Company Z

Human Capital Factor® Investment Ratings Report

December 2023

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Index

Thank you for participating in the Human Capital Factor® (“HCF”) Investment Ratings process!

HCF Investment Ratings Summary

Welcome to this report where we provide a comprehensive ratings and analysis of Company Z's Human Capital Factor® (HCF). The HCF investment ratings is not merely a gauge of workforce engagement; it is a barometer for understanding how employee perceptions, organizational practices, and belief systems shape the fabric of a company and resonate with equity performance trajectory.

Leveraging the proven framework of Irrational Capital, we delve into the multifaceted dimensions of HCF that significantly shape organizational results. The below table presents a snapshot of Company Z's HCF scores, ratings and Year-over-Year (YoY) rate of change across overall HCF, along with granular assessments across seven key dimensions, seniority levels, gender distribution, and regional disparities.

Beyond this snapshot in the report, we present a detailed view of all these HCF ratings, along with peer group comparisons, department-level ratings, and further illustrating how targeted improvements in human capital strategies can enhance HCF ratings and therefore potential shareholder value.

COMPANY Z – HUMAN CAPITAL FACTOR® HCF INVESTMENT RATINGS SNAPSHOT[1]

CATEGORY		SCORES (0 - 10)	PERCENTILE	RATINGS[2]	YOY[3]
HCF OVERALL		**5.9**	**58**	**B+**	↑
ORGANIZATIONAL EFFECTIVENESS		5.8	56	B+	→
INNOVATION		6.4	68	B++	→
DIRECT MANAGEMENT		6.1	63	B++	↑
ORGANIZATIONAL ALIGNMENT		6.0	61	B++	↓
ENGAGEMENT		5.6	52	B+	↑
EMOTIONAL CONNECTION		5.5	51	B+	↑
EXTRINSIC REWARDS		6.0	61	B++	↑
HCF GENDER	FEMALE	6.1	62	B++	↓
	MALE	5.9	57	B+	→
HCF SENIORITY	MANAGEMENT	7.1	76	A	↑
	TEAM	5.7	55	B+	↓
HCF REGION	US	6.2	62	B++	↑
	NON-US	5.4	56	B+	→
HCF SECTOR	HEALTHCARE	5.9	60	B+	↑

[1] The ratings results shown reflect information as of the publication date of 20 December 2023.

[2] The detailed ratings mapping and interpretation is described on Page 6.

[3] The Year-over-Year (YoY) is based on year over year rate of change for HCF percentiles, only if historical data is available. With '↑' indicates improved HCF for more than 10% from prior year, '→' indicates stabled HCF within ±10% change from prior year, and '↓' indicates weakened HCF for more than 10% decrease from prior year.

Why HCF Investment Ratings

Of all the investments companies make, creating a strong culture is one of the best ways to create value. This is why employee behavior is such an important predictor of stock market performance

Dan Ariely
Behavioral Economist
Co-Founder Irrational Capital

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When they say: "People are our Most Important Asset", managers at all levels clearly acknowledge the importance of human capital, yet this assertion is largely unsupported by investment or effective data and analytics. Traditional Human Capital measures are simply comparing HR and legal policies. Investors and regulators are seeking substantive Human Capital related disclosures and the options today are limited at best. Through cutting-edge behavioral economic research on expansive data sets, Irrational Capital quantifies and values a new metric (or success metric):

The **Human Capital Factor® (HCF)** is a statistically verified link between company culture and future equity performance.

We are the first firm to quantify the lift that a strong corporate culture has on a company's stock price and to make this insight both investable and actionable.

The Human Capital Factor® Investment Ratings in this report are a system of disclosable (should you choose) ratings and assessments across multiple dimensions and levels.

We hope this information provides you useful and actionable insights.

Dan Ariely, David van Adelsberg, and the Irrational Capital team

About HCF

Through the application of robust statistical techniques to large, stable and long-standing proprietary, and public data sets, the Human Capital Factor® (HCF) identifies those companies with strong Human Capital and connects it to equity performance.

Human Capital Factor (HCF)

The Human Capital Factor (HCF) quantifies how attitudes, practices and beliefs impact the relationship between the employee and their employer on a broad range of organizational profile characteristics which Irrational Capital has proven to have a significant impact on organizational outcomes.

HCF Investment Score

The Human Capital Factor (HCF) Investment Score provides a comprehensive metric, ranging from 0.0 to 10.0, reflecting the efficacy and potential of human capital investments. This score is derived from a robust analysis of Irrational Capital's (IC) proprietary and public datasets, processed through a specialized algorithm designed for evaluating investment products systematically. The score's lower end, 0.0, indicates minimal human capital investment potential, while the upper limit, 10.0, signifies the pinnacle of human capital investment potential.

HCF Investment Ratings Data Universe

HCF Investment Ratings are determined by HCF investment score and benchmarked against Irrational Capital's extensive data universe from both public and proprietary data sources. In 2023, it includes:

- 2500+ public companies
- 500+ million data points
- 10+ million responses

HCF Investment Ratings Category

HCF Investment Ratings are a set of ratings on multiple dimensions and levels of the Human Capital Factor (HCF). The HCF investment rating results you will see in this report include:

- **HCF Overall Rating**: a company level HCF investment rating calculated using all responses and all questions.
- **HCF Dimension Ratings**: HCF ratings calculated using all responses but only a subgroup of questions.
- **HCF Department Ratings**: HCF ratings calculated using all questions but only departmental responses.
- **HCF Department-Dimension Ratings**: HCF ratings calculated using only departmental responses and only a subgroup of questions.
- **HCF Gender Ratings**: HCF ratings calculated using female only or male only responses and all questions.
- **HCF Seniority Ratings**: HCF ratings calculated using management only or team only responses.
- **HCF Region Ratings**: HCF ratings calculated using US only or non-US only responses and all questions.

About HCF Investment Ratings

HCF Investment Ratings are a set of letter ratings on multiple dimensions and levels of the Human Capital Factor (HCF) which has a statistically verified link with public company future equity performance.

HCF Investment Ratings Scale

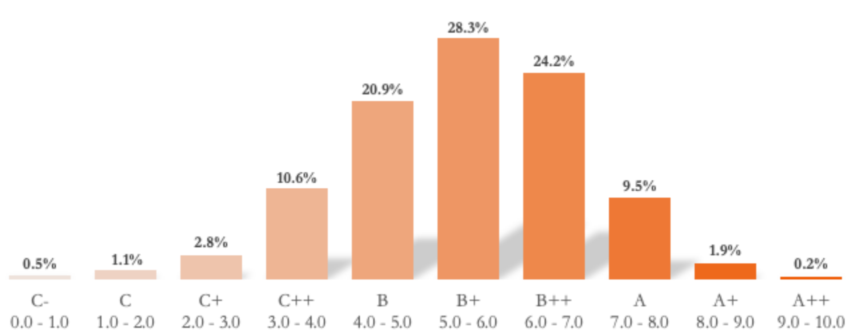
The HCF Investment Ratings translate your Human Capital Factor (HCF) Score into a clear and discernible letter-grade system, consisting of ten distinct ratings. Each letter corresponds to one point of the HCF score, providing a straightforward method to benchmark the effectiveness of human capital factor investments. This tiered rating scale offers a granular and standardized assessment, facilitating easy comparison with benchmarking universe and tracking of human capital factor over time.

