



2019
Annual
Impact Report
»»

Scaling Our
Impact
Framework

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 currently making new investments out of HCAP Partners IV, L.P.

\$310M

capital
managed

40+

investments
across 3 funds

3,142

employees across
investment portfolio¹

80%

female
workforce¹

72%

jobs with LMI
wages¹

81%

minority
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**
- **ImpactAssets50 fund for seven consecutive years**

¹ Impact metrics from HCAP Partners IV, L.P. as of 12/31/2019.

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



We credit our success to our experienced team and focused investment strategy and we thank our Limited Partners for their continuing support and commitment to our firm.

Message from the Team

As we write this message, we are aware of the deep economic uncertainty directly tied to employment opportunities for millions of Americans. HCAP Partners' impact thesis centers on building quality jobs at small businesses that are located in a low- to moderate-income census tract or employ a majority low- to moderate-income wage earners. We are working diligently towards our longstanding commitment to not only preserve jobs but also create quality jobs and we continue to contribute to the impact investing field as a thought leader and resource on quality jobs. Within the current backdrop of economic uncertainty, we believe creating quality jobs in America will become increasingly important to businesses, investors, foundations, banks, and government.

In July 2019, HCAP Partners announced the close of HCAP Partners IV, L.P. ("HCAP IV") with total commitments at the Fund's hard cap of \$150M. HCAP IV operates as a U.S. Small Business Administration SBIC (Small Business Investment Company) and continues the firm's strategy of investing in underserved businesses in the lower middle market and implementing its Gainful Jobs Approach™. In conjunction with the close of HCAP IV, we have increased our commitment to our impact approach by implementing several initiatives to further strengthen our framework. We have detailed these initiatives in this year's Annual Impact Report which center around methodology, participation, accountability, and incentives.

As we scale the Gainful Jobs Approach™ across a broader portfolio, we have developed a proprietary software platform that provides real-time data to our portfolio companies used to make informed decisions around improving job quality. The software platform also offers enhanced impact measurement and reporting functionality for our Limited Partners. We have released key features of this robust platform, which have been well-received by our portfolio companies as well as our Limited Partners and Impact Advisory Board.

We remain thankful for your support of our impact mission and continue to welcome opportunities for collaboration and feedback.

The Continued Importance of Investing in Quality Jobs

Meet the Low-Wage Workforce A Report by the Metropolitan Policy Program at Brookings

