October 26, 2021

The Honorable Gary Gensler
Chair, Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File Number 4-711 (Human Capital Petition)

Dear Chair Gensler,

We are writing in support of the July 6, 2017 petition for rulemaking regarding human capital management disclosure standards (File Number 4-711).

The SOC Investment Group works with pension funds sponsored by unions affiliated with the Strategic Organizing Center, a coalition of four unions representing more than four million members. These funds have over $250 billion in assets and are significant participants in the global capital markets. The SOC Investment Group is a member of the Human Capital Management Coalition, a group of 35 institutional investors representing $6.6 trillion in assets, which aims to elevate human capital management as a critical component in company performance.

There is broad consensus that human capital management is important to the bottom line. A large body of empirical work has shown that skillful management of human capital is associated with better corporate performance, including better risk mitigation. We view effective human capital management as essential to long-term value creation and therefore material to evaluating a company's prospects.

Essential foundational information for investors that should be mandated across all companies includes workforce size and composition (including its use of agency staff and independent contractors), worker turnover, diversity, total workforce cost, and worker health and safety.

Worker health and safety is an important barometer of growth-driven operating risks, as in the case of Amazon, the country's largest employer. A Washington Post analysis of Occupational Safety and Health Administration data found that Amazon's aggressive and unrealistic productivity quotas resulted in worker injury rates double that of competitors.[1] In the first US law of its kind, Amazon's poor health and safety practices led California to require all companies using warehouse labor to disclose productivity quotas and bar use of algorithms that prevent employees from taking rests and bathroom breaks, thereby endangering their health and safety.[2] [3]

We would like to draw your attention below to some examples of the compelling empirical research supporting the link between human capital metrics and company share performance. The value of this disclosure to investors is underscored by its use in investment manager client research and products.

Employee Turnover
Research by Li et al[4] shows that employee turnover, which measures workforce stability, is significantly associated with financial performance by firms. Higher employee turnover is linked to lower returns and increases operational uncertainty for future financial performance. The study was based on turnover data over a 10-year period of 3,612 companies and obtained from a leading labor market analytics company that continuously tracks and compiles data from the online profiles and resumes of employees.

Morgan Stanley Investment Management,[5] in partnership with Harvard Business School, analyzed employee retention of nearly 2,000 public firms, finding a statistically significant relationship as well as strong evidence of causality between employee retention rates and stock returns. Firms in the top quintile of employee retention had cumulative gains that were 25 percent higher, or 2.8 percent annualized, than those in the bottom quintile. For the top quintile a year-over-year improvement in a company's employee retention implied positive alpha for its stock in the subsequent year 58.5 percent of the time. For the bottom quintile a year-over-year deterioration in a company's employee retention implied negative alpha in the subsequent year 77 percent of the time. The researchers attributed these relationships to result from links between employee retention with talent continuity, internal development, and cost efficiencies.

Employee Satisfaction
J.P. Morgan used proprietary data collected by investment research firm Irrational Capital quantifying measures of corporate culture and employee motivation to assess the impact on stock prices of positive employee intentions and behavior.[6] Based on data derived from Human Resources employee survey responses, and web scraping from social media sites, researchers developed a "Human Capital Factor (HCF)" indicative of employee purpose, loyalty, trust, and appreciation. The HCF was shown to be positively correlated with higher than market returns, lower volatility, and lower loss drawdown. The HCF also was shown to provide a more meaningful evaluation of company diversity initiatives than counting measures (e.g., the number of diverse board members).

Health & Safety
Fabius et al[7] found that a portfolio of companies recognized as award-winning for their approach to the health and safety of their workforce outperformed the S&P 500 by a ratio approaching 2:1 under four different scenarios using simulation and past market performance. The company awards, given by the American College of Occupational and Environmental Medicine, measured 17 factors relating to health, safety, and environmental management programs. Excellence was defined as reducing health and safety risks and demonstrating positive impacts on the business.

Research by Goetzel et al[8] tracked the stock values relative to the S&P 500 of 26 companies receiving the C. Everett Koop National Health Award for outstanding workplace health wellness promotion programs. The award was made based on objective, verifiable statistical data reflecting program accomplishments in health behavior change and risk reduction plus cost (health care or productivity) savings. In the 14-year period tracked (2000–2014), Koop Award winners' stock values appreciated by 325 percent compared with the market average appreciation of 105 percent.

