



2021 ANNUAL IMPACT REPORT



# Quality Jobs and the Great Resignation

## HCAP PARTNERS SNAPSHOT

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.

Managed by a team of diverse investment professionals, HCAP Partners is nationally recognized for its thought leadership and commitment to intentional impact. The firm actively works to set industry standards as a mission-driven fund manager and has been an ImpactAssets 50 fund since 2014.

- Founded in 2000
- Based in San Diego, CA
- Investments of \$3M to \$25M
- Investments in established businesses with \$10M to \$100M in revenues
- Focus on healthcare, software, services, and manufacturing



 **\$300M+**  
CAPITAL MANAGED<sup>1</sup>

 **5,155**  
EMPLOYEES ACROSS PORTFOLIO<sup>2</sup>

 **75%**  
FEMALEWORKFORCE<sup>2</sup>

 **50+**  
INVESTMENTS ACROSS 3 FUNDS

 **70%**  
JOBS WITH LMI WAGES<sup>2</sup>

 **51%**  
ETHNICALLY DIVERSE WORKFORCE<sup>2</sup>

1 Managed across 3 funds.

2 Impact metrics from HCAP Partners IV, L.P. as of 12/31/2021.





From left to right, top row: Christopher Fallone, Tim Bubnack, Kurt Noyes, Hope Mago, Jennifer Neivert  
From left to right, bottom row: Nicolas Lopez, Bhairvee Shavdia, Frank Mora, Tom Woelfel

## MESSAGE FROM THE TEAM

A key macroeconomic trend shaping private equity deal activity in 2021 has been the financial industry's growing interest in ESG and impact investment themes. According to PitchBook's 2021 Sustainable Investment Survey, 43.2% of PE and VC general partner respondents globally say the events of 2020 and 2021 have increased their focus on sustainable investing (defined as the incorporation of impact investment approaches and ESG risk factors into the investment process). HCAP has been an impact investor since our inception, and we are honored to be nationally recognized within this growing trend in private equity.

Across the US, 2021 was the year of "The Great Resignation" with workers quitting their jobs at historic rates. This trend brought to the forefront challenges in recruiting and retaining employees and the importance of human capital to business success. Within this backdrop, we've seen our portfolio companies further embrace HCAP Partners' Gainful Jobs Approach™. We are pleased to share that our portfolio-wide turnover rate for 2021 was 38.6% versus a market-wide turnover rate of 52.4% in 2021 as reported by the Bureau of Labor Statistics, highlighting the benefits of a quality jobs framework in retaining talent. We first started surveying employees

across the portfolio in 2019 and since then, despite the nationwide workforce challenges, we have been encouraged to see a 2% increase in satisfaction within our portfolio with an overall employee satisfaction rate of 76% during 2021.

The Gainful Jobs Approach™ has been an evolving framework and we have started to develop the next evolution of this framework which includes a pillar focused on diversity, equity, and inclusion (DEI). To that end, the Gainful Jobs Approach™ framework now includes another attribute titled "Belonging." Belonging is an outcome of inclusion and is achieved by having policies and commitments to ensure DEI, having advocates represented at every layer of decision-making, and ultimately providing paths to opportunity. We believe there needs to be alignment between those who make decisions, including founders, owners, board members, and management, and firm policies in order for diverse groups to feel that they have a seat at the table.

As we continue to develop our expanded framework, we remain thankful to our Limited Partners, Impact Advisory Board and thought partners for their support, collaboration and feedback.

## AWARDS & RECOGNITION

HCAP Partners works to facilitate a positive impact on underserved businesses and their employees and is honored to be recognized as a thought leader and innovator in the investing community.



HCAP Partners was selected to the ImpactAssets 50 for the ninth consecutive year. The firm is recognized as part of the IA 50 Emeritus category showcasing impact fund managers who have been on the IA50 for at least five years demonstrating resilience within the impact investing market and consistent ability to generate positive impact.



As a part of Mergers & Acquisitions' recognition of select firms that are considered "advanced" when it comes to ESG integration, HCAP Partners was named to their list of inaugural 2021 PE Innovators in environmental, social, and governance strategies.



The firm's impact framework, the Gainful Jobs Approach™, was profiled in a report by The Global Impact Investing Network (GIIN) titled "Understanding Impact Performance: Quality Jobs Investments."