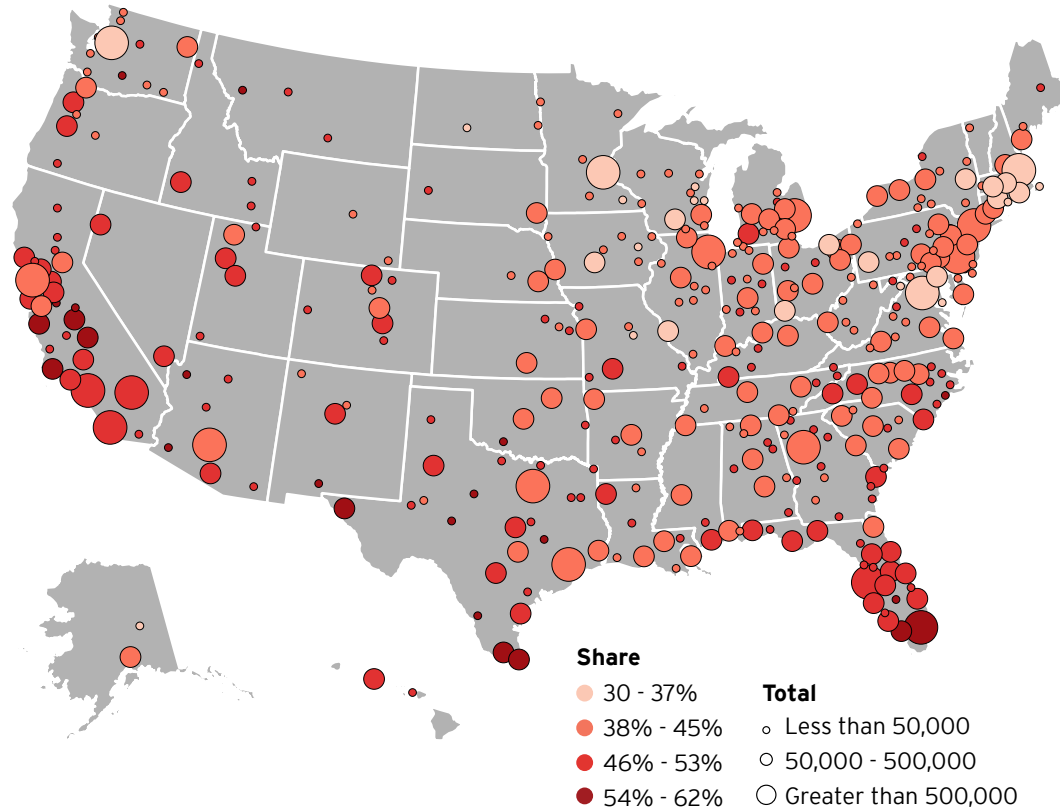


Meet the Low-Wage Workforce, a new report from the Metropolitan Policy Program at Brookings, shows that 44% of all workers aged 18-64 in the United States are making low wages. The report states, “Low-wage work is more pervasive than you think, and there aren’t enough ‘good jobs’ to go around.”

The report states that perhaps the defining question of our contemporary political economy is, **“Where will the good jobs come from?”**

The findings illustrate the need for new approaches to promote upward mobility for low-wage workers and new programs for advancement to higher wages and greater financial stability.

- 53 million Americans between the ages of 18 to 64—accounting for 44% of all workers—qualify as “low-wage”
- The median hourly wages of these workers are \$10.22, and median annual earnings are about \$18,000
- A majority of America’s low wage workforce are adults in their prime working years – low-wage work is the primary source of income for themselves and their families
- Education on its own cannot solve this problem



Source: Brookings analysis of 5-year, 2012-2016 American Community Survey microdata

Low-wage workers make up the highest share of the workforce in smaller places in the southern and western parts of the United States.

Industry Participation and Recognition

Good Jobs Institute



The Investing in Good Jobs workshop was hosted by the Good Companies, Good Jobs Initiative at MIT Sloan and the Ford Foundation. With a focus on good jobs as an investment strategy, HCAP Partners’ Bhairvee Shavdia presented and led a discussion surrounding HCAP Partners’ Gainful Jobs Approach™.

Quality Jobs Fund



HCAP Partners had the opportunity to collaborate with fellow intermediaries at the “What Are We Learning?” summit, an initiative of New World Foundation’s Quality Jobs Fund. The collective focus of this working session was on helping build and sustain a new field of action for a just workplace.

San Diego Grantmakers



HCAP Partners was represented at the Place-based Impact Investing in Action convening in San Diego. Panel discussions centered around how communities, philanthropy, and government agencies explore impact investing efforts—and the systems that support them—to move the needle on social change.



ImpactAssets 50 2020 Showcase



For the 7th consecutive year, ImpactAssets 50 named HCAP Partners to its showcase of investment fund managers who demonstrate a commitment to generating positive social, environmental, and financial impact.

This recognition underlines the firm's longstanding commitment to facilitate a positive impact on underserved businesses, their employees, and their communities through active portfolio engagement and the Gainful Jobs Approach™ framework.



“The IA 50 is a proven and trusted way for impact investors to explore fund managers committed to generating positive impact. HCAP Partners has demonstrated an ability to achieve both financial and impact returns, and we’re proud to highlight their dedication to investing in underserved communities.”

