



LGIM's human capital management approach and expectations



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As a global investor, Legal & General Investment Management (LGIM) is committed to assessing and addressing the risk and opportunities related to human capital management, which we believe to be firmly part of our fiduciary duty of managing our clients' assets.

Summary

Human capital pertains to the individuals constituting a company's workforce,¹ encompassing its competencies, skills, experience, and motivation to innovate, as per the Integrated Reporting Framework.² A company's workforce is integral to its success and directly influences its performance, growth trajectory, and resilience. Recognising the significance of human capital, our expectations and approach emphasises the management and investment in human capital as a key driver of value creation.³

Human capital and why it matters to investors

A company's success is closely tied to its workforce's capabilities, skills, and motivation. At a time when the global economy is undergoing significant transformations, from digitisation and automation to climate and energy, a company's workforce is more central to business resiliency than ever.

The quality of a company's human capital assets plays a pivotal role in driving opportunities through innovation, productivity, and competitive advantage, and therefore may impact company performance. This is particularly true in sectors where intangible assets make up significant portions of the balance sheet such as technology and finance, where employees' skills and talents form part of a company's intellectual property and other assets.⁴ Conversely, workforce-related issues stemming from poor labour relations can lead to operational volatility from impacts to employee attendance and morale, increasing the risk of uncertain productivity and performance.⁵ Several examples in recent years of labour disputes across various sectors^{6,7} have shown how operational instability and increased workforce-related risks can be mitigated with improved human capital management and workforce engagement practices.

Additionally, prioritising employee health, safety, and wellbeing is a critical driver of a company's financial value. Studies have consistently shown that a healthy and safe work environment fosters higher productivity, reduces absenteeism, and lowers turnover rates.⁸ By investing in employee wellbeing initiatives, companies can enhance workforce morale, engagement, and retention, leading to long-term cost savings and improved organisational resilience.⁹

Meanwhile, human capital management is becoming increasingly relevant with the rise in reliance on an

¹ Please refer to footnote 15 for more information on our definition, which is derived from the [EFRAG's European Sustainability Reporting Standards \(ESRS\) S1 exposure draft](#).

² [Creating Value: The value of human capital reporting \(International Integrated Reporting Council, 2016\)](#)

³ Our expectations and approach on diversity and human rights are primarily addressed in the [Diversity Policy](#) and [Human Rights Policy](#), rather than in this policy. Additional views on living wage and other aspects related to income inequality are discussed [here](#) and [here](#).

⁴ [Trading on Talent: Human Capital and Firm Performance](#) (Fedyk, A., & Hodson, J., 2022)

⁵ [The Impact of Strike Action on Productivity: An analysis](#) (Offordile Nosike, R. C. J., & Asogwa, O. S., 2024)

⁶ [Labor Action Tracker Annual Report 2023](#), pg 5. (ILR School, Cornell University & LER School, University of Illinois, 2024)

⁷ [Samsung Union Strike Could Impact Global Memory Chips](#) (Forbes, July 2024)

⁸ [Benefits and costs: Leading health and safety at work \(hse.gov.uk\)](#);

[Employee Turnover: Causes, Importance and Retention Strategies](#) (Al-Suraihi et al., 2021);

[Safety culture, safety performance and financial performance. A longitudinal study](#) (Bautista-Bernal, I., Quintana-García, C., & Marchante-Lara, M., 2024)

⁹ [Business benefits of boosting employee health and well-being](#) (World Economic Forum, 2023)

[Employee Engagement in U.S. Stagnant in 2015 \(gallup.com\)](#) (2016)

'alternative' workforce, including temporary, provisional, or contingent workers. Ensuring compliance with labour laws, regulations, and contractual obligations is essential to mitigating legal liabilities and safeguarding a company's reputation. Moreover, overlooking human capital-related risks, such as labour disputes or violations of workers' rights, including the right to organise, can lead to financial penalties, legal proceedings, and reputational damage, which can ultimately impact shareholder value.¹⁰