HCF Rating Scale	HCF Rating Definition	HCF Score Range
A++	Highest HCF	9.0 - 10.0
A+	Very High HCF	8.0 - 9.0[1]
A	High HCF	7.0 - 8.0
B++	Great HCF	6.0 - 7.0
B+	Fair HCF	5.0 - 6.0
B	Near Average HCF	4.0 - 5.0
C++	Below Average HCF	3.0 - 4.0
C+	Weak HCF	2.0 - 3.0
C	Very Weak HCF	1.0 - 2.0
C-	Extremely Weak HCF	0.0 - 1.0

[1] Each possible HCF score falls within the range of only one letter rating. Overlap in the score ranges is due to rounding.

HCF Investment Ratings Distribution

The distribution of HCF Investment ratings for the current year is shown below. The average HCF Investment Score for all the public companies in our universe is 5.4. The standard deviation of HCF Investment Score is 1.4.

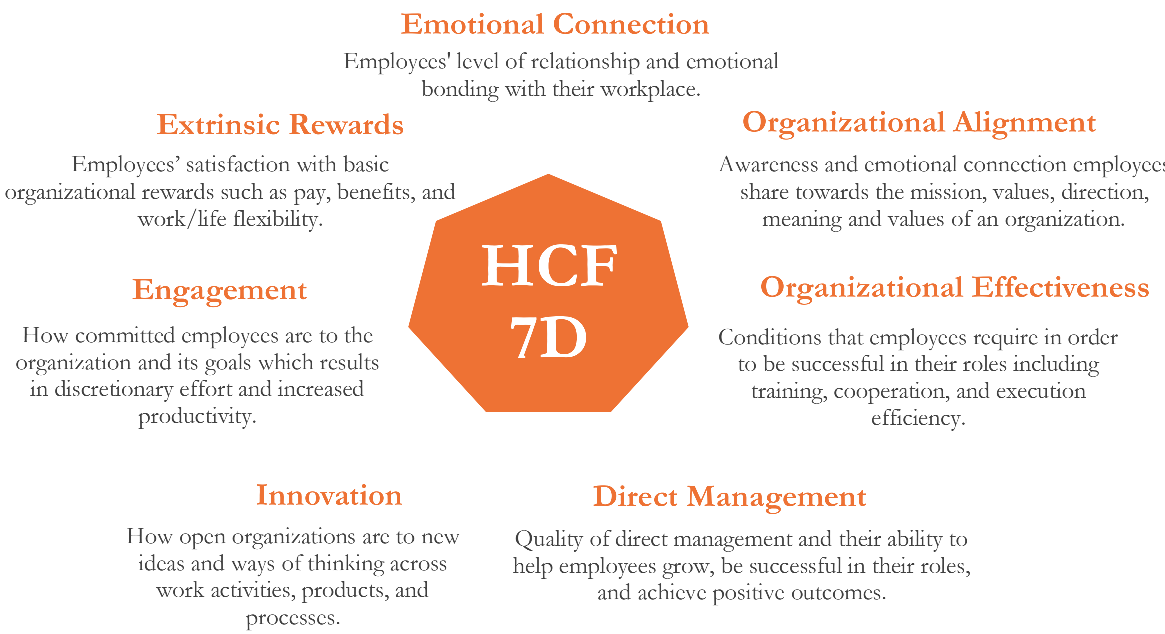


About HCF Dimensions

HCF Investment Ratings consist of Seven Dimensions, with their definitions listed below. Our simulated backtesting results below indicate statistically significant outperformance for each of these dimensions.

HCF 7 Dimensions Definition

The HCF survey includes more than 24 survey questions, which are divided into seven subgroups of questions based on our data-driven clustering technique and research. We categorize HCF investment ratings into seven dimensions - sub HCFs - calculated using different subgroups of questions. The definitions of these dimensions are illustrated below:



HCF 7 Dimensions Consistent Outperformance

Over the trailing ten years, the annualized excess returns of the top less bottom quintile portfolios are all net positive, with a minimum of +3.15% and a maximum of +6.33% as shown below. These results[1] indicate that companies with more substantial dimension ratings typically exceed relevant benchmarks with their future equity performance[2].

HCF Dimension	Top vs. Bottom
Organizational Effectiveness	+6.33%
Innovation	+5.97%
Direct Management	+5.73%
Organizational Alignment	+4.66%
Engagement	+3.85%
Emotional Connection	+3.57%
Extrinsic Rewards	+3.15%

[1] Source: Bloomberg LP. Simulated / Backtest, January 1, 2012 - January 1, 2022.

[2] Past Performance does not guarantee future results.

HCF Overall Rating

Your HCF Overall Rating is:

HCF Overall Rating

HCF Overall Rating **B+**

C-	C	C+	C++	B	B+	B++	A	A+	A+

Score: 5.9 Percentile: 58th

Gender Ratings

HCF Female Rating **B++**

C-	C	C+	C++	B	B+	B++	A	A+	A+

Score: 6.1 Percentile: 62th

HCF Male Rating **B+**

C-	C	C+	C++	B	B+	B++	A	A+	A+

Score: 5.9 Percentile: 57th

Seniority Ratings

HCF Management Rating **A**

C-	C	C+	C++	B	B+	B++	A	A+	A+

Score: 7.1 Percentile: 76th

HCF Team Rating **B+**

C-	C	C+	C++	B	B+	B++	A	A+	A+

Score: 5.7 Percentile: 55th

Region Ratings

HCF US Rating **B++**

C-	C	C+	C++	B	B+	B++	A	A+	A+

Score: 6.2 Percentile: 62th

HCF Non-US Rating **B+**

C-	C	C+	C++	B	B+	B++	A	A+	A+

Score: 5.4 Percentile: 56th

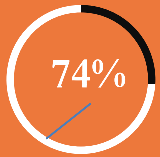
Peer Group

Company Z 5.9 | Sector Mean 5.7 | Sector Investment Grade 6.4 | Sector Max 9.5

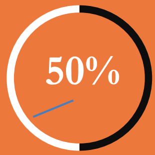
Sector Mean · Company Z · Sector Investment Grade · Sector Max

Company Z operates within the Financial Sector. Company Z's Overall Score of 5.9 is at 60^{th} percentile within Financial Sector. The Financial Sector's minimum investment grade (top third) HCF score is. 6.4.