Sandra Osborne Kartt, CFA
Director, Investments at ImpactAssets

Advocating for Quality Jobs

California Future of Work Commission

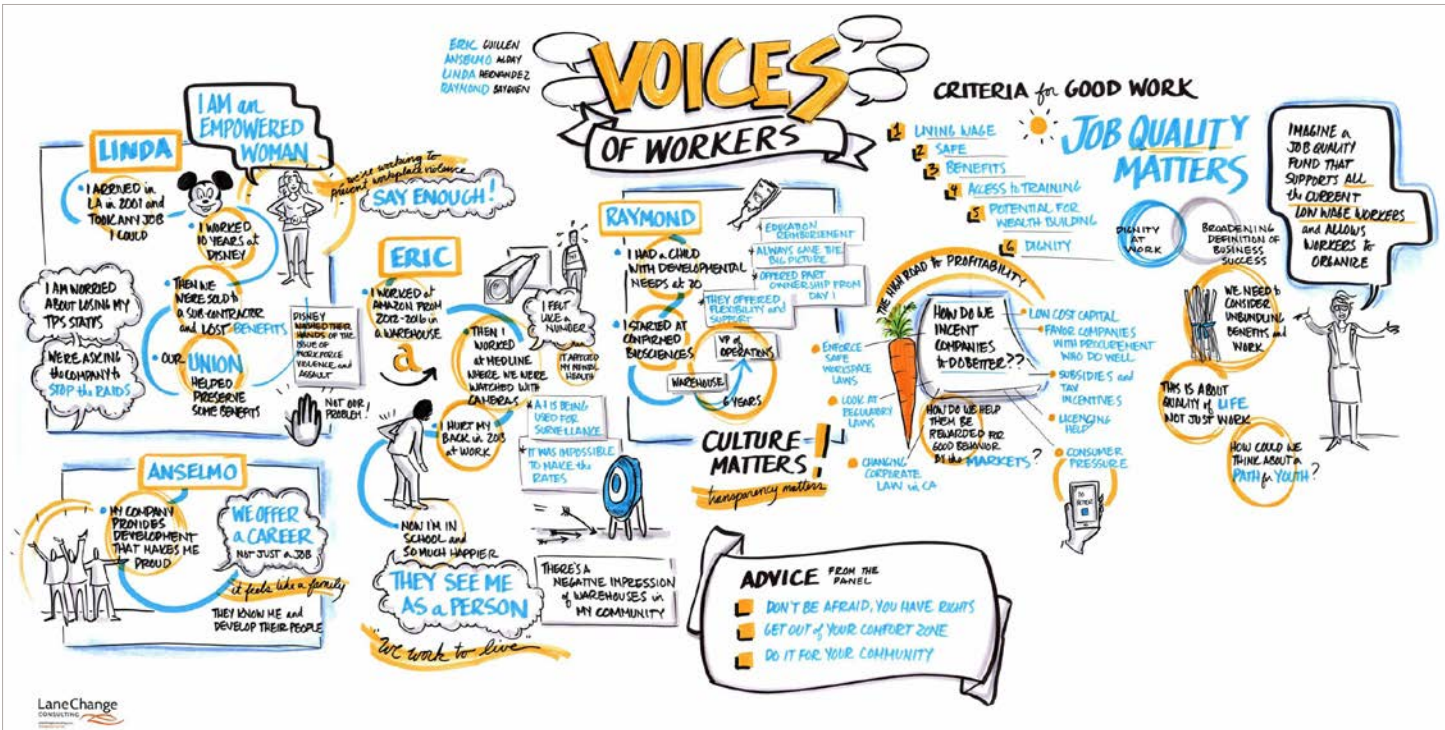


September 2019 marked the first convening of the California Future of Work Commission launched by Governor Gavin Newsom to develop a new social compact for California workers. The Commission's directive is to make recommendations to help California leaders think through how to create inclusive, long-term economic growth and ensure workers and their families share in that success.

Because of HCAP Partners' commitment to improving quality jobs, the Commission invited the firm to select a portfolio company representative to participate on a panel titled "Voices of Workers." We were pleased to select Confirm BioSciences' VP of Operations to share his experiences and to highlight a best-in-class workplace with an emphasis on upward mobility.



Labor Secretary Julie Su swearing in the commissioners.



The overarching goal of the Future of Work Commission is to develop a new social compact for California workers, based on an expansive vision for economic equity that takes work and jobs as a starting point.

