



A focus on quality jobs
during a pandemic year.

HCAP PARTNERS SNAPSHOT

Over the past 20 years, HCAP Partners has managed more than \$300 million across three funds, providing mezzanine debt and equity for underserved, lower-middle market companies throughout California and the Western United States.

HCAP Partners is nationally recognized for its thought leadership and commitment to intentional impact and actively works to set industry standards as a mission-driven fund manager.



\$300M+

CAPITAL
MANAGED

50+

INVESTMENTS
ACROSS 3 FUNDS

4,123

EMPLOYEES ACROSS
INVESTMENT PORTFOLIO¹

77%

FEMALE
WORKFORCE¹

68%

JOBS WITH LMI
WAGES¹

75%

ETHNICALLY DIVERSE
WORKFORCE¹

Founded in 2000

Based in San Diego, CA

Investments of \$2M to \$15M

Investments in established
businesses with \$10M to \$100M
in revenues

Focus on healthcare, software,
services, and manufacturing

¹ Impact metrics from HCAP Partners IV, L.P. as of 12/31/2020.



Our Team



Tim Bubnack, Managing
Partner



Frank Mora, Partner



Hope Mago, Partner



Nicolas Lopez, Principal



Bhairvee Shavdia,
Principal



Christopher Fallone,
Associate



Kurt Noyes, Chief
Financial Officer



Jennifer Neivert,
Operations &
Administration Manager

Top row, left to right: Tim Bubnack,
Frank Mora, Hope Mago, Nicolas Lopez

Bottom row, left to right: Bhairvee Shavdia,
Christopher Fallone, Kurt Noyes, Jennifer Neivert

MESSAGE FROM THE TEAM

2020 was an extremely difficult year for our nation with the pandemic highlighting already deep-rooted challenges including those surrounding diversity, equity and inclusion, as well as economic wellbeing. At HCAP Partners, we are both a general partnership that is majority comprised of diverse professionals and an impact fund focused on quality jobs, particularly for the 70+ percent of our portfolio company employees who are low-to-moderate income wage earners. As such, the challenges of 2020 impacted both our team and our portfolio companies.

HCAP places great emphasis on backing management teams who have values aligned with our mission to improve job quality through our Gainful Jobs Approach™. We are pleased to share that our management teams continued to invest in job quality during 2020, recognizing the changing landscape of work and implementing policies to safeguard employees' health and wellbeing. We have highlighted some of these initiatives in this year's Annual Impact Report.

A goal for our firm as we headed into 2020 was striving towards greater equity and inclusion through responsible exits from our portfolio. Over the course of the year, we formalized this idea through the implementation of "carrot agreements," which are further detailed in the case studies in this year's Annual Impact Report. Through these agreements, low-to-moderate income workers in two of our 2020 realized exits are anticipated to benefit from nearly \$825K of capital.

It has been five years since we formalized the Gainful Jobs Approach™ and we feel incredibly fortunate to work alongside Limited Partners and thought leaders who support our impact mission. We remain thankful for this support and continue to welcome opportunities for collaboration and feedback.

Our Purpose:

We share a relentless drive for impacting our portfolio companies and our team members' lives in a powerful way to create financial rewards for our stakeholders and measurable economic outcomes for all employees of our portfolio companies. Our work is fulfilling, fun, and rewarding for all.

INDUSTRY INVOLVEMENT

HCAP Partners' is committed to fostering knowledge exchange and strives to be a thought leader in the impact investing community. We are pleased to share a few select highlights featuring HCAP Partners' impact investment recognition and industry contributions.



This is the 8th consecutive year that HCAP Partners has been named as an [ImpactAssets 50 \(IA50\) investment fund manager](#). This year, the firm was recognized as a part of the inaugural IA 50 Emeritus Manager category showcasing impact fund managers who have been on the IA50 for at least five years demonstrating resilience within the impact investing market and a consistent ability to generate positive impact.



HCAP Partners' Gainful Jobs Approach™ was featured in the [Job Quality Tools Library](#) published by the Economic Opportunities Program at The Aspen Institute. In addition, as a Job Quality Fellow, HCAP Partners' Bhairvee Shavdia contributed to the development policy agenda recommendations for economic recovery focused on job quality and economic inclusion.