International disclosure standards and frameworks have long captured the importance of measuring workforce impacts to better monitor risks and opportunities. The original Sustainability Accounting Standards Board (SASB) standards identified one or more human capital-related disclosure topics as potentially material for nearly two-thirds of all industries. Now, under the umbrella of the International Sustainability Standards Board (ISSB), the organisation has committed to further research assessing disclosures on risks and opportunities related to human capital, demonstrating continued prioritisation of this issue by investors and companies.¹¹ As part of this effort, ISSB has committed to work with the Global Reporting Initiative (GRI) to improve the interoperability of the standards.¹² GRI encourages human capital-related disclosure on employment data, labour relations, occupational health and safety, employee training and education, diversity, equity and inclusion, non-discrimination practices, and freedom of association and collective bargaining.

Multiple studies support our view that companies dedicated to nurturing a skilled, engaged, and diverse workforce are better positioned to drive long-term value creation for shareholders.¹³

LGIM's approach

We use our influence through investment stewardship in a bid to raise market-wide standards across our six strategic themes: People, Governance, Health, Digitisation, Climate, and Nature – first through demanding corporate transparency, disclosure, and governance, and then through informed and targeted action to improve practices.

LGIM seeks to manage its clients' assets by raising market standards and best practice. One of the ways we do this is by setting expectations for investee companies in public markets. We believe our engagement with company boards and executive directors is central to improving all facets of responsible investment.

We recognise that human capital needs to be considered through a holistic lens, including the multi-faceted aspects of this topic. Therefore, there are overlaps with other engagement themes we focus on, including but not limited to human rights, the just transition, climate adaptation, digitisation, transparency, and governance.¹⁴

Recognising the overlap between worker rights and other issues, LGIM is focused on the potential impact of human capital issues on investee companies, guided by the following international principles and standards:

- International Labour Organization's (ILO) labour standards
- International Labour Organization's (ILO) Core Conventions
- United Nations Guiding Principles for Business and Human Rights (UNGPR)
- UN Global Compact

¹⁰ [Board Rules Remedies Must Compensate Employees for All Direct or Foreseeable Financial Harms \(National Labor Relations Board, 2022\)](#)

¹¹ [ISSB to commence research projects about risks and opportunities related to nature and human capital](#) (IFRS Foundation, 2024)

¹² [GRI and IFRS Foundation collaboration to deliver full interoperability that enables seamless sustainability reporting](#) (IFRS Foundation, 2024)

¹³ See footnotes 4 through 10.

¹⁴ Please refer to the LGIM Investment Stewardship webpage to understand our policies and expectations on relevant engagement themes.

Developing our capacity to assess human capital-related risks and opportunities

The availability of accurate, comparable, and decision-useful workforce-related data is an essential pre-requisite to understanding, assessing, and managing human capital risks and opportunities within our clients' portfolios. Various market pressures have increased attention on the measurement and management of human capital topics, from the COVID-19 pandemic spotlighting the importance of workforce productivity, safety, and engagement, to certain markets beginning to integrate social factors into regulated sustainability disclosure requirements. However, a significant shortfall remains in globally consistent approaches and metrics for assessing human capital risks and opportunities.

To support the development of available data, LGIM engages extensively with data providers and, where it is appropriate to do so, leverages what is currently available in our analysis and decision making. LGIM has developed the [LGIM ESG Score](#) – a proprietary scoring methodology by which we assess companies on their environmental, social, and governance (ESG) strengths leveraging suitable data points. We use the LGIM ESG score to promote greater disclosure and transparency in the market, but also as a tool in our investment appraisal and decision making. We currently consider the human capital metrics in the table below in our scoring, assessing the strength of companies' social policies as a proxy for how companies value, respect and support their employees and workforce and how they promote a healthy and engaging workplace culture.

There is significant progress to be made in data quality before we can move beyond these policy assessment metrics and leverage at scale, and we recognise the limitations of such metrics without other contextual datapoints. Therefore, supporting the development of this area is an important component of our investment stewardship approach to human capital management and in building our capacity to better assess risks and opportunity exposures.

