



2018 ANNUAL IMPACT REPORT



REALIZING GAINFUL JOBS

Photo: Employees at HCAP Partners' portfolio company Cubex teamed up to make over 90 blankets for Project Linus and local animal shelters.



HCAP Partners Snapshot

\$310M

capital managed¹

40+

Investments across 3 funds¹

9,000

employees across
investment portfolio²

53%

female workforce³

85%

jobs with LMI wages³

61%

minority workforce³



Provider of growth capital to lower-middle market companies throughout California and the Western U.S.



Recognized impact fund manager focused on improving job quality standards.



Raised over \$310 million in total capital commitments across three funds.



Nearly 1,300 jobs improved across the HCAP Partners III, L.P. portfolio.

¹ Reflects current HCAP Partners team.

² As of 12/31/2018 or as of exit for realized investments.

³ Impact metrics from HCAP Partners III, L.P.

HCAP Partners was founded in 2000 with a mission to generate top quartile returns while having a positive impact on underserved businesses and their communities. Each member of HCAP's team is deeply committed to the firm's impact approach and creating positive outcomes for our portfolio companies and their employees as well as our limited partners.



HCAP Partners team (from left to right): Bhairvee Shavdia, Nicolas Lopez, Tim Bubnack, Frank Mora, Hope Mago, Jennifer Neivert, Kurt Noyes

Message from the Team

Since its founding, HCAP Partners has had a deep commitment to impact and has actively worked towards strengthening its impact approach. HCAP Partners was founded with an impact focus on job growth which has evolved over subsequent funds into a codified impact framework around working with portfolio companies to improve job quality. As HCAP looks to the future with its forthcoming fund, the firm is excited to work in conjunction with a newly formed Impact Advisory Board on a number of new impact initiatives which build upon the initial successes of the Gainful Jobs Approach™. These initiatives, led by the buildout of an impact software platform, are highlighted in this year's Annual Impact Report.

This year's Annual Impact Report also includes a spotlight on Cubex, a Fund III portfolio company that has embraced HCAP's Gainful Job Approach™ and furthered its actions to strengthen job quality through initiatives centered around meaningful community engagement. We are pleased to announce that in 2018, Cubex launched a Community Outreach Program website and published its first Community Impact Report highlighting program accomplishments and employee engagement.

In 2018, HCAP Partners invested in Arosa+LivHOME, a home care company with over 1,500 employees across four states and serving 1,800 families daily. This year's Annual Impact Report features a case study on this investment, detailing the challenges to creating quality jobs in home care, an industry where one in five care workers currently live below the federal poverty line. The senior management at Arosa+LivHOME recognizes these challenges and is focused on creating better jobs through initiatives including stronger wages, upskilling, and paid leave. These actionable steps are detailed in the company's strategic roadmap which was developed in collaboration with senior management.

HCAP Partners remains thankful for your support of its impact mission and continues to welcome opportunities for collaboration and feedback.

Industry Participation & Recognition



FEATURED INVESTMENT FUND

In conjunction with Big Path Capital's Five Fund Forum and Gratitude Railroad, HCAP Partners' Principal Nicolas Lopez presented to a select group of over 100 impact investment practitioners focused on social and financial performance. The event was designed to connect the brightest investors with thought leaders and ecosystem partners to discuss, debate, and act on investment opportunities that matter.



RECOGNIZED IMPACT INVESTMENT LEADER

HCAP Partners was named as an Impact Assets 50 Fund for its sixth consecutive year. The IA 50 highlights fund managers that are delivering environmental and social impact as well as solid investment returns, and is an established and trusted database to help investors identify experienced impact investment firms.



LEADING CHANGE THROUGH LESSONS LEARNED

HCAP Partners' Principal Hope Mago was a panelist at SOCAP18, participating in an Impact Investing panel titled "Failing Forward" alongside other impact investing funds. The participants shared challenging experiences in a candid discussion about organizational failure and the valuable lessons learned.

Furthering Thought Leadership on Job Quality

H CAP Partners' Senior Associate Bhairvee Shavdia was selected as an Aspen Institute Job Quality Fellow in September 2018. Hosted with the Aspen Institute's Economic Opportunities Program (EOP) and supported by The Prudential Foundation and Ford Foundation, the Aspen Institute Job Quality Fellowship includes seventeen leading innovators and thought leaders working to advance job quality in the United States.



