INSIGHT AT
PACIFIC COMMUNITY VENTURES

Invest Northwest: Ten-Year Final Performance Review

FEBRUARY 2017

REFLECTIONS AND LESSONS FROM THE NORTHWEST AREA FOUNDATION'S FIRST MISSION-RELATED INVESTMENT

Reader comments and ideas are welcome. Please direct correspondence to:

Tom Woelfel
Director, PCV InSight
twoelfel@pcvmail.org

Gitika Mohta
Analyst, PCV InSight
gmohta@pcvmail.org

ABOUT INSIGHT AT PACIFIC COMMUNITY VENTURES

PCV InSight is the impact investing research and consulting practice at Pacific Community Ventures, a U.S. Community Development Financial Institution and nonprofit organization. PCV InSight provides information and analysis to investors and policymakers with the goal of driving capital to social purpose. PCV InSight's work has provided the basis for national and international policy initiatives, including the U.S. National Advisory Board, White House Impact Economy Forum, and the Social Investment Taskforce established under the U.K.'s presidency of the G8. PCV InSight clients include the California Public Employees' Retirement System (CalPERS), The Rockefeller Foundation, Omidyar Network, Citi, PG&E, Hamilton Lane, Oportun, Northern California Community Loan Fund, the Northwest Area Foundation, The California Organized Investment Network (COIN), The California Endowment, and The Annie E. Casey Foundation. PCV InSight evaluates the social and economic impacts of over $40 billion of institutional investments across asset classes.

SUPPORTED BY

Founded in 1934 and based in St. Paul, MN, the Northwest Area Foundation supports organizations anchored in the culture of the people they serve and is dedicated to expanding economic opportunity in under-resourced communities. Its grantees work to build on the entrepreneurial spirit, strong community ties, and untapped potential within Native nations, communities of color, immigrants, refugees, rural communities, and other resilient communities who have fewer opportunities to thrive on their own terms. The work of grantees advances good jobs and financial capability across the Foundation's region which includes the eight states of Minnesota, Iowa, North Dakota, South Dakota, Montana, Idaho, Washington, and Oregon, and more than 75 Native nations.

Founded in 1948, the Annie E. Casey Foundation is a private philanthropy that creates a brighter future for the nation's children by developing solutions to strengthen families, build paths to economic opportunity and transform struggling communities into safer and healthier places to live, work and grow.

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EXECUTIVE SUMMARY

In 2004, the Northwest Area Foundation (NWAF) created Invest Northwest (INW), a mission-related private equity investment fund providing market-rate capital to companies in NWAF's eight-state region of Idaho, Iowa, Minnesota, Montana, North Dakota, Oregon, South Dakota, and Washington. The fund was NWAF's first foray into mission investing, a bold undertaking at a time when mission investing was just emerging. By investing its endowment assets in private businesses, NWAF sought to provide economic opportunity, including good jobs and training to workers and their communities across the eight-state region. The social objectives of INW attracted several other investors, including the Annie E. Casey Foundation (AECF), an important partner.

Since 2006, NWAF and AECF have engaged InSight at Pacific Community Ventures to measure and report on INW's social impact. This report, which represents the culmination of ten years of annual evaluations, offers clear evidence of INW's strong social impact over the past decade. The report also traces the origins of INW and identifies key lessons from this experience that have enhanced NWAF's ability to make mission investments that improve social outcomes for communities across the eight-state region, and provides practical lessons for the mission investing field at large.

Key Findings

Since inception, INW has invested in a total of 20 companies across various sectors. These investments have directly impacted local communities through the creation of quality jobs that provide higher wages and greater levels of benefits than most private sector companies across the eight-state region and the U.S. Key findings from this ten-year examination are described below.

EMPLOYMENT

- INW's capital has enhanced economic opportunities in the eight-state region by supporting over 1,700 jobs in the past 10 years.[1] As of December 31, 2015, employment grew by 23% since time of investment at the seven active portfolio companies, significantly outpacing employment growth nationally and regionally during the same period.[2] For all companies (active and exited) employment has grown 3.4% since time of investment, also outpacing national and regional benchmarks.

WAGES

- At over 50% of INW portfolio companies, the median wage is greater than the U.S. private sector median wage benchmark.[3]
- Worker wages compare favorably to living wage benchmarks for analogous geographic locations, with 100% of employees across the portfolio earning more than the living wage required to support one adult with no children since 2011.[4]

HEALTH AND RETIREMENT BENEFITS

- INW portfolio companies have offered health and retirement benefits at a higher rate than U.S. private sector companies. For each of the past 10 years, more than 80% of all portfolio company employees were enrolled in an employer-sponsored health insurance program, outpacing national standards each year. In addition, approximately two thirds (66%) of non-salaried workers, who are often the front-line workers at a business, were enrolled in health insurance.[5]
- The share of non-salaried earners enrolled in 401(k) plans also significantly exceeded national private sector benchmarks.[6]

PRESENCE IN THE EIGHT-STATE REGION

- At the time of investment, all 20 companies were located in the eight-state region, although beginning in 2009, two companies relocated their headquarters outside the region while retaining other operations in the region. Over the years, the portfolio has hired approximately 75% or more of its workforce from within the eight-states.
- The presence of equity capital is relatively scarce in the eight-state region, with only 7% of total U.S. private equity invested across the eight-states.[7] Approximately half of INW investments were either the first or among the first private equity investments made in the ZIP code where the portfolio company was headquartered.
- INW has deployed capital to five companies located in smaller towns or rural areas, channeling needed investment in these underserved areas and enabling these companies to boost their local economies.[8] Furthermore, employment growth since investment at companies located in small towns has outpaced that of companies in urban areas across nine of the past ten years—demonstrating that companies can grow and have success in underserved areas.[9]

FINANCIAL PERFORMANCE

- While INW has produced strong social performance, the fund has not been financially successful. As of June 30, 2016 INW had a -0.61% internal rate of return. With INW coming to a close NWAF expects the fund to break-even.

Lessons Learned

As NWAF's first mission-related investment, INW represented an important learning opportunity for the Foundation. Over ten years later the experience of building and investing a new place-based impact fund has provided important lessons for NWAF and its growing mission investing practice.

Impact Measurement Provides a More Complete View of Investment Performance

Through rigorous social impact data collection, analysis, and reporting mission investors are better positioned to understand and refine their investment strategies. Consistent impact measurement and reporting has demonstrated INW's strong social performance and provided important insights that have informed NWAF's mission investing strategy and other investments.

Geographic Requirements and Other Investment Parameters for Mission Investments May Carry Trade-Offs

While the introduction of additional investment parameters, such as geography or focused social objectives can produce targeted impact, that more strongly aligns with a foundation's mission, these additional investment parameters can also inhibit the ability to partner with others and leverage additional capital. INW's strategy to exclusively invest in the eight-state region, ensured that the people and communities in its service region would benefit, but significantly reduced the amount of interest from other potential investors and led to a smaller fund that could not support businesses as effectively as initially envisioned.

Buying into Established Investment Strategies is Preferable to Building New Funds from Scratch

New funds and investment strategies can support mission investors in achieving targeted social outcomes or piloting new approaches, but are often costlier and riskier to develop and manage. As an early participant in mission investing, NWAF had little choice but to develop INW from the ground up. However, with the growth of the impact investing market, mission investors like NWAF no longer must build new vehicles or ask managers to adapt their strategies to fit their objectives, and can invest across established investment managers with tested investment strategies that advance their desired goals and objectives.

Clarity of Goals and Objectives Are Critical for Mission Investments

By clarifying impact objectives at the outset, mission investors can help ensure that their capital is being invested most effectively and better position fund managers for success. NWAF clearly documented its goals for INW which enabled the fund manager, InvestAmerica, to identify businesses with strong growth potential and management teams that provided quality employment opportunities to local residents. However, INW's investments and the creation of good jobs have not primarily been centered in the most rural or disadvantaged communities, and it is possible that INW could have further advanced NWAF's poverty reduction efforts had these types of communities been targeted as part of INW's social impact objectives.

INW has helped shape the mission investing strategy of NWAF, and the findings contained within this report can also help inform other mission and impact investors. With a deeper understanding of the social performance of investments, through consistent impact measurement and reporting, impact investors are better positioned to reflect on the overall performance of their investments and utilize learnings to advance their work and deliver greater social impact.

INTRODUCTION

Invest Northwest (INW), a mission-related private equity investment fund, was established in August 2004 by the Northwest Area Foundation (NWAF). It was created with the twin objectives of generating financial and social returns aligned with the Foundation's mission, which is to support efforts by people, organizations and communities to reduce poverty and achieve sustainable prosperity in the northwestern states of the U.S. Specifically, the Foundation focuses on an eight-state region encompassing Idaho, Iowa, Minnesota, Montana, North Dakota, Oregon, South Dakota, and Washington—states once served by the Great Northern Railway, founded by James J. Hill, whose son Louis W. Hill established NWAF in 1934.

As the founding investor, NWAF invested $10 million in INW and through a Request for Proposal process, selected InvestAmerica, a private equity fund manager, to manage INW.[10] Several other investors including the Annie E. Casey Foundation (AECF), RAIN Source Capital, and Wells Fargo Community Development Corporation also invested in INW, bringing the fund size to $15.3 million. INW funds have been deployed to 20 companies since inception, with 13 exits to date. As of December 31, 2015, seven companies remain in the portfolio.