LGIM ESG Score Metric	Description
Discrimination policy	Assessment of a company's policy to prohibit workplace discrimination and ensure equal opportunity, in line with ILO conventions
Bribery and corruption policy	Assessment of a company's commitments to mitigate risks posed by bribery and corruption, such as within a code of conduct or ethics, and prohibition of corruption or payment of bribes of any kind
Freedom of association policy	Assessment of whether a company has a commitment to respect its workers' right to join associations or unions and to organise and to bargain collectively, in line with ILO conventions
Supply chain policy	Assessment of a company's systematic consideration in the procurement process of suppliers' social performance
Incident tracking	Assessment of employee, supply chain, and business ethics incidents, as the level of material incidents may indicate that current policies are either of poor quality or insufficiently enforced

Working with stakeholders

While we believe human capital management is a global issue and requires a market-wide approach, we also recognise the geographic, cultural, and industry-specific nuances that exist when addressing risks and opportunities within the workforce. That is why a vital part of our approach is engagement with other stakeholders and market participants, such as other investors, regulators, data providers, and civil society organisations.

We believe in the power of collaboration, and we regularly work with peers and other stakeholders. By joining forces with collaborative organisations, we aim to broaden our reach and strengthen our voice to improve the human capital management of our investee companies, as well as to advance regulations that promote consistent and comparable disclosures of material information on this topic. The table below summarises examples of key collaborative organisations that we participate in on human capital management topics.

Organisation	Key themes
Human Capital Management Coalition	Human capital disclosures
International Sustainability Standards Board (ISSB)	Human capital disclosures
Interfaith Center on Corporate Responsibility (ICCR)	Advancing worker justice
Platform for living wage financials	Living wage

Reporting to clients

We are committed to communicating our efforts to our clients. In addition to providing regular updates in our quarterly reports and annual Active Ownership Report, we publish thought leadership pieces on the topic to inform investee companies and our clients and to help to drive the conversation forward. In line with our commitment, we will continue to publicly report credible progress, through successful company engagement and voting activity.

Our expectations of companies

We understand that approaches to human capital management often vary by region, industry, and company. We expect our investee companies to incorporate human capital considerations into their governance and risk management processes, given that the execution of a company's business strategy is often dependent on its people and culture. Transparent narrative disclosure provides important context to investors, complementing relevant quantitative human capital information.

While we emphasise effective management and measurement, we are also sensitive to reporting challenges and seek to support standardisation wherever feasible. Our expectations below are designed to align with existing global reporting guidance, such as the GRI, the ISSB, and relevant local frameworks. We are not prescriptive in terms of the location, frequency, and form of the disclosure and would encourage companies to refer to established standards which have extensive guidance and adapt their practices and reporting as the landscape evolves.

Human capital integration into strategy and risk management

- **Oversight of human capital strategy:** Define clear roles for the company board and management in overseeing its human capital strategy and how it supports the overall business strategy. This includes processes for the board and management to review relevant human capital information and engage with both external and internal stakeholders to support these responsibilities.
- **Risk management processes:** Develop and implement processes to identify and incorporate human capital risks into existing risk management frameworks. This includes evaluating and addressing various human capital management risks, including but not limited to health, safety and well-being, technology and automation, and 'just transition' considerations, where relevant to the business. If the company has set targets or measures specific KPIs to assess risk and performance related to its human capital strategy, we encourage disclosure of this additional information.
- **Approach to workforce engagement:** Implement processes for ongoing employee engagement to foster a positive workplace culture and provide channels to enable individuals to seek advice or raise concerns. This includes establishing and maintaining robust policies for whistleblowing, grievance mechanisms, and the right to freedom of association and collective bargaining.
- **Workforce development strategy:** Assess and measure workforce needs and skills gaps to inform where investment in the workforce is essential to the business strategy. Where relevant, provide career-building opportunities such as training and education to enable internal mobility, programmes that support upskilling or reskilling workers in economic transitions, and performance reviews. Ensure these programmes are effectively managed and their outcomes are regularly assessed.