The Job Quality Fellowship Program is a part of the EOP's long-standing efforts to expand opportunities for people to connect to quality work, build assets, attain economic stability, and pursue their American Dream. The 2018-19 fellows are thought and action leaders from innovative businesses, investors, governments, and nonprofits from around the country that are taking on the challenge of improving job quality with diverse sets of approaches and solutions.



Spotlight: Cubex's Community Outreach Program

H CAP Partners' portfolio company Cubex places a strong emphasis on creating high-quality jobs and actively works to foster a workplace environment where employees are passionate about what they do. As a part of Cubex's strategic roadmap around improving job quality, in the fourth quarter of 2018 the company launched a Community Outreach Program and supporting website to help empower employees to support their communities through outreach and volunteer events.

PROGRAM ENGAGEMENT (Q4 2018)

47

Participants

104

Employee Hours

118

Blog Subscribers



Volunteers from Cubex aided in packing 3,000 emergency food boxes at St Mary's Food Bank for families in need in the state of Arizona.

COMMUNITY OUTREACH PROGRAM WEBSITE

In 2018, Cubex hired a Community Outreach Coordinator and in Q4 the company launched a dedicated website to serve as a communication hub for all things Community. Employees can find events and sign-up sheets, read blog posts, compete for most hours served, view event team photos, and more. Visit the website at:



info.cubex.biz/community-home



Cubex published its first Community Impact Report highlighting program accomplishments and engagement during Q4 2018.



24 donors contributed to Cubex's blood drive.



Cubex contributed to packaging 49,464 meals for Feed My Starving Children.

Case Study: Arosa+LivHOME

In 2018, HCAP provided capital to Arosa+LivHOME. The company is one of the largest home care companies dedicated to providing quality care and differentiating itself as a best-in-class employer of caregivers and innovative service with locations across four states (CA, NC, TX, IL). The combined business has 1,500 employees and serves over 1,800 families daily.



71%

of staff earns low-to-moderate income wages

92%

of staff is female

\$14.67

average hourly wage for caregivers, 33% more than industry median wage in 2017 (see page 11)

100%

of Arosa caregiver staff is eligible for performance bonus (in process of being implemented for LivHOME)

The Business Case for Quality Jobs in Home Health¹

The home care workforce has doubled in size over the past 10 years to over 2 million in 2017. An additional 1 million new home care jobs are expected to be created over the next 10 years, driven by the rapidly growing population of older adults.

Below are some stats about the composition of the current home care workforce.

- ▶ Nearly 9 in 10 are women, and their median age is 47
- ▶ 60% of the workforce is minority
- ▶ Half of workers have completed no formal education beyond high school
- ▶ In 2017, the median hourly wage adjusted for inflation was \$11.03 and given inconsistent work hours, the median annual income was \$15,100



“The home care field is experiencing a significant and growing shortage of home care workers due to greater demand for home care services, paired with limited growth in the labor force. To bridge this gap, it will be necessary to improve the quality of home care jobs to make them more competitive, including by offering higher wages and benefits, full-time hours, better training and advancement opportunities, and improved working conditions.”

¹Paraprofessional Healthcare Institute (PHI), *U.S. Home Care Workers: Key Facts*, 2018,



Arosa: Baseline Assessment

AROSA+LIVHOME IS A MERGER OF TWO COMPANIES. THE FOLLOWING IS THE BASELINE ASSESSMENT FOR AROSA.

JOB QUALITY ATTRIBUTE	WORKFORCE ELIGIBILITY	WORKPLACE PRACTICES ¹
Broad-Based Participation	100% 401(K) 100% Performance Bonus	<ul style="list-style-type: none"> Company offers a 401(K) plan option to all qualified staff (i.e. after 1,000 hours of employment) Performance bonus plan differs for caregivers and office staff 401(K) is matched at 50% up to 3% of salary Performance bonus offered to caregivers who work 120 hours per quarter
Opportunities for Advancement²	100% Training <5% Promotion	<ul style="list-style-type: none"> Offers workplace safety training to all (no training around employee rights or workplace skills) New jobs or promotions offered internally first but no policy on internal job promotion/advancement Has policy to support the progression/promotion of employees equally No formalized education benefits Regular salary reviews for all staff
Sustainable Livelihood³	32% of employees earn higher than NAICS average (\$12.45 per hour)	<ul style="list-style-type: none"> Interest in setting a highest-to-lowest wage ratio in future Clear process on standards for pay raises for caregivers (approximately 2.0-2.5% annually), discretionary for office workers Regular performance reviews in place for non-hourly workers (i.e. mostly office staff)
Paid Sick Days	7%	<ul style="list-style-type: none"> Offered only to office employees, not caregivers Sick time combined with personal days Company participates in FMLA
Wellness Initiatives	0%	<ul style="list-style-type: none"> No onsite or offsite wellness programs are currently offered Company organizes volunteer/ community events No matching for employee donations Company does not provide an FSA plan

Footnote references on following page.

