

IR ■ RATIONAL CAPITAL

DeepFin Introduction

October 2022

■ Quantifying the *Human Capital Factor* ■

Your Host: Dan Ariely



IR ■ RATIONAL CAPITAL

“ I do research in behavioral economics and try to describe it in plain language. These findings have enriched my life, and my hope is that they will do the same for you. ”

Dan Ariely
Behavioral Economist
Co-Founder Irrational Capital



Research

Primary Focus on Human Motivation in the Workplace



Pre-Survey



Human Capital Rating - 7 Dimensions

On a scale from 1 to 7, how would you rate the 7 Human Capital related subfactors/dimensions listed below based on their potential impact on company equity performance?

7 Dimensions

- ☐ Engagement
- ☐ Organizational Alignment
- ☐ Innovation
- ☐ Organizational Effectiveness
- ☐ Direct Managerial Relationships
- ☐ Extrinsic Motivation
- ☐ Emotional Connection

Human Capital Rating - 7 Dimensions

On a scale from 1 to 7, how would you rate the 7 Human Capital related subfactors/dimensions listed below based on their potential impact on company equity performance?

7 Dimensions	Survey Mean Rating
<input type="checkbox"/> Engagement	5.56
<input type="checkbox"/> Organizational Alignment	5.47
<input type="checkbox"/> Innovation	5.40
<input type="checkbox"/> Organizational Effectiveness	5.19
<input type="checkbox"/> Direct Managerial Relationships	5.00
<input type="checkbox"/> Extrinsic Motivation	4.78
<input type="checkbox"/> Emotional Connection	4.69

Human Capital Rating - 7 Dimensions

On a scale from 1 to 7, how would you rate the 7 Human Capital related subfactors/dimensions listed below based on their potential impact on company equity performance?

7 Dimensions	Survey Mean Rating	HCF Rank
<input type="checkbox"/> Engagement	5.56	5
<input type="checkbox"/> Organizational Alignment	5.47	4
<input type="checkbox"/> Innovation	5.40	2
<input type="checkbox"/> Organizational Effectiveness	5.19	1
<input type="checkbox"/> Direct Managerial Relationships	5.00	3
<input type="checkbox"/> Extrinsic Motivation	4.78	7
<input type="checkbox"/> Emotional Connection	4.69	6

Human Capital Rating - Company Pairs -- JPM + IC Respondents

Thinking back to 2018, please provide your assessment of the Human Capital performance for each of below company pairs, on a scale from 1 (poor) to 10 (excellent).

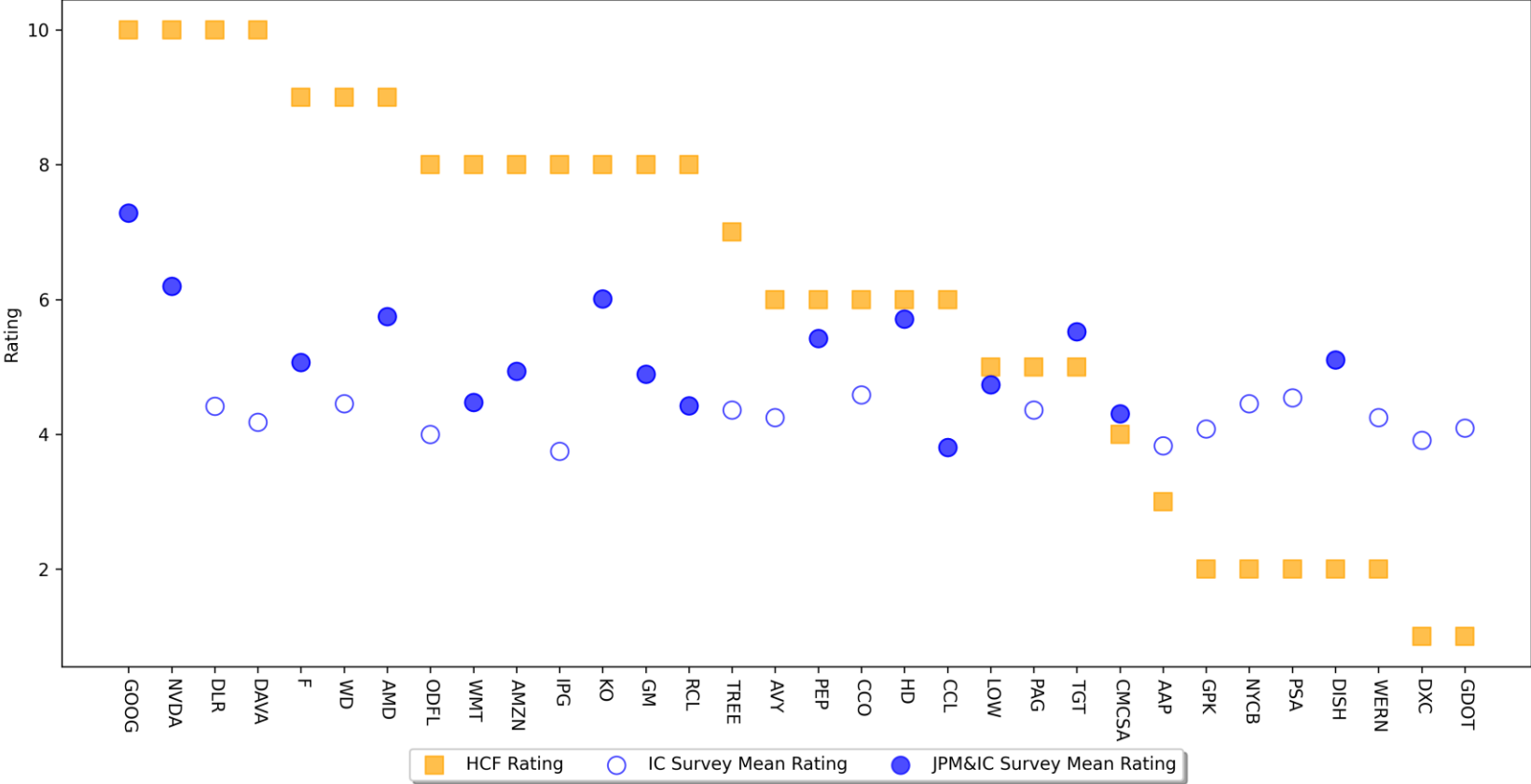
Company A	Company B
Google (GOOG)	Amazon (AMZN)
General Motors (GM)	Ford (F)
Royal Caribbean Cruises (RCL)	Carnival (CCL)
Comcast (CMCSA)	Dish (DISH)
Coca-Cola (KO)	Pepsi (PEP)
Home Depot (HD)	Lowes (LOW)
Nvidia (NVDA)	AMD (AMD)
Walmart (WMT)	Target (TGT)