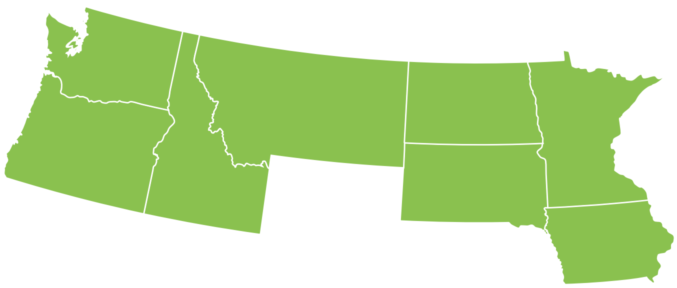
Recognizing the need to understand the social performance of their investments in INW, NWAF, together with AECF, engaged InSight at Pacific Community Ventures (PCV Insight) to provide third-party evaluation of INW's social impact. Since 2006, PCV InSight has provided NWAF and AECF with detailed, annual reports that document INW's social impact.[11]

As the term of INW comes to a close, this report seeks to share the results of INW, examining ten years of social performance data while reflecting on the fund's origins and how it has informed the mission investing program at NWAF.

INVEST NORTHWEST—QUICK FACTS	
YEAR OF INCEPTION	2004
INVESTMENT TYPE	Mission-Related Investment; Private Equity
ASSETS UNDER MANAGEMENT	$15.3 Million
FOUNDING INVESTOR	The Northwest Area Foundation ($10 MM)
INVESTORS	Wells Fargo Community Development Corporation —$3.45MM Annie E. Casey Foundation —$1.5MM Rain Source Capital—$250K InvestAmerica—$150K
FUND MANAGER	InvestAmerica NW, LLC
COMPANIES RECEIVING INVESTMENT	20
ACTIVE INVESTMENTS AT DECEMBER 31, 2015	7
COMPANY EXITS	13

THE EIGHT-STATE REGION AND THE NEED FOR PRIVATE EQUITY INVESTMENT

The eight states that comprise the service region of the Northwest Area Foundation—Idaho, Iowa, Minnesota, Montana, North Dakota, Oregon, South Dakota, and Washington—represent two economic sub-regions that have faced different challenges over the past 30 years.

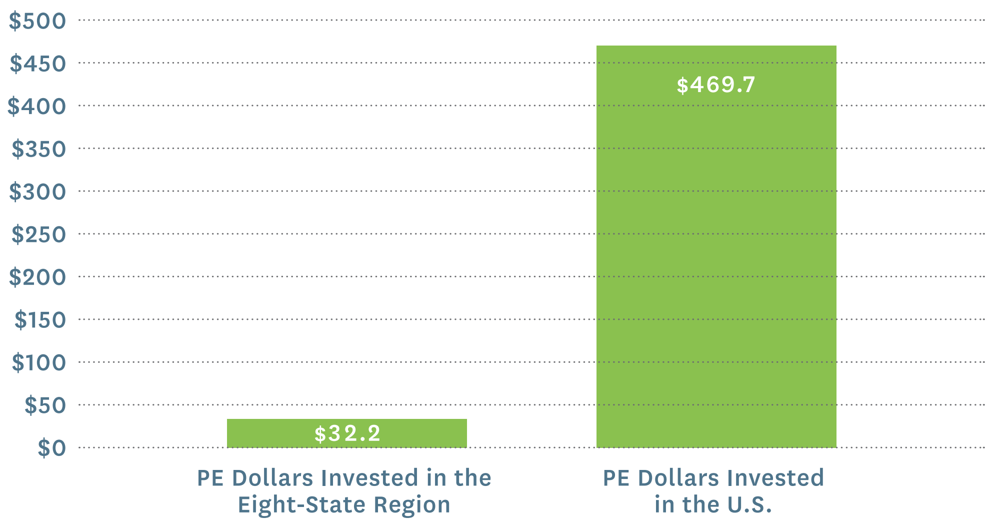


The western part of the eight-state region is commonly termed the Pacific Northwest, and encompasses the states of Washington, Oregon, and Idaho. The Pacific Northwest boasted high economic growth during much of the 1990s, led by Seattle's booming technology industry and a strong manufacturing sector that exported "airplanes to the Japanese, computer software to the Europeans and sneakers to the world."[12]

However, the global recession of the early 2000's, spurred by the dot-com bust and a slowdown in the Asian economy as a result of the Asian financial crisis, led the region to report some of the highest unemployment rates in the country.[13] The eastern part of the eight-state region, comprised of North Dakota, South Dakota, Iowa, Minnesota, and Montana, overlaps heavily with the Midwest region of the U.S. Since the 1970's, the Midwestern economy has been experiencing an industrial transformation in its two primary sectors—manufacturing and agriculture, leading to a loss of many middle-wage, middle-skill level jobs.[14]

Grouped together, the eight states have historically attracted low amounts of private equity capital compared to the rest of the U.S. During the time period in which INW was formed and made all of its investments, only 7% of total private equity invested in the U.S. was deployed in the eight-state region, highlighting the limited amount of private equity capital available to support businesses across the eight-state region.[15]

Private Equity Dollars Invested in the Eight-State Region Compared to the U.S., 2002-2012 ($Bn)*



***Source:** Thompson Reuters U.S. Private Equity Investments

TRACING THE ORIGINS OF MISSION INVESTING AT THE NORTHWEST AREA FOUNDATION

In 1997, NWAF's leadership undertook an extensive review of its grantmaking approach and identified a key objective for the Foundation: poverty reduction in communities across the eight-state region.

Business Growth to Support Poverty Reduction and Wealth Creation

Karl Stauber, former President of NWAF (1996–2007) believed that supporting business growth was critical for poverty reduction and advancing NWAF's mission. Communities across the eight-state region were experiencing an outflow of jobs due to a decline in manufacturing. Businesses in the region, particularly family-owned companies and those located in smaller towns, experienced difficulties related to leadership transition, lack of succession planning, and scarcity of financing options. There was a growing recognition among the leadership at NWAF that investing longer-term, patient capital in promising businesses could complement grantmaking as a means for creating jobs and stimulating local economies.

Mission Investing: An Emerging Practice

Around the same time, other private foundations including AECF, the F.B. Heron Foundation, and Ford Foundation had begun to implement mission investing strategies. These early leaders in mission investing were deploying endowment funds through both below-market program-related investments (PRIs) and market-rate mission-related investments (MRIs) into organizations aligned with their missions.[16]

In 1997, Karl Stauber and Jean Adams, then Chief Financial Officer of NWAF, proposed to the Investment Committee that a dedicated mission-related investing (MRI) fund be created out of NWAF's endowment assets to support businesses across the eight-state region. After several years of internal deliberation, the investment committee decided that as a private foundation, NWAF was ideally positioned to launch an investment fund targeted towards poverty reduction and wealth creation in the eight-state region. They approved the proposal and established INW as NWAF's first mission-related investment.

Building Blocks of Invest Northwest

NWAF leadership outlined the following key elements of its mission investing program, which would serve as the blueprint for establishing INW in 2004.

Develop a custom, private equity fund—Funds would be housed in a private equity investment vehicle, designed to generate financial returns and social impact through job creation and upward mobility for workers across the eight-state region. The NWAF Investment Committee recognized the importance of longer-term investing strategies in fostering community change, and believed private equity could drive meaningful change.

Cautious expectation of positive financial returns—Given that this was NWAF's first MRI and an emerging strategy within the foundation community, NWAF considered INW an important learning opportunity. While the Investment Committee expected positive financial returns, the fund's return objective of 15% IRR was viewed as aspirational in recognition of this new, untried investment strategy.

Partnering with an experienced fund manager—The Investment Committee searched for a seasoned fund manager with market knowledge and demonstrated capacity to execute INW's strategy within the eight-state region. However, they struggled to find a suitable intermediary experienced in pursuing dual financial and social return objectives. Mission investing was still in its infancy and few investors in the eight-state region were focused on double bottom line investing at the time. Eventually through a request for proposal process, NWAF selected InvestAmerica, a private equity manager focused on later stage, small to mid-market companies. Although InvestAmerica did not have a track record in mission investing, it had significant investing experience in the region, having deployed over $100 million to 120 companies across five of the eight states since the 1980s.

Invest Northwest Request for Proposal (RFP)

In the RFP seeking a manager for INW, NWAF outlined five important beliefs that describe the intended social outcomes NWAF hoped to support through INW. NWAF asserted that:

- Equity capital is vital to the success and growth of small businesses
- Equity capital is scarce and needed across the region to allow businesses to expand—thereby creating jobs and productive wealth in communities
- Companies receiving equity would provide substantial financial returns and also create jobs that pay living wages, provide benefits, worker training and opportunities for career advancement
- Providing critical entrepreneurial and managerial assistance and mentorship can jumpstart portfolio company development even in the most economically distressed areas
- Equity capital can be leveraged in a way that helps communities reduce poverty and create wealth in the region

Attracting additional investors—In addition to NWAF's $10 million capital commitment, Wells Fargo Community Development Corporation, AECF, and Rain Source Capital participated in the fund as investors, increasing the fund size to $15.3 million. NWAF had originally sought to attract additional investors to reach a fund size of $50 million, but INW's exclusive focus on the eight-state region may have reduced the amount of interest from other investors, particularly other foundations, who may not have seen a clear mission or geographic fit.