LivHOME: Baseline Assessment



AROSA+LIVHOME IS A MERGER OF TWO COMPANIES. THE FOLLOWING IS THE BASELINE ASSESSMENT FOR LIVHOME.

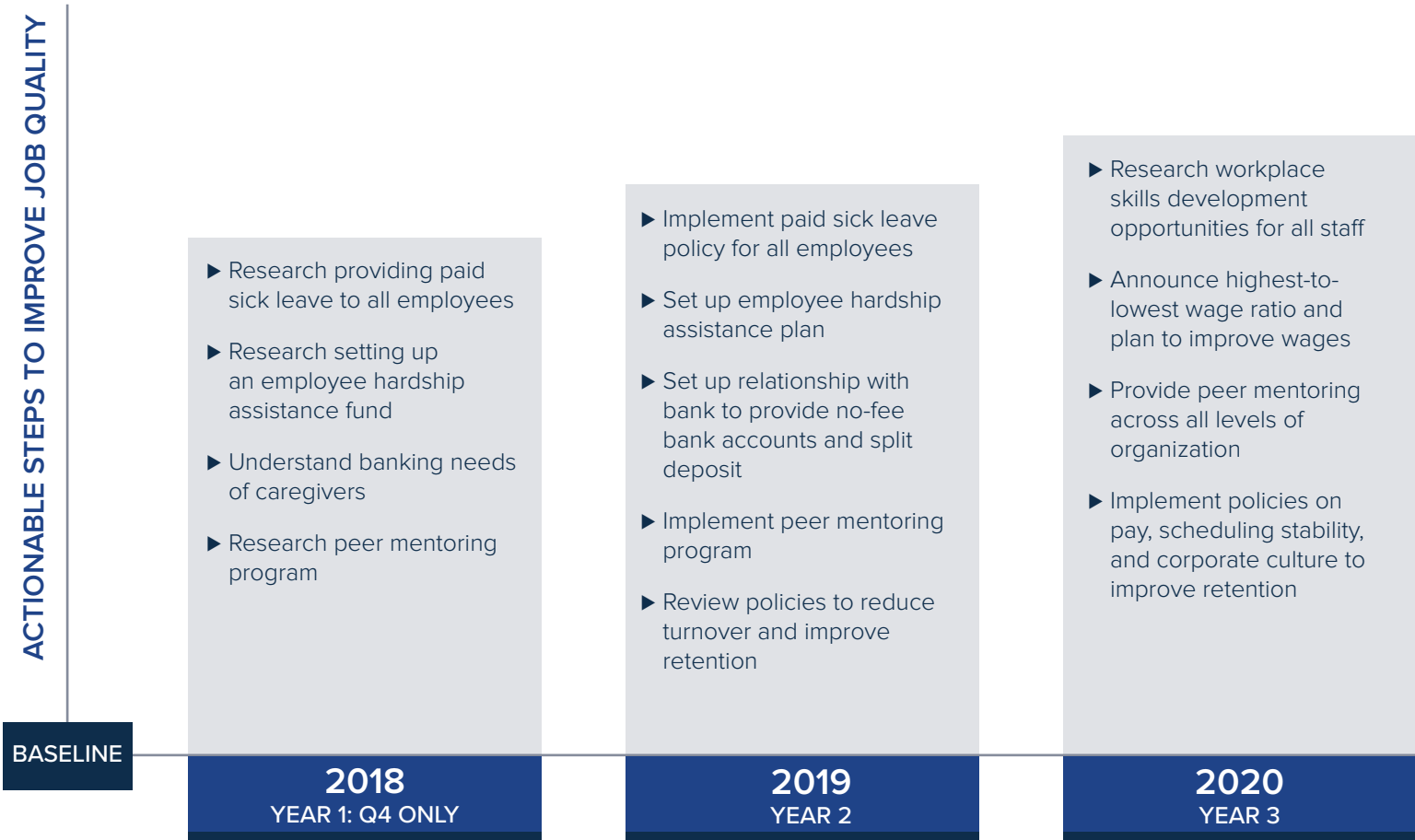
JOB QUALITY ATTRIBUTE	WORKFORCE ELIGIBILITY	WORKPLACE PRACTICES ¹	
Broad-Based Participation	Eligibility metrics N/A	<ul style="list-style-type: none"> Company offers a performance bonus for all staff; different structures for sales, care management, and admin staff 	<ul style="list-style-type: none"> 401(K) and college savings plan – eligibility metrics not available
Opportunities for Advancement²	100% Training <1% Promotion	<ul style="list-style-type: none"> Offers workplace safety and employee rights training to all employees - no workplace skills New jobs or promotions offered internally first but no policy on internal job promotion/advancement 	<ul style="list-style-type: none"> No policy to support the progression/promotion of employees equally No formalized education benefits
Sustainable Livelihood³	N/A based on data provided	<ul style="list-style-type: none"> Willingness to disclose highest-to-lowest wage ratios Regular salary and performance reviews in place for all employees 	<ul style="list-style-type: none"> Clear policy on standards for pay raise
Paid Sick Days	100%	<ul style="list-style-type: none"> Offered to all employees after certain length of service based on state compliance (CA, TX and IL) 	<ul style="list-style-type: none"> Sick time can be used to care for loved ones Company participates in FMLA
Wellness Initiatives	100% EAP	<ul style="list-style-type: none"> Company provides FSA plan No offsite wellness programs are currently offered 	<ul style="list-style-type: none"> No volunteer/community events or donation match

