Calvert
An Eaton Vance Company

Calvert Research and Management
1825 Connecticut Avenue NW,
Suite 400
Washington, DC 20009-5727
[redacted]
calvert.com

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Chairman Gary Gensler
U.S. Securities and Exchange Commission
100 F St NE
Washington, DC 20549

Re: Human Capital Disclosure

Dear Chairman Gensler:

In March, the Securities and Exchange Commission (Commission) asked for public input on climate change disclosures as the Commission considers existing rules and potential new requirements. Calvert Research and Management (Calvert) submitted comments in response. Question #15 of the request for comment asked for input on broader environmental, social, and governance ("ESG") disclosure. In our earlier comments, we suggested that the Commission consider climate as part of a broader ESG disclosure framework, a framework that should also consider human capital and human capital management. We would like to offer additional comments, as an addendum to our previous letter, in response to Question #15. We understand that the Commission is considering ways to improve disclosure around human capital and diversity, and we would like to share our perspective on the materiality of human capital management and why investors need consistent, comparable, and complete disclosure on human capital metrics.

Calvert is an investment management firm headquartered in Washington, D.C., with $36 billion in assets under management (as of June 30, 2021). We incorporate information about corporations' and issuers' exposure to, and management of, financially material ESG factors into our investment decisions across global capital markets. Our primary focus is to generate favorable investment returns for our clients by allocating capital consistent with our research and analysis of financially material ESG issues and through structured engagement with portfolio companies. We are part of a rapidly expanding base of institutional investors and asset owners globally who seek to strengthen corporations and financial markets through improved performance on financially material ESG factors.

Human capital and its management are closely connected to a company's performance, successful execution of its strategy, and ultimately its valuation.[1] As a financially material, investment decision-relevant factor, human capital management needs to be subject to disclosure that is consistent and sufficiently thorough to provide investors with a complete picture of a company's workforce, workplace management strategies, and human capital-related risks and opportunities. Disclosure that is more standardized, with universal metrics as well as components that are appropriate to a company's or industry's business model, would provide this picture.

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[1] For example: Bernstein, A. & Beeferman, L. (2015). *The Materiality of Human Capital to Corporate Financial Performance*. IRRC Institute. https://lwp.law.harvard.edu/files/lwp/files/final_human_capital_materiality_april_23_2015.pdf

We appreciate that the Commission has taken steps to update issuer reporting to incorporate human capital-related disclosures. The November 2020 "Modernization of Regulation S-K Items 101, 103, and 105" expanded required human capital management disclosures to include a description of a registrant's human capital resources and human capital measures or objectives to the extent disclosure is material to understanding the business as a whole. However, as we discuss in more detail below, the resulting disclosures have not provided the standardized, consistent, and quantitative information that would be most useful to investors.

As the Commission considers additional ways to strengthen human capital disclosure, in particular in the context of broader ESG disclosure, we offer our perspective on the type of information that we currently use and incorporate into our investment process, the information that we need and why it is important, and how more robust disclosure rules would standardize and strengthen the human capital information available to investors.

Calvert Supports the Development of Mandatory Human Capital Management Disclosure

The 2020 "Modernization of Regulation S-K Items 101, 103, and 105" was an important step towards recognizing the importance of human capital disclosure. However, we have found that current disclosures in response to these rules do not provide the information that we, as investors, need. The current rule is principles-based, giving companies flexibility to determine which metrics to report, if any, besides headcount. This flexibility, however, has led to inconsistency in disclosure. Of a sample of the first 100 Form 10-K filings following the November 2020 SEC rule revision, the majority, 57 percent, provided no quantitative metrics beyond the required metric of employee count.[2] Disclosures vary in content, in the specific human capital management areas they cover, and in form, with length varying from a single paragraph to multiple pages, with no correlation to company size.[3] In many cases, the language used, such as that around diversity and inclusion and employee safety, is generic and does little to provide useful information on strategic, company-specific human capital management. Such disclosures that are mainly qualitative, do not report on the same metrics, and vary considerably in the level of detail are difficult, if not impossible, to quantify, compare, and thoroughly evaluate, and thus do not provide the kind of decision-useful information that investors look for in disclosures.