The Annie E. Casey Foundation and Invest Northwest

THE ANNIE E. CASEY FOUNDATION

AECF provided capital to INW through its Social Investment (SI) Program, which was established in 2002 to further the Foundation's programmatic objectives through PRIs and MRIs. Based on the early success of the SI Program, the Foundation's Board of Trustees increased the allocation for mission investments in 2003 from $20 million to $100 million.[17] Following the increased allocation, the Foundation sought to expand the volume of investments across its various program areas and identified INW as an opportunity to advance its Rural Families and Economic Success Program (RUFES), which seeks to promote economic success for low-income working families in rural areas of the U.S.

Miriam Shark, then Program Director at AECF, and investment sponsor of INW, found INW's social objectives of job creation in disadvantaged communities to be highly aligned with the objectives of the Foundation's RUFES Program. Furthermore, NWAF's credible reputation along with the groundwork laid in establishing INW was compelling to AECF as a prospective investor. Shark proposed the idea of a mission-related investment in INW to the SI Program team, and eventually in 2006, the Foundation committed $1.5 million to the fund.

Commitment to social impact measurement—Two years after the fund's inception and at a time when the practice of impact measurement was still emerging, NWAF and AECF hired PCV InSight to track social outcomes for INW to better understand INW's performance and if their social impact objectives were being met. For the past ten years (2006-2015), PCV InSight has collected data on key social impact metrics annually from each portfolio company and presented its analysis annually through a detailed, data-driven report to NWAF and AECF.

An Innovative and Pioneering Effort

The creation of INW in 2004 represented a pioneering effort in the field of philanthropy. INW was formed at a time when a few leading private foundations were beginning to explore mission investing as a way to leverage their endowments in service of their charitable missions. NWAF was willing to join its peers and commit its assets towards a new and untested strategy. At the heart of NWAF's willingness to move forward with its mission investing strategy was a long-term commitment to preserve and propel business growth within smaller towns and disadvantaged communities across the eight-state region. These businesses would create quality jobs that would improve livelihoods and provide economic opportunities to the residents of the eight-state region.

INW has provided important insights for NWAF that have informed subsequent investments and shaped its mission investing strategy.

INVEST NORTHWEST SOCIAL OUTCOMES

Over the past ten years, INW has delivered positive social impact in four key areas:

- Job retention and growth
- Steady increases in median wages annually and living wages provided to employees
- Health and retirement benefits and opportunities for career advancement to employees
- Sustaining businesses and jobs in small towns, rural areas and disadvantaged communities

Through its investments, INW has helped keep businesses in the eight-state region by providing longer-term financing solutions and helping companies develop succession plans. In addition, INW has provided key advisory and management support that has allowed businesses to grow and expand.

Employment

EMPLOYMENT GROWTH HAS OUTPACED NATIONAL AND REGIONAL BENCHMARKS

INW portfolio companies have provided critical employment to local communities across the eight-state region, supporting workers and their families. PCV InSight tracks employment growth in two ways—employment growth since time of investment and annual employment growth. As of December 2015, employment had grown by 23% since time of investment at the seven companies remaining in the portfolio, compared to employment changes of 5% and 7% in the U.S. and the eight-state region respectively, between December 2007 and December 2015.[18,19] Employment in the overall portfolio (including exited and active companies in the portfolio) had grown by 3.4% since time of investment, adding 68 net jobs across all 20 companies.[20] Over the past 10 years, INW capital has supported approximately 1,700 jobs across all active and exited portfolio companies.[21]

INVEST NORTHWEST EMPLOYMENT GROWTH (2006-2015) SINCE TIME OF INVESTMENT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
INW Portfolio Job Growth or Loss Since Time of Investment *(Active Companies)*	21%	23%	-9%	10%	28%	14%	24%	22%	21%	23%
INW Portfolio Job Growth or Loss Since Time of Investment *(All Companies, Active and Exited)*	-25%	0%	-21%	-9%	7%	0%	2%	1%	3%	3%

Note: INW Portfolio Job Growth or Loss Since Time of Investment tracks the number of jobs each company added or lost since the date they received the investment and until the time of exit for exited companies and as of December 2015 for active portfolio companies. Jobs created or lost across all active and exited companies are then aggregated to reach a portfolio wide number. This metric is computed with IRIS, 2016. Permanent Employees: Total (OI8869). v4.0.

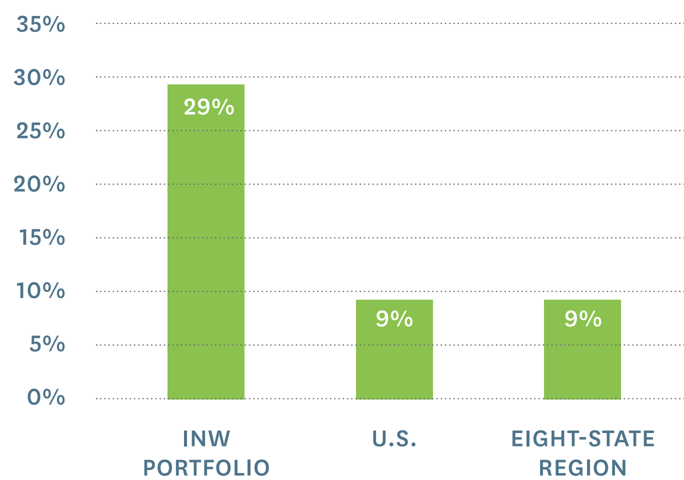
Annual employment growth across active portfolio companies remained positive for six out of the past 10 years, outpacing national and regional employment growth in each of those years as shown in the table below.

INVEST NORTHWEST ANNUAL EMPLOYMENT GROWTH (2006-2015)										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
INW Portfolio Annual Job Growth or Loss *(Active Companies)*	N/A	3%	-34%	22%	19%	-10%	3%	-1%	5%	4%
Benchmark Annual Job Growth or Loss in the Eight-State Region	N/A	1%	-4%	-2%	1%	1%	2%	2%	2%	2%
Benchmark Annual Job Growth or Loss in the U.S.	N/A	1%	-5%	-2%	2%	1%	2%	2%	3%	2%

Note: INW Portfolio Annual job growth or loss tracks the percentage of jobs gained or lost by active companies in the portfolio from year to year. This metric is computed with IRIS, 2016. Permanent Employees: Total (OI8869). v4.0.

The Great Recession inhibited business growth across the portfolio in 2008. However, most companies (12 out of 20) recovered, with significant employment growth. During the post-recession years (between 2011-2015), the INW portfolio added jobs at a higher rate (29%) than the private sector across the U.S. (9%) and the eight-state region (9%) during the same period.[22]

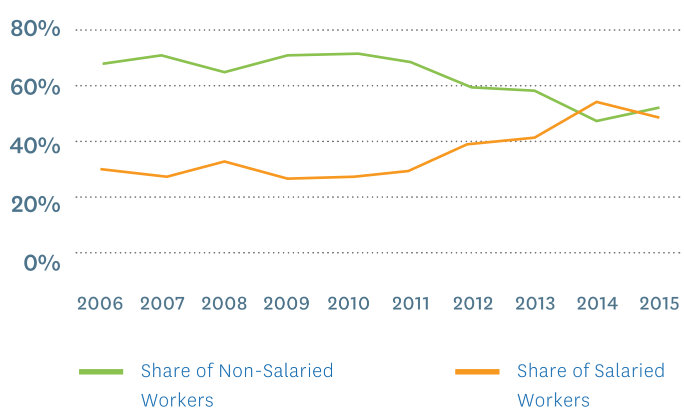
Post-Recession Employment Growth
(Dec 2011-Dec 2015)



PROPORTION OF SALARIED WORKERS HAS INCREASED OVER TIME

Even though employment levels have recovered across the U.S. since the recession, the number of people working part-time and earning hourly wages is more than 50% higher than when the recession began.[23] This is problematic because people in part-time jobs are five times more likely than salaried workers to live in poverty, remaining vulnerable to layoffs and dislocation during phases of hardship when businesses are forced to cut back on costs.[24] Although INW portfolio companies in the early years of the investment period tended to hire a greater share of non-salaried workers, the proportion of salaried workers to non-salaried workers has narrowed significantly over the past 10 years. In 2015, nearly an equal proportion of salaried and non-salaried workers were employed across the portfolio. In addition, portfolio companies have also provided better wages and benefits to their non-salaried workforce, compared with private sector workers nationally and regionally.