HCAP Partners served as an expert contributor to the [Quality Jobs](#) theme within The Navigating Impact Project launched by the GIIN in partnership with the International Labour Organization (ILO). HCAP's work was also featured as an illustrative example in a Strategic Goal defined by the GIIN titled [Improving earnings and wealth through employment and entrepreneurship \(particularly for disadvantaged and excluded groups\)](#). This strategy was developed to help investors ensure that every person can earn at least a living wage.

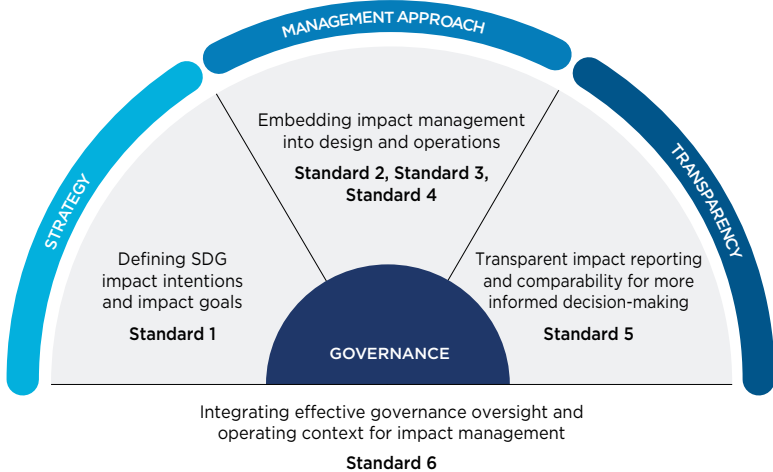


INDUSTRY INVOLVEMENT: Defining a path towards implementation of the Sustainable Development Goals (SDGs)



HCAP Partners was invited to participate alongside a select group of other expert practitioners in the Implementation Working Group for the adoption of UN SDG Impact Standards for PE firms.

The Standards define an operational framework for funds that seek to implement the SDGs, providing a concrete roadmap and a practical guide to help translate that intent to action. Finalized resources to support users in the adoption of the Standards are expected to be released in 2021.



UN SDG Impact Standards: Six standards that reflect core elements of accountable impact practice, organized into four parts: Strategy, Management Approach, Transparency, and Governance.

HCAP Partners investments contribute to the following UN Sustainable Development Goals:

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

▶ BEST PRACTICES FOR ENSURING JOB QUALITY DURING THE COVID-19 PANDEMIC

During April 2020, the nation's unemployment rate reached 14.7% with a staggering 20.5 million suddenly unemployed. While the unemployment rate declined to 6.3% in December 2020, the rebound has been unequal with a much slower job recovery rate for women and people of color. While the overall unemployment rate for women over 20 years of age was 6.3% in December (compared to around 3% pre-pandemic), for Black women, it's 8.4% and for Latinx women, it's 9.1%.

COVID-19 has changed the landscape of work with many businesses forced to transition to remote work for longer than anticipated and many employees struggling to balance health and childcare given school closures while working from home. These changes have further served to highlight the ongoing need to create quality jobs for all employees and continued incorporation of race and equity into the narrative around quality jobs/good jobs.

We have highlighted what we believe are three best practices for employers to ensure job quality for all employees. And although these best practices have come to the forefront due to COVID-19, we believe that they will continue to be crucial to ensure high-quality jobs for all employees.



Create Safe Workplaces for All Workers

Data published by the Bureau of Labor Statistics shows that only 45% of employed workers were able to telework between February and April 2020. Historically, less than 20% of Black workers and Hispanic workers are able to work from home. Similarly, low-wage workers had the least flexibility in working from home with only 9.2% of workers in the lowest quartile of the wage distribution having the ability to telework compared with 61.5% of workers in the highest quartile.

At a minimum, employers should review and adopt the employer guidance published by the Occupational Safety and Health Administration (OSHA) and the CDC to protect workers from COVID-19 transmission including social distancing and the provision of protective personal equipment. Moreover, employers should develop internal systems to encourage employees to share concerns and address all health and safety complaints from workers.

Focus on Job Flexibility

Since the start of the pandemic, workers have faced challenges in their daily lives including caregiving for children or relatives, managing personal health, and commuting and working on-site. Around one in four private sector workers do not earn paid sick leave and for those that do, most do not accrue enough paid sick time to quarantine for the recommended 14 day duration associated with COVID-19. In this environment, incorporating flexibility into all jobs becomes a key consideration for job quality. Flexibility

includes schedule modifications including start and end times for shift workers and schedule-swapping. Equally important is the provision of paid sick leave and job-protected emergency paid leave to cover family and medical leave.