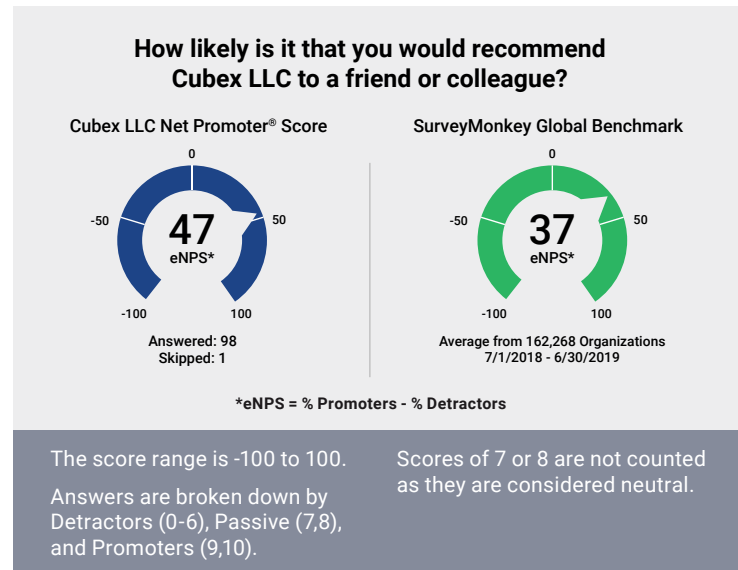
Worker Voice and Employee Satisfaction

A key metric in HCAP's impact thesis around quality jobs is demonstrating the link between investing to build quality jobs and higher employee satisfaction. We are pleased to share two examples of how our portfolio companies have invested in quality jobs and strong workplaces with the goal of furthering employee satisfaction.

Linking Quality Jobs to Employee Satisfaction



Since implementing the Gainful Jobs Approach™, HCAP Partners' portfolio company **Cubex LLC** has worked diligently to improve job quality and a strong workplace culture. The results of the company's employee satisfaction survey returned an eNPS (Employee Net Promoter Score) that indicated a **significantly higher employee satisfaction than the global benchmark**—well above companies like Amazon, Google, Facebook, and Microsoft.



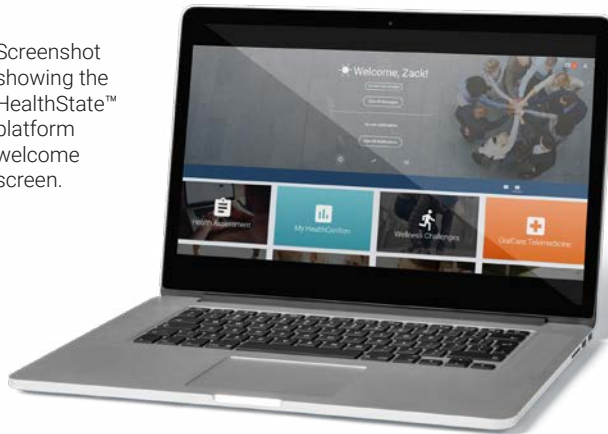
Innovative Solutions to Boost Employee Wellbeing



HCAP Portfolio companies **Mission Healthcare and Confirm BioSciences** have partnered in a pilot implementation of a proprietary health and wellness platform solution called HealthState™. The new program, developed by Confirm BioSciences, provides employees with premier wellness benefits and employers with meaningful, actionable workplace health insights.

With a primary goal of serving its employees, Mission Healthcare invested in the platform as an innovative solution to boost employee wellness through engagement and provide a unique added benefit.

Screenshot showing the HealthState™ platform welcome screen.



“Mission Healthcare is on the forefront of innovation in wellness programming and they’re setting themselves apart as an employer who prioritizes the health and wellbeing of their workforce. Supporting employee health is just good business and it pays in ways beyond health metrics. Providing a valuable wellness platform becomes a strong recruiting tool in their competitive industry; it helps retain top talent, and can even increase employee productivity.”

Albert Berger
Chief Executive Officer
Confirm BioSciences

Deepening the Commitment to Impact

Last year, HCAP Partners identified several new impact initiatives to further its mission of meaningful portfolio company engagement to drive improvements in job quality. The firm has made significant progress toward these goals and continues to build upon these improvements.

