



California State  
Teachers'  
Retirement System  
Sustainable Investment &  
Stewardship Strategies  
100 Waterfront Place, MS 4  
West Sacramento, CA 95605

August 21, 2020

Via email: [chairmanoffice@sec.gov](mailto:chairmanoffice@sec.gov) and rule- [comments@sec.gov](https://www.sec.gov/rules/proposed/2020/20200821.htm)

Chairman Jay Clayton and  
Vanessa A. Countryman, Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

RE: File No. S7-11-19 Release Nos. 33-10668; 34-86614

**Modernization of Regulation S-K Items 101, 103, and 105 - Follow-up letter**

Dear Chairman Clayton and Secretary Countryman:

We are submitting a supplemental letter to the California State Teachers' Retirement System (CalSTRS) letter [submitted in October of 2019](#) regarding the proposed rule amendments to Regulation S-K, specifically section 101(c) which included clarification and expansion of its disclosure on human capital measures. COVID-19 has stressed the importance of specific human capital management disclosures that allow investors to contextualize unplanned incidences such as the current pandemic.

CalSTRS was established for the benefit of California's public-school teachers over 100 years ago and is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately \$253.6 billion.<sup>1</sup> We serve the investment and retirement interests of more than 949,000 plan participants and their beneficiaries. The long-term nature of CalSTRS liabilities and its responsibilities as a fiduciary to our members, make the fund keenly interested in the rules and regulations that govern the securities market. We have a vested interest in ensuring shareholder protections are safeguarded within the Securities and Exchange Commission's ("SEC" or "Commission") rules and regulations.

We appreciate the opportunity to respond to the Commission's proposed rule and believe there is an opportunity for issuers to provide meaningful disclosures on companies most valuable asset,

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<sup>1</sup> [California State Teachers' Retirement System. Current Investment Portfolio as of July 31, 2020.](#)

human capital. Given the recent economic downturn due to the COVID-19 pandemic, it is apparent that companies' must not only effectively employ its workforce, but carefully fashion its long-term strategy and business plans to mitigate the impact of the pandemic. CalSTRS believes specific line item disclosures are necessary, specifically regarding human capital management, to allow investors the ability to access timely, accurate, comprehensive, consistent and comparable information. As companies are increasingly dependent on their workforces as a resource of value creation, it is imperative that boards of companies, and executive management better understand human capital management ("HCM") measures that help drive and fulfill its business strategy.

CalSTRS asks that the SEC on item 101 (c), seek universal, mandatory, and specific human capital measurements with additional industry measurement guidelines. We believe universal, rules-based disclosures, are especially important, to provide for consistency, comparability, and benchmarking over time. Taken together, this data helps investors evaluate the issuer's effective oversight of human capital management *and* identify human capital risks and opportunities. CalSTRS supports the following universal, mandatory disclosures which we believe are modest and should be easily implemented as companies currently have this information:

1. **The number of people employed by the issuer**, broken down by full-time and part-time employees along with contingent workers who produce its products or provide its services;
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 measurement; and
4. **Workforce diversity data**, concentrating on gender and ethnic/racial diversity across different employment bands/employee levels.

In early April as the pandemic crisis unfolded CalSTRS, as a member and co-chair of the Human Capital Management Coalition ("HCMC"), contemplated with other HCMC members on how to put into context the workforce consequences and disruptions provoked by this pandemic. We were pleased when the SEC (Chairman Clayton and Bill Hinman) provided the SEC's April 8<sup>th</sup> public statement elevating the importance of company disclosures that include the health and well-being of a company's workforce. Specifically, the importance of Regulation S-K disclosures by stating that, "Company disclosures should reflect this state of affairs and outlook and, in particular, respond to investor interest in:

- (1) where the company stands today, operationally and financially,
- (2) how the company's COVID-19 response, including its efforts to protect the health and well-being of its workforce and its customers, is progressing, and

(3) how its operations and financial condition may change as all our efforts to fight COVID-19 progress.”