Support Laid-off or Furloughed Employees

With state mandated closures, we have seen instances where businesses need to downsize and workers have been laid off or furloughed. In instances of furloughs, employers should consider maintaining as many benefits as possible during the furloughed period such as health and life insurance. High-quality employers should also educate laid-off or furloughed employees on state and federal benefits that might be available to them including unemployment insurance and health insurance. Similarly, as employers re-hire, furloughed or laid-off employees should be notified and prioritized in the re-hiring process for similar and equivalent positions.

Sources:

<https://www.refinery29.com/en-us/2021/02/10289870/women-economic-recovery-klobuchar-letter>

<https://www.bls.gov/opub/mlr/2020/article/ability-to-work-from-home.htm>

<https://www.epi.org/blog/black-and-hispanic-workers-are-much-less-likely-to-be-able-to-work-from-home>

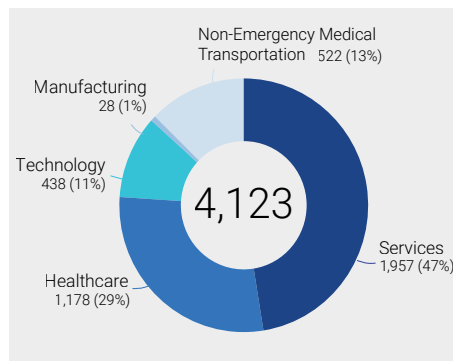
<https://www.nationalpartnership.org/our-work/resources/economic-justice/employer-best-practices-support-workers-during-coronavirus.pdf>

HCAP PARTNERS IV, L.P. IMPACT METRICS¹

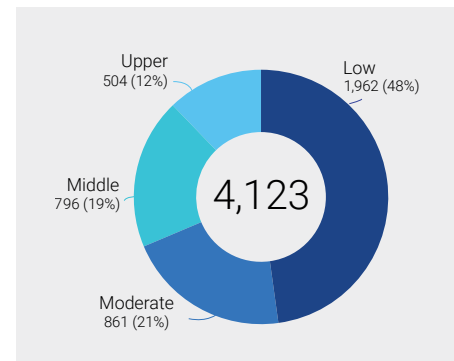
As of Q4 2020, HCAP IV has invested \$104.8 million across ten investments, with 61% of the capital invested going into traditionally underserved businesses, i.e. businesses that are either located in a low-to-moderate income census track or employ a majority low-to-moderate income-earning workforce. The impact metrics highlighted on this page and the next illustrate the composition of the portfolio as well as improvements in job quality during 2020.

We are pleased to report that 80.3% of jobs in the portfolio were improved during 2020 across multiple attributes of the Gainful Jobs Approach™.

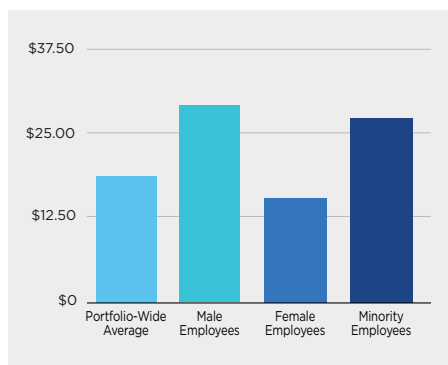
Jobs by Industry



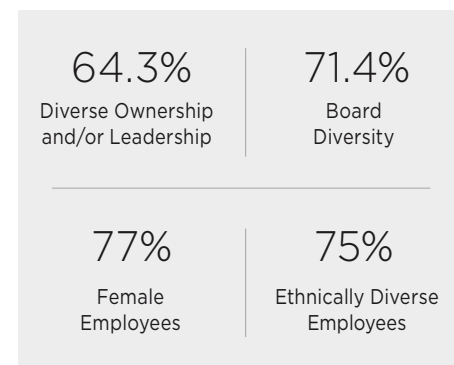
Jobs by LMI Breakdown



Average Hourly Wages



Portfolio-Wide Demographics



¹ Impact metrics from HCAP Partners IV, L.P. as of 12/31/2020.