HCF Rating Data Summary



74% based on HCF survey
26% based on Public data



50% HCF survey response rate

20+ Top Level Departments

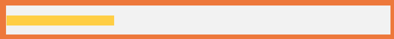
24 Survey Items

7200+ employees completed HCF survey

Ratio of responders into each group

45% Female

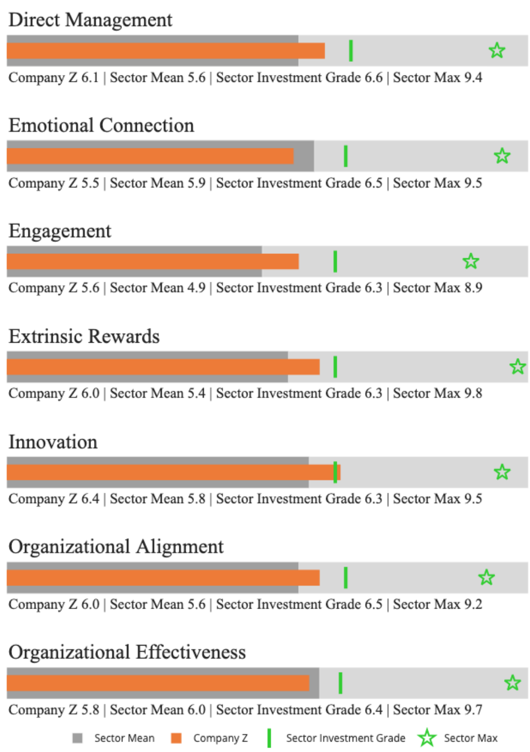
28% Manager and Above



60% USA Based

HCF Dimension Ratings

The Company Z's ratings for each of 7 HCF dimensions are indicated below:



Direct Management B++
How employees feel about the level their relationship with and the support and assistance provided to them by their direct supervisor to achieve their work objectives and their personal and career aspirations.

Emotional Connection B+
Employees' level of relationship and emotional bonding with their workplace.

Engagement B+
The level in which employees feel connected to their work, and the broader organizational objectives, such that they take positive actions to further the organization's objectives, reputation and interests.

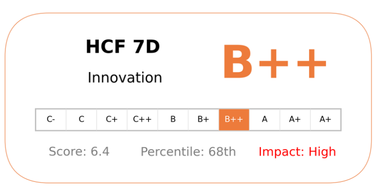
Extrinsic Rewards B++
How the level of motivation is driven by an organization's 'outside rewards'. Examples include: compensation, benefits, and physical environment.

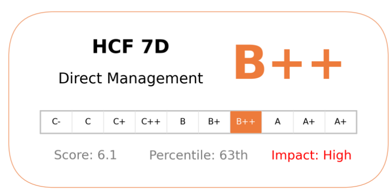
Innovation B++
How an organization encourages new and creative ideas, processes, and products.

Organizational Alignment B++
How closely employees at different levels within an organization feel about the organization's strategy, objectives, goals, and values.

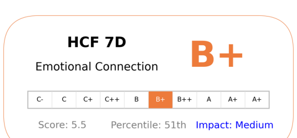
Organizational Effectiveness B+
How well an organization achieves intended outcomes through cooperation, team-work, cross-organizational collaboration, use of the process, for example.

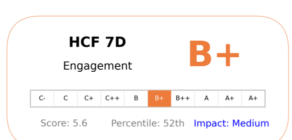
High Performing[1] Dimensions





Opportunity for Improvement



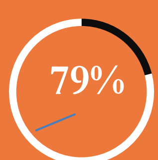


[1]High performing or opportunity for improvement is determined against the company's HCF overall rating throughout this report.

HCF Department Overall Ratings

22
Total departments participated HCF survey

353
Average responses per rated department



Departments listed cover
79% of total responses

Your department level HCF Overall Ratings are as follows[1]:

Department	Score	Percentile	Rating
Auto Finance	6.8	82	B++
Audit	6.7	80	B++
Online department	6.6	77	B++
Human Resources	6.5	76	B++
Legal	6.3	71	B++
Rest	6.2	68	B++
Finance	6.1	64	B++
Company Overall	5.9	58	B+
Enterprise Supplier Mana	5.8	57	B+
Technology	5.7	54	B+
Retail Bank	5.7	54	B+
Risk Mgmt	5.7	54	B+
Card	5.6	53	B+
Commercial Banking	5.1	40	B+
Marketing	5.1	40	B+
Digital	4.5	28	B

[1]The departments are sorted by HCF investment rating. Only departments with high relative confidence levels included. Remaining responses from 8 other departments are rated in “Rest”.

High Performing Departments

Auto Finance
Audit

Opportunity for Improvement

Commercial Banking
Marketing
Digital

HCF Department Dimension Scores

Your department level HCF Dimension Scores are provided below:

HCF Department-Dimension Scores

High Performing Department-Dimensions

Legal – Direct Management
Auto Finance – Innovation
Online Department – Extrinsic Rewards

Opportunity for Improvement

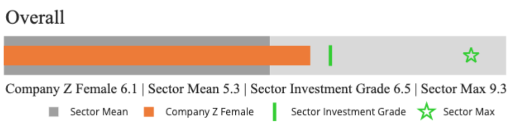
Digital – Organizational Effectiveness
Marketing – Engagement
Commercial Banking – Organizational Effectiveness

HCF Gender Specific Ratings

Your HCF Female Ratings are set forth below:

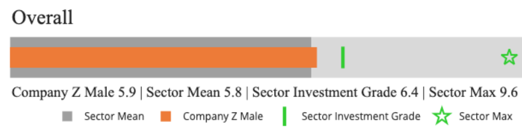
HCF Female Overall Ratings

B++

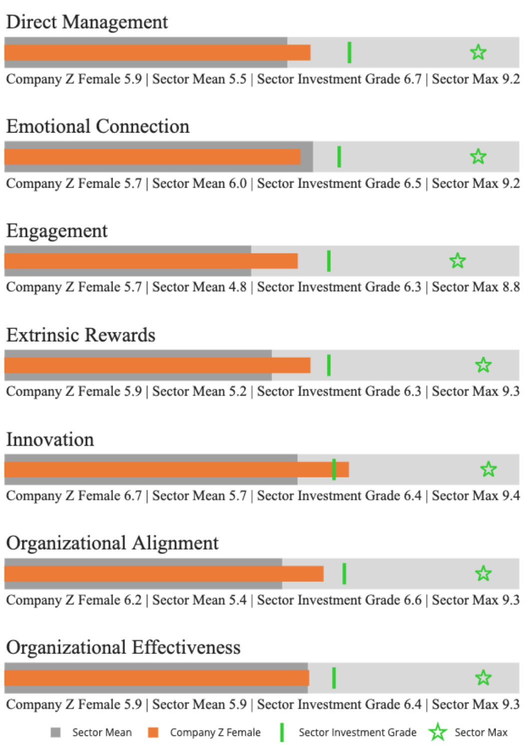


HCF Male Overall Ratings:

B+



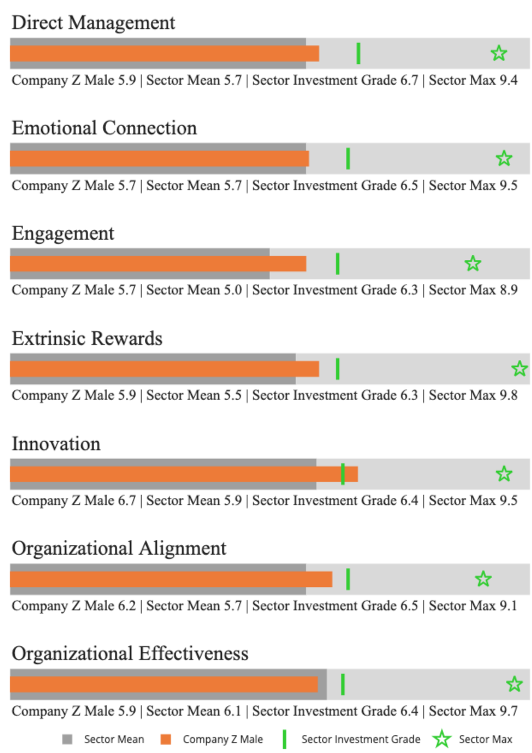
HCF Female Dimension Scores



High Performing Dimensions:
Innovation, Organizational Alignment

Opportunity for Improvement:
Extrinsic Rewards, Engagement

HCF Male Dimension Scores



High Performing Dimensions:
Innovation, Organizational Alignment

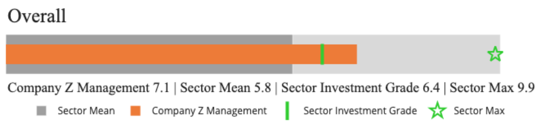
Opportunity for Improvement:
Engagement, Extrinsic Rewards, Organizational Effectiveness

HCF Seniority Specific Ratings

Your HCF Seniority Ratings are set forth below:

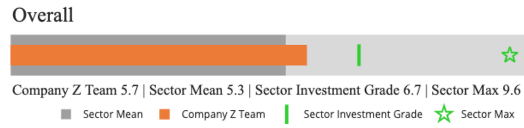
HCF Management Overall Ratings

A

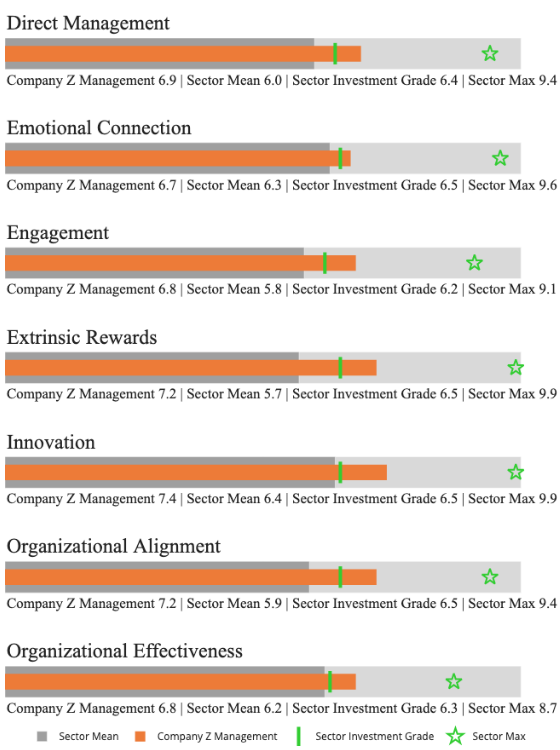


HCF Team Overall Ratings:

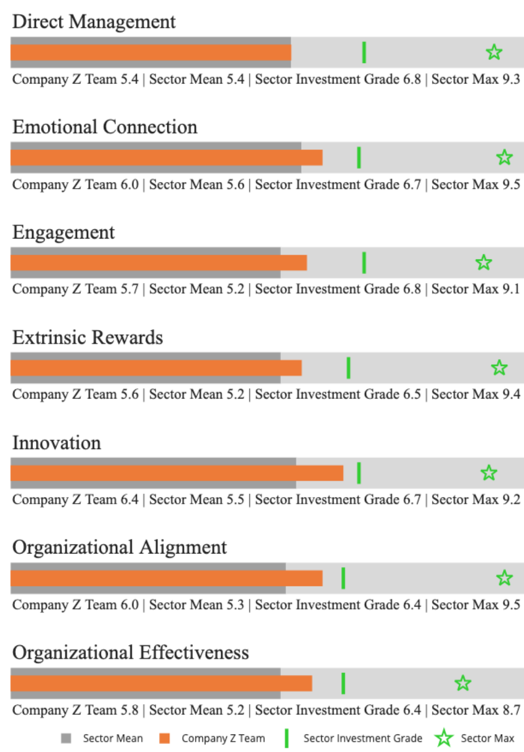
B+



HCF Management Dimension Scores



HCF Team Dimension Scores



Management

High Performing Dimensions:
Innovation, Organizational Alignment

Opportunity for Improvement:
Emotional Connection, Engagement, Organizational Effectiveness

Team

High Performing Dimensions:
Innovation, Organizational Alignment

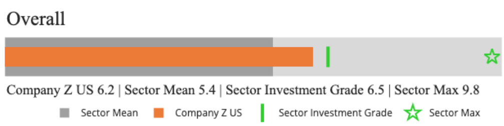
Opportunity for Improvement:
Engagement, Extrinsic Rewards, Organizational Effectiveness

HCF Region Specific Ratings

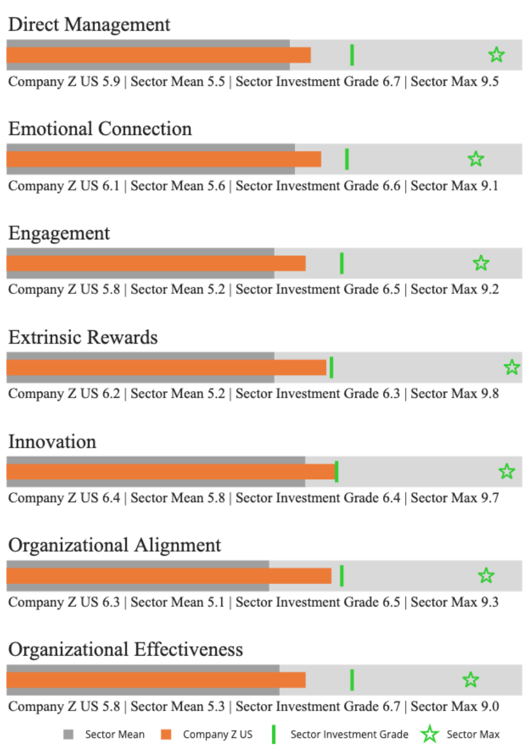
Your HCF Region Ratings are set forth below:

HCF US Overall Ratings

B++



HCF US Dimension Scores

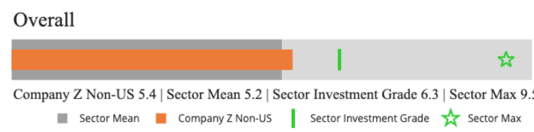


High Performing Dimensions:
Innovation, Organizational Alignment

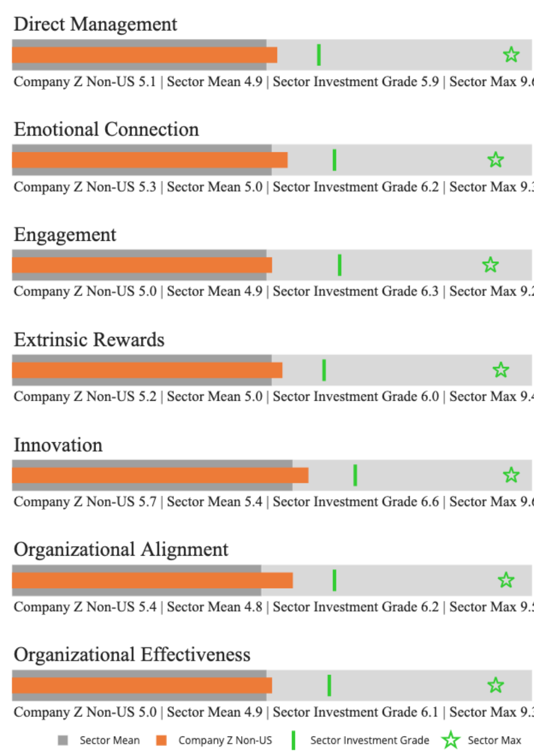
Opportunity for Improvement:
Engagement, Organizational Effectiveness