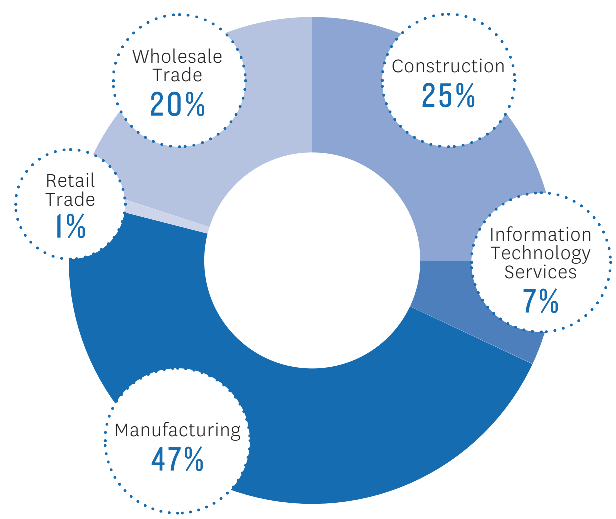
Proportion of Salaried and Non-Salaried Employees at INW Portfolio Companies



HALF OF PORTFOLIO COMPANIES ARE IN THE MANUFACTURING SECTOR

One of the primary reasons for establishing INW was to support economic prosperity in communities hardest hit by the decline of manufacturing and industrial growth across the eight-state region. Fifty percent of portfolio companies are in the manufacturing sector and, since the time of investment, these companies have created 219 manufacturing jobs (offsetting job losses in other areas of the portfolio).[25] Companies in the wholesale trade industry were also strong job creators, reporting 89 net new jobs.

Share of Jobs Supported by Industry*



* Employment data is measured at the time of exit for exited companies and as of December 2015 for active portfolio companies

INVESTMENT CASE STUDY: HERB PHARM

NAME OF COMPANY
Herb Pharm

DATE OF INVESTMENT
2011

LOCATION
Williams, OR

POPULATION
1,072

INDUSTRY
Herbal Products and Extracts

STATUS OF INVESTMENT
Active

EMPLOYEES
120

EMPLOYMENT GROWTH SINCE TIME OF INVESTMENT
62%

REVENUE GROWTH SINCE TIME OF INVESTMENT
100%

INW and Herb Pharm

Founded in 1979, Herb Pharm is a leading manufacturer and producer of herbal extracts and organic herbal products, based in the rural town of Williams in Southern Oregon. The founders, Sarah Katz and Ed Smith, are passionate herbalists and started the company with the aim of producing high quality herbal extracts as an effective source of natural and alternative medicine. After two decades of building Herb Pharm into a successful company, the founders, while retaining their ownership, passed the baton of managing Herb Pharm to Marc Allen in 2003.

While developing a long-term growth strategy for Herb Pharm, Allen recognized the need for external financing and management support. After several years of internal deliberation, in 2011, Herb Pharm's founders and Allen decided to engage a group of investors that they felt were aligned with their objectives and vision for the company.

INW was one of four investors selected to provide buyout capital to Herb Pharm in 2011, all of whom took on board seats to help steer the company's growth. The investors played a hands-on role, providing strategic direction to guide the company's management and its founders. Through its partnership with INW and the other investors, Herb Pharm was able to expand and upgrade its facilities, develop sourcing channels from abroad, enhance marketing and sales, enlarge distribution channels, increase product categories, and invest more resources into the research and development of new products.

As Herb Pharm had not received external financing in the past, INW connected its Chief Financial Officer with banks that provided debt capital to fuel Herb Pharm's expansion strategy. As part of this expansion and growth, Herb Pharm opened a new branch office in Portland and employed staff dedicated to sales and marketing. Additionally, the company increased its product variety and expanded sales to target healthcare professionals using natural and alternative medicines. As a result of these efforts, Herb Pharm has doubled its sales since the time of investment.

INVESTMENT CASE STUDY: HERB PHARM *(continued)*

Social Impact

Herb Pharm has nearly doubled its workforce from 74 employees at the time of investment to 120 employees as of November 2016. Employee well-being has been a hallmark of Herb Pharm since it was founded, and over 40% of its employees have worked at the company for ten years or more. The company provides quality jobs to all its employees by offering above-market wages, a robust benefits program, including a generous employer-sponsored health insurance plan, retirement benefits, including employer contributions to 401(k), paid family leave and a unique profit sharing program.

Herb Pharm has played a critical role in buoying the rural economy in Williams by serving as a key employer within that community since 1979 and by making charitable contributions to various civic facilities and environmental groups. Although its rural location does present challenges associated with hiring top-level management, the company continues to draw talented individuals who are attracted to Herb Pharm's growth, ethos, and culture.

Education and training has been at the core of Herb Pharm's work since it was founded. One example of this effort is a sought-after internship program that Herb Pharm offers three times a year to students seeking to gain more knowledge regarding the growth and production of medicinal herbs. This has enabled Herb Pharm to support future generations of herbalists. The company's research and development has ushered in new products and improved methods for processing, and Herb Pharm's leadership on Capitol Hill has helped improve regulatory standards and the industry overall.

With support from INW and its investors, a strong leadership team and long-term strategic direction, Herb Pharm has reached new levels of growth by providing high-quality products to its consumers and by investing in its employees. For INW, the investment in Herb Pharm has been extremely successful both from a financial return and social impact perspective. INW's investment in Herb Pharm has generated significant impact in a rural community within the eight-state region and has helped an established local company grow and thrive.

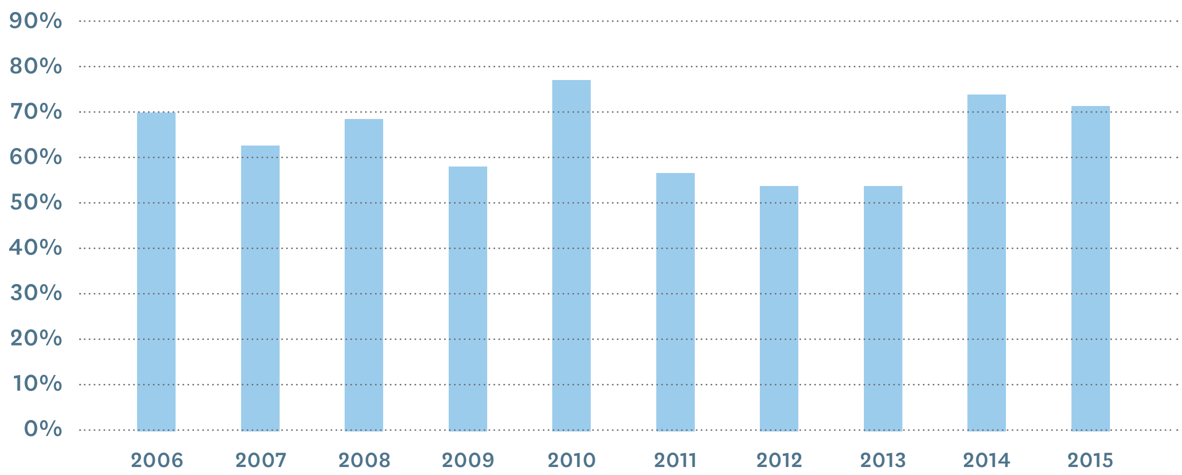
Employee Wages

The majority of companies in the INW portfolio have paid their employees competitive wages as compared to national and local benchmarks. Wages of all employees across portfolio companies were tracked annually since 2006 using Impact Reporting Investment Standards (IRIS) metrics.[26] During the past 10 years, over 50% of companies in the portfolio have reported paying a median wage greater than the U.S. benchmark for private companies.[27]

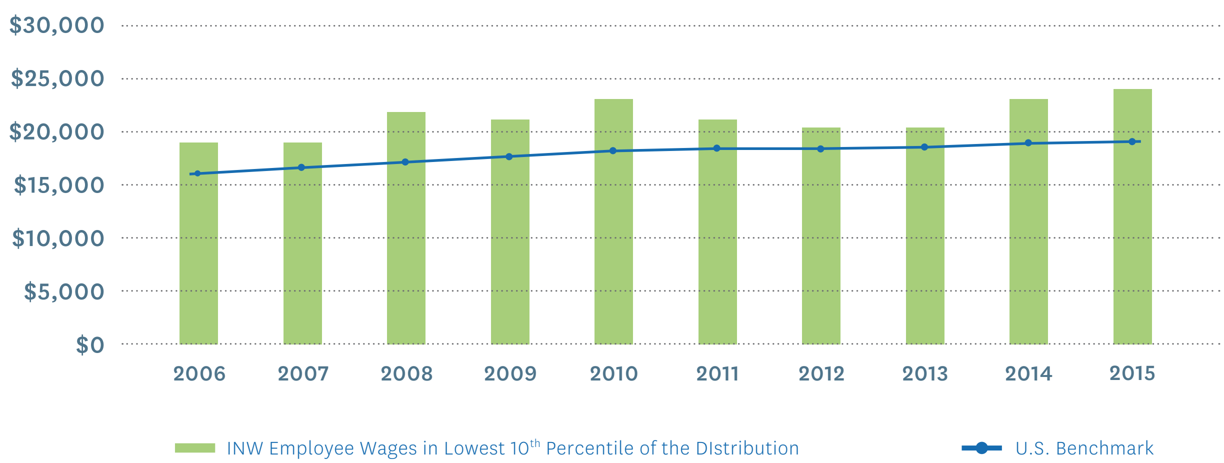
LOWEST-EARNING EMPLOYEES IN THE INW PORTFOLIO ARE PAID COMPETITIVELY

Notably, lower-earning employees in the INW portfolio earn competitive wages when compared to national benchmarks for the private sector. Both salaried and hourly wages for INW employees in the lowest 10th percentile of the wage distribution have outpaced national benchmarks in every year since 2006.[28]