Key Jobs Improvement Statistics

3,310

Portfolio jobs improved

80.3%

% of portfolio jobs improved

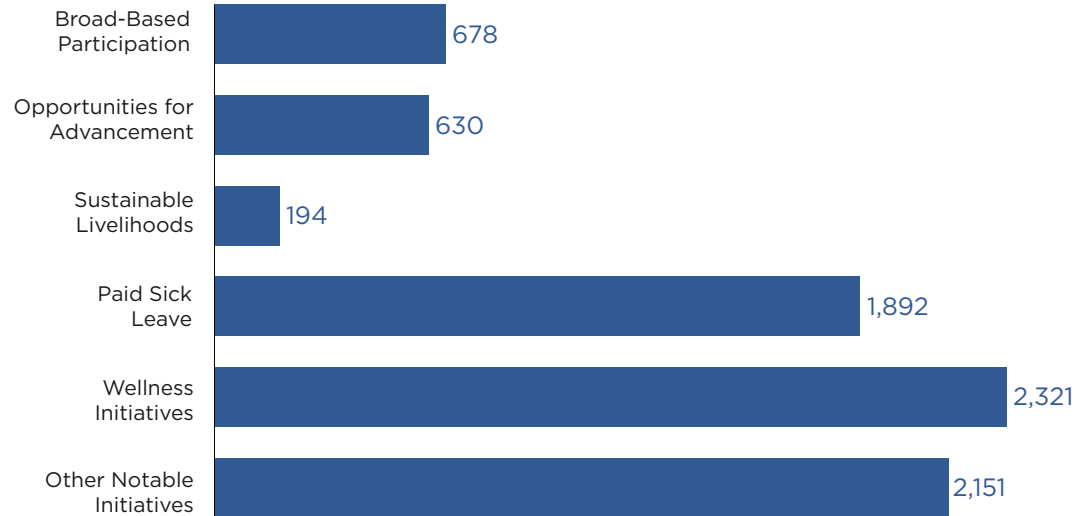
2,344

Jobs with multiple improvements

2.01

Average # attributes improved per job

Number of Jobs Improved by Attribute



During the 2020 pandemic year, we saw portfolio companies focus their job improvement efforts on supporting employee health and wellness, promoting job stability, and providing emergency assistance.

Portfolio-Wide Employment Statistics

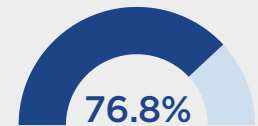
Total Jobs Created



Employee Retention



Employee Satisfaction



■ SAFEGUARDING EMPLOYEE WELLBEING DURING 2020

Beginning in January of 2020, HCAP Partners found itself at the forefront of the COVID-19 pandemic. We had learned about the emergence of COVID-19 and that China was on lockdown, but we had no idea the disruption this would cause to supply chains around the world. Given the impact to one of our portfolio companies early on, this put our team on high alert.

In late February, we wondered if the impact to supply chains was industry-specific, but we soon realized as the virus spread across the U.S. and shelter-in-place orders became effective that this would impact our entire portfolio. As such, in early March we actively worked with our portfolio companies to understand the impact of COVID-19 on business performance. In the push for information, we realized a large majority of our portfolio companies were faced with a new reality of a majority of the workforce working remotely.

We are pleased to report that many of our portfolio companies put in place benefits and policies to safeguard the health, safety and overall wellbeing of their employees and improve job quality during a rapidly changing landscape for employment. We have highlighted some of these initiatives in the following pages.

We believe the efforts made by many of our portfolio companies to support employees during this crisis is a model in the making.

SAFEGUARDING EMPLOYEE WELLBEING: Examples of Portfolio Company Initiatives in 2020

Mission Healthcare

- Provided unlimited telemedicine and virtual healthcare benefits for all employees
- Secured thousands of surgical and N95 masks, gloves, gowns, etc. for its 600+ front line employees
- Hosted drive-up parties to issue PPE to clinicians
- Supplied washable cloth masks to administrative support staff and reconfigured workspaces to support social distancing

Confirm BioSciences

- Implemented special bonuses to compensate the warehouse workers not able to work remotely
- Created benefit to allow employees to cash in paid time off in the event of financial hardship
- Expanded educational reimbursement
- Expanded gym reimbursement to include online classes and purchase of fitness equipment
- Provided Employee Assistance Program with access to mental health counseling paid for by the company

Lone Star Analysis

- Elected to pull forward bonus payouts for all eligible employees to help those facing loss of one income or reduced hours
- Extended individual choice, hybrid, and flexible attendance, and included part-time options
- Added home office setup allowance



Lone Star also received significant recognition this year for its exceptional work environment

TCS Healthcare

- Introduced a broad-based stock option plan granting stock options to every employee
- Provided LinkedIn Learning subscriptions to all employees to further education
- Implemented new wellness program across the Company which includes reimbursement for employee expenses related to wellness

SAFEGUARDING EMPLOYEE WELLBEING: Arosa's Commitment to Employee Stability



Arosa is a premier national in-home care and care management provider for elderly Americans. A core pillar of the company's mission centers around a deep commitment to its team.