The firm was recognized in ABF Journal's annual Most Innovative Companies issue featuring an expanded look at companies from across the specialty finance ecosystem that are driving the industry forward.



HCAP's Gainful Jobs Approach™ was profiled by The Bridgespan Group as a best practice for impact investors to safeguard the impact of their portfolios and provide much-needed leadership in the investment community.



HCAP was named to the Grady Campbell Incorporated list of the Top 50 private equity firms for 2021 which acknowledges and promotes small and mid-sized leading private equity firms in the middle market.

## INDUSTRY INVOLVEMENT

HCAP is committed to fostering knowledge exchange and industry collaboration. Below are some examples of the firm’s industry involvement in 2021.

➔ **Small Business Investor Alliance  
2021 Deal Summit**

Panel presentation by Tim Bubnack for the session titled “ESG Due Diligence: Considerations for Funds and Prospective Investments.”

➔ **Impact Capital Managers**

Hope Mago was elected Chair of the Board of Directors.

➔ **Better Money Better World Podcast**

Discussion with Hope Mago about how paying a living wage and creating quality jobs for workers drives increased returns due to lower employee turnover and better customer service.

➔ **Women’s Private Equity Summit**

Presentation by Bhairvee Shavdia on a panel titled “Impact Investing: How To Ensure That It Isn’t Just Mouth Service” addressing how LPs & GPs are measuring impact.

➔ **Mergers & Acquisitions**

Interview with Tim Bubnack about the Gainful Jobs Approach™ and the creation of tailored roadmaps that help portfolio companies improve job quality while providing capital for growth.

➔ **Wells Fargo 2021 SBIC Symposium**

Panel presentation by Bhairvee Shavdia featuring fund managers sharing best practices and lessons learned.

➔ **Association for Corporate Growth (ACG)**

Presentations and ongoing involvement by Nick Lopez, Frank Mora and Chris Fallone throughout the year within the M&A dealmaker community.

### SUPPORTING THE NEXT GENERATION OF FUND MANAGERS



Hope Mago and Bhairvee Shavdia mentors for MIINT.



Bhairvee Shavdia invited to the SBA ESG Working Group focused on talent sourcing.



Participation in the ICM Mosaic Fellowship program.



## THE GREAT RESIGNATION AND THE FIGHT FOR TALENT ELEVATE THE IMPORTANCE OF QUALITY JOBS

“The Great Resignation” was coined in 2021, a year in which a record 47.4 million Americans quit their jobs, compared to 36.3 million in 2020.<sup>1</sup> Data from the Bureau of Labor Statistics highlights this unprecedented churn in the U.S. labor market.

Analyzing the 2021 U.S. labor market data reveals a large variance in quit rates among sectors. Quit rates were the highest in sectors with limited remote work options and relatively lower pay such as accommodation, food services, and retail, with double that of the national average. Nela Richardson, chief economist at ADP, described the trend not as a sea change, but as “an amplification of quits where there were already high quits rates before the pandemic.” She added that “in most industries where it’s easier to find remote work and pay tends to be higher, quits are near their previous levels.”<sup>2</sup>

As part of this unprecedented turnover, job openings at the end of 2021 totaled 11.5 million<sup>3</sup> which was 65% higher than job openings at the end of 2020, resulting in a competition for talent.

We have already started to see companies raise wages as a result of these trends. Workers in non-management positions have seen the highest wage gains in nearly four decades<sup>4</sup>. On average, low-income workers have seen median monthly wage growth of 5.1% versus upper-income workers realizing 2.7%.

In an effort to recruit and retain talent in this labor market, employers have realized that robust benefits are needed to complement wage increases. These benefits span ongoing remote and hybrid work scheduling, education benefits, student loan forgiveness, and childcare benefits, underscoring the importance of quality jobs and investment in human capital to achieving successful business outcomes.