Human Capital Rating - Company Pairs -- IC Respondents

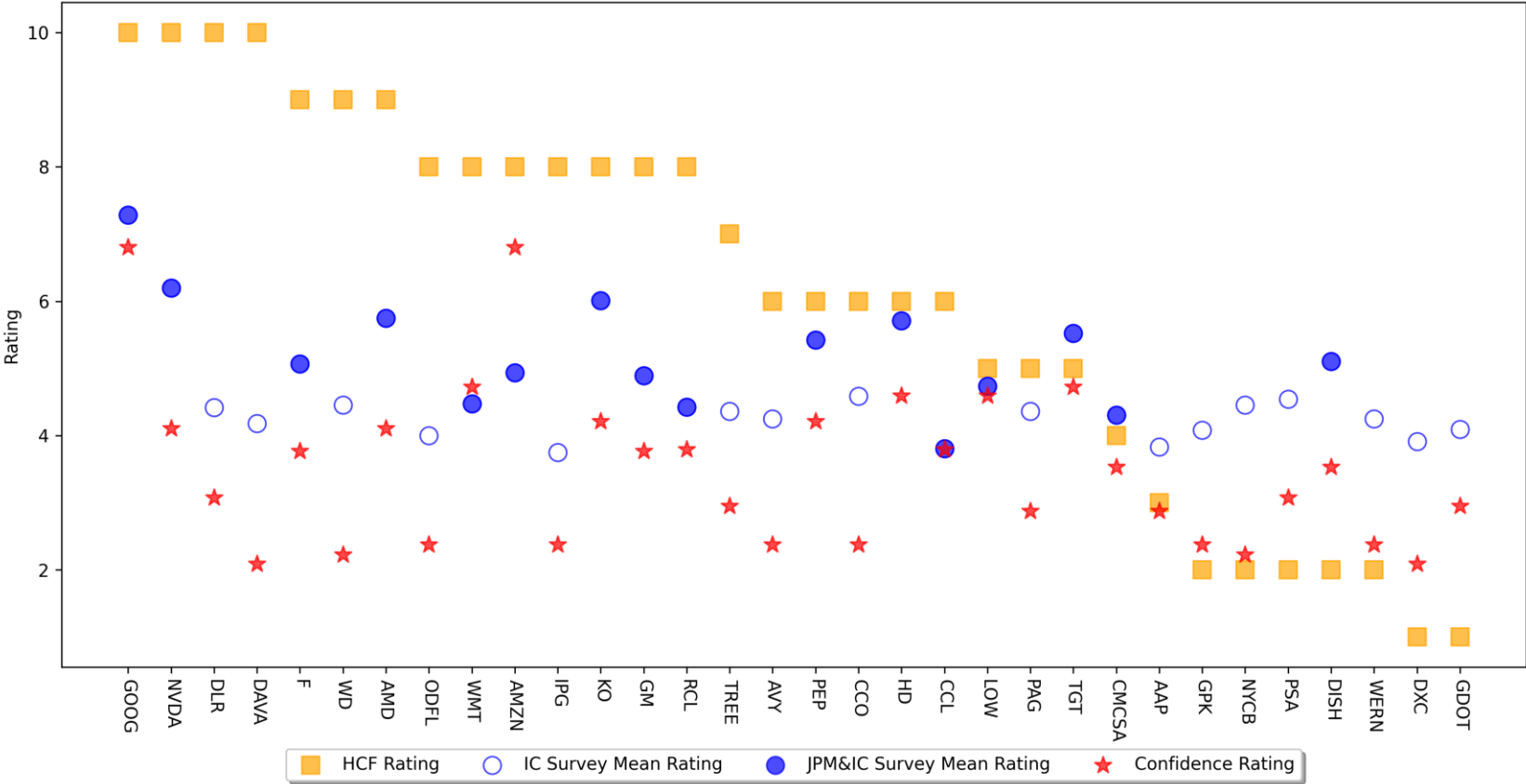
Thinking back to 2018, please provide your assessment of the Human Capital performance for each of below company pairs, on a scale from 1 (poor) to 10 (excellent).

