

ESG

Reporting Guide

Human Capital
Disclosures

ESG and impact investing advisory with the goals of risk management and value enhancement

Blue Dot Capital is a sustainable finance consultancy. We partner with investors and investment managers to support the end-to-end development and execution of ESG and impact investing capabilities across asset classes. Our clients and partners include asset management, alternative investment, and wealth management firms.

ESG Reporting Guide

Human Capital Disclosures

Human capital management is a key driving force behind employee satisfaction and business growth. With the growing importance of 'S' within the ESG consideration set, investors are increasingly looking at companies' human capital strategies and practices to make informed investment decisions. Many companies now disclose their human capital management approach using reporting frameworks such as the SASB Standards, GRI Standards, Embankment Project for Inclusive Capital, and ISO 30414 Human Capital Reporting and Disclosure Guidelines.

Regulatory demand for material human capital disclosures has been enhanced in recent months. In November 2020, the Securities and Exchange Commission (SEC) modernized Regulation S-K, asking registrants to disclose the following under item 101(c)(2)(ii) in SEC filings:

"Under the final amendments, Item 101(c) will require, to the extent such disclosure is material to an understanding of the registrant's business taken as a whole, a description of a registrant's human capital resources, including any human capital measures or objectives that the registrant focuses on in managing the business."

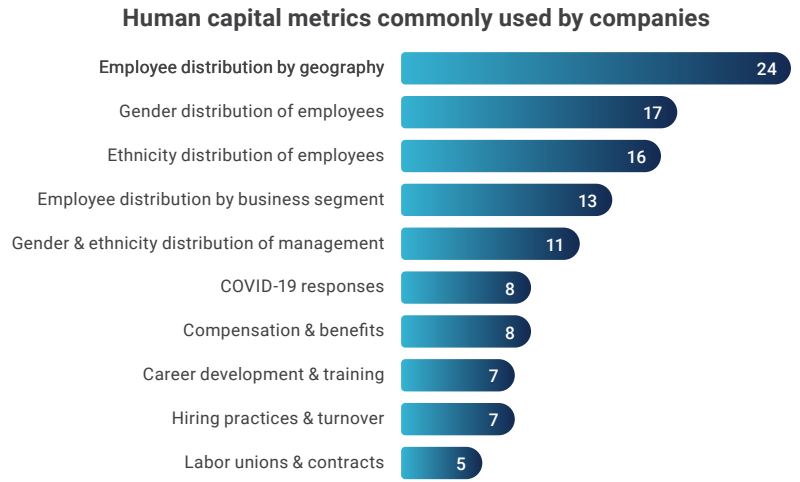
Rather than imposing a prescriptive one-size-fits-all human capital disclosure framework, the SEC takes a principles-based approach and leaves the disclosure open to interpretation. The SEC guides registrants to focus on human capital measures or objectives that help with business management, such as the attraction, development, and retention of employees¹. The flexibility in reporting allows end investors to gain a better understanding of how their portfolio companies perceive human capital.

To understand the current state of human capital reporting post the SEC regulation, we analyzed the 10-K forms of the S&P 500 Top 50 companies.

The Current State of Human Capital Disclosures: A Study of S&P 500 Top 50 Companies

The figure on the following page lists some of the commonly used human capital metrics among the S&P 500 Top 50 companies.

Commonly Reported Human Capital Metrics



Source: Blue Dot Capital (2021)

Human capital metrics such as pay, career development, hiring practices, turnover, and employee distribution in terms of geography, gender, and ethnicity are industry-agnostic. A few companies from labor-intensive industries additionally reported on labor unions and contracts.

Employee Distribution by Geography:

Most companies published employee distribution as a breakdown of employees based in and outside of the US. Seven companies provided further regional distribution of workforce across the globe.