1 Source: <https://fred.stlouisfed.org/series/JTSQUL>

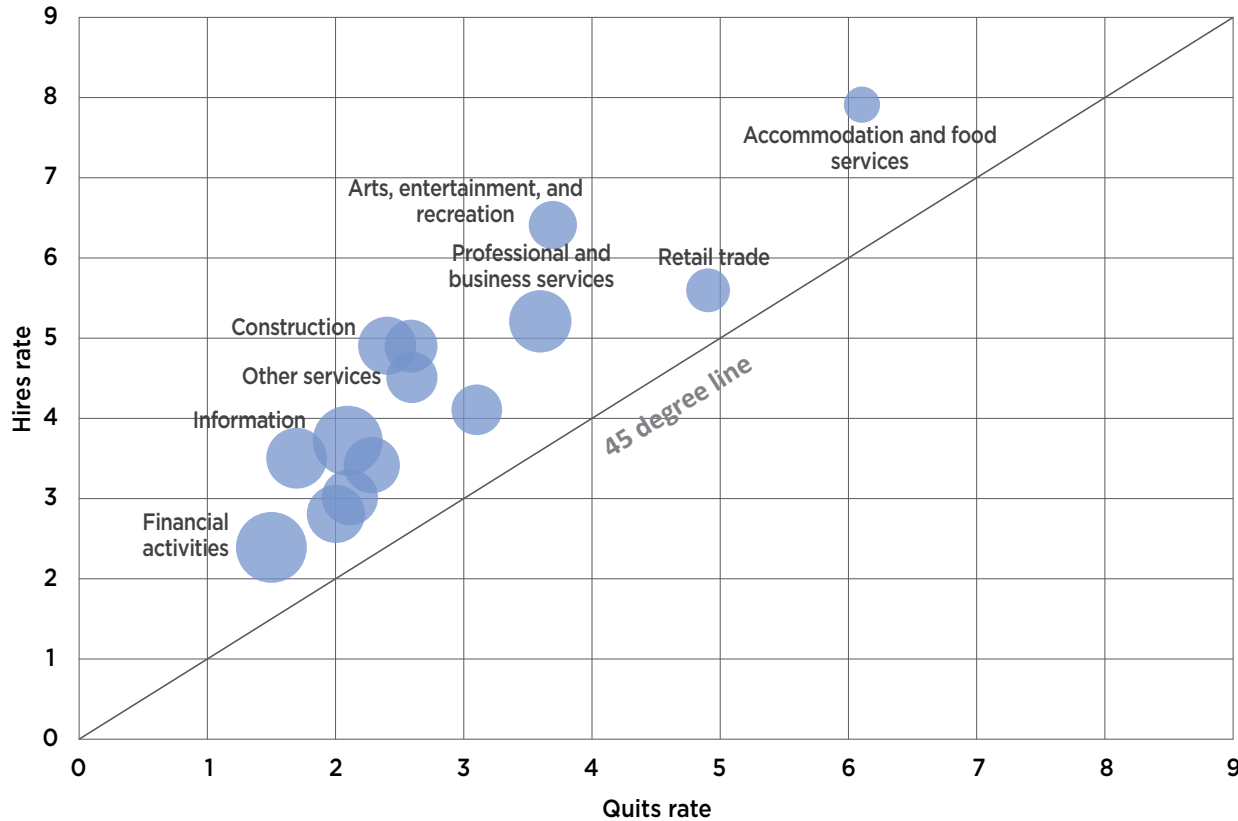
2 Source: <https://www.shrm.org/ResourcesAndTools/hr-topics/talent-acquisition/Pages/BLS-Quits-JOLTS-Great-Resignation-Record-Numbers.aspx>

3 Source: <https://data.bls.gov/cgi-bin/surveymost?jt> (Job openings level, Total nonfarm)

4 Source: <https://www.washingtonpost.com/business/2021/12/29/job-market-2021/>

Hires are greater than quits in all sectors while lower-wage sectors experience higher levels of quits and hires.<sup>1</sup>

MONTHLY HIRES AND QUILTS RATES BY MAJOR SECTOR, DECEMBER 2021



Notes: Data provided for all sectors with complementary information on both hires and quits rates from Job Openings and Labor Turnover Survey (x- and y-axis data) and private sector hourly wage rates from the Current Establishment Survey for December 2021 (data for size of bubbles); 45 degree line represents data where hires rates are equal to quit rates in each sector.

