



Office of the Treasurer for the State of Illinois ■ Office of the Treasurer for the State of Oregon

November 25, 2019

Mr. William Kelso  
Senior Vice President & Assistant General Counsel  
Host Hotels & Resorts, Inc.  
6903 Rockledge Drive, Suite 1500  
Bethesda, MD 20817

Dear Bill,

Thank you for your continued assistance attending to the issues we raised regarding the oversight and reporting of human capital management risks and opportunities at Host Hotels & Resorts, Inc. ("Host"). As long-term investors, we sincerely appreciate your attention to these concerns because our view is these factors impact long-term sustainability and shareholder value.

We also appreciate Host's commitment to shareholder outreach and engagement, which the company cites in its proxy statement as an important means to determine what issues are important to investors; identify where additional transparency into business operations and governance practices is needed; and reveal emerging issues that may affect company strategies, governance, compensation practices, or operations.<sup>1</sup> Our engagement certainly aligns with those objectives as well.

We reviewed the actions taken and materials issued by the company since we first reached out in October 2018 to focus attention on shortfalls in human capital management oversight and reporting, and to discuss how these shortfalls prompt larger questions about potentially adverse financial, legal, operational, and brand value implications. First, we want to recognize the company for taking initial steps to address our concerns, including (1) amending the charter of the Nominating and Corporate Governance Committee to delineate its responsibility for oversight of sustainability and corporate responsibility matters, including human capital management risks and opportunities; (2) joining the American Hotel and Lodging Association's (AHLA) 5-Star Promise to help address the high incidence of sexual harassment in the hospitality industry; and (3) dedicating a new section of Host's *2019 Corporate Responsibility Report* to human capital management. These actions indicate that the company agrees that these issues are materially important and relevant for additional oversight, management and reporting, and we welcome the value these efforts will yield for the company and investors.

While these initial steps are commendable, it is important to make clear that the company has not addressed the underlying aim of our engagement, which is to see Host implement and disclose a comprehensive, long-term strategy that identifies, measures, and announces plans for the broader range of human capital management costs, risks and opportunities that impact Host and its shareholders, including those associated with the workers employed by the company's hotel operators.

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<sup>1</sup> Host Hotels & Resorts, 2019 Proxy Statement, available at <https://www.sec.gov/Archives/edgar/data/1070750/000119312519098494/d635088ddef14a.htm>.

We understand that as a real estate investment trust, Host is required to hire independent contractors to operate and manage its hotels. However, while the independent contractors used by Host hire, train, and supervise hotel personnel, Host bears costs and risks related to the productivity and wellness of these workers. As investors we expect companies to have adequate sight lines into their supply chain and mitigate risks that arise in all components of the operation. Supply chain and human capital management controversies may have a material impact on Host's performance, especially as labor costs represent Host's largest expense category, and Host emphasizes that the company "remains subject to many of the costs and risks generally associated with the hotel labor force."<sup>2</sup> Despite this, Host reports very little on the 17,500 Marriott employees, 4,000 Hyatt employees and other employees at Host properties.

To that point, the new section in Host's *2019 Corporate Responsibility Report* on human capital management falls short of providing investors with comprehensive, metrics-based, decision-useful information on the supply chain and human capital management issues relevant to Host's revenues and expenses. While the new section reiterates actions taken to combat sexual harassment at its hotels, it does not inform or assure investors that Host maintains an enterprise-wide oversight strategy whereby it works with its independent contractors to identify, measure, and manage human capital management costs, risks and opportunities. Not only would such disclosure demonstrate that Host works to safeguard the wellness of people working in its hotels, it would further indicate to investors that Host maintains a value-added supply chain management process that assists in reviews with strategic partners and provides key inputs into business decisions.

As such, we strongly believe the company's reporting would be strengthened by additional data collection and disclosure on human capital management issues affecting workers in Host's hotels, with language that makes clear these workers are employed by hotel operators and not directly by Host. To reiterate what we suggested in our letter from April 2019, we ask that the board and management consider the following set of questions to guide this undertaking:

1. **Board Oversight** – What roles and responsibilities are assigned to Host's Board of Directors, and specifically the Nominating and Corporate Governance Committee, when it comes to overseeing human capital management costs, risks, and opportunities, including those associated with the employment of hotel personnel?
2. **Metrics** – What measures or metrics does Host utilize to monitor the performance of hotel operators in managing human capital management costs, risks, and opportunities, including those associated with the employment of hotel personnel?
3. **Reporting** – What publicly available reporting mechanisms are used to ensure accountability and keep investors and stakeholders well-informed of Host's efforts to manage human capital management costs, risks, and opportunities, including those associated with the employment of hotel personnel?