To better obtain this type of information, investors need more standardized, quantitative, and complete disclosures. These changes would reduce the variability and subjectivity in the type and extent of information that companies disclose, enabling investors to more easily and accurately assess company performance, draw comparisons across companies, and track company performance over time. Expanding human capital disclosure requirements to include standardized, universal quantitative metrics, as well as industry- or sector-specific metrics where appropriate, would therefore improve the robustness and decision-usefulness of the information that is available to investors.

Qualitative, narrative information that accompanies quantitative metrics is useful as well, as it adds valuable detail and context needed to evaluate company performance on human capital management topics. Calvert relies on both quantitative and qualitative information in our analysis and engagement with portfolio companies. Relevant qualitative information includes descriptions of human capital

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[2] Gordon, A., Larcker, D.F., & Yu, C. (2021, May 18). *Human Capital Disclosure: What Do Companies Say About Their 'Most Important Asset'?* Harvard Law School Forum on Corporate Governance. https://corpgov.law.harvard.edu/2021/05/18/human-capital-disclosure-what-do-companies-say-about-their-most-important-asset/

[3] *Human Capital Disclosure Report: Learning on the Job*. (2021). Intelligize. https://www.intelligize.com/intelligize-report-companies-avoid-revealing-human-capital-metrics/

management policies and plans, including diversity and inclusion strategies and programs, and identifies human capital-related outcomes. This information provides important context that illuminates how companies are thinking about, prioritizing, and addressing human capital management topics.

When it complements quantitative information, qualitative information can provide tangible evidence of human capital achievements, connect a company's human capital strategy to its broader corporate strategy, and offer useful details to contextualize quantitative disclosures. In some cases, qualitative information might mitigate investors' concerns about potential human capital management issues when quantitative disclosures suggest a company is lagging on diversity or other human capital indicators. Alternatively, qualitative disclosures could flag potential concerns by highlighting incomplete strategies or weak human capital practices or policies. The two types of information, when taken together, provide a more complete and nuanced picture of a company's human capital management strategy and outcomes that better enables investors to assess performance in a more fulsome and holistic way.

Universal Human Capital Management Metrics

Universal human capital metrics should be consistent, comparable, financially material, decision-useful to the investment process, and apply across industries, sectors, and geographies. The Human Capital Management Coalition, of which Calvert is a member, is a group of investors representing over $6.6 trillion in assets under management. This coalition has proposed four universal metrics to apply to all U.S. companies. Calvert agrees that disclosure of these metrics would provide the type of specific and reliable data that we need to evaluate and compare company performance.

1. **Workforce Composition**

   Workforce composition data includes the total number of employees and the number of part-time versus full-time workers, contingent workers, and percentage of workers under collective bargaining agreements, among other categories. Current disclosure rules require companies to disclose their number of employees, but do not specify any further breakdown. Quantitative information on the number of part-time employees, seasonal workers, and independent contractors, as well as information on how much of a company's workforce is under a collective bargaining agreement, would provide additional detail and nuance that would offer a much more useful snapshot of a company's workforce. This information would enable us to better assess corporate strategy, such as changes in workforce composition over time, in order to evaluate how talent is aligned with stated goals.

   For sectors with higher percentages of workers subject to collective bargaining agreements, such as manufacturing, Calvert currently includes a Key Performance Indicator (KPI) in our model that scores companies on union relationships. Improved company disclosures on percentage of workers under collective bargaining agreements would enhance the granularity of how we are able to apply and evaluate this KPI.

2. **Total Workforce Cost**

   Total workforce cost information links human capital management data directly to line items reported in a company's financial statements. While this data is typically already embedded in standardized financial disclosures, its disaggregation would provide better transparency and allow investors to more clearly understand how the costs associated with human capital management impact financial performance.

Examples of workforce costs that would be useful to inform our analysis include wages (as well as wage differences by workforce categories, ideally with industry-specific job classifications, and gender/ethnic wage differences), benefit costs (such as health care and mental wellness costs and retirement plan costs), and other employee expenses (such as recruiting costs, training costs, and separation costs). Training or reskilling/upskilling and associated costs, for instance, are an important component in understanding the costs associated with innovation, change, and other strategic company initiatives. It would also be useful to understand how a company compensates its employees, through data on straight salary versus bonuses, commissions, equity, or other forms of compensation. We would then use this information to further assess how compensation aligns with company strategy, how companies reward performance, and how compensation might relate to other human capital metrics such as employee turnover and retention.