Quality Jobs
Schroders' "Quality Jobs" value creation investment initiative[9] focuses on the profitability and operational efficiencies related to jobs that meet an employee's basic needs by paying a living wage, providing comprehensive benefits, reliable schedules, the ability for engagement, as well as equal

opportunities in career development. The Quality Jobs initiative is based on evidence[10] that over the long-term poor job quality often results in higher turnover, operational inefficiencies, and customer service problems, each of which can result in higher costs and lower financial returns for many companies. Investments under the Quality Jobs initiative seek to invest in companies which promote workforce engagement, recognize the importance of all employees, and facilitate an adaptable business to meet market demands.

These are but a few illustrations of the compelling evidence supporting the importance of human capital disclosures to investors. If the Commission or Staff have any questions about this letter, or if we can provide any additional information, please contact my colleague Cynthia Simon at csimon@socinvestmentgroup.com.

Thank you for your consideration.

Sincerely,

Dieter Waizenegger
Executive Director

---

[1] Jay Greene and Chris Alcantara, "Amazon warehouse workers suffer serious injuries at higher rates than other firms." June 1, 2021. The Washington Post. Available at https://www.washingtonpost.com/technology/2021/06/01/amazon-osha-injury-rate/.

[2] AB-701 Warehouse Workers Protection Act. Available at https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB701.

[3] Pippa Stevens and Jordan Smith. September 23, 2021. CNBC After Hours. Available at https://www.cnbc.com/2021/09/23/california-law-limits-quotas-ensures-bathroom-breaks-for-amazon-workers.html

[4] Qin Li, Ben Lourie, Alexander Nekrasov, and Terry J. Shevlin, "Employee Turnover and Firm Performance: Large-Sample Archival Evidence." May 18, 2021. Management Science, forthcoming. Available at SSRN: https://ssrn.com/abstract=3505626.

[5] Morgan Stanley Investment Management, Counterpoint Global, "Culture Quant Framework." January 2021. Available at https://www.morganstanley.com/im/publication/insights/articles/article_culturequantframework_us.pdf?1629731718374.

[6] J.P. Morgan, Global Quantitative & Derivatives Strategy. "ESG-Environmental, Social & Governance Investing, Introducing the 'Human Capital Factor'." March 18, 2021. Available at https://www.irrational.capital/post/jp-morgan-chase-and-irrational-capital-release-paper.

[7] Raymond Fabius, MD, R. Dixon Thayer, BA, Doris L. Konicki, MHS, Charles M. Yarborough, MD, Kent W. Peterson, MD, Fikry Isaac, MD, Ronald R. Loeppke, MD, MPH, Barry S. Eisenberg, MA, and Marianne Dreger, MA ,"The Link Between Workforce Health and Safety and the Health of the Bottom Line: Tracking Market Performance of Companies That Nurture a 'Culture of Health'." Journal of Occupational and Environmental Medicine, Volume 55, Number 9. September 2013. Available at http://acoem.org/acoem/media/PDF-Library/About_ACOEM/Link_Between_Workforce_Health_and_Safety.pdf.

[8] Ron Z. Goetzel, PhD, Raymond Fabius, MD, Dan Fabius, DO, Enid C. Roemer, PhD, Nicole Thornton, BA, Rebecca K. Kelly, PhD, RD, and Kenneth R. Pelletier, PhD, MD (hc). "The Stock Performance of C. Everett Koop Award Winners Compared with the Standard & Poor's 500 Index." Journal of Occupational and Environmental Medicine, Volume 58, Number 1. January 2016. Available at https://www.researchgate.net/publication/288830659_The_Stock_Performance_of_C_Everett_Koop_Award_Winners_Compared_With_the_Standard_Poor%27s_500_Index.
[9] Sarah Bratton Hughes. "Quality Jobs: A multi-faceted, value creation strategy". February 2021. Available on Schroeder's website at https://www.schroders.com/getfunddocument/?oid=1.9.4065351&_ga=2.10739505.463936872.1629752082-1488843381.1629752082.
[10] Zeynep Ton. The Good Jobs Strategy: How the Smartest Companies Invest in Employees to Lower Costs and Boost Profits. Seattle, Lake Union Publishing, 2014.