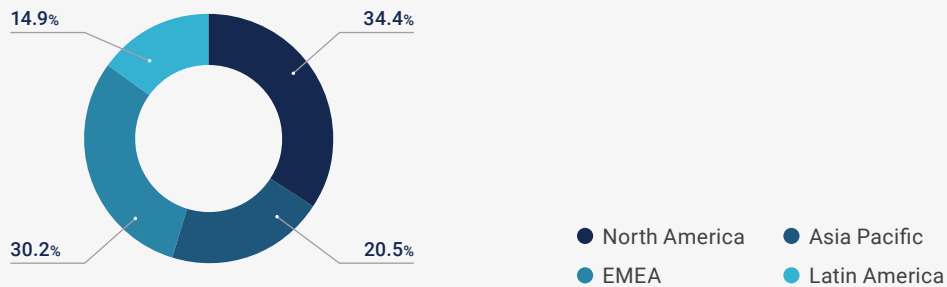
Johnson & Johnson

Employees and Human Capital Management

As of January 3, 2021 and December 29, 2019, the number of employees were approximately:

	2020	2019
Employees	136,400	133,200
Full-time equivalent (FTE) positions	134,500	132,200

Employees by Region (in Percentages)



Source: FORM 10-K Johnson & Johnson

Diversity & Inclusion:

Less than half of the companies disclosed the gender and ethnic distribution of their human capital. Of the sixteen companies that reported information on the diverse ethnic representation of their employees, only five provided additional information on the proportion of various ethnic representations in their US workforce.

JP Morgan

JPMorgan Chase had 255,351 employees in 62 countries as of December 31, 2020, with over 60% of those employees located in the U.S. As of December 31, 2020, of the Firm's global employees that self-identified, 49% self-identified as women and of the Firm's U.S.-based employees that self-identified, 52% self-identified as ethnically diverse (defined as all Equal Employment Opportunity Commission classifications other than white). In addition, of the Firm's U.S.-based employees, 3% self-identified as LGBT+, 3% as military veterans and 4% as people with disabilities.

Source: FORM 10-K JPMorgan Chase & Co.

COVID-19 Responses:

Post the COVID-19 outbreak, companies have started reporting on lay-offs, additional leave, and monetary contributions towards COVID-19 relief. Eight companies provided detailed information on their COVID-19 responses, while others mentioned the health and safety measures undertaken regarding the pandemic.

Verizon

In 2020, Verizon employees across the Company came together in new ways in response to the health and humanitarian crisis brought on by the novel coronavirus (COVID-19) pandemic. Soon after COVID-19 was first identified, Verizon took many broad-ranging steps to support our employees and their families so that the Company could continue providing our essential services to our customers and communities. Some of these measures included temporarily moving over 115,000 of our employees to remote work arrangements and temporarily closing nearly 70% of our Company-owned retail store locations or moving to appointment-only store access; limiting our customer-focused field operations for a period of time; enhancing safety protocols for employees working outside their homes; launching a COVID-19 leave of absence policy and expanded family care assistance for employees; and providing additional compensation to employees in front line roles that could not be done from home for a period of time. In an effort to foster transparency and provide support during this unprecedented time, Verizon launched a daily live webcast with current information on the Company's actions to address the impacts of COVID-19 as well as a number of broad ranging resources for employees. In addition, Verizon re-trained over 20,000 frontline employees to temporarily serve in other roles, such as customer service or telesales, which not only promoted the health and safety of our employees, but also provided opportunities for learning and career development.

Source: FORM 10-K Verizon Communications Inc

Labor Union and Related Contract Information:

Five companies from the telecom, utility, transport, and consumer services industries shared information on labor contracts.

Union Pacific Corporation

Approximately 83% of our full-time employees are represented by 13 major rail unions. Pursuant to the Railway Labor Act (RLA), our collective bargaining agreements are subject to modification every five years. The RLA procedures include mediation, potential arbitration, cooling-off periods, and the possibility of Presidential Emergency Boards and Congressional intervention. The current round of negotiations began on January 1, 2020, related to years 2020-2024. Contract negotiations historically continue for an extended period of time, and work stoppages during negotiations are rare.