¹ As of 10/1/2018.

² Internal promotion percentage calculated as number of internal promotions over the last 12 months over new jobs created in the same period.

³ Sustainable livelihood eligibility determined as percentage of workforce earning greater than industry mean based on total industry average per NAICS (North American Industry Classification System) code. Earnings as per base salary.

Arosa+LivHOME: Roadmap¹



¹HCAP Partners collaborates with management teams to develop a tailored Strategic Roadmap which includes actionable steps to improve job quality standards over time. This working document is subject to change.

- ▶ Workplace skills development training:
 - a)** monthly in person classes in each local office, **b)** online training offering, and **c)** negotiated discounts with educational institutions for caregivers
- ▶ Aim for 67% staff paid wage above NAICS industry average
- ▶ Peer career mentors to help increase retention
- ▶ Aim for less than 45% turnover rate vs. median industry turnover rate of 66.7%*

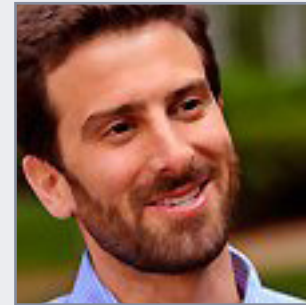
*Data from Home Care Pulse

2021
YEAR 4

- ▶ Research education benefits for all staff
- ▶ Set up matching program for employee donations
- ▶ Aim for 75% staff paid wage above NAICS industry average
- ▶ Company aims to be leader in the space, i.e. 90th percentile in the industry for wages paid
- ▶ Aim for less than 40% turnover rate vs. median industry turnover rate of 66.7%*

*Data from Home Care Pulse

2022
YEAR 5



“The first impact we’re looking to make is creating better jobs for our care professionals, doing that through strong wages and understanding the stresses of the job. The second main impact is using new business models, new opportunities to create better services for consumers.”

Ari Medoff, CEO Arosa+LivHOME
Home Health Care News, Dec 2018

Deepening the Commitment to Impact

For HCAP Partners' forthcoming fund, the firm identified a number of new impact initiatives to build on the initial successes of its impact framework and further the mission around meaningful portfolio company engagement to drive improvements in job quality. HCAP will work towards implementing these new impact initiatives over the coming years.

REQUIRED PARTICIPATION

For Fund III, portfolio company participation in the Gainful Jobs Approach™ was not mandated as the approach was developed during the course of the Fund.



Now that the Gainful Jobs Approach™ is developed and successfully implemented across a number of portfolio companies, Fund IV investments will include a requirement of participation in the impact approach to drive further alignment between all stakeholders.

Legal language will be included in the term sheet and final loan documentation around expectations for participation and compliance with the Gainful Jobs Approach™. In addition, the Baseline Assessment and a management-approved Strategic Roadmap must be in place prior to close.

ACCOUNTABILITY AND INCENTIVES

For Fund IV, both the portfolio company CEO and an implementation point person at the portfolio company will be required to be present for quarterly check-ins.