HCF Non-US Overall Ratings:

B+



HCF Non-US Dimension Scores



High Performing Dimensions:
Innovation, Organizational Alignment

Opportunity for Improvement:
Engagement, Organizational Effectiveness

Recommendations

Based on comprehensive considerations, we've built a system to calculate your recommended focus points below that may help to effectively improve your HCF investment ratings and outcomes[1]:

HCF Recommendation System

The HCF 7 Dimensions are key to set up a strategy for enhancing your company's overall HCF investment rating. Not all dimensions influence HCF scores and ratings equally, as each dimension has a different weight and impact coefficient, and the sensitivity of each dimension is also affected by your current score. Our HCF recommendation system identifies the critical dimensions where small increments can lead to significant advances in HCF ranking. The objective is to allocate resources smartly, focusing on areas where marginal gains are greatest.

The HCF recommendation system quantitatively calculates the impact on overall HCF ratings for a unit increase in each of the 7 dimensions. By hypothetically increasing the underlying survey ratings of each dimension, we calculate the incremental increase in overall HCF percentiles, which we define as the recommendation focus point. The larger the recommendation focus point, the more important it is to prioritize that dimension for HCF improvement, as it represents the amount of HCF overall percentile ranking increase for a small unit increase in that dimension.

Focus: Company Level Dimensions

Company Z's HCF 7 Dimension recommendation Focus Points are shown below.

HCF Dimension	HCF 7D Score	HCF 7D Score Sensitivity	Impact Coefficient	Recommendation Focus Points
Organizational Effectiveness	5.8	High	High	3.7
Emotional Connection	5.5	High	Medium	2.5
Engagement	5.6	High	Medium	1.9
Direct Management	6.1	Medium	High	1.7
Organizational Alignment	6	Medium	High	1.4
Innovation	6.4	Low	High	1.3
Extrinsic Rewards	6	Medium	Low	1.1

According to your HCF dimension ratings and HCF recommendation analysis, your HCF investment ratings may be significantly raised by improving these dimensions:

- Organizational Effectiveness
- Emotional Connection
- Engagement

[1]Any information provided in this report is intended to be for informational purposes only and should not be relied upon by any party in making any investment decision. For the avoidance of doubt, Irrational Capital is not advocating for any particular investment position with regards to the respondent organization (or any other company) based on the content of this report.

Recommendations

Based on your HCF Investment Ratings recommendation analysis, we've provided a few focus areas below that may help to effectively improve your HCF investment ratings and outcomes:

- **Focus: Departmental Dimensions**

Company Z's HCF Department Dimension recommendation focus points are shown below.

Department \ Dimension	Emotional Connection	Direct Management	Organizational Alignment	Engagement	Innovation	Organizational Effectiveness	Extrinsic Rewards
Digital	0.8	1.0	1.0	1.1	0.9	1.3	1.1
Commercial Banking	0.8	0.9	0.8	0.9	0.7	1.2	0.9
Marketing	0.7	0.8	0.7	1.2	0.8	1.0	0.9
Card	0.8	0.7	0.8	0.8	0.7	0.8	0.9
Technology	0.7	0.7	0.8	0.7	0.7	0.7	0.9
Retail Bank	0.7	0.7	0.8	0.8	0.8	0.9	0.8
Risk Mgmt	0.7	0.9	0.7	0.8	0.8	0.8	1.0
Enterprise Supplier Management	0.7	0.8	0.8	0.8	0.8	0.9	0.9
Finance	0.6	0.9	0.6	0.7	0.6	0.7	0.8
Rest	0.6	0.7	0.8	0.8	0.6	0.7	0.7
Legal	0.8	0.6	0.8	0.8	0.7	0.7	0.9
Human Resources	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Online department	0.7	0.8	0.8	0.8	0.7	0.7	0.7
Audit	0.7	0.7	0.7	0.6	0.6	0.8	0.7
Auto Finance	0.7	0.7	0.7	0.7	0.7	0.6	0.7

According to your HCF department level HCF investment ratings and focus points, your HCF investment rating may be largely raised by improving these department specific dimensions:

- Digital Department - **Organizational Effectiveness**
- Marketing Department - **Engagement**
- Commercial Banking Department - **Organizational Effectiveness**

- **Focus: Subgroup Dimensions**

Company Z's HCF Subgroup Dimension recommendation focus points are shown below.

Subgroup \ Dimension	Emotional Connection	Direct Management	Organizational Alignment	Engagement	Innovation	Organizational Effectiveness	Extrinsic Rewards
Female	0.9	1.1	1.1	1.4	1.0	1.0	0.9
Male	0.9	1.1	0.9	1.2	0.8	1.2	1.4
Management	1.1	0.9	0.9	1.3	0.9	1.2	1.0
Team	0.9	0.8	0.9	1.2	0.8	1.2	1.3
US	0.8	0.8	0.9	1.2	0.8	1.3	1.1
Non-US	0.8	0.8	0.9	1.0	0.9	1.1	1.0

Recommendations

Based on your HCF Investment Ratings recommendation analysis, we've provided a few focus areas below that may help to effectively improve your HCF investment ratings and outcomes:

According to your HCF gender, seniority & region ratings recommendation analysis, you HCF investment rating may be largely raised by improving these dimensions with respect to each gender, seniority & region:

- Female - **Engagement, Direct Management**
- Male - **Extrinsic Rewards, Engagement and Organizational Effectiveness**
- Management - **Emotional Connection, Engagement, Organizational Effectiveness**
- Team - **Engagement, Extrinsic Rewards, Organizational Effectiveness**
- US - **Engagement, Organizational Effectiveness**
- Non-US - **Engagement, Organizational Effectiveness**

Given the above recommended focus dimensions for different levels, Organizational Effectiveness, Emotional Connection and Engagement are the three dimensions for Company Z to prioritize. The excess returns of the. top less the bottom quintile portfolio for the above recommended focus dimensions over the recent decade are: **Organizational Effectiveness +6.33%, Emotional Connection +3.57%, Engagement +3.85%** respectively[1]. Enhancing these three dimensions has greater opportunity to improve your HCF investment ratings and future equity performance.

[1] Past performance does not guarantee future results.

General Guidance

Based on your recommended focus areas, we've provided below general guidance[1] about the potential root causes and solutions that may help you to improve the suggested dimensions[2].