Percentage of Companies with Median Wage Above U.S. Benchmark



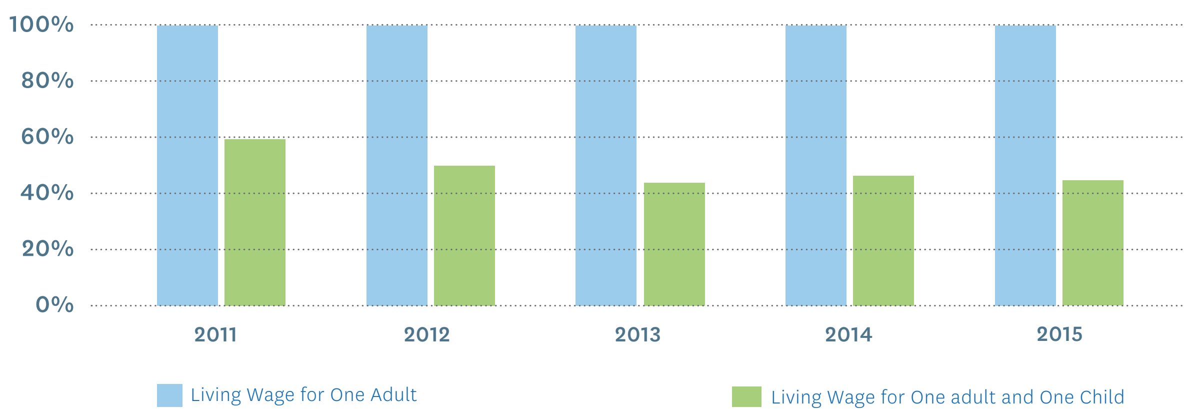
INW Employee Wages (Lowest 10th Percentile) Compared to U.S. Benchmark



INW PORTFOLIO COMPANIES PAY LIVING WAGES TO EMPLOYEES

Portfolio company wages become more meaningful when examined in the context of the cost of living and comparable wages in analogous geographic locations. The Massachusetts Institute of Technology (MIT) Poverty in America project calculates a "living wage" as the income level at which a person can cover all expenses without making significant tradeoffs that compromise well-being.[29] Wages at INW portfolio companies compare favorably to living wage benchmarks, with 100% of employees earning more than the living wage required to support one adult with no children. In addition, 40% to 60% of employees over the past five years have earned wages higher than the benchmark for one adult and one child.

Percentage of INW Employees Earning Above Living Wage Benchmarks



Invest Northwest and Reflections on the Evolution of Impact Measurement

When NWAF launched INW in 2004, the practice of impact measurement was just emerging and few investors rigorously assessed the social outcomes of their investments. Recognizing the need to understand the social performance of their investments in INW, NWAF and AECF engaged PCV InSight to collect, analyze, and report on the social performance of INW on an annual basis.

Ten years later, impact measurement has become a widely adopted practice among fund managers and investors, with the most recent survey of impact investors showing that 99% of respondents report measuring social impact.[30] Furthermore, some fund managers and investors are now utilizing impact data to not only meet reporting requirements but to support investment decision-making and ultimately drive performance.

The increased emphasis on impact measurement matches the growing sophistication of the impact investing market, but can also be attributed to concerted efforts in the field to develop the capacity of impact investors to measure their impact. In particular, the Global Impact Investing Network and its IRIS initiative, launched in 2009, have been critical to the advancement of impact measurement.[31]

At PCV InSight, we have honed our approach to impact measurement over the last decade. INW has provided an important model for rigorous ongoing impact measurement and reporting that we have sought to build on and openly share as part of our field building efforts, including in our recent quality jobs research.[32] In April of 2016, we published *Moving Beyond Job Creation: Defining and Measuring the Creation of Quality Jobs*.[33] INW has furthered our understanding of the underlying characteristics of a quality job as well as how to efficiently collect the types of data that can provide meaningful insights into changes in job quality over time. We hope that the lessons and approaches detailed within this report can support others in enhancing their own impact measurement efforts—ultimately leading to more effective investments that deliver significant social impact.

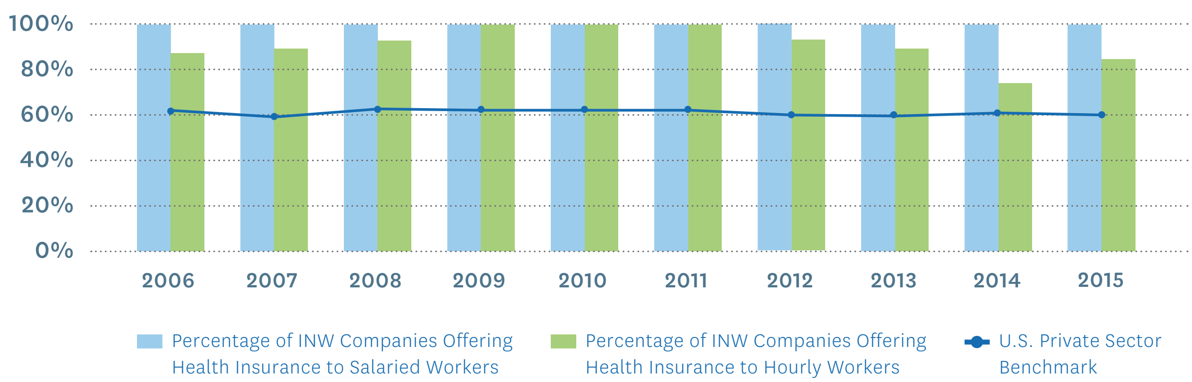
Benefits: Healthcare, Retirement, Training and Other Opportunities For Advancement

INW PORTFOLIO COMPANIES PROVIDE HEALTH BENEFITS AT HIGH LEVELS

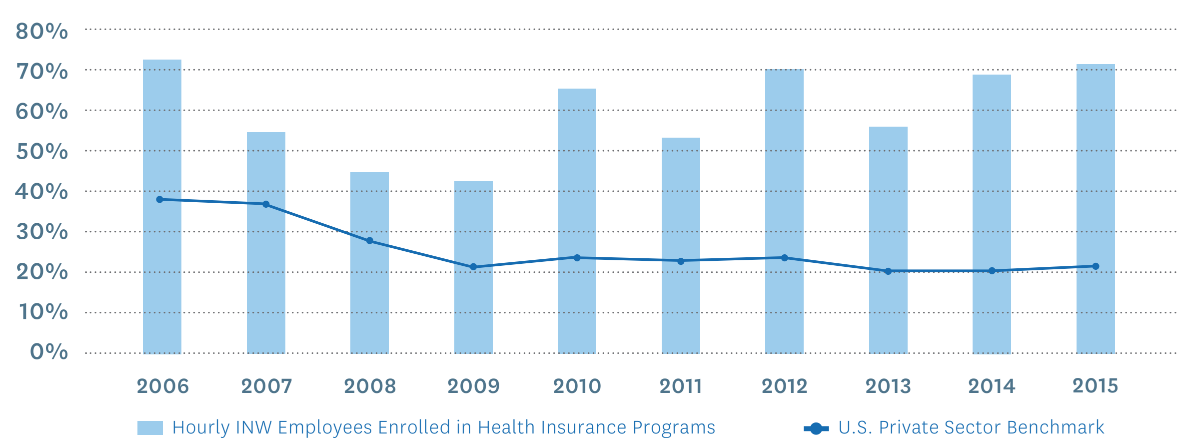
INW portfolio companies have offered health and retirement benefits to their employees at levels that consistently outpace national standards for private sector employees. Over the past 10 years, 100% of INW portfolio companies have offered health insurance to salaried employees and 75% to 86% of companies have offered health insurance to hourly employees. In comparison, 61% of U.S. private companies on average[34] offer their employees health insurance.[35]

In addition to reporting whether or not they offered health insurance, INW portfolio companies also reported on the percentage of employees enrolled in health insurance programs.[36] For each of the past 10 years, more than 80% of all workers at portfolio companies were enrolled in an employer-sponsored health insurance program, outpacing national standards each year.[37] This is particularly significant considering that 16 of the 20 INW portfolio companies have had or currently have fewer than 100 employees. For U.S. companies with fewer than 100 employees, the 10-year average health insurance enrollment rate for salaried workers is 43%.[38]