HCAP Partners is exploring possible financial incentives for implementing impact objectives on a case-by-case basis assuming a financial return threshold is met. Incentives may include the creation of a bonus pool or stock option plan for employees (funded in whole or in part by HCAP Partners) or access to other employee benefits if certain job quality objectives in the strategic roadmap are met. In addition, the firm is expanding its network of service providers to assist these portfolio companies in implementing improvements in job quality.

MEASUREMENT AND REPORTING

HCAP Partners anticipates adding 15-18 new portfolio companies over the life of its forthcoming fund. The firm is developing a software platform for the Gainful Jobs Approach™ that can be used to scale its impact approach across these new companies. This new software platform will allow HCAP Partners to gather employee data in real time, provide a platform for worker voice, and measure employee engagement. Further, the platform will improve reporting to provide greater transparency and visibility around impact data to each portfolio company and across the portfolio for limited partners.



HCAP Partners' Gainful Jobs Approach™ platform will include a portfolio company dashboard, Limited Partner dashboard, and an employee engagement tool.

Job Quality Standards Across the Portfolio¹

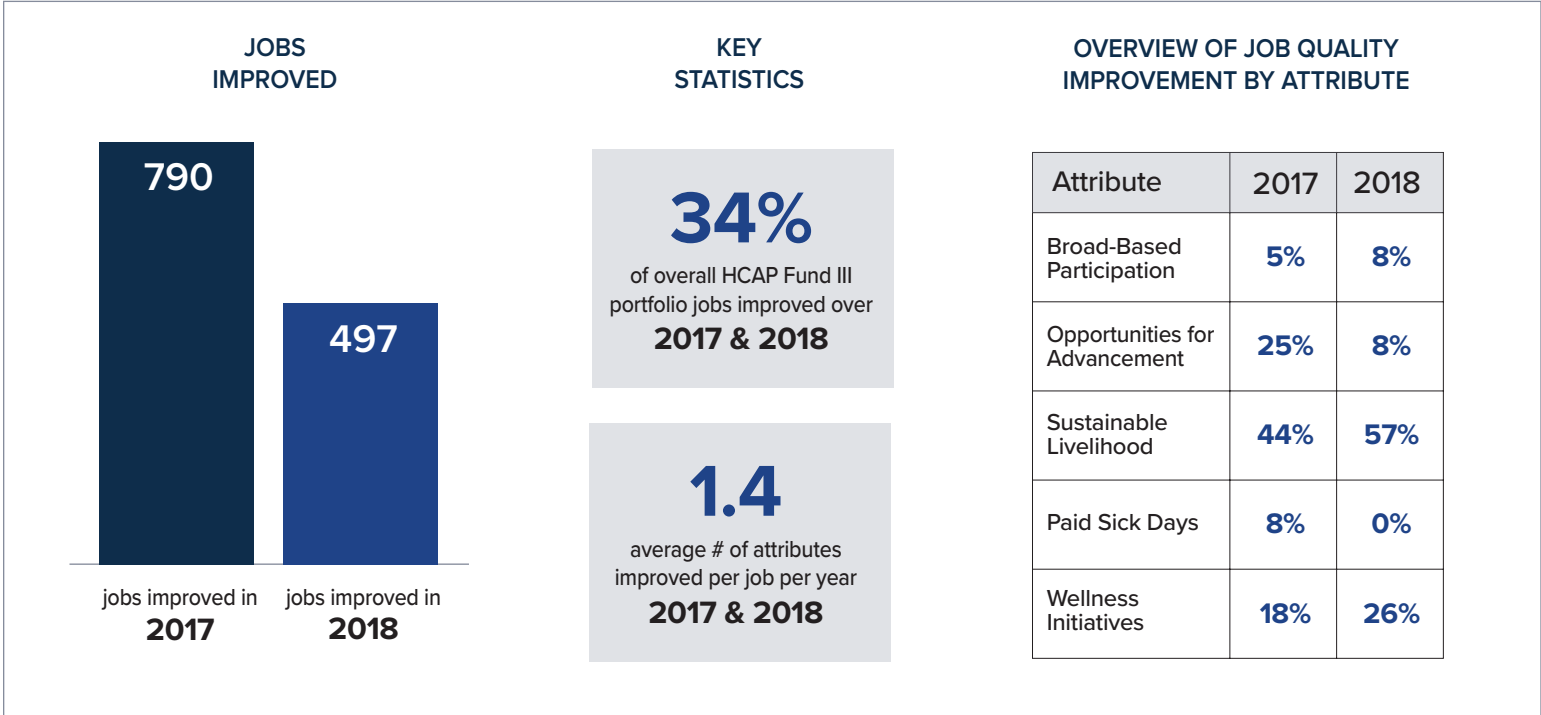
As HCAP Partners continues to engage with portfolio companies in an effort to improve job quality standards, it is helpful to take a moment to understand the landscape of job quality standards across the portfolio. Below are the percentage of HCAP Partners III, L.P. portfolio companies that offer workplace programs or policies within each attribute of the Gainful Jobs Approach™ and make these programs or policies available to over 75% of the workforce.



