HCAP PARTNERS SNAPSHOT

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

Raised over $210 million in total capital commitments across three funds since its inception in 2000.

31 investors across two institutional impact funds.

$210 MILLION capital under management

7,558 employees across investment portfolio

60+ investments across 3 funds

74% jobs with LMI wages

119 jobs created in 2016

50% minority workforce

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(1) As of 12/31/2016 or as of exit for realized investments.
(2) Impact metrics from HCAP Partners III, L.P.
HCAP Partners is pleased to share our 2016 Annual Impact Report and honored that our approach to impact investing continues to gain recognition within the small business and institutional investment community. In 2016, HCAP Partners was designated an ImpactAssets 50 fund for the fourth consecutive year and was also awarded the Best for The World Fund rating by B Labs. Tim Bubnack, HCAP Partners’ Managing Partner states “our fund’s inclusion on these lists reflects our continued focus on positively impacting underserved businesses with flexibly-structured growth capital and value-added resources.”

In 2015, HCAP Partners introduced its Impact Framework around quality job creation titled “The Gainful Jobs Approach”. HCAP Partners started 2016 with the goal of having management approved Strategic Roadmaps in place for our portfolio companies. This year’s Annual Impact Report highlights the process HCAP used to build collaborative Strategic Roadmaps with our portfolio companies as well as lessons learned from our experiences.

HCAP Partners is in the process of raising its fourth fund which is anticipated to be an Impact SBIC. We believe this designation further signals our commitment to investing in low to moderate income communities and highlights our ongoing work around improving job quality standards in the businesses in which we invest.

We remain thankful for your support of our impact initiatives and continue to welcome opportunities for collaboration and feedback.
CONTRIBUTING TO IMPACT THOUGHT LEADERSHIP

HCAP Partners’ approach to impact investing has been featured at leading business schools: Harvard Business School, Stanford Graduate School of Business, and Columbia Business School.

CASE STUDY
HBS CASE COLLECTION | SEPT 2016
Case Study featuring Pi’s Institutional Investment into HCAP

Founded in 2012 and based in Oakland, CA by a single high-net-worth family, Pi Investments was created to pursue a 100% impact portfolio. This case study outlines Pi’s decision to invest into HCAP in the context of meeting the family’s triple mandate of preserving historic wealth, generating returns and advancing transformational social or environmental impact.

CASE STUDY
HCAP PARTNERS | NOV 2016
HCAP’s Commitment to Active Impact Management

HCAP’s investment strategy is outlined alongside its impact focus of investing in underserved businesses. The case study further details HCAP’s commitment to intentional impact through the Gainful Jobs Approach.
PANEL PRESENTATION
IMPACT INVESTING: ALIGNING CAPITAL WITH VALUES | APR 2016
Frank Mora, Partner, HCAP Partners

A panel of distinguished alumni were invited to speak about their experiences in the field of impact investing.
INDUSTRY RECOGNITION

HCAP Partners continues to gain recognition for its thought leadership and commitment to intentional impact.

**Best for the World Fund**  
*HCAP Partners awarded the Best for the World Fund rating in B Lab’s inaugural list.*

B Lab’s Best for the World honors beyond the community of Certified B Corporations and into the world of impact investing. These 50 funds have gone through the rigorous GIIRS Impact Rating process, which measures the impact intent of the fund and the actual impact performance of its underlying portfolio companies.

**ImpactAssets 50 Fund**  
*HCAP Partners named an ImpactAssets 50 Fund for the fourth year running.*

The IA 50 is the only free, public, searchable database of outstanding impact investing fund managers. This year’s showcase highlights the increasingly diverse opportunities for investors to help create social value across the globe.
## Industry Events & Involvement

<table>
<thead>
<tr>
<th>Month</th>
<th>Event/Organization</th>
<th>Event Description</th>
<th>HCAP Partners Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar 2016</td>
<td>Confluence Philanthropy</td>
<td>A 3-day conference for grantmakers practicing mission-aligned investing, as well as investment managers and advisors in impact investing.</td>
<td>Panel Presentation: <em>Managing for Impact: Metrics 2.0 to Strengthen Our Practice</em> Hope Mago, Principal</td>
</tr>
<tr>
<td>Apr 2016</td>
<td>Impact Capitalism Summit</td>
<td>The Impact Capitalism Summit brings together investors, fund managers, and intermediaries to connect and collaborate about issues and opportunities across asset classes.</td>
<td>Private Debt Panel Hope Mago, Principal</td>
</tr>
<tr>
<td>Apr 2016</td>
<td>San Diego Impact Investors Network</td>
<td>The vision of the San Diego Impact Investors Network is to catalyze $100 million of new investment in the San Diego community by 2025 and to develop an impact investment ecosystem that effectively connects all stakeholders across San Diego’s diverse landscape.</td>
<td>Panelist / Event Judge Bhairvee Shavdia, Impact Associate</td>
</tr>
<tr>
<td>May 2016</td>
<td>Mission Investors Exchange</td>
<td>Mission Investors Exchange is the leading network of foundations engaged in impact investing. Its members are committed to tackling the world’s most intractable social and environmental issues.</td>
<td>Panel Presentation: <em>Quality Jobs – Who’s Investing and How?</em> Bhairvee Shavdia, Impact Associate</td>
</tr>
<tr>
<td>Aug 2016</td>
<td>COIN Investment Summit</td>
<td>The 2016 COIN Investment Summit brought together insurers, CDFIs, community organizations, and other stakeholders to engage in productive and insightful panel discussions on the importance of impact investing.</td>
<td>Panel Presentation: <em>The Future of Impact Investing</em> Bhairvee Shavdia, Impact Associate</td>
</tr>
</tbody>
</table>
WHY INVESTING IN QUALITY JOBS MATTERS

