researching, compiling and verifying information and reducing direct costs spent on numerous third-party data providers.
- Allowing for comparability of data across companies and over years, eliminating the time-intensive step of translating information to accurately compare between investment options. It would also save time that investors currently spend verifying HCM information - in some cases engaging with issuers directly to do so.
- Creating efficiencies for investor decision-making, for example by embedding HCM data in their company models and portfolio decision-making.
- Leading to better allocation of capital.

*“Mandatory and standardized human capital disclosure would certainly improve the efficiency and effectiveness of evaluating human capital-related considerations as part of our approach to stewardship. Throughout the sustainability disclosure landscape, we see random, inconsistent, voluntary, unreliable, incomplete and hard-to-compare information in areas that we believe are fundamental to analyzing the current and future financial performance of companies. In our view, the current state of the marketplace is similar to the fractured accounting datasets investors used before Generally Accepted Accounting Principles (GAAP) were widely adopted. We commend frameworks like SASB for making significant progress in the adoption of high-quality sustainability disclosure, but voluntary reporting only goes so far. Our ability to effectively evaluate sustainability considerations, including human capital management, would significantly benefit from a common, mandated disclosure framework. This level-setting of disclosure would allow us to focus on more nuanced topics related to human capital and human rights in both our engagement with portfolio companies and asset managers.” - Wespath Benefits and Investments*

## INVESTOR HCM DATA NEEDS

While consensus on a baseline set of mandatory metrics did not emerge during interviews, **all interviewed signatories agreed that the SEC should mandate additional HCM disclosure that goes beyond the data included in the EEO-1 report.** In general, interviewed signatories aligned around certain sets of data:

- **Pay information**, disaggregated by race and gender, stood out as a top priority for almost all participants. Some also asked for race and gender pay audits and average hourly wages.
- **Benefits and Eligibility** were a high priority, including metrics for parental leave and support policies and return to work rates, share-based compensation and eligibility, healthcare and retirement benefits, financial and tax counselling, voluntary and involuntary turnover rates, and recruitment policies. Some participants specified they would like this information disaggregated by full-time, part-time, contingent, and contractual employees, as well as race and gender.
- **Health and Safety** is another key area consistently mentioned by participants. Specifically, injury and fatality rates, lost day rate, workplace safety and discrimination information, qualitative explanations of efforts to reduce exposure to health hazards, monetary losses resulting from legal proceedings related to employee health and safety and employment discrimination.
- **Diversity, Equity, and Inclusion** consistently came up as needing standardization. Topics for disaggregation include race, ethnicity, gender, age, geographic location, and employee types. Furthermore, participants highlighted the need for reporting on board diversity, supplier diversity, policies to accommodate diverse abilities, and an overview of the issuer's DE&I policy.

Beyond these main topics, participants also brought up the following areas for disclosure: **training, collective bargaining, workplace culture, workforce productivity, and campaign finance.**

**While opinions on priority metrics differed, 11 participants agreed that all reported HCM data should be disaggregated by race and gender, at minimum.**

## PARTICIPANTS

Amalgamated Bank  
American Century Investment Management, Inc.  
ARGA Investment Management, LP  
Aventail Capital Group  
Boston Common Asset Management  
Boston Trust Walden  
Calvert Research and Management  
Cambiar Investors  
ClearBridge Investments  
Community Capital Management, LLC  
Mercy Investment Services, Inc.  
Office of the Illinois State Treasurer  
Wespath Benefits and Investments