Workforce metrics

- **Workforce composition:** Monitor and report the composition of a company's workforce, including by worker type (e.g., employees and non-employee workers,¹⁵ supply chain workers) and across gender, ethnicity, and other workforce demographics.¹⁶
- **Retention and turnover:** Monitor and report workforce retention and turnover rates, ensuring this data is segmented by the same demographics and job categories as listed above.
- **Wages and compensation:** Set out policy on wages and benefits (e.g., minimum wage rates or whether the company provides a living wage; proportion of workforce offered and utilising key benefits such as parental leave) across various worker types. Manage and disclose the company's pay practices, including gender and ethnicity pay gap information.¹⁷

We consider the above guidance on metrics to be consistent with the foundational disclosures called for by the Human Capital Management Coalition.¹⁸

Additional considerations and principles for effective management and reporting

We also expect companies to consider the following factors in their approach to human capital management and associated disclosures:

- **Measurement approaches:** Companies should be transparent about how they evaluate the effectiveness of their human capital management activities. Where appropriate, companies should manage and report using metrics that allow for year-on-year comparisons, assess trends over time, and measure performance against targets and action plans.
- **Breakdown of key performance indicators:** For any human capital topic that the company deems material for its business, they should provide a breakdown by demographics (e.g., gender, age), level (e.g., executive, management, other), employment types (e.g., permanent or seasonal or alternative worker; new grad hire or mid-hire). This context helps both internal and external stakeholders understand challenges and progress on key items.
- **Human capital management in the supply chain:** While our predominant focus is on a company's direct operations, we expect companies to ensure that critical suppliers –those that are essential to their business – uphold the same human capital management standards as the company itself within a specified timeframe. For this, companies are responsible for regularly assessing and identifying their critical suppliers, as any disruption of a critical supplier can severely affect the company's product or service delivery, potentially leading to operational, reputational, and financial risks such as higher costs and revenue loss.

LGIM voting

As explained in our [Human Rights Policy](#), LGIM assesses whether companies are in violation of UN Global Compact

¹⁵ [EFRAG's European Sustainability Reporting Standards \(ESRS\) S1 exposure draft](#) defines "own workforce" as "both workers who are in an employment relationship with the undertaking ('employees') and non-employee workers who are either individuals with contracts with the undertaking to supply labour ('self-employed workers') or workers provided by undertakings primarily engaged in 'employment activities'" (pg 7)

¹⁶ We recognise that the legality of sharing certain demographic data of employees such as ethnicity can vary by market. We encourage workforce disclosures by these demographic breakdowns where it is not in conflict with jurisdictional requirements or protections.

¹⁷ Ibid

¹⁸ [Foundational Human Capital Reporting: Taking a Balanced Approach \(Human Capital Management Coalition\)](#)

principles and votes against companies that are deemed to be in direct breach of at least one of the UN Global Compact principles for a continuous period of three years or more. These principles include the right to freedom of association and collective bargaining and the elimination of discrimination in respect of employment and occupation, incorporating themes that are closely aligned with the human capital management expectations referenced above. Companies in violation of this will be included on LGIM's Future World Protection List, reflecting a failure to meet our minimum standards of globally accepted business practices.

As we deepen our engagements with companies in the coming years, we will consider further integrating human capital into our voting policies where appropriate. We also carefully assess most human capital related shareholder resolutions. We consider the asks from the principled perspective that we set out in our policies, and gauge each resolution's alignment with our expectations, therefore we take a nuanced approach in coming to our voting decisions.

We publish our voting decisions and rationales for votes against management within 24 hours of the company's shareholder meeting on our [voting disclosures webpage](#). Sometimes, we may also choose to declare our vote intention ahead of meetings, to draw the attention of the market, clients and other companies to a particular issue, resolution or outcome. The decision to do so can be undertaken as part of an escalation strategy, where we deem the vote to be particularly contentious, or as part of an engagement programme.

Important information

Legal & General Investment Management
One Coleman Street
London
EC2R 5AA

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