<sup>1</sup> Source: Elise Gould, Senior Economist, Economic Policy Institute (<https://twitter.com/elisegould/status/1488536970318000131/photo/1>)



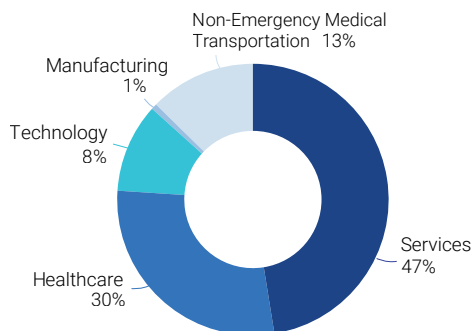
# HCAP PARTNERS IV, L.P. IMPACT METRICS<sup>1</sup>

As of Q4 2021, HCAP IV has invested across seventeen investments, with 74% 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

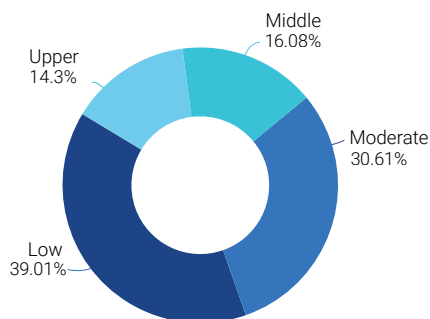
highlighted on this page and the next illustrate the composition of the portfolio as well as improvements in job quality during 2021.

We are pleased to report that 79% of jobs in the portfolio were improved during 2021 across multiple attributes of the Gainful Jobs Approach™.

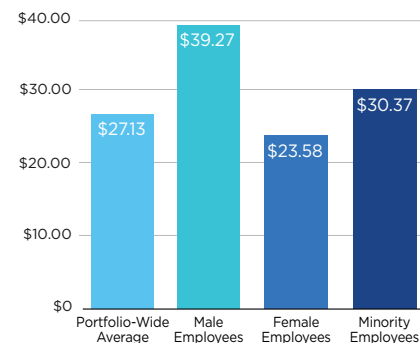
## JOBS BY INDUSTRY



## JOBS BY LMI BREAKDOWN



## AVERAGE HOURLY WAGES



## DIVERSE OWNERSHIP/ LEADERSHIP<sup>2</sup>

70.6%

## BOARD DIVERSITY<sup>3</sup>

94.1%

## FEMALE WORKFORCE

75.5%

## ETHNICALLY DIVERSE WORKFORCE

51.3%

<sup>1</sup> Impact metrics from HCAP Partners IV, L.P. as of 12/31/2021.

<sup>2</sup> Percentage of companies for which at least one owner or member of the leadership team is diverse.

<sup>3</sup> Percentage of boards for which there is at least one diverse board member.