Calvert applies workforce cost information to understand how companies in heavy emitting sectors, like the utilities or automotive sectors, are managing the workforce-related opportunities and risks associated with transitioning to net zero emissions. Labor in these sectors is often contracted under collective bargaining agreements and the ability to bring labor on board as a partner in companies' strategic transition plans is essential to the ultimate success of these net zero plans. Therefore, in addition to qualitative information on companies' policies and plans, investors need quantitative information on workforce costs to evaluate how companies are managing risks and capitalizing on opportunities related to their labor force.

It is important to note that the Equal Employment Opportunity Commission is currently reviewing requiring pay data to be included in the EEO-1 report as a potential rule for 2022. Pay data, as it relates to equity, is important and is useful in our evaluation of human capital management. We support the disclosure of this data and would find this information decision-useful in the investment process. Investors would benefit from standardized disclosure on both gender and ethnicity pay gaps, as well as on equal pay. Collecting gender and ethnicity pay gap data would not impose a significant additional burden on companies once they are collecting equal pay data, and consistent reporting of this information would inform investors' company evaluations and analysis. The U.K. has already mandated that companies with at least 250 employees disclose their gender pay gap information, so there is a precedent for required pay gap reporting. A consistent and standardized methodology would be important to minimize variability and increase the usefulness of the resulting disclosures.

3. Turnover/Retention

Turnover or retention data would allow for assessment of the quality of a company's human capital management strategy, as this metric speaks to a company's ability to attract and retain talent. Studies have shown that turnover and retention are proxies for measuring the effectiveness of a company's culture, which in turn has implications for employee engagement and retention, and ultimately a company's long-term financial performance.[4] A 2017 Gallup study found that business units that have high levels of employee engagement show 21 percent greater profitability, driven by a 41 percent reduction in absenteeism and a 17 percent increase

[4] *Counterpoint Global Insights: Culture Quant Framework*. (2021). Morgan Stanley Investment Management. https://www.morganstanley.com/im/publication/insights/articles/article_culturequantframework_us.pdf; *Return on Culture: Proving the Connection Between Culture and Profit*. (2019). Grant Thornton and Oxford Economics. https://www.oxfordeconomics.com/recent-releases/return-on-culture-proving-the-connection-between-culture-and-profit

in productivity, as well as lower turnover rates, higher customer ratings, and increased sales.[5] Employee engagement levels and associated data are decision-useful in the investment process; however, at present, very few companies disclose employee engagement information, such as the results of employee engagement surveys. Turnover and retention data examined in the context of diversity categories also helps to identify additional risks and opportunities associated with a company's talent strategy.

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. Having a standardized, publicly reported metric for turnover would enhance our ability to more directly measure performance of this important human capital management factor across all sectors.

4. Diversity

Diversity data is a critical component of evaluating companies during the investment process. In conjunction with qualitative information, diversity data allows investors to understand a company's ability to assess and develop new sources of human capital and to identify areas of strength or weakness. In the U.S., for example, disclosure of EEO-1 data would provide the information that investors need to evaluate and assess companies on their diversity metrics, a need that drove Calvert to develop our initiative on EEO-1 disclosure, discussed later in this letter. In other regions, specific diversity data disclosed could vary by geography. In particular, outside of the U.S., we look to evaluate whether companies have a robust strategy around diversity that fits the context of their market.

As diversity disclosure improves, we believe there could be an opportunity in the future for improved standards around diversity, for example through more industry-specific job classifications, rather than the current universal EEO-1 categories that are not as relevant across all industries. While at some point industry-specific job classification might be something to consider mandating, in the meantime these more specific classifications could be included as part of a company's qualitative discussion and analysis of its diversity programs and progress.

In addition to industry-specific job classifications, other qualitative diversity information that accompanies quantitative metrics is useful to investors and could be further strengthened. Calvert currently uses qualitative diversity information, some of which is binary (for example, whether or not a company has diversity programs in place), and some of which depends on the extent or quality of information a company discloses on diversity, to generate a quantitative score that is incorporated into our sector models. More thorough and extensive qualitative disclosure, in conjunction with the quantitative information, would expand the data that is available for us to consider, evaluate, score, and build into our models and decision-making.

[5] Harter, J. & Mann, A. (2017, April 12). *The Right Culture: Not Just About Employee Satisfaction*. Gallup. https://www.gallup.com/workplace/236366/right-culture-not-employee-satisfaction.aspx.