Percentage of INW Portfolio Companies Offering Health Insurance



Percentage of Hourly INW Employees Enrolled in Health Insurance Programs



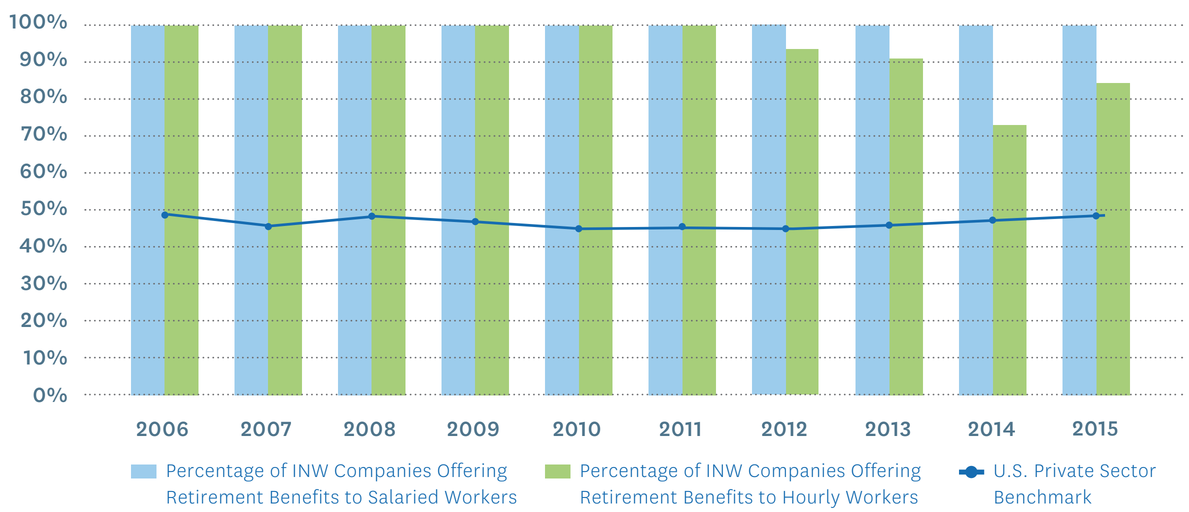
Hourly wage earners often lose out on benefits, particularly when companies struggle to survive or grow their businesses and this is reflected in the low enrollment rates on average across the U.S.[39] In contrast, INW portfolio companies have provided the majority of their hourly employees, approximately two-thirds across most years, employer sponsored programs for medical coverage.

INW PORTFOLIO COMPANIES PROVIDE RETIREMENT BENEFITS AT HIGH LEVELS

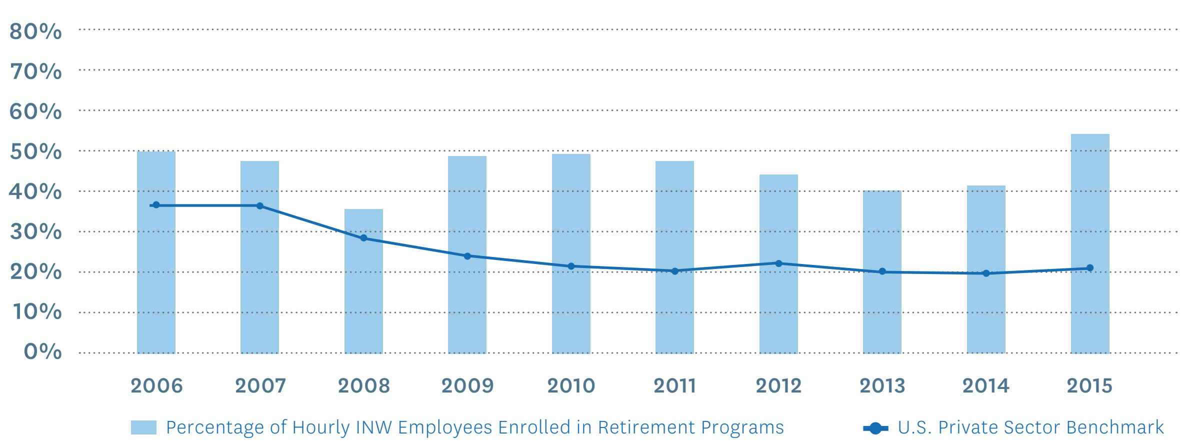
INW portfolio companies have offered retirement benefits at a similar or higher rate than U.S. private sector companies across most of the past decade, notably outpacing national standards during the tough recession years.[40]

Additionally, the share of hourly wage earners enrolled in 401(k) plans across portfolio companies significantly exceeded U.S. private sector benchmarks. Although the percentage of employees enrolled in retirement benefits dropped slightly in the post-recession years, it recovered soon after and in 2015, reached a high of 58%.[41]

Percentage of INW Portfolio Companies Offering Retirement Benefits



Percentage of Hourly INW Employees Enrolled in Retirement Programs



INW PORTFOLIO COMPANIES OFFER A VARIETY OF TRAINING AND CAREER ADVANCEMENT OPPORTUNITIES

Most INW portfolio companies provided training opportunities to newly hired employees within the first three months of their employment. In addition, INW employers in the manufacturing and technology industries helped employees attain certifications and licenses to further their careers through onsite trainings, tuition reimbursement, or partnerships with local technical schools. Examples include forklift and welding certifications, professional engineer licensure, and certifications in supply chain and human resources management.

INVESTMENT CASE STUDY: BEHRENS

NAME OF COMPANY
Behrens

DATE OF INVESTMENT
2005

LOCATION
Winona, MN

POPULATION
27,546

INDUSTRY
Manufacturing (Steel Containers and Utility Steel Products)

STATUS OF INVESTMENT
Exited in 2013

EMPLOYEES AT TIME OF EXIT
141

EMPLOYMENT GROWTH SINCE TIME OF INVESTMENT
147%

REVENUE GROWTH SINCE TIME OF INVESTMENT
200%

INW and Behrens

Founded in 1911, Behrens manufactures and supplies utility steel products such as steel cans and containers to large retailers such as Walmart, Home Depot and others. It is based in the town of Winona in southeastern Minnesota. As a member of a group of three investors, INW provided buyout capital to Behrens in 2005 and took on board seats to build the company's growth and brand.

At the time of the buyout, Behrens' production activities were located in a facility with a layout that often presented operational challenges. A few years after the investment, management, acting on the strategic advice provided by INW and other board members, relocated production activities to another facility in Winona. The relocation proved to be very advantageous in improving production and operational efficiency and, as a result, the company's profits increased.

Meanwhile as the then-President decided to transition out of the company, INW and the investor group hired a new management team with pertinent industry experience. With strategic advisory support from INW and the investor group, Behrens' management team focused on refining its pricing strategy, sales and business development and was able to acquire new customers in different markets. New customer acquisition and increase in sales coupled with production efficiencies enabled Behrens to grow quickly. By the time INW and its investors exited their investment in Behrens in 2013, the company had tripled its revenues.

INVESTMENT CASE STUDY: BEHRENS *(continued)*

Social Impact

Behrens was able to more than double its workforce from 57 employees at the time of investment to 141 at the time of exit. It has contributed significantly to the regional economy of southeastern Minnesota by attracting most of its workforce from within a 30-mile radius of the company's location in Winona. INW and its investor group placed an emphasis on enhancing the company's corporate governance and quality of jobs for its workforce. Behrens earned a reputation for being one of the highest paying companies in Winona and offered a suite of employer-sponsored healthcare benefits, retirement options and training opportunities to its employees.

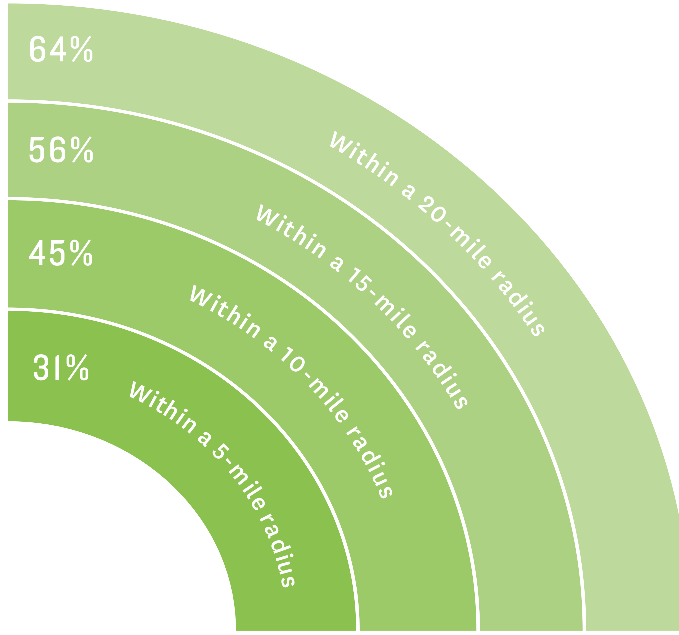
Although the company's location presented challenges associated with attracting senior management, INW and other board members were able to hire and retain talented and experienced individuals that eventually proved to be the principal drivers of the company's strong growth. At the time of INW's exit in 2013, Behrens's product quality had improved significantly and the company was better positioned to compete in its market. Behrens is now a leading supplier, offering the largest breadth of utility steel products in North America.

Presence in the Eight-State Region and in Rural and Disadvantaged Communities

INW'S INVESTMENTS HAVE SUPPORTED BUSINESSES AND JOBS WITHIN THE EIGHT-STATE REGION

INW was established to provide growth capital to companies that create and retain quality jobs within the eight-state region. At the time of investment, all 20 companies had headquarters in the eight-state region although in the aftermath of the economic downturn, two companies relocated their headquarters and facilities to neighboring states outside of the region. As of December 2015, six out of the seven active portfolio companies were located within the eight-states, with 75% of employees residing and working in the region.

