



March 9, 2018

Mr. Doug McMillon
Chief Executive Officer
Walmart Stores, Inc
702 S.W. Eighth St.
Bentonville, AR 72712

Dear Mr. McMillon,

We are writing to you as members of the Human Capital Management Coalition (the “HCM Coalition” or “Coalition”), and long-term shareholders of Walmart Stores Inc. (Walmart), to request information regarding the Company’s approach to, and disclosure of, human capital management.

Specifically, this letter asks Walmart to:

1. Discuss the company’s human capital management strategy, including how the company measures and evaluates human capital-related performance; and
2. Strengthen existing disclosure of information about the company’s human capital-related policies, practices, and performance.

Established in 2013, the HCM Coalition is a cooperative effort among a global group of large institutional investors representing over \$2.8 trillion in assets to further elevate human capital management reporting as a critical component of company performance. More information about the Coalition is available at www.uawtrust.org/hcmc.

The importance of human capital¹ to corporate value creation has grown considerably over the past several decades as fundamental structural shifts toward a knowledge-based economy have resulted in a growing reliance on the talents of the workforce as an engine of economic growth. The collective knowledge, skills, and experiences of the workforce drive innovation, allowing companies to compete in an environment where ingenuity and the ability to quickly adapt to novel technologies are the keys to lasting success. As investors and stewards of capital on behalf of our beneficiaries and clients, we consider effective human capital management material and fundamental to navigating these shifts and ensuring the ongoing creation and preservation of long-term shareholder value.

This view is supported by a large body of empirical work clearly showing that skillful management of human capital is associated with better corporate performance across a number of dimensions, including increased capital efficiency, profitability, and higher returns to shareholders.^{2,3,4,5} Evidence also shows that poor human capital management

practices can create substantial operational, reputational, and legal risks that can lead to depressed financial performance.

Considering these findings, a wide range of investors – including the undersigned – are increasingly incorporating human capital considerations into their overall evaluation of a company’s prospects:

- BlackRock states in its 2017-2018 Investment Stewardship priorities report that it “expects companies to succinctly explain the long-term strategic goals management is working towards, the milestones that will demonstrate progress, and any obstacles anticipated or incurred. Each year this explanation should be refreshed and adapted to reflect the changing business environment and how it might affect how a company prioritizes capital allocation, including...employee development....”⁶ It also identifies human capital management as one of five engagement priorities over the same period.⁷
- State Street Global Advisors recently advised that companies “should develop a better understanding of their potential pool of employees and identify non-financial incentives that help them attract and retain employees,” recognizing that “a growing number of companies are starting to track and incorporate non-financial performance metrics such as employee turnover rates, customer satisfaction and service quality” to quantify the impact of wage strategies on the preservation and growth of long-term value.⁸

Despite its importance to investors as a means of evaluating company performance, decision-useful information on human capital management information can be hard to come by, especially from U.S.-listed companies. Every investor in the capital markets – regardless of size, investment horizon, or overall strategy – relies on information provided by issuers to make prudent investment, proxy voting, and engagement decisions. High-quality information in the form of disclosures and metrics that are relevant, reliable, and effective in communicating how well a company manages its resources allows investors to more efficiently direct capital to more productive uses, driving economic growth.

In the U.S. economy where workforce talent is an increasingly dominant source of value, existing reporting often fails to capture actionable information on how well a company is managing its assets. Without this information, investors are precluded from developing a complete assessment of the sources of value and risk in the companies they own. To broaden and enrich the conversation on the value of human capital management and the importance of more effective disclosure to investors, the HCM Coalition recently submitted a petition⁹ to the U.S. Securities and Exchange Commission urging higher-quality human capital-related reporting from listed companies.

We are engaging Walmart and a wide range of companies that have publicly disclosed workforce-related information in previous years. Through this initiative, we are primarily interested in:

1. Understanding how human capital management fits into Walmart's business strategy, helps to achieve the Company's strategic goals, and how the Company ensures that these goals are met; and
2. Establishing an open dialogue with Walmart to identify decision-useful human capital-related information that would allow investors to develop a more comprehensive assessment of how well the Company is allocating resources to both maximize value and mitigate risk over the long term.

More specifically, our Coalition has identified four human capital management areas wherein Walmart and investors would benefit from greater disclosures. These include:

- **Workforce Demographics** – Various experts, such as McKinsey and Company, emphasize that workforce diversity positions companies to react more effectively to market shifts and customer needs.¹⁰ Among leadership teams, diversity has also been shown to reduce groupthink,¹¹ enhance innovation and risk management,¹² and lead to a better mix of leadership skills, improved corporate governance, and a more risk-averse management style.¹³
- **Workforce Stability** – Investors would greatly benefit from a more thorough understanding of the stability of Walmart's workforce. This is necessary to better understand if the company is facing skill shortages, as this would affect financial performance.
- **Workforce Health and Safety** – Disclosures on health and safety would inform investors on Walmart's oversight and management of health and safety issues.
- **Workforce Productivity** – Analyses of workplace practices demonstrate that companies with low turnover experience greater productivity and financial performance.¹⁴ Investors would benefit from an understanding of Walmart's views on productivity and turnover rate and their impact on performance.