Company A	Company B
LendingTree (TREE)	Green Dot (GDOT)
Walker & Dunlop (WD)	NY Community Bancorp (NYCB)
DXC Technology (DXC)	Endava PLC (DAVA)
Graphic Packaging Holding (GPK)	Avery Dennison (AVY)
Digital Realty Trust (DLR)	Public Storage (PSA)
Old Dominion Freight (ODFL)	Werner Enterprises (WERN)
Clear Channel Outdoor Holdings (CCO)	Interpublic Group of Companies (IPG)
Advanced Auto Parts (AAP)	Penske Automotive Group (PAG)

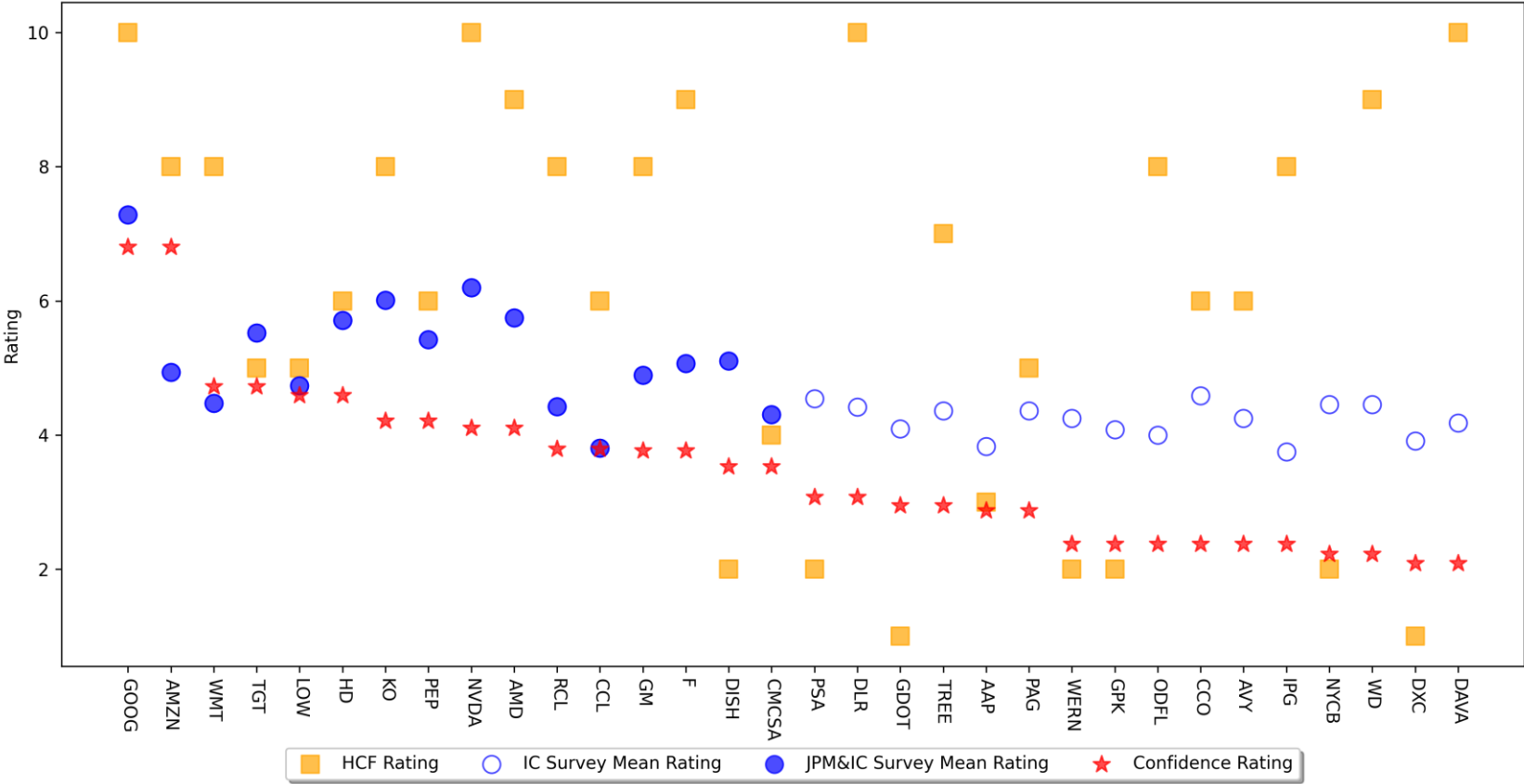
Human Capital Rating - Company Pairs – Ranked by HCF Score