	Goal	Progress
Required Participation	Set impact expectations pre-close to ensure alignment with the Gainful Jobs Approach™	● ● ● ● ● Complete
	Language in term sheet and final loan documentation around expectations and compliance with the Gainful Jobs Approach™	● ● ● ● ● Complete
	Baseline Assessment and a management-approved Strategic Roadmap in place prior to close	● ● ● ● ● Complete
Accountability & Incentives	Quarterly impact check-ins with portfolio companies around quality jobs which include both the CEO and Gainful Jobs Implementation point person	● ● ● ● ● Complete
	Possible financial incentives for implementing impact objectives on a case-by-case basis assuming a financial return threshold is met	● ● ● In Progress
	Progress reporting around Strategic Roadmaps at board meetings	● ● ● ● ● Complete
	Expanding service providers to assist portfolio companies in implementing Gainful Jobs Approach™ Objectives	🔄 Ongoing

HCAP Partners Approach to Measuring Sustainable Livelihood



Legacy Approach

Based on the North American Industry Classification Code System ("NAICS")

HCAP Partners' original methodology for measuring livelihood used national wage data by NAICS code published by the Bureau of Labor Statistics. This methodology was the only publicly available database that could be uniformly applied across all industries in the firm's portfolio at the time of implementation.

New Approach

Based on the MIT Living Wage Calculator

Leveraging the metrics tracked by the firm's new impact platform, HCAP Partners has implemented an evolved methodology which estimates the cost of living in a community or region, based on typical expenses.

Challenges:

- Geographic differences in cost of living
- Family unit size
- Median wage data for certain industries is below a living wage

Benefits:

- Accounts for geographic differences in cost of living
- Allows for family unit size (proxy given data constraints)

Development of The Gainful Jobs Approach™ Platform

Over the last 18 months, HCAP Partners developed a proprietary technology platform to operationalize the Gainful Jobs Approach™. The software platform is scalable, integrated into the human resource systems of our portfolio companies, and provides a real-time dashboard around job quality. The platform offers valuable data for portfolio company management teams to make informed decisions around improving job quality and an enhanced impact measurement and reporting function for our Limited Partners.

DEVELOPED



Data collection through HR system integration



Baseline assessment of job quality and time of investment and strategic roadmap with mutually agreed-upon improvements in job quality



Customized dashboards with impact and job quality metrics for each company and across the portfolio



Employee surveys to understand job satisfaction

FUTURE DEVELOPMENT



Incorporation of quarterly check-in data into Platform



Buildout of progress reporting towards quality jobs goals



Development of a real-time employee feedback portal

The Gainful Jobs Approach™ Platform integrates directly into the HR systems of our portfolio companies, greatly easing the burden of data collection and allowing us to focus our efforts and conversations on moving the needle on job quality.



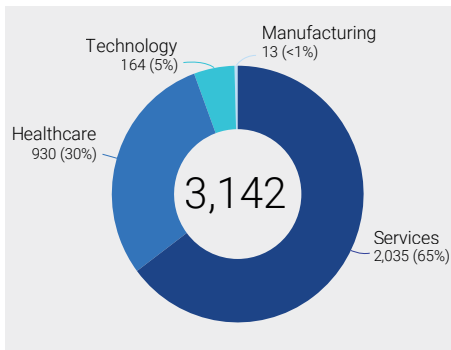
HCAP Partners IV, L.P. Impact Metrics



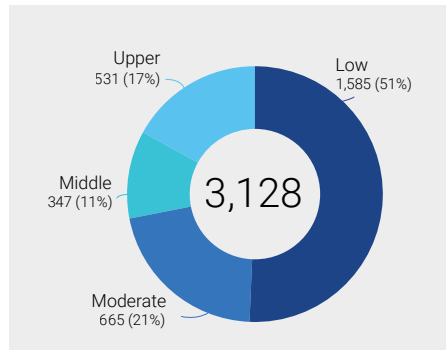
As of Q1 2020, HCAP IV has invested \$65.9 million across ten investments, with 69% of the capital invested going into traditionally underserved businesses, i.e. businesses that are either located in a low-to-moderate income census tract or employ a majority low-to-moderate income-earning workforce. The impact metrics highlighted on this page and the next illustrate the composition of the portfolio as well as improvements in job quality during 2019.