¹ Impact metrics from HCAP Partners III, L.P.

Understanding Improvements in Job Quality

Since formalizing the Gainful Jobs Approach™ in 2016 and rolling out to our HCAP Partners III, L.P. portfolio companies in 2017, we have realized job quality improvements for approximately 1,300 individuals which equates to roughly 34% of total employees across all portfolio companies. A majority of these jobs have improved across more than one attribute. The data below provides additional detail on job quality improvements.



GAINFUL JOBS APPROACH™

Cubex 2018 Update

Founded in 2008 and located in Arizona, Cubex provides customers in the medical (outpatient and long-term care), dental, and veterinary markets with secure Point of Use dispensing cabinets supported by cloud-based software.

The following is an overview of the progress made during 2018 with respect to the company's strategic roadmap around improving job quality per HCAP's Gainful Jobs Approach™. The new workplace initiatives put in place by Cubex to improve job quality standards have been highlighted. Cubex's Baseline Assessment and Strategic Roadmap can be found in HCAP Partners' 2017 Annual Impact Report titled *Creating Gainful Jobs*.





Cubex 2018 Update

IMPACT OBJECTIVE ¹	IMPLEMENTED IN 2018
Onsite Wellness Programs	<ul style="list-style-type: none">• Voluntary company-wide fitness competitions such as Fall Wellness Challenge• Healthy snacks and breakfasts for employees• Wellness program newsletters providing information and resources• Company-supported employee participation in philanthropic activities including St. Mary's Food Bank, Red Cross blood drive, Feed My Starving Children
Education Benefit Plan (Tuition Reimbursement, Student Loan Assistance)	<ul style="list-style-type: none">• Tuition reimbursement provided at executive level and to key employees in supporting promotions and role changes• <i>In Process</i>: "Manager Trainee Program" in which Cubex will cover the cost of management training courses
Expanded Work Schedules and Locations	<ul style="list-style-type: none">• Flexible work schedules and remote work available to employees upon approval, implemented Q2-Q4
Career Roadmapping Assistance	<ul style="list-style-type: none">• <i>In Process</i>: Formalizing career roadmapping assistance as well as leadership program for those employees looking to take on a management role
Formalized Intern Program	<ul style="list-style-type: none">• Formal intern program in place offering a rotation through Cubex departments• Eight interns hired in 2018 to support various departments
Other Initiatives	<ul style="list-style-type: none">• Launched a formal community outreach program website with calendar, blog, information about how to participate, also launched a supporting Slack channel

¹Gainful Jobs impact objectives identified in collaboration between HCAP Partners and Cubex management team