Industry- or Sector-Specific Metrics

While these universal metrics should be standardized and required across industries, there could be opportunities for industry-specific nuances, which could be addressed in disclosure guidelines. In addition to industry-specific nuances within universal metrics, separate industry- or sector-specific metrics, as appropriate, would also strengthen our company evaluations. While the four human capital metrics above are universally relevant to companies across industries, there are other human capital management issues that vary in relevance and materiality by industry and that, when material, should be included in disclosures:

- For pharmaceutical companies, data on diversity in clinical trials would be relevant, as ensuring a diverse and representative trial population is important for developing a drug that is effective in treating patients from different demographic groups.
- For utility companies, disclosure around Just Transition efforts would be useful. A Just Transition is the integration of concerns about workers and communities into decarbonization-related planning and activity, an integration that requires consideration of vulnerable workers and a variety of affected communities when both addressing the challenge of stranded assets and ensuring that the substantial public and private investments in low-carbon strategies and technologies create an inclusive, sustainable economy.[6] Information on companies' commitments and impacts as they relate to a Just Transition would be useful for assessing how they are preparing and adapting their workforces for a low-carbon energy transition.
- For manufacturing companies, worker health and safety are particularly important and would help investors assess company management of health and safety risks.

These examples are illustrative and are not intended as a comprehensive list, but details on these material topics would offer insight into company performance and strategies that would better inform our work. With industry- or sector-specific disclosures on relevant topics, we would have more standardized, complete data to build into our peer group models, informing our research and investment processes. Industry-specific metrics would also enable us to better compare companies against their peers and identify industry leaders and laggards, information that we would apply to our engagement process as we target companies and push them to meet engagement objectives.

SASB standards, maintained under the auspices of the Value Reporting Foundation, provide a framework for industry-specific standards that are based on financial materiality and intended to meet the informational needs of investors. SASB standards consider human capital issues within the themes of Employee Health & Safety, Labor Practices, and Employee Engagement, Diversity & Inclusion and address the industry-specific, financially-material impact of these issues. We encourage the Commission to consider incorporating industry-specific disclosure guidelines. In addition, we encourage the Commission to strongly consider using a third-party standard setter for human capital disclosures. A third-party standard with credibility among investors would create a standardized landscape for evaluating human capital management, and it would leave room for evolution in disclosure requirements in the future.

With required universal quantitative metrics, sector- or industry-specific metrics as appropriate, and accompanying qualitative information, human capital management disclosure would provide the

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[6] Wood, D. & Brunsting, V. (2020, October). *Investor Expectations on the Just Transition: Publicly Traded Energy*. Initiative for Responsible Investment. https://iri.hks.harvard.edu/files/iri/files/iri_utilities_investor_expectations_final.pdf?m=1603132197

consistent, complete, reliable, and financially material information that investors need to effectively evaluate, compare, assess, and benchmark companies, and to make underlying investment and engagement decisions. We recognize that human capital management is an evolving area, and information on this topic is evolving as well. Any disclosure rules should therefore leave room for flexibility in the future, while ensuring the consistency and usefulness of information that companies are providing in the present.

Human Capital Management is Financially Material

Human capital management is critical to the execution of corporate strategy and thus is material to a company's performance, with numerous studies providing evidence of this financial materiality. For example, human capital management has been found to be a predictor of organizational performance, as measured through stock performance.[7] On a larger scale, intangible assets, many of which are human capital-related, represent 90 percent of the S&P 500 market value, a share of market value that has been increasing over time, up from 68 percent in 1995.[8] On an individual company basis, intangible assets are estimated to make up an average of 52 percent of a company's market value.[9]

Human capital is increasingly recognized as a critical asset that is a key driver of long-term company value. Companies with strong human capital strategies are better able to recruit, attract, and retain a diverse and talented workforce, which can create operational and strategic competitive advantages and makes them more resilient in times of stress, crisis, or uncertainty. Boards are spending more time on human capital issues, with 79 percent of 378 public company directors surveyed in 2020 reporting that their board is spending more time discussing talent strategy than it did five years ago.[10] Shareholder interest in human capital issues is also growing, with support for proposals on workforce diversity and board diversity rising in recent years.[11] In the past year in particular, the COVID-19 pandemic has drawn increasing attention to the importance of human capital issues, the connection between human capital and company performance, and the need for a greater focus on effective human capital management, while also exposing gaps in current policies and approaches. For essential workers and frontline employees especially, the extent to which companies have been ensuring their health and safety has been a topic of critical importance. The prevalence of human capital management shareholder proposals and increasing trend in shareholder support in the 2020 proxy season, which continued into 2021, demonstrates shareholder interest in human capital management policies and disclosure that support racial and social justice and employee well-being.[12]