General Guidance - Organizational Effectiveness

Ratings on this HCF dimension reflect the extent to which employees feel they have the training, cooperation, and processes needed to successfully perform their jobs.

When this rating is high, employees can perform at a higher level because they do not have internal obstacles in their way of success. They know what they need to know, can rely on others to support them, and can turn their hard work and energy into productive outcomes with minimal friction in the organization. When this dimension is low, it represents a situation where well-meaning employees become frustrated and disengaged because they are unable to achieve success without unnecessary complexity and challenges.

When this rating is low:

- **Invest in Learning and Development.** Employees need to be armed with the knowledge, skills, and abilities that are required for their jobs. Often, companies invest in training when employees are new and must learn new systems and processes. But companies evolve through change, advancing technologies, and entering new markets. Conduct a gap analysis about what skills are needed and where employees believe they are most competent. This type of approach can provide valuable data to drive investment decisions that can help your employees to not only be more successful, but also feel more positive about the organization because it has invested in their growth.
- **Create Better Department Alignment.** Departments and teams generally want to collaborate well with each other. But as time passes departments begin to turn inward as they try to balance their own agenda, goals, stresses, and dynamics. At the same time, organizational priorities, resources, and directions often continue to evolve and change around them. As a consequence, even the most well-intentioned departments begin to lose connection with each other. They form transactional relationships instead of collaborative ones, and they begin to regard each other as obstacles to success rather than partners. Department alignment begins by improving communication, first between leaders of teams and then by creating better connection between the employees of teams. There are many approaches to create better alignment, but the key is to make it a priority so that teams don't continue to drift further apart.
- **Remove Organizational Friction.** Organizational friction can be the silent killer of organizational productivity. Assuming good intentions, almost all employees strive to be successful at work. But when they come across complexities, resource challenges, ineffective decision-making, low accountability, poor job clarity, and complicated processes they will find themselves feeling a lack of control over their own ability to be successful. This loss of control is what turns even the highest performers into victims of their culture where their inability to control their fate leads them to disengage. While there are many causes of organizational friction, the responsibility to make improvements often lies with the senior leadership. That's because it is often their decisions and actions which have the greatest impact on creating complexities that employees must solve for in order to succeed. The first steps in resolving organizational inefficiencies involves identifying the biggest sources of friction and determining whether there is sufficient appetite to make the types of changes necessary to fix them. Only when there is enough appetite will it be possible to improve what are often deeply entrenched obstacles that require significant effort to remove.

[1]Please note: low scores may represent broad challenges across an organization or specific problems that key departments or job role face. If you are unsure of the root causes of low HCF Dimensions or Department ratings, prioritize research to better understand the issues before action. We recommend using employee listening tools such as targeted pulse surveys, focus groups, or one-on-one interviews to establish a more comprehensive perspective of what may be causing negative perceptions to exist.

[2] For the rest of 4 dimensions not in the suggested list, their general guidance can be found in the Appendix B.

General Guidance

Based on your recommended focus areas, we've provided below general guidance about the potential root causes and solutions that may help you to improve the suggested dimensions.

General Guidance - Engagement

Ratings on this HCF dimension reflect the extent to which employees feel energized, enthusiastic, and consequently committed to the organization and its goals.

When Engagement is high, employees put forth significant discretionary effort which leads to more productivity and better performance. Organizations who are high on this dimension create conditions where employees feel motivated, appreciated, and capable of reaching their potential. These feelings turn into positive regard for the organization and more satisfaction with work and responsibilities. Organizations who are low on this dimension tend to have more employees who exhibit low discretionary effort. This results in work behaviors that rarely go beyond specifically outlined job duties. As a consequence, lower engaged employees often do the bare minimum to stay employed. They do not contribute additional ideas or energy, and do not speak positively about the organization to external audiences.

When ratings are low:

- **Set an Appreciation Tone.** Leaders, managers, and employees all have an important role in creating a workforce that feels genuinely appreciated. It starts at the top by modeling the right behavior. That includes making obvious and public gestures of recognition that many employees can see while also practicing the often-forgotten art of just saying "Thank You" more often. Leadership should also encourage managers to flex their appreciation muscles by reminding them how important it is to employees, and by helping them to identify different strategies to deliver genuine appreciation.
- **Help Employees Reach their Potential.** One of the most important motivators for employees is the belief that the company wants them to learn, grow, and succeed. Organizations need to evaluate whether they are creating the right conditions for this to occur. First, it is important to evaluate whether they have the tools, technology, and training to be fully productive. Second, make sure employees have a good idea of their career mobility within your organization. If promotion opportunities aren't there, then cross-functional growth experiences or lateral job changes must be available. Lastly, managers must prioritize employee coaching with a focus on the types of skills they want to gain or the career direction they want to take.
- **Revisit Job Expectations.** Often employees start a company with one expectation of what they will be doing, only to learn that there are other expectations on their roles and responsibilities. This type of disconnect can create lasting harm to the engagement of employees. Then first step in avoiding this sentiment, is to do the extra work of developing clear job role expectations before employees are even hired. The second step is to build in frequent check-ins throughout the lifecycle of the employee to compare what they were hired to do vs. what they are being asked to do now. While it's true that jobs will change overtime, what's important is that the employee is part of the discussion rather than finding themselves in situations that are completely foreign to their initial expectations.
- **Make Engagement Central to Your Organization.** Too often, employee engagement is thought of as a once-a-year survey process. But research is clear that an engaged organization will outperform its competitors while also benefiting employee's mental health and life satisfaction. It is a win-win. Make it happen by moving culture and engagement higher up on the leadership priority list. Create on-going dialogue (e.g., at weekly meetings) about how decisions and actions have impacted culture and employee sentiment. Hold back from making final decisions until the culture angle has received fair attention. It is through this type of on-going rigor that truly engaged companies can be built.
- **Be consistent about feedback.** The annual or semiannual review process should not be the only times that employees learn about development opportunities or strengths. Ensure that managers and employees are initiating performance conversations on a regular and real-time basis.

General Guidance

Based on your recommended focus areas, we've provided below general guidance about the potential root causes and solutions that may help you to improve the suggested dimensions.

General Guidance – Emotional Connection

Ratings on this HCF dimension reflect the extent to which employees feel emotionally connected to the organization. When Emotional Connection is high, employees feel a high sense of loyalty and pride for their organization. This positive emotional connection means that employees are loyal and committed to the organization and passionate about recommending their company to others as a great place to work. When Organizations are low on this dimension, it generally means that employees are going through the motions of their daily roles and responsibilities with little emotional investment. As a result, employees in this state of mind lack productivity and are more willing to invest emotional energy in seeking out job opportunities at other companies.