The country’s distressed zip codes are plagued by poverty, joblessness, and a deep and ongoing recession.

### PROFILE OF THE AVERAGE DISTRESSED ZIP CODE VERSUS MEDIAN ZIP CODE

<table>
<thead>
<tr>
<th></th>
<th>NO HIGH SCHOOL DEGREE</th>
<th>POVERTY RATE</th>
<th>ADULTS NOT WORKING</th>
<th>HOUSING VACANCY</th>
<th>MEDIAN INCOME RATIO</th>
<th>CHANGE IN EMPLOYMENT</th>
<th>CHANGE IN BUSINESS ESTABLISHMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AVERAGE DISTRESSED ZIP</strong></td>
<td>23%</td>
<td>27%</td>
<td>55%</td>
<td>14%</td>
<td>68%</td>
<td>-7%</td>
<td>-8%</td>
</tr>
<tr>
<td><strong>MEDIAN ZIP</strong></td>
<td>12%</td>
<td>13%</td>
<td>43%</td>
<td>8%</td>
<td>94%</td>
<td>2%</td>
<td>0%</td>
</tr>
</tbody>
</table>

“Instead of lifting distressed communities, the recovery has left them and their residents even further behind. And once distress sets in, it seems to persist: even the country’s most dynamic and successful cities struggle to achieve geographically equitable prosperity. So, what can be done? There are numerous factors to be addressed, but the lack of businesses and jobs in distressed zip codes—indeed, their declines amidst national expansion—stand out as particularly urgent. As noted above, the very communities hit hardest by distress are often the least capable of reversing their declines due to a cascading loss of businesses, jobs, investment, and tax base.”

Source: The 2016 Distressed Communities Index by the Economic Innovation Group.
Note: A zip code is considered distressed if its distressed score falls within the highest 20%.
IMPLEMENTING THE GAINFUL JOBS APPROACH

This year’s Annual Impact Report details the creation of Baseline Assessments and Strategic Roadmaps using the Gainful Jobs Approach. Below is an outline of the process used in implementing the Gainful Jobs Approach. Please visit the Appendix to this report for an overview of the Gainful Jobs Approach. For additional detail on the data collection process used, please reference the 2015 Annual Impact Report.

DATA COLLECTION
Work with key personnel at each company to furnish data for Workplace Practices Survey which is used to create a Baseline Assessment.

BASELINE ASSESSMENT
Once survey data has been received, it is analyzed to develop a Baseline Assessment for each portfolio company and findings are shared with management teams.

STRATEGIC ROADMAPS
Working with company leadership, we aim to develop a Strategic Roadmap to create and implement improvements in job quality standards.
CASE STUDIES

The following pages contain Baseline Assessments and Strategic Roadmaps for two of our portfolio companies: Cubex and Mission Senior Living (Summit Estates). Over the course of 2016, HCAP worked with senior leadership at these companies to understand job quality standards and collaborated with senior management to develop Strategic Roadmaps. The Baseline Assessments as well as goals suggested in the Strategic Roadmaps highlight the ability of the Gainful Jobs Approach to create a tailored methodology that takes into account both firm and industry specific employment practices.
Mission Senior Living 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, NV consisting of 92 assisted living apartments and 24 memory care suites.