The amended language in the charter of the Nominating and Corporate Governance Committee provides a policy basis to authorize and structure this endeavor, specifically item #13 under "Duties and Responsibilities," which states:

*"The Committee shall review and monitor the development and implementation of the goals and metrics the Company may establish from time to time with respect to its sustainability*

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<sup>2</sup> Host Hotels & Resorts, Form 10-K for the fiscal year ended December 31, 2018. Available at: [www.sec.gov/Archives/edgar/data/1061937/000156459019004191/hst-10k\\_20181231.htm#Item1A\\_RiskFactors](http://www.sec.gov/Archives/edgar/data/1061937/000156459019004191/hst-10k_20181231.htm#Item1A_RiskFactors).

*and corporate responsibility framework and initiatives; and shall monitor the Company's progress and performance against those goals and metrics."*

As human capital management is noted as a matter of significance to the company, we believe it would be appropriate, and welcomed by other investors, for the Nominating and Corporate Governance Committee to oversee the development and disclosure of Host's oversight strategy for human capital management costs, risks and opportunities, including those associated with the employment of hotel personnel. And to reiterate, it is critically important that quantitative and qualitative metrics, collected and compared over a multi-year horizon, be utilized to identify key performance indicators, track trends and results, establish a system of accountability, and illustrate the effectiveness of policies and initiatives across the enterprise.

We also recommend that as a part of this effort, Host evaluate and report the extent to which its hotel operators and other independent contractors comply with the newly released *Supplier Code of Conduct*. This is particularly relevant considering that hotel operators are not required to abide by *Supplier Code of Conduct* but are expected to uphold the ideals expressed in the document and adopt similar policies.

Finally, we note that Host follows the Global Reporting Initiative (GRI) disclosure initiative to "facilitate stakeholders in understanding and benchmarking our corporate responsibility performance."<sup>3</sup> While we fully support Host's commitment to this useful and well-recognized framework, it appears that Host follows the GRI framework only selectively, wherein certain human capital reporting areas are omitted. For instance, GRI standards cover not just reporting on an organization's employees, but also "all workers who are not employees but whose work and/or workplace is controlled by the organization," as well as "all workers who are not employees and whose work and/or workplace are not controlled by the organization, but the organization's operations, products or services are directly linked to significant occupational health and safety impacts on those workers by its business relationships."<sup>4</sup> As a hotel owner, Host certainly exercises a degree of control over the workplace under the first criterion, and through its contracts with hotel operators and as recipient of hotel operating income – of which hotel labor is the largest expense category – Host's operations and services are directly linked to impacts on hotel personnel. As such, it appears appropriate for Host to factor in this reporting topic through GRI into its larger strategy for oversight and reporting on human capital management risks and opportunities.

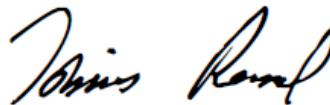
As a next step, we would greatly appreciate an opportunity to discuss these issues and suggestions with Director Gordon Smith, given his role as Chair of the Nominating and Corporate Governance Committee. To that end, please let us know if you are able to assist in scheduling a meeting before January 10, 2020. Please continue directing correspondence to Max Dulberger, Director – Corporate Governance & Sustainable Investment at the Illinois State Treasurer's Office, at (312) 814-8950 or [MDulberger@illinoistreasurer.gov](mailto:MDulberger@illinoistreasurer.gov).

Thank you for your continued time and attention to this issue, and we look forward to the ongoing dialogue.

Sincerely,



Michael Frerichs  
Illinois State Treasurer



Tobias Read  
Oregon State Treasurer

Cc: Gordon Smith, Lead Director and Chair of the Nominating and Corporate Governance Committee

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<sup>3</sup> Host Hotels & Resorts, 2019 Corporate Responsibility Report, available at [https://www.hosthotels.com/-/media/hosthotels/files/downloadlinksassets/cr-highlights/host\\_hotels\\_resorts\\_inc\\_corporate\\_responsibility\\_report.pdf](https://www.hosthotels.com/-/media/hosthotels/files/downloadlinksassets/cr-highlights/host_hotels_resorts_inc_corporate_responsibility_report.pdf).

<sup>4</sup> Global Reporting Initiative, "GRI 403: Occupational Health and Safety 2018." Page 4. Available at: <https://www.globalreporting.org/standards/gri-standards-download-center/gri-403-occupational-health-and-safety-2018/>