We are pleased to report that 93.5% of jobs in the portfolio were improved during 2019 across multiple attributes of the Gainful Jobs Approach™.

Jobs by Industry



Employees in LMI Zones



Hourly Wage

\$18.27	Hourly Wage (Average) Total Portfolio
\$15.96	Hourly Wage (Average) Non-Management
\$48.98	Hourly Wage (Average) Management

Key Jobs Improvement Statistics

2,939

Portfolio jobs improved

93.5%

% of portfolio jobs improved

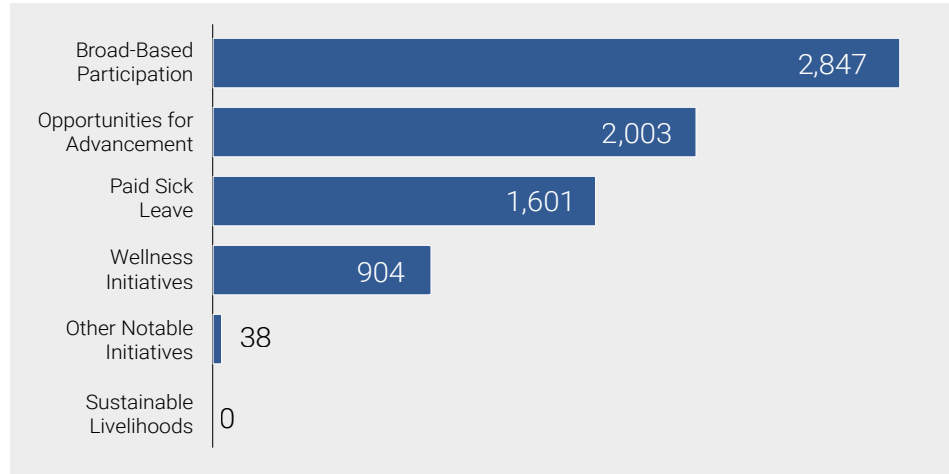
2,873

Jobs with multiple improvements

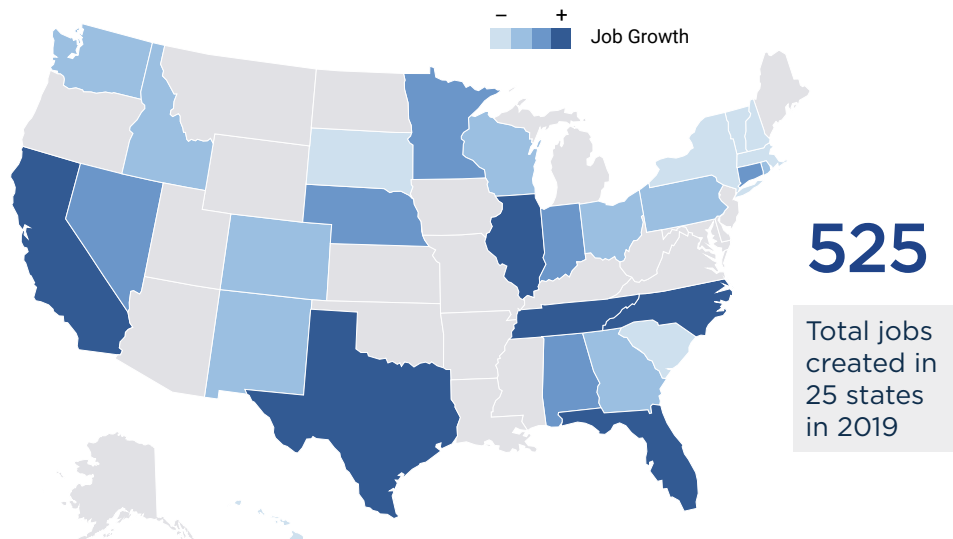
2.35

Average # attributes improved per job

Number of Jobs Improved by Attribute



Jobs Created by State



Winning Deals Through Impact

HCAP's Gainful Jobs Approach™ has become a market differentiator and key reason that high-quality companies and management teams choose to partner with us.