Human Capital Rating - Company Pairs + Confidence Rating – Ranked by HCF Score



Human Capital Rating - Company Pairs + Confidence Rating – Ranked by Confidence Rating



Irrational Capital & The Human Capital Factor



The Team



Yongshuai (Michael) Chen, PhD
Head of Research



Dan Ariely
Co-founder & Partner



David van Adelsberg
Co-founder & Partner



Pete Melgren
Director of Data Science



Scott B. Colson, CAIA
Head of Risk & Strategy

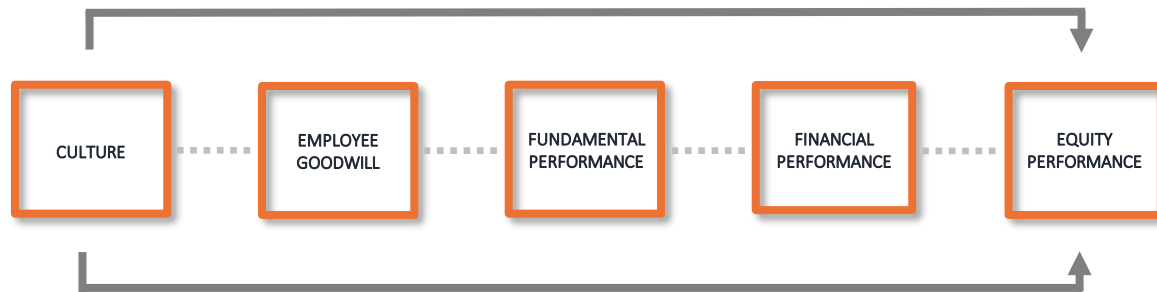
'People are our Most Important Asset' – Anecdotal to Employee-Driven Investment

- Managers clearly acknowledge the importance of culture and human capital, yet this assertion is largely anecdotal
- Despite this 'sense', CEOs tend to invest in more tangible assets such as CapEx and technology
- Traditional valuation only measures accounting outputs

Through cutting edge behavioral economic research on large data sets, Irrational Capital quantifies and values a new input:

- **Human Capital Factor** -

a direct link between company culture and equity performance.



Data - Broad and Deep Universe

Two Types

Proprietary & Exclusive to Irrational Capital

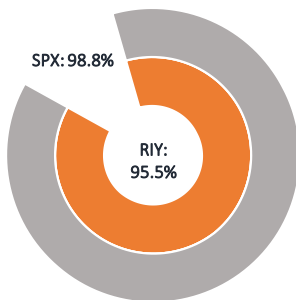
- ❑ Company sponsored – not employee self-selecting
- ❑ Collected for recognition or improvement
- ❑ Drives major national, regional & demographic lists
- ❑ Includes anonymized demographic details

Public / Available for Purchase

- ❑ Collected by employment related websites
- ❑ Employee self-selecting – limited board, executive and senior manager participation
- ❑ Sentiment data – substantial quantity of comments

Combined Data Universe: Expansive / Non-Replicable

Index Coverage per Year



- ❑ Spans 17+ years
- ❑ 7500 Companies
- ❑ 4200+ Public firms
- ❑ 15+ million responses
- ❑ 600+ million data points

Coverage within Companies per Year

Data Source	Average	Median
Public Data	1.14%	0.55%
Private/Proprietary Data	14.16%	4.95%

Human Capital Factor Score Calculation

HCF Score Key Factors:

2000+

Unique Company HCF Scores Each Year

4200+

Total Public Companies Scored

17+

Years of Utilized Data



HCF Comprehensively Quantifies "Culture"

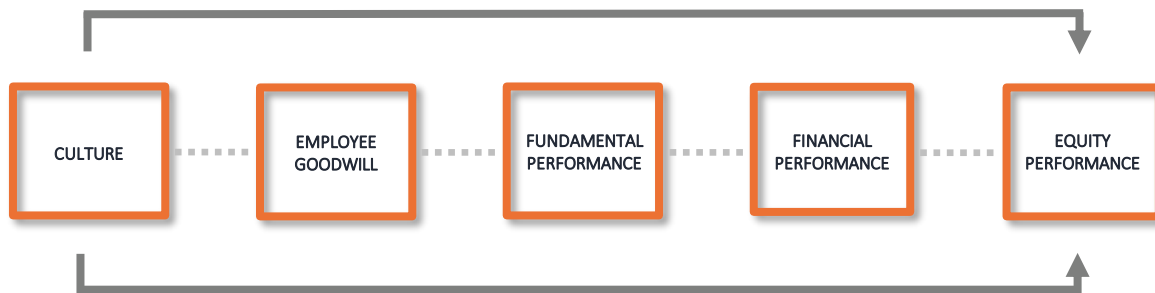


HCF Algorithm Allows Employee Feedback to "Speak"

We will share details of this process and our findings today.