Arosa has provided nearly \$1 million in supplemental pay to its caregiver and office workforce during the pandemic. Highlights of the initiatives implemented by the company to support employees in 2020 include:

- Offered paid time off to all caregivers. Previously, paid time off was only offered to caregivers in CA and IL.
- Introduced an 8-week stability pay and loyalty stipend program to ensure employees were not adversely impacted by reduced hours.
- Created a Fairness and Accountability Committee chaired by HCAP to enhance workplace practices.
- Provided PPE to all caregivers and online training that must be completed by caregivers prior to working with a COVID-19 positive or symptomatic client.
- Created the Arosa Grant Circle to provide up to \$1,000 to team members who have experienced unusual or unexpected events making it difficult to afford basic living expenses.



“ I’m so thankful to be a part of a company that stands beside you during such hard times. My kids and I are truly thankful for this help... A very big thank you to the Arosa Grant Circle. It is beyond my expectations... I’m so grateful to be an employee of Arosa.”

“ I cried of relief when my grant was approved. My husband cried, too; we were so relieved that we would not be on the street and that we would be able to get food for our kids.”

“ I am eternally grateful for this service. I can’t stress it enough. Thank you so much for finding ways to take care of employees during difficult times.”

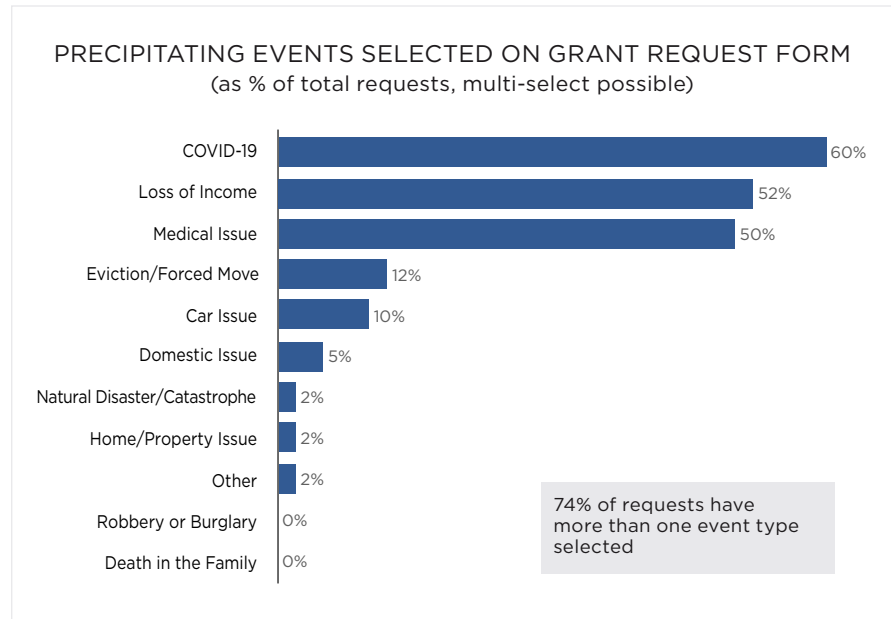
“ I am not able to work from home, if I was not able to have child care I would have not been able to work.”

SURVEY RESPONSES FROM AROSA GRANT CIRCLE RECIPIENTS

Arosa Grant Circle¹

The Arosa Grant Circle is an emergency assistance fund that HCAP Partners helped put in place at Arosa in April 2020. This program is the first of its kind in the non-medical direct care industry, providing employee grants of up to \$1,000 for qualified financial hardships.

As of March 2021 the Grant Circle has distributed more than \$224,000 to 240 employees with an average grant size of approximately \$930. 77% of the employees who requested emergency assistance funds had an annual household income of less than \$60,000.



¹ The Arosa Grant Circle program is administered by Canary (workwithcanary.com).