“ Our employees are our greatest resource. Mission leadership believes the right way to teach is to lead by example. The best way to deliver care in a compassionate, respectful way is to treat our employees with those same principles in mind. At Mission, the employee experience goes beyond salaries and benefit plans...Mission recognizes employees who make a difference on a regular basis, creating a dynamic work environment with the lowest turnover rate in the industry. Employees understand that an opportunity at Mission is not a job, but rather a career opportunity in a supportive family environment.”

— Paul VerHoeve, CEO of Mission Healthcare



“ This partnership with HCAP Partners will provide us with additional strategic value and help us further our mission and scale our business to impact even more geographies worldwide...Additionally, HCAP is helping us grow while maintaining our focus on employee advocacy and nurturing meaningful jobs, directly in line with HCAP’s impact focus and Gainful Jobs Approach™.”

— Zeynep Ilgaz, Co-founder and CEO of Confirm BioSciences



“ 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 of Arosa+LivHOME



LivHOME was awarded the Home Care Pulse 2019 Employer of Choice Award, as well as the 2019 Provider of Choice Award.



Confirm Biosciences was named one of Inc. Magazine’s Best Places to Work in 2019.



Confirm Biosciences Employees



Appendix >>

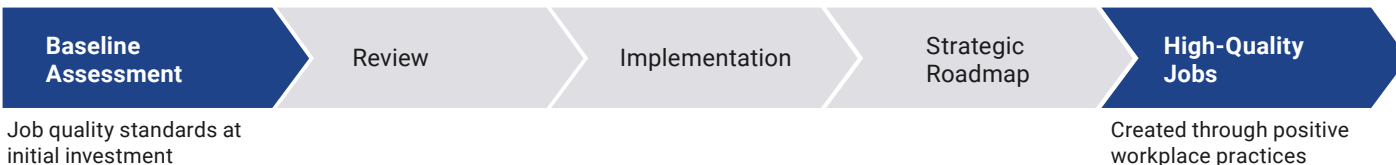
Gainful Jobs Approach™

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™.

KEY IMPACT THEMES



INTENTIONAL IMPACT THROUGH PORTFOLIO ENGAGEMENT



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.

Appendix >>

Arosa + LivHOME

2019 GAINFUL JOBS
APPROACH™ UPDATE

Arosa+LivHOME 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 following is an overview of the progress made during 2019 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 Arosa+LivHOME to improve job quality standards have been highlighted. The company's Baseline Assessment and Strategic Roadmap can be found in HCAP Partners' 2018 Annual Impact Report titled *Realizing Gainful Jobs*.

METRICS AS OF 12/31/2018 BASELINE ASSESSMENT

71% 💰

of staff earns low-to-moderate income wages

92% 👩 👧

of staff is female

\$14.67 💵

average hourly wage for caregivers

100% 💰

of Arosa caregiver staff is eligible for performance bonus*

*In process of being implemented for LivHOME



Arosa+LivHOME Gainful Jobs Approach™ Update

Impact Objective ¹	Implemented in 2019
Implement paid sick leave policy for all employees	<ul style="list-style-type: none"> • Paid sick leave offered to office employees • Offering a full suite of health benefits
Set up employee hardship assistance plan	<ul style="list-style-type: none"> • Working with Duke Law School clinic to form a 501(c)3; targeting summer 2020 launch
Set up relationship with bank to provide no-fee bank accounts and split deposit	<ul style="list-style-type: none"> • Beta testing EVEN-Financial management and budgeting tool for employees
Implement peer mentoring program	<ul style="list-style-type: none"> • Reviewed structure of peer mentoring program
Review policies to reduce turnover and improve retention	<ul style="list-style-type: none"> • Reviewing scheduling, client matching, and compensation policies to drive retention
Other notable initiatives	<ul style="list-style-type: none"> • Implemented Care Pioneer pilot to train and deploy caregivers as sales and recruitment professionals • Rolled out bonus time off across the company

¹Gainful Jobs impact objectives identified in collaboration between HCAP Partners and Arosa+LivHOME management team



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