As a first step, we recommend that Walmart complete the attached questionnaire. We hope your responses will help us better understand your management in the above-mentioned areas, as well as the overarching policies, processes and controls at Walmart.

Thank you for considering our request, and we hope to receive your written response by April 6, 2018.

Please direct correspondence to:

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Office of the Illinois State Treasurer
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We look forward to hearing from you.

Sincerely,



Michael Frerichs
Illinois State Treasurer



Maureen O'Brien
Vice President & Corporate Governance Director
Segal Marco Advisors



Questions about Human Capital Management Strategy, Targets, and Benchmarking

The Human Capital Management Coalition is requesting information on the Company's approach to, and disclosure of, human capital management. Our questions are listed below.

Please note that the bullets under the bolded question are included to provide further context to our information request.

1. What is the Company's human capital management strategy, and how does this human capital management strategy support the overall business strategy and future goals?

- What is the Board's role in overseeing the Company's human capital management strategy? What is the role of individual Board committees?
- What is senior executive management's role in executing the Company's human capital management strategy? Which executives are primarily responsible for execution of the strategy and what are their individual roles?
- How does the Company's workforce structure and composition advance the Company's human capital management strategy?

2. Which quantitative and qualitative human capital-related metrics does the Company use to measure strategic success? Why were these metrics chosen?

- Has the Company identified metrics that are most indicative of performance, and if so, what are they and why?

3. How does the Company analyze how these metrics relate to performance?

- How does the Company measure returns from human capital-related investments?

4. How does the Company apply learnings from human capital management performance analyses to benchmark progress and set future targets?

5. How does the Company communicate information about its human capital management strategy to shareholders? Please provide references or links to information.

¹ The HCM Coalition generally views human capital as encompassing the knowledge, motivation, skills and experience of a company's workforce, as well as its alignment with the company's mission and values.

² The majority of the 92 studies reviewed by the Harvard Law School Pensions and Capital Stewardship Program found that human capital management policies were associated with better financial performance using metrics of value to investors, such as total shareholder return, return on assets, return on capital, profitability, and Tobin's Q. See Aaron Bernstein and Larry Beeferman, "The Materiality of Human Capital to Corporate Financial Performance," Pensions and Capital Stewardship Project, Labor and Worklife Program, Harvard Law School, Apr. 2015.

³ Investing in a value-weighted portfolio of companies in the Fortune 100 America's Best Companies to Work For from 1984 through 2009 generated excess risk-adjusted returns of 3.5% per year. See Alex Edmans, "Does the Stock Market Fully Value Intangibles," *Journal of Financial Economics*, Vol. 101, 621-640 (2011), at 621 (<http://faculty.london.edu/aedmans/Rowe.pdf>).

⁴ High-performing retailers use cross-training to provide flexibility and address variability in demand—thus better satisfying customers—without resorting to practices like last-minute ("just-in-time") scheduling and extremely short shifts that lead to higher turnover and lower motivation. Conversely, cutting labor hours—a common strategy among retailers looking to control expenses—often backfires in the form of reduced profitability. See Zeynep Ton, *The Good Jobs Strategy* (2014).

⁵ E.g. Mark Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," *Academy of Management Journal*, at 645-47 (1995), at 658-659 (http://www.markhuselid.com/pdfs/articles/1995_AMJ_HPWS_Paper.pdf) (High performance workplace practices are associated with lower turnover as well as better productivity and firm financial performance, including increases in Tobin's Q and gross rate of return on capital); Laurie Bassi & Dan McMurrer, "Human Capital Management Predicts Stock Prices," at 1 (June 2010) (<http://mcbassi.com/wp/resources/documents/HCMPredictsStockPrices.pdf>) (Two portfolios of large-capitalization companies created using criteria related to training and employee development outperformed the S&P 500 on an annualized basis by at least 3.1%); and Aon Hewitt, "2015 Trends in Global Employee Engagement," at 4 (2015) (<http://www.aon.com/attachments/human-capital-consulting/2015-Trends-in-Global-Employee-Engagement-Report.pdf>) (A 5% increase in employee engagement leads to a 3% increase in revenue growth the following year).

⁶ See <https://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/engagement-priorities#human-capital>.

⁷ *Ibid.*

⁸ See <https://www.ssga.com/investment-topics/environmental-social-governance/2017/2016-Annual-Stewardship-Report-Year-End.pdf>.

⁹ <https://www.sec.gov/rules/petitions/2017/petn4-711.pdf>

¹⁰ McKinsey & Company, "Diversity Matters," 2015, <https://www.mckinsey.com/~media/mckinsey/business%20functions/organization/our%20insights/why%20diversity%20matters/diversity%20matters.ashx>.

¹¹ Deloitte, "Only skin deep? Re-examining the business case for diversity," 2011, https://www.ced.org/pdf/Deloitte_-_Only_Skin_Deep.pdf.

¹² *Ibid.*

¹³ Credit Suisse, "Gender Diversity and Corporate Performance," 2012, <https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=88EC32A9-83E8-EB92-9D5A40FF69E66808>.

¹⁴ Mark Huselid, *Academy of Management Journal*, "The Impact of Human Resource Management Practices on Turnover, Productivity and Corporate Financial Performance," 1995.