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[7] Bassi, L. & McMurrer, D. (2010, June). *Human Capital Management Predicts Stock Prices*. McBassi & Company. https://mcbassi.com/wp/wp-content/uploads/2018/07/HCMPredictsStockPrices.pdf

[8] Intangible Asset Market Value Study (2020). Ocean Tomo, LLC. https://www.oceantomo.com/intangible-asset-market-value-study/

[9] Global Intangible Finance Tracker (GIFT) 2018. Brand Finance. https://brandirectorypublic.s3.eu-west-2.amazonaws.com/reports_free/GIFT.pdf

[10] Klemash, S., Lee, J., & Smith, J. (2020, May 24). *Human Capital: Key Findings from a Survey of Public Company Directors*. Harvard Law School Forum on Corporate Governance. https://corpgov.law.harvard.edu/2020/05/24/human-capital-key-findings-from-a-survey-of-public-company-directors/

[11] Washington, P. & Ray, R. (2021, April 19). *How Boards Can Get Human Capital Management Right in Five (Not So) Easy Steps*. Harvard Law School Forum on Corporate Governance. https://corpgov.law.harvard.edu/2021/04/19/how-boards-can-get-human-capital-management-right-in-five-not-so-easy-steps/

[12] Tonello, M. (2021, February 11). *2021 Proxy Season Preview and Shareholder Voting Trends (2017-2020)*. Harvard Law School Forum on Corporate Governance. https://corpgov.law.harvard.edu/2021/02/11/2021-proxy-season-preview-and-shareholder-voting-trends-2017-2020/

Culture, as an outcome of human capital management, is correlated to a company's long-term financial performance and thus is a topic of interest to investors. The presence of a strong company culture has implications for employee engagement and retention and has been shown to indicate companies likely to have better long-term financial performance. For example, a correlation has been found between employee retention and stock returns, with a portfolio comprised of companies in the top quintile of employee retention delivering cumulative gains that were 25 percent higher, or 2.8 percent annualized, than those of the bottom quintile.[13] Furthermore, public companies with cultures that are determined to be extremely healthy are 2.5 times more likely to report significant stock price increases over the past year.[14]

Research has also found that diversity, as another human capital topic, is a financially material factor that impacts financial performance. Calvert's own research shows that gender diversity is associated with improved equity returns for both U.S. and non-U.S. markets,[15] and there is a growing body of other research demonstrating the financial materiality of other characteristics of diversity. Research from McKinsey & Company, for instance, has found a correlation between diverse workforces and financial outperformance, a correlation that has strengthened over time. Companies in the top quartile for ethnic/cultural diversity on executive teams, for example, are 36 percent more likely to outperform on profitability, and companies in the top quartile for gender diversity are 25 percent more likely to outperform. Companies performing poorly on both gender and ethnic/cultural diversity, on the other hand, are laggards, with companies in the bottom quartile for gender diversity 19 percent more likely to underperform on profitability, and those in the bottom quartile for both gender and ethnic diversity 27 percent more likely to underperform than all other companies analyzed.[16]

Research supports the conclusion that diversity contributes to value creation and performance in several key ways. Studies show that diversity affects talent attraction and retention, as a more diverse and inclusive workforce enables a company to better attract talent from a broader pool and to then develop and retain that talent, building a diverse workforce as a competitive edge. Similarly, a diverse and inclusive workforce helps create a strong culture that supports employee engagement and satisfaction. Diversity also improves decision-making, with research supporting the conclusion that diverse groups make better, faster, and more informed decisions, which can in turn improve performance. Diverse teams are more innovative, bringing a wider variety of backgrounds and experiences that can help them better serve diverse markets that might otherwise be overlooked. Compared to individual decision makers, diverse teams make better business decisions 87 percent of the time.[17] Further, a 2018 Boston Consulting Group study found that companies with higher than average diversity at the management level reported innovation revenue that was much higher, at 45 percent of total revenue, than that of companies with below average diversity, at 26 percent.[18] Finally,