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.
## JOB QUALITY ATTRIBUTE

### Broad based participation
- **91%** | **401k**
- **17%** | **Bonus plan**

### Opportunities for advancement (includes training and internal promotion)
- **100%** | **Training**
- **36%** | **Promotion**

### Sustainable livelihood
- **74%**

### Paid sick days
- **100%**

### Wellness initiatives
- **100%** | **EAP**
- **0%** | **Onsite**

## WORKFORCE ELIGIBILITY

### WORKPLACE PRACTICES (1)
- 401k plan is offered to full time employees
- Bonus plan is offered to management only
- Offers training programs around workplace safety, employee rights and workplace skills
- No formalized plan for education benefits – reimbursement on a case by case basis
- Company has regular performance reviews but no clear policy on internal job promotion
- Company has regular salary reviews but no clear policy on standards for pay raise
- 26% of the workforce earns salaries in the top quartile for the industry
- Offered to full time employees after 30 days of employment
- Company has an open PTO policy
- Company does not have FMLA because employs less than 50 full time employees
- Company currently offers EAP and HSAs for full-time employees
- No onsite wellness initiatives are currently offered
- Company participates in volunteer / community events

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(1) As of 12/31/2015

(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 code). As per base salary.
CASE STUDY
CUBEX: 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. This working document is subject to change.

Includes smoking cessation assistance, Get Fit competitions, nutrition coaching, flu shots, workout facility in the building.
## CASE STUDY

### MSL: BASELINE ASSESSMENT

<table>
<thead>
<tr>
<th>JOB QUALITY ATTRIBUTE</th>
<th>WORKFORCE ELIGIBILITY</th>
<th>WORKPLACE PRACTICES$^{(1)}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad based participation</td>
<td>0%</td>
<td>Offers workplace safety and employee rights training to all (no training on workplace skills)</td>
</tr>
<tr>
<td>Opportunities for advancement (includes training and internal promotion)$^{(2)}$</td>
<td>100%</td>
<td>Company does not provide education benefits</td>
</tr>
<tr>
<td>Sustainable livelihood$^{(3)}$</td>
<td>18%</td>
<td>Holds regular performance reviews</td>
</tr>
<tr>
<td>Paid sick days</td>
<td>100%</td>
<td>New jobs offered internally first</td>
</tr>
<tr>
<td>Wellness initiatives</td>
<td>0%</td>
<td>No policy on internal job promotion or policy to support the promotion of employees equally</td>
</tr>
</tbody>
</table>

### NOTES

$^{(1)}$ As of 12/31/2016  
$^{(2)}$ 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 code) code. Earnings as per base salary.
CASE STUDY

MSL: 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.

This working document is subject to change.

Includes smoking cessation assistance, Get Fit competitions, nutrition coaching, flu shots, workout facility in the building.
Below are some of the key lessons we learned as we implemented the Gainful Jobs Approach across our portfolio and collaborated with management teams to develop Strategic Roadmaps. We hope that sharing these lessons learned will help other organizations that are thinking of implementing similar approaches.

**LESSONS LEARNED**

**BE FLEXIBLE**

Important to develop an approach that can address industry specific challenges such as the importance of a sustainable livelihood in the retail sector versus policies aimed at increasing the percentage of female staff in software companies.

**UNDERSTAND BANDWIDTH**

Understand the constraints of the portfolio company in terms of both monetary and human capital resources. To that end, HCAP has developed a working list of resources comprised of workplace services organizations and benefits providers and is designed to provide portfolio companies with a starting point when implementing the Strategic Roadmap. This list is shared with our portfolio companies. In addition, whenever possible, we leverage the knowledge of the portfolio and connect companies to learn about best workplace practices.

**ALIGNMENT & ACCOUNTABILITY**

Cultivate a culture of impact accountability with all stakeholders through alignment of values and clear and measurable goals. Being diligent in monitoring progress and maintaining consistent communication with portfolio companies.
SHARING THE HCAP PARTNERS IMPACT STORY

BIG PATH CAPITAL SMarter MONEY+ REVIEW

SPECIAL EDITION
MEASURING WHAT MATTERS
Stories of Impact and Metrics

HCAP Partners was included in a select collection of impact stories that offer compelling examples of how private sector investments can drive social and environmental outcomes while demonstrating how they directly support the achievement of the Sustainable Development Goals (SDGs) approved by the United Nations.

This special edition of Big Path Capital’s Smarter Money+ Review was launched at ICS London 2016 inside the Houses of Parliament to highlight both the challenges of quantifying critical impact and the potential responses for achieving impact at scale.
As we start to engage with our 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 III portfolio companies that offer workplace programs or policies within each attribute of our Gainful Jobs Approach and make these programs or policies available to over 75% of the workforce.

**ECONOMIC OPPORTUNITY**
- 67% Broad-Based Participation
- 72% Opportunities for Advancement
- 33% Sustainable Livelihood

**HEALTH & WELLNESS**
- 89% Paid Sick Days
- 44% Wellness Initiatives

Note: as of 12/31/2016 for HCAP III portfolio companies. Excludes realized investments and Burke Williams.
EMPLOYEES FROM HCAP PARTNERS PORTFOLIO COMPANY, LUCERNEX, PARTICIPATING IN A COMPANY TEAM EVENT.
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.