## Key Jobs Improvement Statistics

2,668

PORTFOLIO JOBS IMPROVED

79%

% PORTFOLIO JOBS IMPROVED

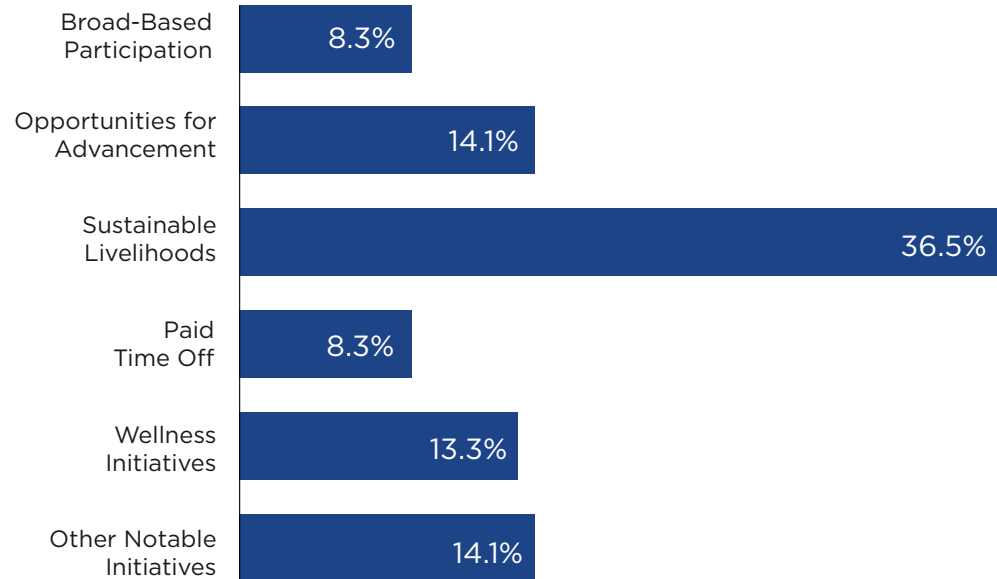
1,077

JOBS WITH MULTIPLE IMPROVEMENTS

1.29

AVERAGE NUMBER OF ATTRIBUTES IMPROVED PER JOB

## Number of Jobs Improved by Attribute



## Portfolio-Wide Employment Statistics



TOTAL JOBS CREATED

431



EMPLOYEE TURNOVER RATE

38.57%



EMPLOYEE SATISFACTION

75.98%

## QUALITY JOBS AND TURNOVER

This year we saw nationwide challenges in recruiting and retaining employees and the importance of human capital to business success.

Amidst these challenges, we've seen our portfolio companies further embrace the Gainful Jobs Approach™ and we are pleased to share that our portfolio-wide turnover rate was 38.6% versus a market-wide turnover rate of 52.4%<sup>1</sup>.

### National Industry Average Turnover<sup>2</sup> vs. HCAP Partners' Portfolio Company Average Turnover<sup>3</sup>



#### HEALTHCARE & SOCIAL ASSISTANCE

39.3%

NATIONAL AVERAGE

34.0%

HCAP AVERAGE

↓5.3% BELOW NATIONAL



#### PROFESSIONAL & BUSINESS SERVICES

63.0%

NATIONAL AVERAGE

41.0%

HCAP AVERAGE

↓22.0% BELOW NATIONAL



#### INFORMATION TECHNOLOGY

38.8%

NATIONAL AVERAGE

14.0%

HCAP AVERAGE

↓24.0% BELOW NATIONAL

<sup>1</sup> Source: U.S. Bureau of Labor Statistics (<https://www.bls.gov/news.release/jolts.t16.htm>)

<sup>2</sup> Source: U.S. Bureau of Labor Statistics (<https://data.bls.gov/PDQWeb/jt>)

<sup>3</sup> Average of HCAP Partners IV, L.P. as of 12/31/2021.



“TCS was always a people-first company, but since becoming an HCAP portfolio company and implementing the Gainful Jobs Approach™, we’ve really put structure around those efforts. We’ve formalized a wellness program, provided a continuous online learning tool for our employees, and have started leveraging the DISC assessment in our hiring and annual review process. We also build out structured career roadmaps for employees to be able to establish their goals for their career, and help us identify the ways that we can support them in their path.”

Deborah Keller, RN, CMCN, CCM, CPHQ  
CEO, TCS Healthcare Technologies



“As CEO, I believe one of my top responsibilities is creating a great work environment. To do so we need to be able to provide programs that attract and retain the best talent out there. Our team has worked closely with HCAP on the Gainful Jobs Approach™ to be able to do just that. Examples include having an open PTO program, offering medical coverage for the entire family after three years of employment, and investing in our team members for reimbursement of educational courses.”

Anton Visser  
President & CEO, CUBEX



## AMFM HEALTHCARE CASE STUDY

Established in 2010, AMFM Healthcare is a national leader in mental health treatment, focusing on acute primary psychiatry and dual-diagnosis care. The company offers a variety of programs across the continuum of care including residential care, outpatient care, and telehealth.

As a result of COVID-19, AMFM faced staffing challenges for its caregivers employed in residential treatment centers. The caregiving staff engages with high acuity mental health patients daily and the health and safety

challenges of COVID-19 added additional stress to these positions. To address these challenges, AMFM has deployed several initiatives, detailed below, in line with the Gainful Jobs Approach™. As a result, AMFM has seen increased retention and employee satisfaction of caregiving staff as well as a stronger pool of applicants for these positions.

The company continues to increase the number of residential treatment centers that it operates, supporting our belief that investing in human capital is critical for business success.

Source: AMFM Healthcare

“ [The Gainful Jobs Approach™] is one of the best tools we have used to help us improve our work environment for all staff.”