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[13] *Counterpoint Global Insights: Culture Quant Framework*. (2021). Morgan Stanley Investment Management. https://www.morganstanley.com/im/publication/insights/articles/article_culturequantframework_us.pdf

[14] *Return on Culture: Proving the Connection Between Culture and Profit*. (2019). Grant Thornton and Oxford Economics. https://www.oxfordeconomics.com/recent-releases/return-on-culture-proving-the-connection-between-culture-and-profit

[15] Wilson, J. (2021, March 12). *Why We Raised Our Standards for Proxy Voting on Board Diversity*. Eaton Vance Insights. https://www.eatonvance.co.uk/viewpoints.php?post=why-we-raised-our-standards-for-proxy-voting-on-board-diversity-&sku=38065&asp_role=Investment+Professional&asp_token=548710

[16] Dixon-Fyle, S., Dolan, K., Hunt, V, & Prince, S. (2020). *Diversity Wins: How Inclusion Matters*. McKinsey & Company. https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters

[17] *Diversity Drives Better Decisions*. (2017, October 23). People Management. https://www.peoplemanagement.co.uk/experts/research/diversity-drives-better-decisions.

[18] Lorenzo, R., Voigt, N., Tsusaka, M., Krentz, M., & Abouzahr, K. (2018). *How Diverse Leadership Teams Boost Innovation*. Boston Consulting Group. https://www.bcg.com/publications/2018/how-diverse-leadership-teams-boost-innovation.

companies that embrace and actively work to improve diversity enjoy reputational benefits, while those that do not can be subject to public criticism that affects how their stakeholders view them.[19]

Calvert Has Been Seeking Improved Corporate Diversity Disclosure

Not only is diversity material to company performance, but diversity data matters to investors. Diversity data enables investors to understand a company's ability to develop human capital and assess its potential for future profitability, which in turn affects a company's stock price. In recognition of the need for improved diversity data disclosure, and in light of a general lack of disclosure, Calvert initiated an effort in 2020 to encourage companies to publicly disclose their EEO-1 reports on workforce demographics. These reports, which include demographics of a company's U.S. workforce, are required to be submitted to the Equal Employment Opportunity Commission, but are not available publicly unless companies voluntarily choose to disclose them. Calvert contacted the top 100 names in the Calvert Large Cap Core Fund and engaged through letters, emails, phone calls, and shareholder proposals as appropriate, to encourage companies to disclose these EEO-1 reports. Calvert is not the only member of the investor community pushing for disclosure of EEO-1 information. Some of the largest asset owners and managers, including BlackRock and the New York City Comptroller, representing two of the nation's largest pension funds, are also asking companies to release EEO-1 data.[20]

At the outset of our campaign, 18 out of the 100 companies disclosed EEO-1 data. Now, 73[21] of these 100 companies are either disclosing EEO-1 data or have committed to do so by mid-2022, and we anticipate this initiative will push other companies to improve the quality of their diversity reporting. Overall improvement in diversity disclosure is important to Calvert, because of the comparisons it allows us to make and the details of company strategy and preparedness it allows us to evaluate. With improved disclosure, we can more easily compare companies to peers and to the labor force overall. We can also better understand the pipeline of talent at a company to gain insight into what the future of its workforce might look like, as well as the overall diversity of this workforce.

The effort to improve diversity disclosure extended to shareholder proposals in the 2021 proxy season that received significant investor support. Calvert filed a shareholder resolution asking for EEO-1 data disclosure that received a majority of independent shareholder support, despite management's recommendation to vote against the proposal.[22] Calvert also voted on two additional EEO-1 proposals, filed by other shareholders, which were also opposed by management. Both of these proposals passed

[19] *Delivering through Diversity*. (2018). McKinsey & Company. https://www.mckinsey.com/~/media/mckinsey/business%20functions/organization/our%20insights/delivering%20through%20diversity/delivering-through-diversity_full-report.ashx