One of the key ways in which INW portfolio companies benefit local communities is through local hiring. The eight-state region encompasses a large geographic area and population density is lower across the region, making it more likely for employees to be located within a wider radius of the companies they work at. Thirty-one percent of workers across the portfolio are located within five miles of their workplace and 64% are employed within a 20-mile radius of the companies in which they work.



SIGNIFICANT PRESENCE IN SMALL TOWNS, RURAL AREAS AND DISADVANTAGED COMMUNITIES

In the request for proposal circulated for attracting investment managers in 2004, NWAF had outlined the importance of attracting equity capital to the eight-states, given its scarcity in the region and the critical role that equity can play in allowing small businesses to expand and grow. According to a dataset collected by Thompson Reuters from 2002-2012, only 7% of total private equity invested in the U.S. was deployed in the eight-state region.[42] In approximately six out of the 20 companies, INW's capital was the first instance of private equity made available in the ZIP code where the portfolio company is located, demonstrating that INW injected much needed equity capital in these communities. In another four companies, it was among one of the few private equity investors deploying capital in that community.

Additionally, businesses targeted by INW were primarily family-owned and those located in smaller towns and rural areas faced succession challenges. By providing investment capital, leadership and advisory support to these companies, INW has contributed to anchoring these businesses in their local communities.

INW EMPLOYMENT GROWTH SINCE INVESTMENT: SMALL TOWNS VS. NON-SMALL TOWNS										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Companies in Small Towns	73%	83%	16%	19%	20%	29%	32%	32%	26%	34%
Companies in Non-Small Towns	-7%	-7%	-28%	3%	31%	7%	16%	18%	19%	8%

Five out of 20 portfolio companies were headquartered in small towns comprising fewer than 20,000 residents. The companies receiving investment in these smaller towns were able to accelerate business growth as a result of the capital received, adding jobs and facilities during the period immediately following investment, demonstrating that scarcity of capital can be a major hindrance to business growth in these areas. Furthermore, the social impact of INW's investments in these companies has been significant, with employment growth since investment outpacing job growth at companies in urban areas across nine out of the past ten years as shown in the table above. The portfolio overall has employed between 18%-28% of its workforce entirely from rural communities across each of the past ten years.

Another way to gauge the impact of INW on disadvantaged communities is to estimate the number of companies located in Low to-Moderate-Income (LMI) communities and the proportion of LMI workers in the portfolio.[43] Wealth and poverty are dispersed more evenly across the eight-state region compared to the U.S. as a whole, making it less likely for companies and employees to be located in LMI communities. Only 35% of census tracts across the eight-state region are designated LMI, compared to 53% across the U.S.[44]

INW portfolio companies have been located primarily in middle and upper income census tracts, with only three companies in moderate-income census tracts. Recognizing that the location of company headquarters is not the only way to examine companies' connection to LMI communities, the evaluation over five of the past ten years analyzed individual employees' residence (ZIP code) and wage data as proxy indicators of economic status. Based on this analysis, 26%-39% of portfolio company employees reside in LMI areas.[45]

INVESTMENT CASE STUDY: FIELD SOLUTIONS

FieldSolutions
Quality Field Sourcing

NAME OF COMPANY
Field Solutions

DATE OF INVESTMENT
2010

LOCATION
Minnentonka, MN

POPULATION
51,368

INDUSTRY
Information Technology Services

STATUS OF INVESTMENT
Exited in 2015

EMPLOYEES AT TIME OF EXIT
43

EMPLOYMENT GROWTH SINCE TIME OF INVESTMENT
59%

INW and Field Solutions

Founded in 2007 by Mac Lewis, Field Solutions began by providing contingent labor solutions to companies in the electronics and technology industry looking to outsource their technical jobs. As a seasoned technology entrepreneur and investor, Lewis noticed an untapped market for contingent labor and wanted to build a platform that would connect freelance field technicians to businesses. Within a few years, Mr. Lewis was able to transform his idea into an innovative and fast growing business, adding leading technology companies such as HP and Xerox to its customer base.

Recognizing the growth potential of Field Solutions, INW, along with a group of other investors, provided capital as part of a Series A investment round in the company in 2010. Field Solutions was an earlier stage company compared to others in INW's portfolio, and represented an investment at the margin of its focus on later stage companies. However, Field Solution's innovative business model and growth prospects made it an attractive investment opportunity. Unlike other investments, INW's portion of capital committed was relatively small in comparison to the other investors, and INW took on observer rights on the company's board of directors.

INW sought to strategically guide Field Solutions towards profitability and positive cash flows through its observer seat on the board. Following the investment however, the board of directors at Field Solutions faced difficulty in arriving at a consensus on next steps for the company. The board was split between members that wanted to pursue an aggressive growth-oriented strategy and others, including INW that wanted Field Solutions to pursue a slower-growth, profit-oriented strategy. The latter strategy necessitated taking on cost-cutting measures to achieve operational sustainability in order to generate positive cash flows. Eventually, the company chose the growth-led approach and utilized the capital from its Series A round towards expanding sales and marketing, in an effort to grow its customer base.

INVESTMENT CASE STUDY: FIELD SOLUTIONS *(continued)*

Although Field Solutions was able to execute its growth strategy by adding employees and increasing sales, it struggled to lower its costs and secure additional financing. The loss of a key customer in 2012 led a group of investors that were close to financing the next round for the company to withdraw from the deal. Unfortunately, INW and its investors did not have the additional capital needed to sustain Field Solutions, and as time passed, and additional funding sources did not materialize, Field Solutions was forced to close.

Despite the operational challenges it faced, Field Solutions' products and services remained highly valuable to its customer base. Recognizing the company's unique value proposition in the marketplace led one of its competitors, Field Nation, to acquire Field Solutions and purchase its remaining assets. Today Field Nation remains a market leader and one of the largest providers of online work platforms in the U.S.

Although Field Solutions failed to sustain its business and provide positive returns to its investors, its acquisition by Field Nation proved to be a positive outcome for its customers and many of its employees, as its customers were transferred to Field Nation and 70% of its workforce was integrated into the merged company.

Challenges and Lessons for INW

INW's unsuccessful investment in Field Solutions provides insights into some of the challenges that INW experienced as well as lessons that can inform future investments. First, INW's relatively small investment as part of the Series A round and corresponding non-control position with Field Solutions, inhibited its ability to shift strategic decision-making in the direction it believed would be most successful. Second, as an early-stage and growth-focused company, Field Solutions needed additional capital that INW and its investors were not in a position to provide. Ultimately, had INW been a larger fund or its investors had more capital at their disposal to sustain the operations and growth of Field Solutions, the results of this investment may have been quite different.

FINANCIAL PERFORMANCE OF INVEST NORTHWEST

While INW has proven to be a socially impactful investment, the fund has not been financially successful. The return to date of -0.61% IRR is well below the initial target 15% internal rate of return and with INW coming to a close, its investors expect to break-even on their investment. INW's financial performance was significantly impacted by a number of factors including:

- The majority of INW's investments were made during an especially challenging time - immediately prior to the Great Recession, which stressed companies across the country, extended investment periods, and lowered returns;
- The smaller size of the fund limited the number of investments that could be made, the size of those investments, and follow-on investments that could have sustained businesses during the recession; and
- A significant portion of debt rather than equity investments were made in INW portfolio companies, which limited potential returns.

INVEST NORTHWEST FINANCIAL PERFORMANCE vs. CAMBRIDGE ASSOCIATES ALL U.S. PRIVATE EQUITY INDEX AS OF JUNE 30, 2016

VINTAGE YEAR 2004	INW	QUARTILE RANK	1ST QUARTILE	MEDIAN	3RD QUARTILE
Internal Rate of Return	-0.61%	4	12.52%	6.50%	-0.24%
Distributions to Paid-in Capital Ratio	0.58x	3	1.56x	1.04x	0.53x
Total Value to Paid-in Capital Ratio	0.96x	4	1.84x	1.45x	0.99x

Source: Cambridge Associates LLC, data provided as is

LESSONS LEARNED

For over a decade, NWAF has made mission investments that support people and organizations working to build assets, wealth, and opportunity across the eight-state region. As NWAF has made MRIs and PRIs to address persistent gaps in capital to seed and grow businesses across the region it has continued to question whether it could do more with the remaining 95% of its assets.

Reflecting on its experience with INW and its PRI portfolio, in 2014 NWAF made an expanded commitment to mission investing, dedicating an additional $10 million to PRIs and $30 million to MRIs - representing approximately 10% of NWAF's assets, above and beyond the 5% it allocates for grants. Under its updated strategy the Foundation continues to seek investments that closely align with its programmatic objectives.

Specifically, NWAF seeks to support organizations anchored in the culture of the people they serve and dedicated to expanding economic opportunity in under-resourced communities. The Foundation envisions strong, vibrant communities where people are connected to:

- **Good jobs** that pay enough to help people get ahead and stay there, and that offer benefits and opportunities to move up in the workplace, and
- **Financial capability** so that individuals, families, and communities have the knowledge, skills, and resources to build assets over time.

As NWAF's entry into mission investing, INW represented an important learning opportunity for the Foundation. Over ten years later the undertaking of building and investing a new place-based impact fund, that has produced significant social impact, has provided important lessons for NWAF and its mission investing practice.

