

Human Capital Management Coalition - Toolkit

February 2015

Brief Description

The Human Capital Management Coalition is a cooperative effort among a diverse group of influential institutional investors to further elevate human capital management as a critical component in company performance. The Coalition engages companies with the aim of understanding and improving how human capital management contributes to the creation of long-term shareholder value. The Coalition believes Human Capital Management is relevant in all industries, but has begun its work with a focus on the retail industry due to its high number of employees. Additional industries, such as food service, will be incorporated as the HCM Coalition's capacity increases.

The HCM Coalition is led by the UAW Retiree Medical Benefits Trust and includes 24 institutional investors representing over \$2.3 trillion in assets.

Definition

The HCM Coalition views **Human Capital Management** as encompassing 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, and diversity, both with respect to a company's direct employees and to the employees of vendors throughout the company's supply chain. It is understood that best practice Human Capital Management varies considerably, certainly between industries, but also between companies within industries.

Objectives

The HCM Coalition seeks to:

- ❖ Educate ourselves and other stakeholders 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 and assess company HCM practices and performance
- ❖ Engage companies about their HCM performance
- ❖ Encourage enhanced disclosure of HCM practices and key performance indicators
- ❖ Encourage improved HCM practices and performance
- ❖ Elevate board and senior management attention to HCM

Rationale

In order to protect and enhance their investments, shareholders are increasingly incorporating analyses of Human Capital Management into their overall evaluation of a company's ability to deliver long-term sustainable value. Recent empirical research demonstrating the correlation between strong HCM and shareholder returns supports this approach. A company that subverts the law or widely adopted international standards for HCM is exposed to operational, legal, regulatory, and reputational risks that may create roadblocks for both its existing operations as well as efforts to expand to other markets. Conversely, companies with strong HCM policies and practices may be at a competitive advantage in attracting and employing an effective workforce, leading to a healthy company culture, stronger customer loyalty, increased revenue, and reduced costs.

Despite the growing recognition of the importance of HCM, company disclosure regarding Human Capital Management has yet to catch up with the disclosure of financial, operational, or even

environmental information. This leaves investors without the information they need to assess the risks associated with Human Capital Management. In some situations, the failure to oversee and disclose HCM key performance indicators has led to significant destruction of shareholder value, such as at Massey Energy and BP. The HCM Coalition hopes to address such situations and believes that investor engagement with company boards and senior management can improve HCM disclosure and performance.

Methods

To accomplish its objectives, the HCM Coalition draws on well-established practices for collaborative investor engagement with corporate directors and senior executives. In this case, the engagement begins with a set of questions aimed at understanding a company's human capital management policies and practices. These questions address a number of areas of human capital management, including board oversight, operational integration, incentives and compensation structure, data collection, risk management, accountability through employee engagement, and investor engagement and disclosure.

The questions form the basis for an initial dialog between HCM Coalition members and the company. From the dialog, HCM Coalition members develop goals for the engagement, which might include improving disclosure of HCM key performance metrics, enhancing board oversight of HCM performance, or developing better methods for engaging employees, among others. The engagement can then take several forms, depending on the company's reaction and the investors' preferences.

Membership and Engagements

The Coalition includes 24 institutional investor participants representing over \$2.3 trillion in assets and is led by the UAW Retiree Medical Benefits Trust. Membership is open to asset owners and asset managers who share the Coalition's mission. Members can use the material (Description, Definition, Objectives, Rationale, Methods, and Membership) from this toolkit as needed to support internal and external communication forums including the press, public board reporting, and asset owner/manager survey or responsible investment reporting documents. Specific Company engagements which are initiated by the HCM Coalition or implemented by members of the HCM Coalition on behalf of the HCM Coalition are not to be made public unless there is a unanimous agreement by the HCM Coalition members that use of the press/media/social-networking is in the best interest of the HCM Coalition engagement objective; or, both the Company and HCM Coalition agree to elevating the investor-corporate engagement in a public forum.

The Coalition recognizes that investors' capacity for engagement varies. Some Coalition members will take the lead on company engagements, while others will play a supporting role, such as by signing letters and/or participating in company meetings and calls. Members may participate in the engagements of their own choosing.

Lead and co-lead investors:

- ❖ Initiate and run engagements with target companies
- ❖ Establish and lead dialog with target companies
- ❖ Draft letters to target companies and solicit HCM Coalition member signatures
- ❖ Arrange conference calls or meetings with target companies
- ❖ Ensure that notes are taken during company calls and meetings
- ❖ Report regularly to the HCM Coalition on the progress of the engagements
- ❖ Share notes and other relevant engagement information with HCM Coalition members
- ❖ Join HCM Coalition conference calls and in-person meetings

Supporting investors:

- ❖ Sign letters to target companies
- ❖ Join meetings and calls with target companies
- ❖ Offer input regarding engagements
- ❖ Join HCM Coalition conference calls and in-person meetings

Contact

Institutional investors interested in learning more about the Coalition can contact Cambria Allen, Corporate Governance Director for the UAW Retiree Medical Benefits Trust, at callen@rhac.com.