▶ INVESTING IN MEANINGFUL JOB QUALITY IMPROVEMENTS

HCAP Partners' impact framework focuses on building quality jobs at small businesses, particularly for low-to-moderate income (LMI) wage earners. This work is done alongside dedicated management teams who value and understand the benefits of quality jobs within their companies. As our portfolio companies continue to invest in improving job quality, we are working to further acknowledge and reward those companies that make meaningful progress towards their strategic roadmaps.

To support this effort, HCAP Partners has designed carrot agreements that are intended to create a pool of capital at an exit. The pool is funded if:

1. HCAP meets a certain return threshold, and
2. the portfolio company has made meaningful improvements on job quality standards during the tenure of HCAP's investment.

The capital is intended to further improve job quality for the portfolio company's low-to-moderate income employees and enable all employees to participate in the "upside" of the investments. Each carrot agreement is tailored to the individual portfolio company and industry, and constructed in collaboration with the founders and/or management team.

In 2020, HCAP Partners designed carrot agreements with two portfolio companies: Mission Healthcare and Confirm BioSciences.

“Partnering with a lender who has a focus on positively impacting the workforce through job creation, diversity, and employee wellness has aligned with the company's mission of taking care of people. The commitment to positively impacting our employees and our communities will continue through a generous donation from HCAP to the Mission Healthcare Benevolent Fund that will support employees in need due to unforeseen circumstances. Our people are the most important piece to impacting our patient population and HCAP has continued to support that philosophy throughout our partnership.”



Paul VerHoeve
CEO, Mission Healthcare

INVESTING IN MEANINGFUL
JOB QUALITY IMPROVEMENTS

MISSION HEALTHCARE

San Diego-based Mission Healthcare is a leading provider of home health and hospice services to the Southern California market. During HCAP Partners' investment period from 2019 to 2020, the company achieved stellar growth while also improving its quality of care, achieving recognition as a top workplace in San Diego.

Throughout the investment, each employee at Mission Healthcare realized improvements in job quality across broad-based participation, sustainable livelihoods, and wellness attributes.

As part of HCAP Partners' exit from Mission Healthcare and our expected carrot agreement capital contribution, the firm is working with the company's founders and management team to create a Benevolent Fund to provide financial assistance to employees who are victims of natural disasters, national emergencies, financial hardships or family crises. HCAP Partners intends to contribute up to \$200K in funding alongside potential contributions by the company's founders for a total expected fund size of up to \$600K. HCAP Partners will serve on the governance committee of the Benevolent Fund.

INITIAL INVESTMENT
APRIL 2019

PRE-EXIT
JUNE 2020

550

585

NUMBER OF
EMPLOYEES

70.2%

66.7%

% EMPLOYEES
EARNING LMI WAGES

\$23.05

\$25.42

AVE. HOURLY WAGE

JOB QUALITY IMPROVEMENTS ACHIEVED DURING INVESTMENT PERIOD

100 % OF JOBS
IMPROVED

2.0 AVERAGE # OF
IMPROVEMENTS
PER JOB

CARROT AGREEMENT OUTCOMES

100% % OF TOTAL JOB QUALITY
IMPROVEMENT GOALS COMPLETED

~\$600K BENEVOLENT FUND TO PROVIDE
EMERGENCY FINANCIAL
ASSISTANCE TO EMPLOYEES
EXPECTED FUND SIZE



INVESTING IN MEANINGFUL
JOB QUALITY IMPROVEMENTS

CONFIRM BIOSCIENCES

Confirm BioSciences is a leading provider of high-quality, comprehensive screening tools and solutions across the full spectrum of health and wellness. In December 2020, the company was acquired by Clinical Reference Laboratory (CRL), one of the largest privately-held clinical testing laboratories in the United States.

Throughout HCAP Partners' investment, each employee at Confirm BioSciences realized improvements in job quality across 4 out of the 5 attributes of the Gainful Jobs Approach™, including broad-based participation, opportunities for advancement, wellness, and paid sick leave.

As part of HCAP Partners' exit from Confirm BioSciences and our carrot agreement capital contribution, HCAP worked with the company founders and management team to structure bonuses for all employees. The total bonus pool for all employees was \$1.4M with HCAP Partners contributing \$190K, while the remaining funds were provided by the majority owners of Confirm BioSciences. Of the total bonus pool, \$225K was distributed amongst the company's 17 LMI wage-earning staff, for an average of \$13K per LMI wage-earning employee.