When ratings are low:

- **Check Extrinsic Rewards.** When employees feel "overworked and underpaid" (e.g., not paid fairly and lacking work/life balance), it will be difficult for them to find an emotional connection to the organization and its goals. This state of mind typically means an employee has become focused internally on their own personal needs which makes commitment to external entities (e.g., their company) much more difficult. Getting Extrinsic Rewards right isn't about over-paying employees or providing unlimited work/life balance. It is about finding the right balance where employees spend less time focused on "me" issues and are more willing to shift their energy into the "we" issues of the company.
- **Re-Establish Meaning.** One of the primary reasons employees become emotionally disconnected from their job is because they no longer feel a sense of meaning in what they do. Instead of working with a purpose, stress, monotony, and staying busy, can all contribute to employees losing touch with the "why" behind the work they do. When they lose touch, then work feels "just like another job" that they could be doing at any other company. Preventing this involves being purposeful about creating a stronger connection the what (the work) and the why (the meaning). This can be done by highlighting how work impacts others internally (e.g., colleagues, teams), the broader organization (e.g., company performance), and external stakeholders (e.g., clients, the community).
- **Focus on Organizational Alignment.** Employees may become emotionally disconnected when they don't feel truly aligned with the organization and its mission, values, and direction. While this can occur because an employee isn't a good fit for a company, many times the real problem is that they aren't seeing or hearing things about the values, mission, or direction that keep them connected to the company itself. Make sure to prioritize communications and reinforcement of the organization's values and mission. Show employees how the company is making a meaningful impact on customers or society as a whole. Illustrate how the company is going to win, and how that is good for all employees. In conclusion, don't let employees become isolated in their routines, make sure they feel that they are a part of something greater.
- **Build Stronger Manager Relationships.** Emotional commitment is about more than just the work that employees do. A lot of it comes from the connection and relationships that people form with their managers and other colleagues. While it isn't realistic to improve how every employee relates to each other, it is realistic to have managers focus on building strong relationships with their employees. The starting point is about disciplined communication. Managers need to communicate frequently enough ((e.g., meetings, check-ins, etc.) so that employees don't become isolated and disconnected. Managers can also create strong emotional connections by helping employees to grow and develop. This means that managers must make career advancement and performance feedback topics an on-going priority. Finally, in larger companies, managers often have an important role in helping employees to see the meaningfulness and purpose of their work. So in addition to communication and career coaching, managers can help improve the emotional connection by making sure employees understand how and why the work they do is important.

Thank you!

We're very appreciative for your participation in this year's HCF Investment Ratings Report process and we look forward to working together in the years to come.

We would be pleased to engage in further discussions on how to provide additional value for Company Z's human capital practices and its potential impact on future equity performance.

Should you have any questions on any aspect of this report, please contact us.

Again, thank you for your support as we continue to unlock the Human Capital Factor and enable our partners and clients to gain investable access to powerful, new strategies, innovative products and ways to strengthen overall performance.

Sincerely,
The Irrational Capital Team
2023

Appendix A: More on HCF Dimensions

General Guidance – Extrinsic Rewards

Ratings on this HCF Dimension reflect the extent to which employees believe that their hard work and effort is being fairly rewarded in terms of pay, benefits, and opportunities for work-life balance.

When this rating is low, employees tend to become inwardly focused on their own needs and therefore are less likely to contribute additional effort that benefits the organization. The most frequent causes for low scores are feelings of being overworked, burnout, and stress. It is in these conditions that employees begin to question whether the work they are doing is worth it in exchange for the rewards they receive. However, the Extrinsic Rewards dimension is unique in that it can also be impacted by information and events external to the organization. Through various mediums, employees can become aware of similar companies and/or similar jobs where there are opportunities that offer higher compensation, more affordable or comprehensive benefits, or better work/life balance, employees will become more critical of their own employer. This type of information can lead employees to contrast how they are currently rewarded vs. how they might be rewarded leading them to rate their current extrinsic rewards more harshly.

When ratings are Low:

- **Revisit Policies and Procedures.** Compensation, benefits, and work-life balance policies may need to be revisited either across the organization and/or for key departments where productivity risks are worth extra investment.
- **Communicate About Compensation & Benefits.** It is important to develop a clearly defined compensation philosophy and to arm managers and leaders to speak confidently about it with employees. It is common for employees to not understand that they are paid at a fair market rate or that their benefits are more comparable to competitors than they think. In other circumstances, companies may need to be upfront that they pay below market, but offer other rewards (e.g., career development, experiences, fun culture, making a meaningful difference, etc.).
- **Be Transparent about Costs.** Negative perceptions of benefits, in particular, often come directly from health insurance premiums and out of pocket expenses. Help employees understand the significant costs that your company is paying in order to maintain health insurance as well as how the benefits and costs the company provides contrasts with what is available in public healthcare marketplace.
- **Explain Benefits.** Employees are rarely aware of all of the benefits that a company offers them. Beyond health insurance many companies offer mental health resources, 401K plans, financial planning advice, tuition reimbursement, and PTO policies etc. Remind employees about the entire span of benefits that are being provided so that their sentiment is not solely based on health insurance related matters.
- **Identify and Solve Flexibility Challenges.** Work/life flexibility issues arise for several reasons. While not all of them are the company's responsibility, organizations still have an important role in creating conditions where employees can attend to personal matters without work interference and can find time to reset and recharge. Work/life flexibility issues arise for a variety of reasons ranging from manager inflexibility, work-scheduling, difficulties disconnecting from work, and challenges meeting personal obligations. What's important is identifying what employees are unhappy about and making policy decisions that can help them to find better balance.

Appendix A: More on HCF Dimensions

General Guidance – Organizational Alignment

Ratings on this HCF dimension reflect the extent to which employees are aware of and aligned to the mission, direction, meaning and values of an organization. These components reflect aspects of the shared emotional connection between employees and their organization. In the end, employees want to play for a winning team that stands for something they find personally meaningful. When employees are both aware of and excited by the direction, values, and mission of a company they will be energized and more productive. When employees feel disconnected from these factors, they often lack the emotional commitment to give their very best every day.

When Ratings Are Low:

- **Communicate Loudly.** Being low on this dimension may simply be a matter of communication and transparency. Employees, especially those lower in the organizational hierarchy, may not know or understand the company's mission or values. They also may be out of the loop on how the company is performing financially or against other metrics that matter. As such, the simplest way to move the needle on this dimension is increase the frequency and clarity of communications around the direction, mission, values, etc. of the company.
- **Reinforce and Reward.** A company's mission and values are more than just words on a website, they are meant to serve as the compass that directs how things should get done and why. When employees are not feeling connected to the mission and values, it can be because they don't see decisions or actions that line up with what the company purports to stand for. Therefore, it is important to make sure organizational rewards and recognition systems are closely aligned with the values that they want to see reinforced. This may start by making changes to how informal recognition is provided either by linking recognition directly with organizational values or by providing recognition when organizational values are exhibited. Improvements in this area can also require changes to more formal systems like performance management and succession planning. This means that employees are likely to be much more connected to a company's values and mission when they understand what types of organizationally aligned behaviors lead to higher performance ratings. more compensation and increased promotional opportunities.
- **Establish Meaning.** It is too easy for employees to lose connection with the meaningfulness of their work. Often they become busy and consumed with important, but mundane tasks. It is during these times that they can lose connection to how their work matters at the individual level (e.g., how they are personally gaining satisfaction), the department level (e.g., how they are making their department succeed), or the organizational level (e.g., how their work contributes to the organization achieving its mission). It is important to continually establish a close link between individuals work and how it has a meaningful impact on others either within the company or outside. This should start at the top of the organization where leaders draw clear connections between KPIs and important outcomes either for the community, the employees, or their customers. But it must continue with managers reminding employees about how their work has a true impact.
- **Bring Managers into the Fold.** Employees often have a hard time maintaining an emotional connection to an organization and its goals quite simply because they are so far down in an organization. Much of what they may learn and hear may be from pre-scripted communications from top leaders or information gathered from company communications. None of these are particularly effective at reminding employees what the company is about or why what they do is meaningful. Therefore, it is critical to ask managers to play a bigger role in creating a stronger connection between the employee and their company. The most effective way this can be done is build a cascade communication strategy where managers, even at the lowest levels, are armed with the right information to share on a frequent enough basis to keep employees connected and in-the-know. Managers should be able to discuss either directly or as part of key initiatives, how the company is performing, why certain decisions were made, and how work contributes to the success of the broader organization.