Source: FORM 10-K Union Pacific Corp

Compensation & Benefits:

Eight companies reported on a variety of aspects such as compensation and benefits expense, minimum hourly wage, gender and ethnic pay gap, and approach to fair and equitable compensation. The examples below illustrate a few approaches to reporting on compensation and benefits.

Wells Fargo

Pay Equity Review. Wells Fargo is committed to fair and equitable compensation practices, and we regularly review our compensation programs and practices for pay equity. Each year, we engage a third-party consultant to conduct a thorough pay equity review of employee compensation, which considers gender, race, and ethnicity. The results of our 2020 review, after accounting for factors such as role, tenure, and geography, show that women at Wells Fargo continued to earn more than 99 cents for every \$1 earned by their male peers. In addition, our U.S. employees who are racially/ethnically diverse continued to earn more than 99 cents for every \$1 earned by Caucasian/white peers. These results have remained consistent since we started publishing the results of our pay equity review in 2017.

Compensation and Benefits. We value and support our people as a competitive advantage. We provide all eligible full- and part-time employees (and their eligible dependents, as applicable) with a comprehensive set of benefits designed to protect their physical and financial health and to help them make the most of their financial future. Our annual investment in benefits programs per employee was approximately \$15,700. During 2020, we also raised minimum hourly pay levels in a majority of U.S. markets, with more than 25,000 employees receiving a pay adjustment.

Source: FORM 10-K Wells Fargo & Company

Citi Group

- In 2018, Citi was the first major U.S. financial institution to publicly release the results of a pay equity review comparing compensation of women to men and U.S. minorities to U.S. non-minorities. Since then, Citi has continued to be transparent about pay equity, also disclosing its unadjusted or “raw” pay gap for both women and U.S. minorities since 2019.
- Citi’s 2020 results found that, on an adjusted basis, women globally are paid on average more than 99% of what men are paid at Citi, and there was no statistically significant difference in adjusted compensation for U.S. minorities and non-minorities. Following the review, appropriate pay adjustments were made as part of Citi’s 2020 compensation cycle.
- Citi’s 2020 raw gap analysis showed that the median pay for women globally is better than 74% of the median for men, up from 73% in 2019 and 71% in 2018, and that the median pay for U.S. minorities is just under 94% of the median for non-minorities, which is similar to 2019 and up from 93% in 2018.
- To continue closing the pay gap, Citi has set goals to increase representation at the assistant vice president through managing director levels to at least 40% for women globally and 8% for Black colleagues in the U.S. by the end of 2021.

Source: FORM 10-K Citigroup Inc.

Bank of America

In 2020 and 2019, the Corporation’s compensation and benefits expense was \$32.7 billion and \$32.0 billion, or 59 percent and 58 percent, of total noninterest expense.

The Corporation is committed to racial and gender pay equity by striving to fairly and equitably compensate all of our employees. We maintain robust policies and practices that reinforce our commitment, including reviews with oversight from our Board and senior management. In 2020, our review covered our regional hubs (U.S., U.K., France, Ireland, Hong Kong, and Singapore) and India and showed that compensation received by women, on average, was greater than 99 percent of that received by men in comparable positions and, in the U.S., compensation received by people of color was, on average, greater than 99 percent of that received by teammates who are not people of color in comparable positions.

We also strive to pay our employees fairly based on market rates for their roles, experience and how they perform, and we regularly benchmark against other companies both within and outside our industry to help ensure our pay is competitive. In the first quarter of 2020, we raised our minimum hourly wage for U.S. employees to \$20 per hour, which is above all governmental minimum wage levels in all jurisdictions in which we operate in the U.S.

Source: FORM 10-K Bank of America Corp.

Conclusion

Driven by investor and regulatory demands, human capital disclosures will grow in importance on corporate agendas. As the scrutiny of human capital management becomes more rigorous, companies will need to evaluate and accurately report on their talent, employees, and other stakeholders.

We will continue to monitor how the reporting of human capital disclosures evolves and keeps pace with regulations over the following quarters and years.