INITIAL INVESTMENT
MARCH 2019

PRE-EXIT
JUNE 2020

58

66

NUMBER OF
EMPLOYEES

34.5%

22.7%

% EMPLOYEES
EARNING LMI WAGES

\$20.51

\$35.76

AVE. HOURLY WAGE

JOB QUALITY IMPROVEMENTS ACHIEVED DURING INVESTMENT PERIOD

100 % OF JOBS
IMPROVED

3.2 AVERAGE # OF
IMPROVEMENTS
PER JOB

CARROT AGREEMENT OUTCOMES

94.4% % OF TOTAL JOB QUALITY
IMPROVEMENT GOALS COMPLETED

\$225K DISTRIBUTED AMONGST LMI WAGE-
EARNING EMPLOYEES AT EXIT





As our portfolio companies continue to invest in improving job quality, HCAP Partners is working to further acknowledge and reward those companies that make meaningful progress towards their strategic roadmaps by providing additional benefits for low-to-moderate income wage earners.

FURTHERING DEI IN PRIVATE EQUITY

As a diverse fund manager, HCAP Partners is strongly committed to furthering Diversity, Equity, and Inclusion (DEI) in the private equity industry.



The Next Evolution of the Gainful Jobs Approach™

The Gainful Jobs Approach™ has been an evolving framework developed in collaboration with our Limited Partners (LPs). We continue to appreciate the thought leadership and strong support from our LPs around our impact framework.

As we look forward, the next evolution of the Gainful Jobs Approach™ will include a pillar focused on DEI. We are currently in the initial stages of understanding how to incorporate DEI into our operational impact framework. Our approach will span board diversity, defining and implementing DEI workplace practices, and enhancing measurement and reporting.



HCAP Partners' Active Involvement with Impact Organizations Addressing Diversity, Equity, and Inclusion



Participation in ongoing discussions on how to integrate race and equity into a quality jobs framework.



Member of ICM with ongoing contribution to goals and commitments related to diversity.



Signatory of the Belonging Pledge which seeks to ensure that racial equity is discussed throughout the end-to-end investment process.



Working group member for the SDG PE standards, providing a roadmap for funds seeking to implement the SDGs, including those related to DEI.

Supporting the Next Generation of Diverse Impact Investors



HCAP will be hosting a Mosaic fellow in Summer 2021 as a part of a program launched by ICM to build a pipeline of diverse candidates in private equity.



Mentoring 5 teams at Columbia Business School as a part of MIINT, an experiential lab designed to give students a hands-on education in impact investing.



In discussions to leverage Toigo's All A Board Initiative to support the placement of diverse candidate in board roles.

HCAP Partners' mission is to improve the lives of the employees of our portfolio companies. We accomplish this work in collaboration with our management teams and portfolio companies through our operational impact framework around quality jobs called the Gainful Jobs Approach™



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. This includes a robust quantitative measurement system to assess existing job quality standards and improvements as well as 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

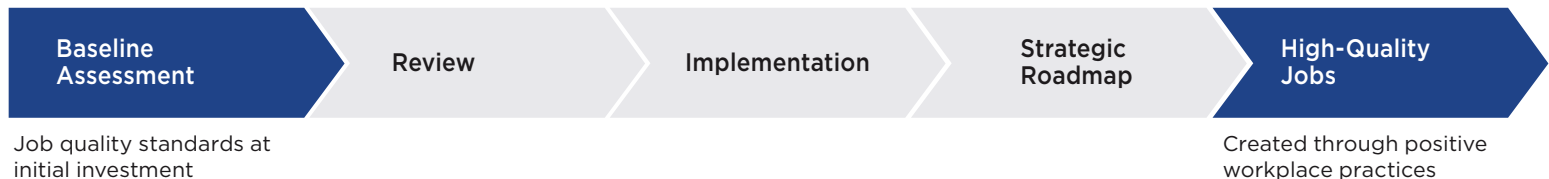
Strategic Roadmap which includes actionable steps to improve job quality standards over time.

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.

KEY IMPACT THEMES

	Economic Opportunity	»	Broad-Based Participation	Opportunities for Advancement	Sustainable Livelihood
	Health and Wellness	»	Paid Sick Days	Wellness Initiatives	

INTENTIONAL IMPACT THROUGH PORTFOLIO ENGAGEMENT



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