Comprehensively Data-Driven

Data is central to our work at all levels.



High-Level

Macro-level statistics:

- Performance Characteristics
- Behavioral Factors

We will present these ideas next.

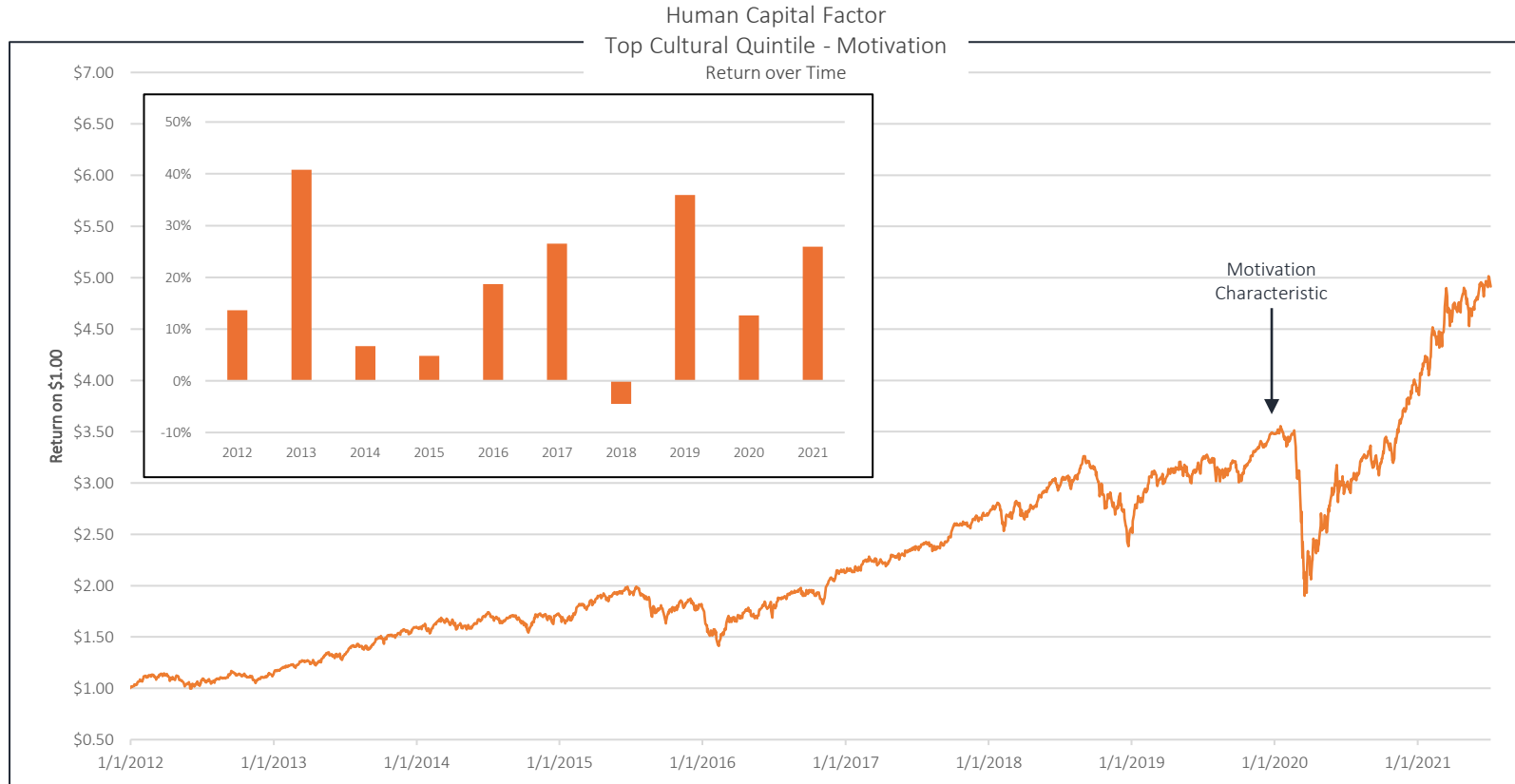
Granular

Micro-level details and inputs:

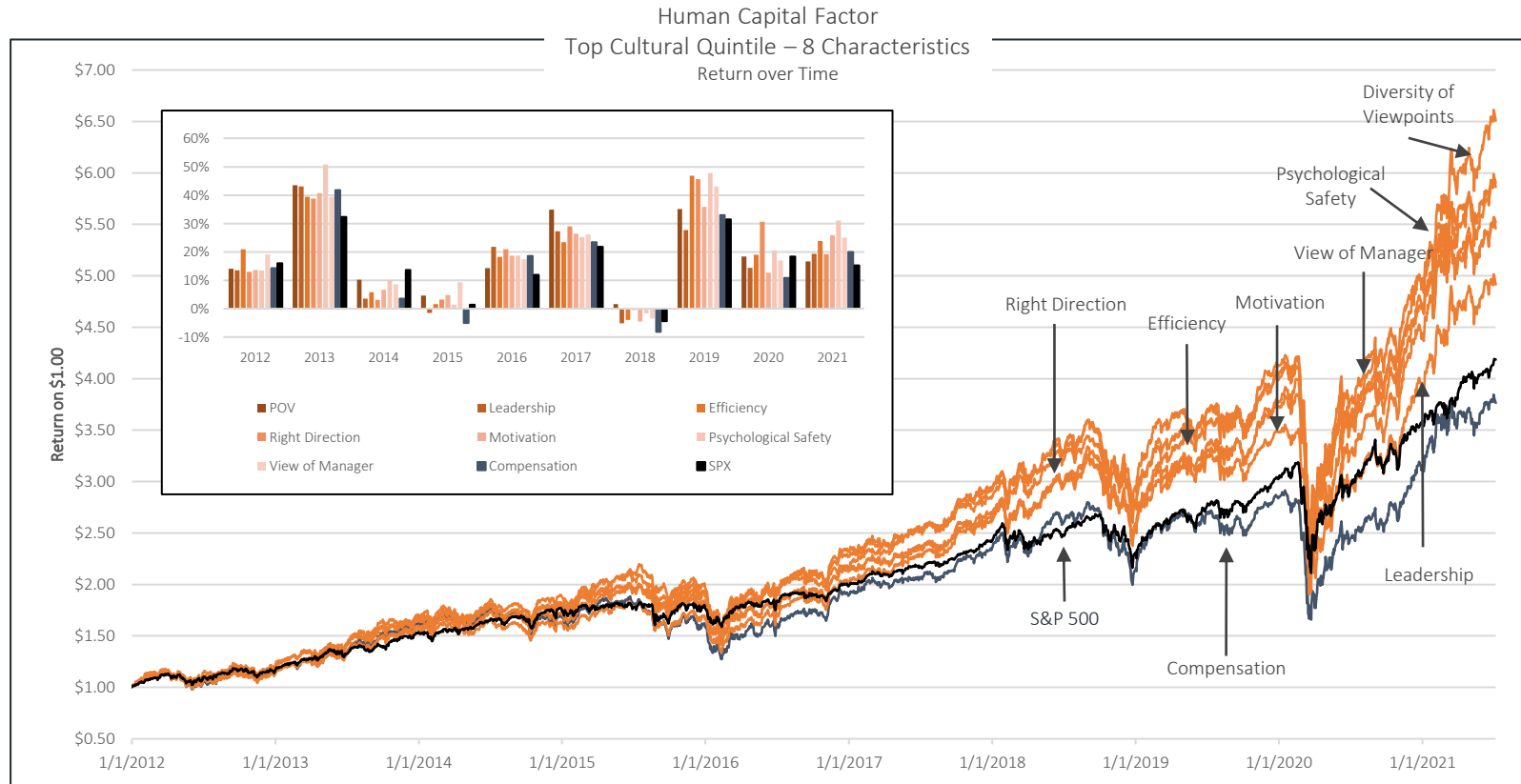
- Individual Companies
- Script & Code

We will cover these factors in the body of the DeepFin session.