We appreciate the Chairman’s recognition of the value of human capital disclosures and the need to modernize regulations. CalSTRS believes these important disclosures provide investors information about the company’s workforce, as well as how effective a company can implement its long-term business strategy or changes due to COVID-19. As companies navigate this new reality, the importance of disclosures on HCM, in addition to the role of management and the board’s oversight of specific measures and objectives, becomes even more material to investors in their understanding of an issuer’s business.

A growing body of research supports that companies with effective human capital management perform better than those that manage their human capital poorly across several dimensions.<sup>1</sup> Effective human capital management is a driver of long-term value and should be treated as an asset, connecting decisions about human capital investment to business outcomes using return on investment measures.

- Investments in human capital are associated with higher total shareholder return, return on assets, return on capital, profitability & overall firm performance.
- Investments in training & development, health & safety, employee engagement, diversity & inclusion, and workforce composition & staffing are associated with increased workforce productivity, reduced turnover, and higher customer satisfaction.
- Better HCM reporting (more quant-focused, less narrative) associated with return on invested talent (ROIT) – defined as the dollar return per one dollar invested in talent - is nearly 3 times higher than the ROIT of companies that more heavily rely on narrative disclosure.<sup>2</sup> In the United Kingdom, where issuers are required to report detailed human capital information, firms with stronger human capital reporting show a return on invested talent (“ROIT”) – that is nearly 3 times higher than the ROIT of non-disclosers and operating margins that are 33 percent higher than those of non-disclosers.<sup>3</sup>

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<sup>2</sup> Embankment Project for Inclusive Capitalism. (2018). *The 2018 EPIC Report*, 42. Retrieved from: <https://www.epic-value.com/#report>.

<sup>3</sup> HCM reporting quality example provided by Dr. Anthony Hesketh, Lancaster University Management School: <https://www.sec.gov/comments/265-28/26528-5180428-183533.pdf>  
Disclosers obtain a higher return on investment from talent (ROIT). Similar to the concept of return on invested capital (ROIC), the ROIT calculation enables firms to establish the returns generated from their investment in human capital. The ROIT for those firms in the upper quartile of human capital reporting (£3.01 for every £1 invested) were nearly three times those with those with the lowest quartile of human capital disclosure (£1.17). Even in the U.S., where human capital disclosure is less extensive, top-quartile reporting firms (\$2.09 for every \$1 invested in their talent) on average outperform the returns secured from talent by those in the bottom quartile of human capital reporting (\$1.87)

Chairman Jay Clayton  
Vanessa A. Countryman, Secretary  
Securities and Exchange Commission  
Reg. S-K - File S7-11-19

We hope you will consider our letter as the SEC moves forward to finalize amendments to Regulation S-K. If you would like to discuss this letter further, please feel free to contact me at [REDACTED] or Mary Hartman Morris at [REDACTED].

Sincerely,



Aeisha Mastagni  
Portfolio Manager



Mary Hartman Morris  
Investment Officer

Cc: Allison H. Lee, Commissioner - [CommissionerLee@sec.gov](mailto:CommissionerLee@sec.gov)  
Hester M. Peirce, Commissioner - [CommissionerPeirce@sec.gov](mailto:CommissionerPeirce@sec.gov)  
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<sup>i</sup> Laurie Bassi & Dan McMurrer, "Human Capital Management Predicts Stock Prices" (June 2010): Two portfolios of large-cap companies launched in 2001 and 2003 using criteria related to training and employee development outperformed the S&P 500 on an annualized basis by 3.1% and 4.4%, respectively (through May 2010).

- Alex Edmans (London Business School), "Does the Stock Market Fully Value Intangibles," (2011) – Investing in a value-weighted portfolio of companies in the Fortune 100 America's Best Companies to Work For from 1984-2009 generated excess risk-adjusted returns of 3.5% per year.
- Aon Hewitt, "2015 Trends in Global Employee Engagement" (2015): A 5% increase in employee engagement leads to a 3% increase in revenue growth the following year.
- Zeynep Ton (MIT Sloan) case studies linking high investments in workers and operational changes to improve efficiency in retail stores with financial performance and customer satisfaction ("Why 'Good' Jobs are Good for Retailers" (2012))
- Also see literature reviews, including a recent one from Harvard Law School (Aaron Bernstein & Larry Beferman, "The Materiality of Human Capital to Corporate Financial Performance" (2015))