— David Munce, AMFM Co-Founder & Chief Consulting and Clinical Officer



## Caring for Caregivers

The initiatives below showcase the job quality improvements implemented for the caregiving staff at AMFM. These are a subset of AMFM’s company-wide improvements.

| GJA Attribute                        | Action  |
|--------------------------------------|---|
| <b>Opportunities for advancement</b> | Enhanced governance and channels for employee feedback by creating additional supervisor positions to assist caregiving staff. These supervisor positions were staffed through internal hiring of caregiving staff thereby creating a pathway of advancement.   |
| <b>Living Wage</b>                   | Increased starting pay for caregiving staff and implemented a formalized performance review process for each caregiving staff including standardized guidelines for salary increase.<br><br>Implemented “Hero Pay” for caregiving staff during the pandemic.  |
| <b>Wellness</b>                      | Instituted annual self-care day (paid time off) to highlight the emphasis the company places on employee wellbeing and wellness.<br><br>Provided Crisis Prevention Institute’s Non-Violent Crisis Training for caregivers to better support staff in navigating challenging situations.   |
| <b>Belonging</b>                     | Launched a firm-wide DEI initiative based on employee feedback and desire for training. The Company hired Dr. Gloria Morrow who has worked closely with the King Center in Atlanta and the Martin Luther King, Jr. Advisory Council around DEI. Dr. Morrow shared the “Beloved Community” framework with all staff and assisted AMFM in developing a cultural competency training that is now included in the new staff onboarding process. |



## OUR THIRD THEME: DIVERSITY, EQUITY & INCLUSION

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. By analyzing data collected through the Gainful Jobs Approach™, we have found a large majority of the employees in our portfolio are low-to-moderate income wage earners, women, and diverse. While we have historically focused on quality jobs for all employees, we recognize the need to be more explicit in our focus on

diversity, equity, and inclusion. We have spent this past year educating ourselves around best practices for DEI related to our quality jobs framework. The following pages summarize the expansion of the Gainful Jobs Approach™ to include an additional theme around DEI to supplement the existing themes of Economic Opportunity and Health & Wellness. While we will continue to support our portfolio companies with DEI efforts, we plan to formally launch the expanded Gainful Jobs Approach™ with DEI in late 2022.



Source: Lone Star Analysis



## DEI Definitions

Although often lumped together, diversity, equity, and inclusion are three very different concepts. This table further defines and delineates how we are looking at each of these terms.

| <b>DIVERSITY</b><br>Representation of varied identities:  | <b>EQUITY</b><br>Everyone within the organization has:   | <b>INCLUSION</b><br>The organization provides:   |
|---|--|--|
| <ul style="list-style-type: none"> <li>• Race</li> <li>• Ethnicity</li> <li>• Gender and gender identity</li> <li>• Socioeconomic status</li> <li>• Education</li> <li>• Ability</li> </ul> | <ul style="list-style-type: none"> <li>• Fair access</li> <li>• Quality of opportunity</li> <li>• Same access to information</li> <li>• Resources</li> </ul> | <ul style="list-style-type: none"> <li>• Sense of belonging</li> <li>• Psychological safety</li> <li>• An invitation to contribute and participate</li> <li>• A celebration of the power of differences</li> </ul> |

## DEI Drivers

Over half of employees in HCAP’s Fund IV companies are diverse and over three-quarters are women. Based on our research, the biggest drivers of equity and inclusion for diverse groups are pay equity and a living wage.

We are building the DEI theme to be more intentional about implementing and measuring diversity and gender to help these groups participate, belong, and prosper.



Source: Confirm Biosciences.



# THE EXPANDED GAINFUL JOBS APPROACH™

## THEMES

## ATTRIBUTES

**Economic Opportunity**



**Broad-Based Participation**



- types of plans offered - 401(k) plans, stock options, bonuses, etc.
- eligibility criteria
- matching

**Opportunities for Advancement**



- types of training offered
- policy on internal promotion
- education benefits
- retention abilities
- accessibility of promotion
- hiring practices

**Diversity, Equity, and Inclusion (DEI)**



**Sustainable Livelihood**



- factors considered when setting salaries
- standards for pay raise
- living wage
- pay equity
- benefits

**Belonging**



- DEI commitment & policies
- advocates
- flexible work arrangements
- childcare benefits

**Health & Wellness**



**Paid Time Off**



- eligibility by employee type
- accrual

**Wellness Initiatives**



- preventative wellness initiatives offered including any mental health initiatives

# INCORPORATING DEI INTO THE GAINFUL JOBS APPROACH™

The following are the three key focus areas that we have identified as our foundation to incorporating DEI as a third pillar within the Gainful Jobs Approach™.