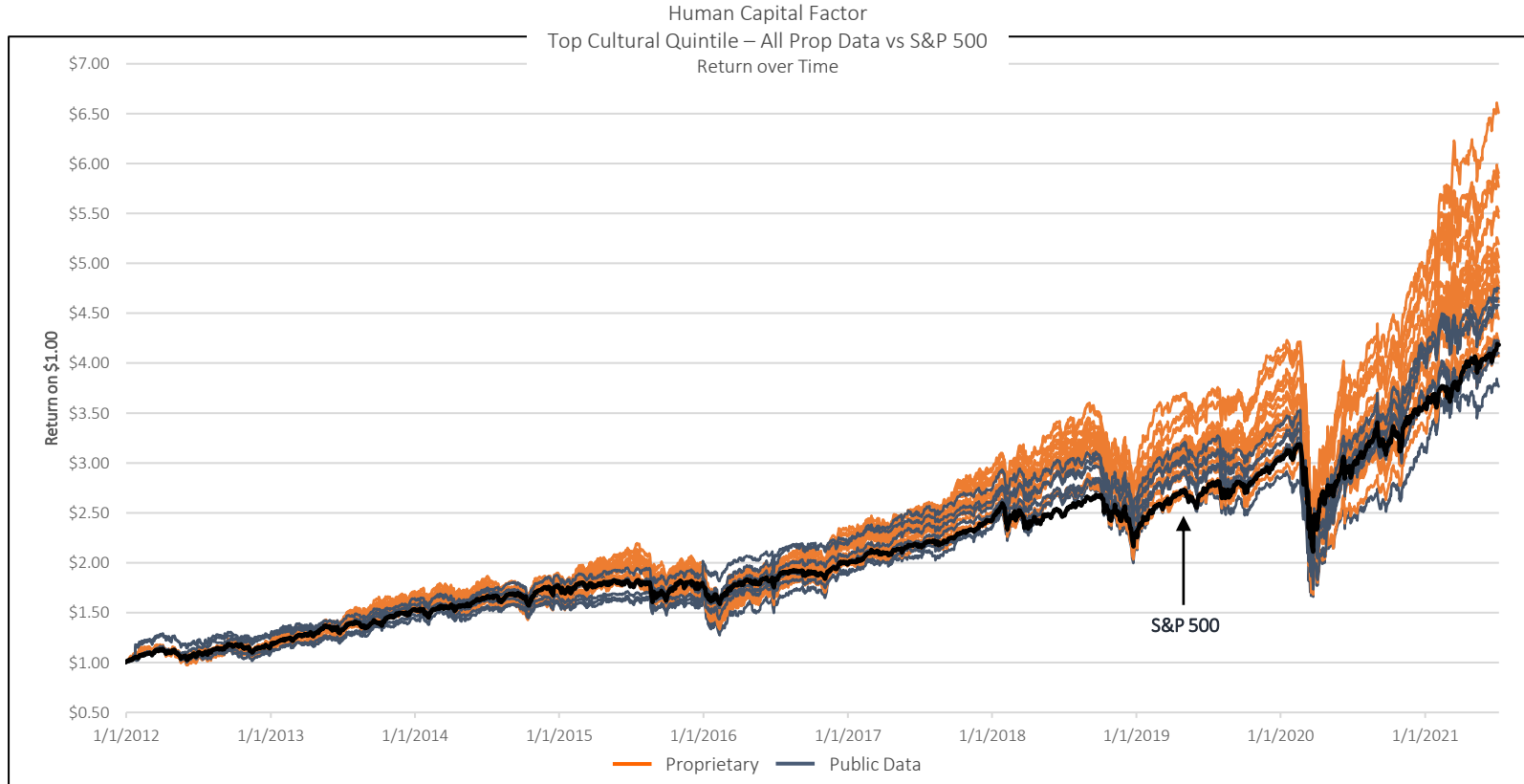
Human Capital Factor – Proprietary Data - Top Quintile - Motivation