[20] See, for example: *Shareholders Up Demands for Workplace Diversity Data Seen by Few*, https://news.bloomberglaw.com/daily-labor-report/shareholders-up-demands-for-workplace-diversity-data-seen-by-few; *BlackRock to Push Companies on Racial Diversity in 2021*, https://www.bloomberg.com/news/articles/2020-12-10/blackrock-plans-to-push-companies-on-racial-diversity-in-2021?sref=TEalMtQ2; *Comptroller Stringer and Three New York City Retirement Systems Call on 67 S&P 100 Companies Who Issued Supportive Statements on Racial Equality to Publicly Disclose the Composition of their Workforce by Race, Ethnicity and Gender*, https://comptroller.nyc.gov/newsroom/comptroller-stringer-and-three-new-york-city-retirement-systems-call-on-67-sp-100-companies-who-issued-supportive-statements-on-racial-equality-to-publicly-disclose-the-composition-of-their-workforce/.

[21] As of August 6, 2021

[22] The proposal received 40.7% support as a percentage of outstanding shares; however, the company has an affiliated shareholder owning nearly 30% of shares. Excluding this affiliated shareholder, the vote constituted a majority of independent votes.

with more than 80 percent support. This strong support signals investor perception of the importance of diversity in a company's workforce and of disclosure of this diversity data.

As a result of additional EEO-1 disclosure, Calvert and other investors now have improved insight into issuers' workplace demographics. However, while EEO-1 data disclosure has improved, disclosure remains voluntary, and does not yet provide the universal, complete information to enable us to make consistent comparisons across issuers. Universal disclosure of EEO-1 data would both enhance our analyses of individual companies and provide further insight into the connections between diversity, other human capital management factors, and company performance.

Investors Need Standardized Disclosure to Evaluate Companies on Human Capital Management Practices

Given the materiality of human capital management and the importance of human capital as a fundamental asset to companies, Calvert actively incorporates human capital metrics into our research, investment, and engagement processes. Our security selection process is informed by research and thorough analysis, and is underpinned by a rigorous approval and compliance process. Calvert utilizes our suite of proprietary and vendor-derived human capital-related metrics and indicators to incorporate into the proprietary models that we use to evaluate companies, with a process that is based on extensive research that supports the materiality of human capital metrics and identifies metrics that are both universally material and that are sector-specific. Sector-specific metrics cover topics like employee health and safety, labor relations, and company diversity programs. An example of a universal metric that applies to models across all sectors is the percentage of women on a company's board of directors, a metric that then feeds directly into a company's governance score in our models. Furthermore, we design our own KPIs when standard approaches are missing key insights. Human capital KPIs are then factored into our structural models that measure performance of companies on ESG issues. From these models, we score, rate, and rank issuers, producing information that we then use to inform investment decisions.

Beyond our investment selection process, Calvert uses human capital management data to inform and prioritize engagements with companies. We believe active engagement with the companies in our portfolio drives tangible outcomes that benefit the companies in which we invest, benefit our clients by improving shareholder value, and ultimately benefit society at large. The percentage of women on a company's board of director, in addition to informing our investment decisions, also informs our engagements with individual companies, as well as our proxy voting. Globally, Calvert votes against the nominating committees of companies that have fewer than two women on the board.

One way that Calvert uses human capital management data in portfolio construction is in our diversity index strategies, which focus on companies demonstrating leading or improving diversity, equity, and inclusion practices to harness diversity as a driver of value creation. We believe these companies can attract and retain better talent, enhance intellectual capital, promote workforce productivity, and be better positioned to outperform over the long term. As one factor in portfolio construction, we consider data on ethnic fractionalization in a company's board, which evaluates the likelihood that two people chosen at random are from different ethnic groups. A higher ranking in ethnic fractionalization suggests increased ethnic diversity. We also consider controversy data within this diversity index, evaluating whether companies have experienced diversity or inclusion controversies and, in cases of severe controversies, removing the companies in question from our investment universe. In our broader models, we use controversy data, which is often human capital-related, to discount individual companies' structural scores when the controversies are determined to be material.

We are confident that our existing issuer analysis and security selection process is a robust and thorough one that utilizes what is currently the best information available. However, we contend that this process would be further strengthened with the addition of company-reported, standardized human capital metrics and increased consistency in reporting. Much like the requirements for reporting financial information provide decision-useful, comparable, and standardized information, improved human capital disclosure would provide investors with the consistent and quantitative information that would increase the robustness of our investment and research process.