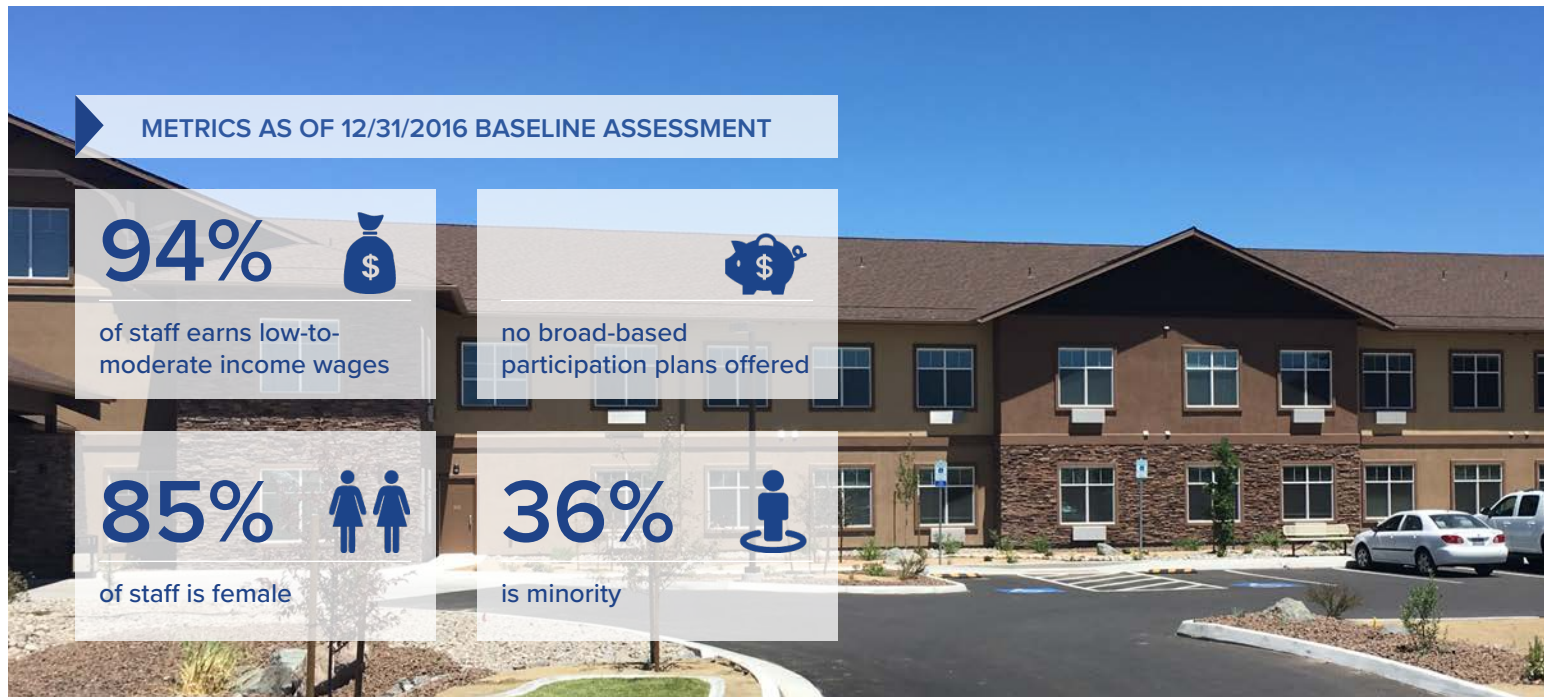
GAINFUL JOBS APPROACH™

MSL 2018 Update



Mission Senior Living (MSL) is a Nevada-based developer and operator of senior care communities. HCAP provided funding to MSL for the construction of Summit Estates, a new senior living community located in South Reno, Nevada consisting of 92 assisted living apartments and 24 memory care suites.

The following is an overview of the progress made over 2018 with respect to the company's strategic roadmap around improving job quality per HCAP's Gainful Jobs Approach™. The new workplace initiatives put in place by MSL to improve job quality standards have been highlighted. MSL's Baseline Assessment and Strategic Roadmap can be found in HCAP Partners' 2017 Annual Impact Report titled *Creating Gainful Jobs*.



GAINFUL JOBS APPROACH™

MSL 2018 Update



IMPACT OBJECTIVE ¹	IMPLEMENTED IN 2018
Broad-Based Participation Plans	<ul style="list-style-type: none"> • 401(K) plan rolled out to all employees • Employee training on basic financial skills including home budget and effect of interest rates • Greater Nevada Credit Union agreed to waive some auto and home loan-related fees for MSL staff • Performance bonuses given to six staff heads instrumental in achieving 100% capacity • Launched Greater Perks program with the Greater Nevada Credit Union, 25 employees enrolled • <i>In process:</i> 401(K) company matching planned for 2019
Onsite Wellness Programs	<ul style="list-style-type: none"> • Wellness program for senior leadership: company-paid fitness club memberships • Wellness program for all employees: discounted fitness club memberships
Onsite Staff Training	<ul style="list-style-type: none"> • Continued in-house monthly Med Tech training program launched in 2017
Other Initiatives	<ul style="list-style-type: none"> • Team member Perks at Work program: MSL partners with local businesses to help families in the community while also negotiating discounts for MSL employees • MSL team members participated in two-day team building event with Chef Cynthia Ferris-Bennett • Donated 50% of the Nov. and Dec. 2018 move-in fees to a local veterans' organization
Recognition	<ul style="list-style-type: none"> • Summit Estates was Awarded the Perry Foundation's 2018 Endeavor Award for Quality Care in an Assisted Living Community • Zareen Gul, Summit Estates Dining Services Director, received the 2018 Endeavor Award for Innovation in Dining

¹Gainful Jobs impact objectives identified in collaboration between HCAP Partners and Mission Senior Living management team

Featured Media

FORTUNE

Fortune Magazine

Shareholders Are Stealing Our Jobs

HCAP Partners was included in a commentary published in Fortune Magazine as an example of private debt funds that support their portfolio companies in creating quality jobs. The piece was adapted from a new briefing authored by Transform Finance and NYU Stern Center for Sustainable Business on the role of investors in the future of work, outlining strategies they can take to protect workers from the effects of automation, the gig economy, and the like.