## BOARD DIVERSITY

- Encourage all board member recruiting initiatives to consider diverse candidates, i.e., aim for a certain percent of all applicants to be diverse candidates
- Leverage Toigo All A Board and Diligent Director Network to ensure we have a deep, talented network of diverse candidates for consideration for any open board position search process
- Create board-level committee focused on DEI
- Focus on Awareness, Application and Accountability to ensure board-level engagement and that DEI becomes embedded in the organization

## DEI WORKPLACE PRACTICES

- Develop DEI-specific quality jobs goals and incorporating into GJA™ strategic roadmaps
- Build a set of best practices that can be shared with and implemented by portfolio companies
  - » Include policies around hiring, promotion, and retention as well as ongoing training and education for the entire organization
  - » Reassess current policies for gender-inclusiveness
- Foster inclusive leadership within our portfolio companies
- Use our employee engagement survey to better understand employee experience with DEI and perception of psychological safety at each portfolio company

## DATA, MEASUREMENT, AND REPORTING

- Analyze active and exited portfolio company data through a DEI lens
- Modify data collection to include fields that populate DEI-specific metrics
- Amend existing company specific and portfolio-wide dashboards with the addition of new metrics which include DEI-specific policies and practices, wages by race and gender, capital deployed to diverse founders, diversity of board as well as company management and promotion and retention of diverse individuals

## 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. 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.

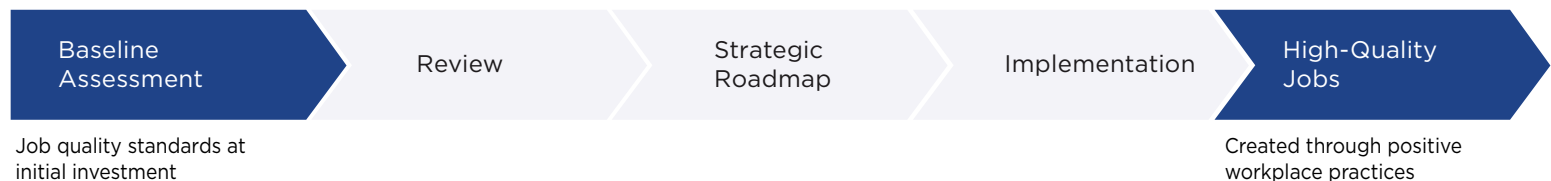
**Impact Creation & Portfolio Engagement:** HCAP Partners engages with portfolio companies on a consistent basis to understand progress towards goals in the Strategic Roadmap. HCAP Partners also works with management teams to provide tools and resources to aid in the implementation of new workplace practices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

## KEY IMPACT THEMES

|  |                           |   |                               |   |                        |
|--|---------------------------|---|-------------------------------|---|------------------------|
|  Economic Opportunity           | Broad-Based Participation | + | Opportunities for Advancement | + | Sustainable Livelihood |
|  Diversity, Equity & Inclusion* | Belonging                 |   |                               |   |                        |
|  Health and Wellness            | Paid Time Off             | + | Wellness Initiatives          |   |                        |

\*DEI impact theme to formally launch in late 2022.

## INTENTIONAL IMPACT THROUGH PORTFOLIO ENGAGEMENT



APPENDIX

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs)



HCAP Partners continues to work 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 UN Sustainable Development Goals, providing a concrete roadmap and a practical guide to help translate that intent into action.



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

**3** GOOD HEALTH AND WELL-BEING

**5** GENDER EQUALITY

**8** DECENT WORK AND ECONOMIC GROWTH

**10** REDUCED INEQUALITIES

<sup>1</sup> Source: SDG Impact (<https://sdgimpact.undp.org/private-equity.html>)





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