Human Capital Factor – Proprietary Data - Top Quintile vs S&P

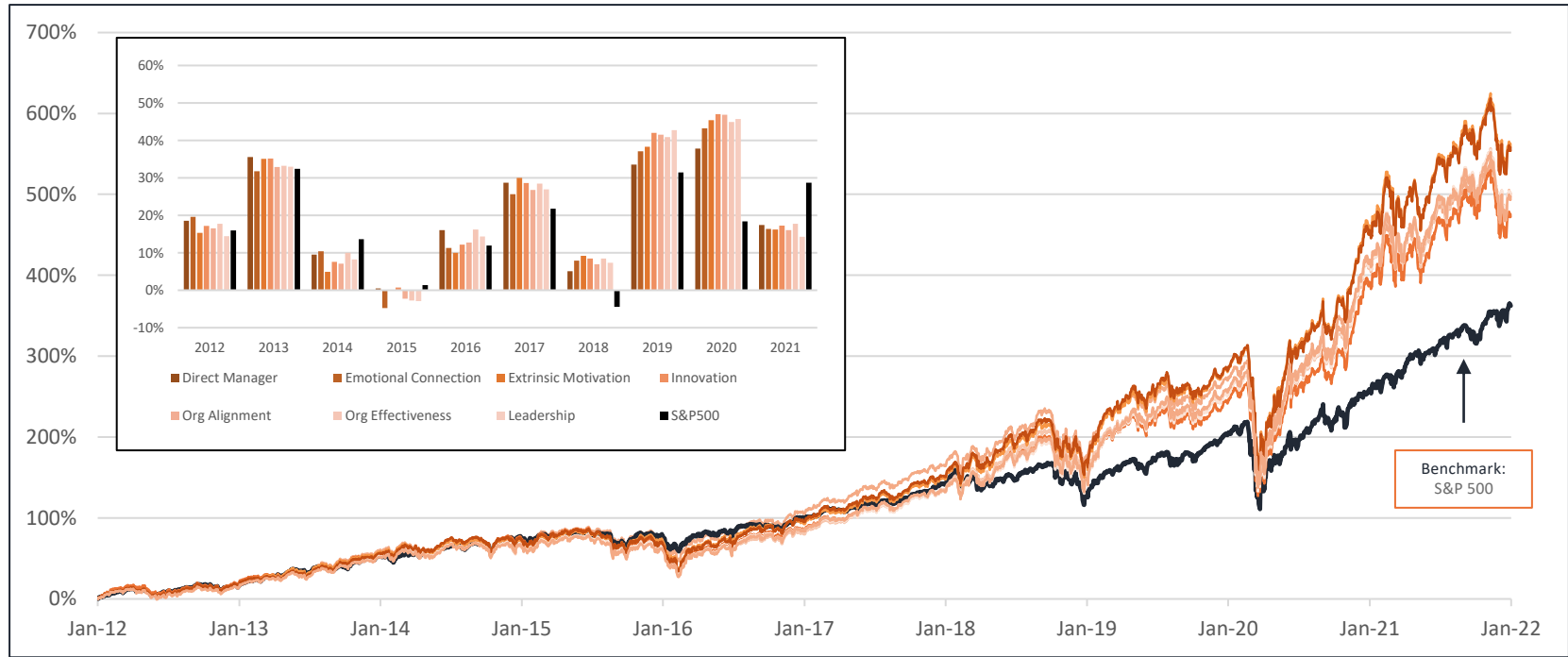


Human Capital Factor – Top Quintile – Prop + Public Data vs S&P



Human Capital Factor – Proprietary Data - Top Quintile vs S&P

Top Factors performers outperform across all dimensions
(Top Quintile)



Behavior Fuels the Human Capital Factor

How people and teams function are the new 'Fundamental'

✓ Strong Signal:
Intrinsic Motivation

- Management
- Leadership / Right Direction
- Psychological Safety
- Alignment
- Diversity of Perspective
- Career Growth / Development
- Autonomy
- Trust / Transparency
- Effectiveness / Efficiency
- Motivation
- Purpose
- Fairness
- Pride

~ Weak Signal:
Extrinsic Motivation

- Benefits*
- Compensation Level**
- Training
- Special Recognition
- Physical Environment
- Expected Tenure
- Job Title

* Showed stronger signal during post COVID period
** Over a Threshold

What matters is emotional and personal - difficult to quantify & independent of size, geography and stage

For competitive protection purposes these lists only represent a sample of the universe of behavior factors within IC's database and research.

Our Business



Irrational Capital's Business

Three key areas

Bespoke Strategies

Customized indexes for asset managers

- Alpha overlay
- Swaps
- Annuity linked

Investment Strategies

HCF powered investment products, including ETFs and Mutual Funds

HCF Rating Access

Assessment and reporting of company's HCF Rating for improvement, reporting and recognition

Roadmap For Today



Today's Agenda – Idea to Investment

In this JPMorgan DeepFin:

Introduce the Irrational Capital Data Sets



Show some Exploratory Analysis



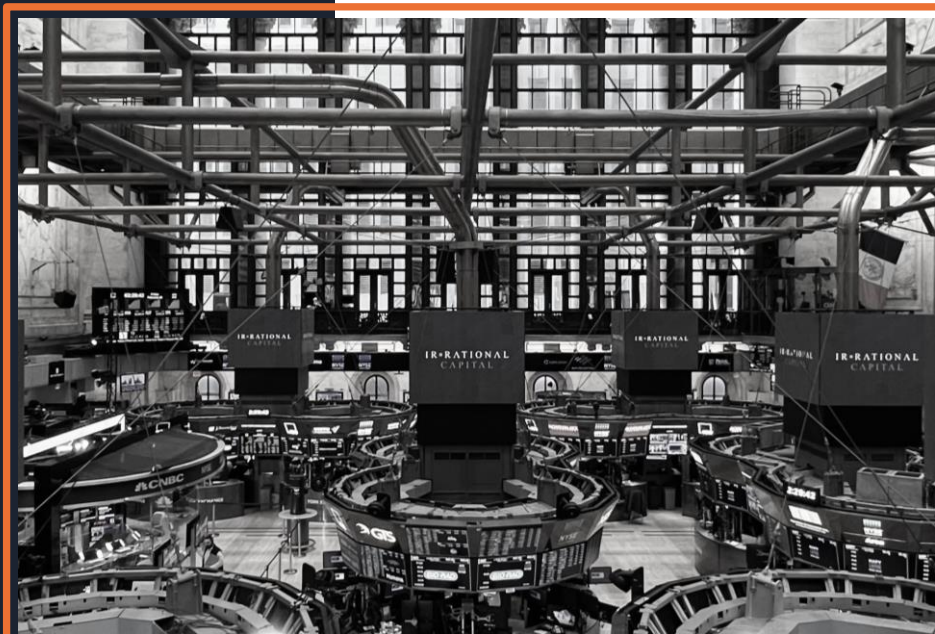
Calculate the Human Capital Factor Score



Apply the HCF to Investing, Demonstrating Alpha

Please ask questions as we go!

We also have time scheduled at the end for additional queries.



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