

Guidance on Human Capital Management Disclosures & Practices

Human capital management is an increasingly material dimension of ESG risk and opportunity. Research suggests that intangible assets including human capital comprise 90% of market value in the S&P 500, and that effective human capital management can drive performance. The global pandemic, a heightened emphasis on gender, racial, and ethnic equity, and an increasingly tight labor market have led to a greater focus on employee recruitment, retention, and inclusion.

In 2021, State Street Global Advisors' Asset Stewardship team sought to strengthen our perspective on human capital management. We conducted over 185 engagements with investee companies on this topic in markets across the world, including a proactive engagement campaign targeting the largest employers in our portfolios. Our team also initiated conversations with experts on the topic of human capital management, and joined [Human Capital Management Coalition](#) calls as observers to enhance our understanding of this essential topic.

Our intended outcome through these engagements was to develop expectations for companies' disclosures on human capital management, and to share our insights regarding best practices and areas for improvement for investee companies (please see our complementary [Human Capital Management Insights](#) page for more on this topic).

Our Expectations For Human Capital Management Disclosures

While there are many material dimensions of human capital management, our engagements and analysis suggest that five areas are particularly meaningful components of a successful human capital management strategy across industries. As a starting point, we expect to see disclosures on the following topics:

- 1 Board Oversight** The board oversees human capital-related risks and opportunities;
- 2 Strategy** How the firm's approach to human capital management advances its overall long-term business strategy;
- 3 Compensation** How pay strategies throughout the organization help to attract and retain employees and incentivize contributions to an effective human capital strategy;
- 4 Voice** How concerns and ideas from employees are solicited (and if appropriate, acted upon), and how the workforce is engaged in the organization; and
- 5 Diversity, equity, and inclusion** How the organization advances diversity, equity, and inclusion (see our complementary [Guidance on Diversity Disclosures & Practices](#) for additional context).

We expect public disclosures to contain specific information about these essential dimensions of human capital management. For example, instead of disclosing that “employees are surveyed regularly,” companies could consider describing survey frequency, examples of questions asked, and actions taken in response to employee feedback where relevant.

We understand that this is an evolving topic and we will continue to engage with companies to develop our expectations and inform our stewardship efforts in this space. We also encourage companies to consider emerging disclosure frameworks, including those required by regulators. For example, companies might want to be aware of the framework outlined by the [Human Capital Management Coalition](#), which includes four fundamental quantitative metrics (number of workers, total cost of the workforce, turnover rate, and workforce diversity data by seniority) and additional principles-based qualitative metrics.

Voting

Incorporating Our Expectations into Our Proxy Voting Practices

As is typical across ESG issues, we will first approach this topic with companies through engagements, focusing on companies and industries with the greatest risks and opportunities related to human capital management.

If we encounter laggards regarding human capital management who are not making sufficient progress as a result of our engagements, we will consider taking action using our votes, either by supporting relevant shareholder proposals or voting against relevant directors at upcoming shareholder meetings.

We will leverage our aforementioned disclosure expectations to analyze shareholder proposals related to human capital management, and consider supporting relevant proposals at companies that are not sufficiently aligned with our expectations.

For more information on our voting policies related to diversity, equity, and inclusion, please see our [Guidance on Diversity Disclosures & Practices](#). For example, we will take voting action against chairs of the Nominating Committees at S&P 500 companies that do not disclose EEO-1 reports.

Thought Leadership

Human Capital Management Insights

As part of our increased focus on human capital management, we conducted over 150 engagements on this topic in markets across the world, including a proactive engagement campaign targeting 60 of the largest employers in our portfolio across the Americas, EMEA, and APAC regions. Please see our [Human Capital Management Insights](#) for suggested best practices for investee companies, in alignment with our disclosure expectations.

Conclusion

We will continue to pursue improved disclosures and practices through engagements, and will consider taking voting action against companies that do not meet the expectations outlined above. We hope that these stewardship efforts will result in enhanced human capital management disclosures and practices throughout our portfolios, ultimately limiting our exposure to relevant risks.

We encourage companies in our portfolios to align their disclosures and practices with our expectations. Please reach out to State Street Global Advisors' Asset Stewardship Team at GovernanceTeam@ssga.com to request an engagement on this important topic.

For additional context regarding our perspective on labor rights as an essential dimension of human rights, please see our [Guidance on Human Rights Disclosures & Practices](#).

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analyze and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US \$3.86 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2020.

† This figure is presented as of September 30, 2021 and includes approximately \$59.84 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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