There is growing consensus around the need for, and an increasing push for, improved disclosure, from both industry and standard-setting bodies. The Sustainability Accounting Standards Board (SASB), now part of the Value Reporting Foundation, is in the process of reevaluating and updating its standards to expand its recommendations for human capital management disclosure and metrics, a process to which Calvert has provided input. It is expected that this update will incorporate human capital management standards on both a universal and sector-specific basis. In addition, the Human Capital Management Coalition is working to elevate human capital management as a critical component in company performance and to engage with companies on human capital management as a factor in the creation of long-term shareholder value.

Evidence of the increasing attention being paid to human capital management, and the growing recognition of the need for transparent information on such company practices, is also present in the prevalence of shareholder proposals around human capital management and workforce issues. The COVID-19 pandemic and increasing attention on issues of racial equity likely contributed to this increase in attention, resulting in the 2020 proxy season seeing an intensification of focus on human capital in corporate governance, reflected in proxy disclosures where 77 percent of Fortune 100 companies highlighted human capital initiatives and commitments, compared to 32 percent in 2017.[23] The 2020 proxy season saw 63 shareholder proposals filed at Russell 3000 companies on human capital management issues,[24] and the 2021 proxy season saw a continued focus on human capital management, with an increased focus on racial and ethnic diversity in the boardroom, and diversity and inclusion in the workforce.[25] 89 proposals were submitted in the 2021 proxy season on employee-related diversity, equity, and inclusion, nearly double the number of these proposals submitted in 2020. These proposals earned an average of 47 percent shareholder support, higher than the support received by any other subcategory of social proposals in 2021.[26]

As human capital management receives growing attention from investors, and the evidence of the financial materiality of human capital management to company performance becomes increasingly undeniable, the reliability of human capital management metrics that companies currently disclose is

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[23] Klemash, S.W., Doyle, R., & Smith, J.C. (2020, August 23). *Four ESG Highlights from the 2020 Proxy Season*. Harvard Law School Forum on Corporate Governance. https://corpgov.law.harvard.edu/2020/08/23/four-esg-highlights-from-the-2020-proxy-season/

[24] Tonello, M. (2021, February 11). *2021 Proxy Season Preview and Shareholder Voting Trends (2017-2020)*. Harvard Law School Forum on Corporate Governance. https://corpgov.law.harvard.edu/2021/02/11/2021-proxy-season-preview-and-shareholder-voting-trends-2017-2020/

[25] *2021 Proxy Season Preview*. (2021). Nuveen. https://documents.nuveen.com/Documents/Nuveen/Default.aspx?uniqueId=3b08737a-3053-4cb5-a3f8-61b76659ccae

[26] *2021 Proxy Season Review: Part 1 – Rule 14a-8 Shareholder Proposals*. (2021, July 27). Sullivan & Cromwell LLP. https://www.sullcrom.com/files/upload/sc-publication-2021-Proxy-Season-Review-Part-1-Rule14a-8.pdf

lacking. With human capital management a critical factor in a company's performance, investors need robust and reliable disclosure on par with financial disclosures.

Improved Disclosure and Transparency of Human Capital Management Benefits Investors, and Could Improve Overall Human Capital Management Performance

More consistent, reliable, quantifiable, and comparable information would inherently improve the quality of investors' investment decisions. Calvert would use this information to strengthen our human capital KPIs, increase the robustness of our investment and research processes, and incorporate into our engagement identification, prioritization, and execution, and we believe such information offers value for other investors as well.

Improved disclosure could also lead to improved human capital and diversity performance on a broader scale. Greater transparency could incentivize companies to improve their own performance, more consistent and comparable information could improve understanding of human capital management overall, and the availability of more thorough and reliable information could enable better problem-solving. Strengthened disclosure will also enable companies to demonstrate progress over time.

While the Commission considers additional disclosure rules and standards, and to the extent that some human capital management data remains non-standardized, Calvert will continue to capture the decision-useful and financially material information from issuers themselves and from third-party sources as best we can. Standardization in disclosure, however, would only help to strengthen the analysis and resulting decisions that Calvert, and investors in general, are able to make.

As the Commission continues to explore potential changes to human capital management and other ESG disclosure requirements, Calvert would welcome the opportunity to provide additional thoughts or feedback on the importance of disclosure, as well as on specific disclosure suggestions. We appreciate the Commission's efforts in this area and look forward to continued discussion.

Sincerely,

John Streur
President and CEO
Calvert Research and Management