StanfordSOCIAL
INNOVATION^{Review}
Informing and Inspiring leaders of social change

Stanford Social Innovation Review The Gainful Jobs Approach™

HCAP Partners is featured in the Stanford Social Innovation Review in an article addressing challenges of impact investing and outlining a set of “IMPACT Principles”—integration, materiality, pragmatism, authenticity, commitment, and transparency. The firm's Gainful Jobs Approach™ is highlighted, representing the principle of transparency in impact management.



Impact Community Recognition



Pacific Community Ventures **Quality Jobs Trends in the Field**

HCAP Partners was featured in an Impact Investing newsletter published by Pacific Community Ventures addressing quality job trends.



Northwest Area Foundation **HCAP Shows How Mission Investing Can Help Improve Job Quality**

Northwest Area Foundation featured HCAP Partners' Gainful Jobs Approach™ and the 2017 Annual Impact Report.



APPENDIX

GAINFUL JOBS APPROACH™

Developed through collaboration with our LPs and industry thought leaders, HCAP Partners' Gainful Jobs Approach™ is our operational impact framework for understanding job quality standards at our portfolio companies through (i) a robust quantitative measurement system to assess existing job quality standards and improvements and (ii) active portfolio engagement to identify and implement workplace initiatives aimed at creating and maintaining high-quality jobs. Below is an overview of the methodology of the Gainful Jobs Approach™.

THE BASELINE

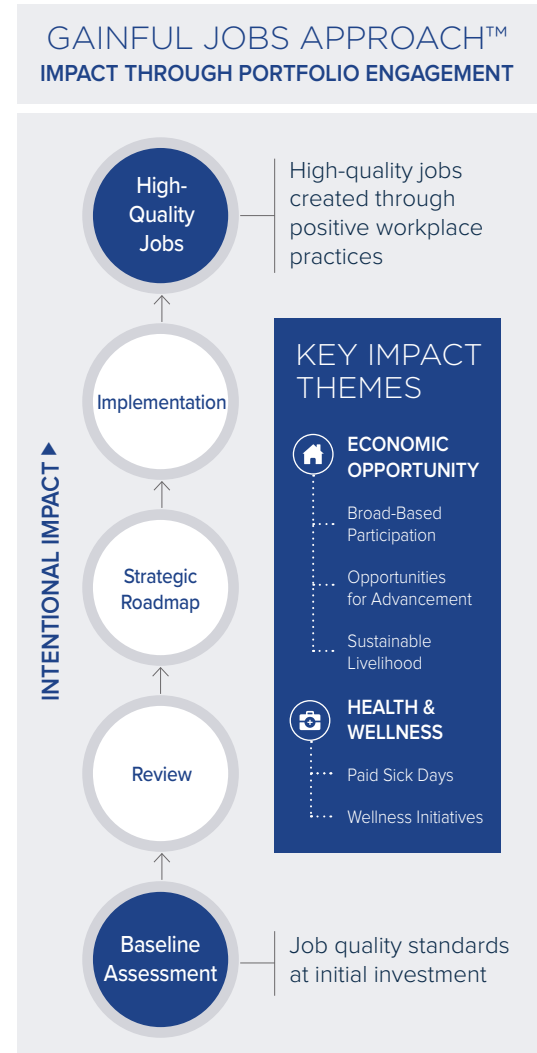
At the time of investment, HCAP Partners works with portfolio company leadership to understand current job quality standards.

STRATEGIC ROADMAP

HCAP Partners collaborates with management teams to develop a tailored Strategic Roadmap which includes actionable steps to improve job quality standards over time.

IMPACT CREATION / PORTFOLIO ENGAGEMENT

HCAP Partners engages with portfolio companies on a consistent basis to understand progress towards goals in the Strategic Roadmap. HCAP Partners also works with management teams to provide tools and resources to aid in the implementation of new workplace practices aimed at improving job quality standards.



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