Appendix A: More on HCF Dimensions

General Guidance – Direct Management

Ratings on this HCF dimension reflect the extent to which employees are satisfied with their direct managers and their ability to help them grow, be successful in their roles, and achieve positive work outcomes. The direct manager has the most important impact on most employees' ability to grow, succeed, and flourish. They provide coaching, role clarity, feedback, conflict resolution, direction, and more. When ratings are high, it means an organization has a relatively strong bench of people managers who understand how to lead teams and employees through the daily requirements of work as well as their greater career trajectories.

When ratings are low:

- **Invest in Manager Development.** While some people are natural leaders, a lot of managers are simply not prepared to lead other people. They are often just high-performing employees have been promoted into leadership roles without getting any type of clear guidance or training on how to be successful. As such, it is critical to invest heavily in different forms of manager training in order to prepare them for both the routines they should follow as a manager and the interpersonal skills they must develop to truly help their employees achieve their own successes. There is no one-size-fits all approach to manager development, but it can start by conducting a gap analysis that compares what employees need vs. what managers feel most comfortable providing.
- **Re-Establish Manager Expectations.** Most managers have good intentions, but they can easily become consumed by their own work and that of their team. Instead of leading, they either behave as an extended team member or become disconnected from the team and lead using authoritarian tactics. In either case, it's easy for them to fall into patterns where they aren't providing the types of support, growth opportunities, and feedback that employees need for their own success and well-being. For these reasons, it is very important for organizations to formally define the expectations of their managers. This means creating a clear definition of what being a "manager" means, what they should be doing with their time, and even the competencies they are expected to exhibit when leading other employees. Some companies will more formally align these expectations in performance management, but the first step is making sure that people leaders know what it is expected of them (aka leading people) and what is not (aka telling people what to do or doing the work themselves).
- **Enforce Better Manager Practices.** Even when managers know what to do and how they are supposed to do it, it can be difficult to find the right tools and practices to successfully navigate a team. Start by requiring managers to implement frequent employee check-ins that have a shared agenda with the employee. These check-ins might be once a week or once a month, but they should be predictable to both the employee and manager and create a consistent dialogue. Second, prescribe clear topics that should be addressed at different cadences. For example, have managers address performance feedback during one check-in, career growth topics at another check-in, and work-life flexibility issues at yet another. Finally, arm managers with their own feedback tools in the form of employee engagement results or 360-degree feedback assessments. At the least annually if not more frequently, managers should have a data-oriented view on how they and their doing on important topics.
- **Revisit Manager Talent Management.** If managers are not performing as expected there are often a few root causes. The first is related to poor identification of manager talent. Too often, companies promote the most technically talent individual into a manager skill and in doing so have failed to take into consideration whether they have the skills, attributes, and desire to truly lead employees. Consider more formal assessment processes that are designed to provide a better prediction about who is likely to be successful as a manager vs. an individual contributor. Second, hold managers to high performance standards on people related competencies. Often manager success is pinned to how well the team performs on key tasks and objectives. But this type of evaluation doesn't take into account how the manager led the team, whether their approach is sustainable, and the extent to which short-term success will lead to long-term problems like burnout and turnover. Instead, put heavy emphasis on people-related competencies that, when done right, create sustainable performance that brings the best out of people and increases their willingness to stay around and grow further in the company.

Appendix A: More on HCF Dimensions

General Guidance – Innovation

Ratings on this HCF dimension reflect the extent to which employees feel their companies are open to new ideas and ways of thinking across work activities, products, and processes. Companies who do well on this dimension create conditions of psychological safety where employees feel comfortable offering ideas without risk of negative consequences. High scoring companies are willing to ask for new perspectives and ideas from employees and at least consider them as valid, useful information when making decision and taking actions. In other words, not all ideas have to be acted on, but at the least employees should feel like their opinions and ideas are important. Low scoring companies tend to shut down innovation by discouraging new ideas and points of view. This occurs either because employees aren't involved with decisions, their input isn't solicited, or that overtime employees so no evidence that the company has taken their ideas seriously.

When ratings are low:

- **Evaluate Psychological Safety.** If employees don't feel comfortable offering ideas or opinions because they fear negative repercussions, then innovation will get stuck. Psychological Safety is a necessary condition for innovation to flourish, so it is critical to understand how cultural factors or specific leaders may be hindering employees' willingness to offer their ideas. Weak relationships with leaders, fear of embarrassment, and negative team dynamics tend to be the most frequent culprits.
- **Acknowledge Ideas.** Employees may become discouraged from offering ideas because they don't feel like they really matter. But often, unbeknownst to them, their valuable perspective has been helpful for decision-making processes. Increase communication about how decisions were reached and where valuable input came from. Set the stage that not all ideas will be used, but they will all be considered valid.
- **Search for New Points of View.** Not all employees are comfortable offering their ideas and opinions. It can be intimidating to speak up during meetings or when interacting with higher level leaders. To make sure ideas are being heard, it is a good idea to get into the habit of asking for input. This starts during meetings by leaving room for all employees to provide their perspective on topics. It can be increased by using employee listening tools like poll surveys to ask employees to provide thoughts on key topics.
- **Involve More People.** Whether at the company level or the department level, decisions are often made among a select few group of people. These types of decision-making behaviors occur because leaders are more likely to be surrounded by those that they are familiar with, trust, and work with more frequently. But this can hurt innovation because unique perspectives and ideas aren't being considered. Have leaders start evaluating their own decision-making processes and emphasize gaining new points of view from people who may not be in their typical decision-making circles.
- **Don't Over Collaborate.** Collaboration can be one of the great ways to drive innovation. But sometimes this can be taken too far. Over collaboration occurs when there are too many ideas and opinions offered to solve every problem. As this occurs, great ideas can get lost because there are just too many different perspectives to sort through. And employees can often become discouraged because it is so hard for their suggestions to receive adequate attention when they are competing with so many others. Do a collaboration check and ask whether overreliance on collaboration is diluting innovation and leading employees to give up from offering their own great perspectives. defined manner that sets them and the employee up for highly productive conversations. Finally, arm managers with their own feedback tools in the form of employee engagement results or 360-degree feedback assessments. At the least annually if not more frequently, managers should have a data-oriented view on how they and their doing on important topics.

Company Z

Human Capital Factor®
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