The following section offers key lessons from NWAF's experience with INW that have informed NWAF's mission investing strategy and may offer insights for other foundations engaged in mission investing and the impact investing field, more broadly.

Impact Measurement Provides a More Complete View of Investment Performance

NWAF had the foresight to prioritize ongoing impact measurement as part of its investment with INW. Through impact measurement NWAF sought to better understand whether its investment was meeting its social impact objectives and to identify lessons that could inform the Foundation's work. While today the practice of impact measurement has become commonplace, and resources like IRIS have emerged to support impact measurement efforts, INW's impact measurement system was created at a time when impact measurement was a relatively new practice, and represented an investment of time and resources that few others were making. Ten years later this early investment has proven to be of great benefit to NWAF.

By building an impact measurement approach upfront, NWAF was able to capture critical information about INW's social impact in its first years and rigorously track its performance annually. The assessment of INW's social impact has provided insights into employment growth at portfolio companies, the quality of jobs offered to workers, and the presence of companies in rural or other disadvantaged communities across the eight-state region. While the information captured across the past ten years has helped provide a more complete picture of INW's impact on communities, it has also served as an additional resource to the Foundation in its review of its mission investing strategy. INW's significant social impact demonstrated to staff that MRIs, even if not financially successful, could advance the Foundation's mission, and ultimately supported NWAF in its decision to expand its mission investing practice to 10% or approximately $40 million in 2014.

After seeing the benefits of impact measurement with INW firsthand, NWAF has continued to prioritize impact measurement, and requires regular social impact reporting for each of its investments. Where fund managers need additional support in conducting impact measurement, NWAF utilizes third-party consultants like PCV InSight to provide additional capacity for assessing social impact.

Through rigorous data collection, analysis, and reporting, impact measurement can help mission investors and others better understand their investments, learn from their experiences, and make more effective investments in the future.

Geographic Requirements and other Investment Parameters for Mission Investments May Carry Trade-Offs

As a place-based investment, INW was created to support private businesses across the eight-state region. Place-based investments like INW provide investors the opportunity to achieve more targeted impact in specific geographies and among certain populations, including disadvantaged communities where place has a strong determinative effect on the opportunities, health, and well-being of residents. However, the geographic requirements posed by place-based investments can introduce additional investment parameters which may carry trade-offs.

In seeking to establish INW, NWAF sought to attract other investors to reach a $50 million fund size but was only able to attract an additional $5 million of outside capital beyond its $10 million investment. INW's exclusive focus on the Foundation's eight-state region, reduced the amount of interest from other investors who may not have seen a clear mission or geographic fit. NWAF and InvestAmerica believe that had INW been a larger fund, it could have better supported portfolio companies during the economic downturn and would have been able to deploy more capital to sustain and grow businesses.

Instead, at a total size of only $15 million, INW made smaller investments sometimes providing debt rather than equity capital which limited potential returns. The smaller fund size also meant INW was often only one of multiple investors and received only observer board positions which made it more difficult to influence company decision making. Finally, as a $15 million fund, INW was also constrained in its ability to make follow-on investments that could further support business growth.

While additional investment parameters, such as geography or focused social objectives can produce meaningful, targeted impact that more strongly aligns with a foundation's mission, these additional investment parameters can also limit the ability for mission investors to partner with others and leverage additional capital. For mission investors and other investors exploring a place-based investment strategy or investments with additional investment parameters, it is important to evaluate any potential trade-offs these investments present prior to making an investment.

Based on its experience with INW, NWAF's mission investing strategy has shifted to a more flexible investment approach that allows for MRIs outside of the eight-state region. The Foundation continues to give preference to MRIs within the eight-state region but now recognizes that attractive investment opportunities may not match the Foundation's eight-state region. As such, while the Foundation will seek out MRIs that are focused on all or a portion of the region, investments outside of the region will also be considered. Those investments outside of the region that provide an opportunity to partner with others or that can serve as a pilot with the potential to be replicated within the region are viewed as especially attractive by the Foundation.

Buying into Established Investment Strategies is Preferable to Building New Funds from Scratch

NWAF's decision to engage in mission investing came at a time when mission investing was in its infancy, with NWAF joining a small group of leading foundations charting the path forward. Today mission investors now count themselves among a growing and much more sophisticated market of impact investors that includes some of the world's largest institutions and a continual stream of new entrants. The GIIN's ImpactBase, a database of impact funds raising or investing capital now lists over 400 impact funds with over $30 billion in committed capital.[46]

By contrast, at the time of INW's conception, NWAF was unable to identify any double bottom line managers with investment strategies that aligned with the Foundation's goal of investing private equity capital to support business growth and good jobs across the eight-state region. As a result, NWAF had little choice but to build INW from scratch, and provided $10 million to InvestAmerica, a traditional private equity fund manager with a track record of investing in the region, who would adapt their investment strategy to meet NWAF's financial and social objectives.

With the growth of the market NWAF no longer needs to ask managers to modify their investment strategies to create alignment with its social impact objectives and can instead invest with investment managers who have established investment strategies and track records that already align with the Foundation's mission and programmatic objectives. NWAF is now able to conduct due diligence on multiple managers with prior funds whose investment sourcing and ongoing investment management lead to the Foundation's desired social outcomes.

While targeting specific geographies or piloting new or innovative models may preclude the use of intermediaries with established investment histories and proven investment approaches, it is important to be mindful of the high cost of investing and managing a custom fund vehicle like INW and acknowledge that more customized investment parameters may reduce the opportunity to partner and attract additional capital.

Clarity of Goals and Objectives Are Critical for Mission Investments

INW was created to provide private equity capital to retain and grow businesses across the eight-state region. NWAF believed that the capital and accompanying managerial assistance provided by a private equity fund could be used to jumpstart small business development and thereby create quality employment opportunities and wealth for local residents. In its Request for Proposal to prospective fund managers NWAF documented this investment thesis and laid out its social impact objectives for the fund.

As a result, InvestAmerica, the fund manager for INW, understood NWAF's desired goals and was able to target companies with strong growth potential and identify management teams who would provide good jobs with a livable wage, benefits, training, and opportunities for advancement. The employment data collected from INW portfolio companies over the last ten years has demonstrated strong social performance for INW, particularly through the creation of quality jobs, with INW portfolio companies consistently having provided higher wages and greater levels of benefits than other private sector companies.

While INW has created good jobs for workers across the eight-state region, its social outcomes have not primarily been centered in the most rural or disadvantaged communities. It is possible that had NWAF explicitly targeted these types of communities for investment within its social impact objectives that INW could have further advanced NWAF's poverty reduction efforts.

Today NWAF's investment staff devote significant time and effort during due diligence to understanding how a fund manager aligns with the Foundation's social impact objectives. Specifically, staff scrutinize how impact is embedded in the structure and strategy of a fund, and the manner in which it is revisited throughout the investment process. This approach supports NWAF in creating clearly defined goals and objectives, and accountability for each of its investments. Over the life of the investment NWAF then utilizes impact measurement as a useful tool for understanding and evaluating how their investments are performing against their stated goals and objectives.

By clarifying goals and impact objectives at the outset, mission investors can help ensure that their capital is being invested most effectively and better position themselves and fund managers for success. Furthermore, mission investors can utilize impact measurement to support ongoing monitoring of social impact objectives. Quantified impact forecasts or targets set at the time of investment, when compared against impact data collected over the life of the investment, can provide visibility into whether impact objectives are being met, as well as can facilitate ongoing impact-related discussions—leading to better alignment of expectations.

CONCLUSION

At a time when mission investing was in its infancy, INW represented an innovative and pioneering effort by NWAF. While INW did not generate significant financial returns, the capital deployed by INW throughout the eight-state region has aided private companies in expanding operations and supported hundreds of jobs offering living wages, high levels of benefits, and training opportunities to local workers. INW's strong social performance, documented in this report, demonstrates that mission-related investments can effectively complement grantmaking strategies and enable foundations to go beyond their annual 5% payout and put the other 95% of their assets to work in service of their mission.

INW offers valuable lessons not only for NWAF's own work but also for other foundations engaged in mission investing, and the impact investing field more broadly. NWAF's foresight to invest in impact measurement early-on has proven especially beneficial for the Foundation. In addition to surfacing important insights into INW's social impact, impact measurement has supported staff in reflecting more generally on how investments like INW can advance programmatic objectives and has helped refine NWAF's expanded mission investing program.

Armed with the past decade of experience and insights from INW, NWAF is well positioned to continue the next phase of its mission investing efforts, utilizing 10% of its endowment to promote good jobs and financial capability in expanding economic opportunity in under-resourced communities in the eight-state region and beyond.

APPENDIX A

INVEST NORTHWEST INVESTMENT STRATEGY

FINANCE

Although the INW portfolio was sector-agnostic, portfolio managers generally targeted manufacturing, services, and distribution and technology companies with $10-$50 million in annual sales. By providing access to equity finance to later stage companies undergoing a leadership transition and/or growth and expansion, and whose finance needs weren't being met by traditional sources of capital, INW sought to achieve both market-rate returns as well as significant social returns. At the same time, INW also invested in a smaller number of early-stage investments that showed high potential of producing strong financial and social returns.

ADVISORY SUPPORT

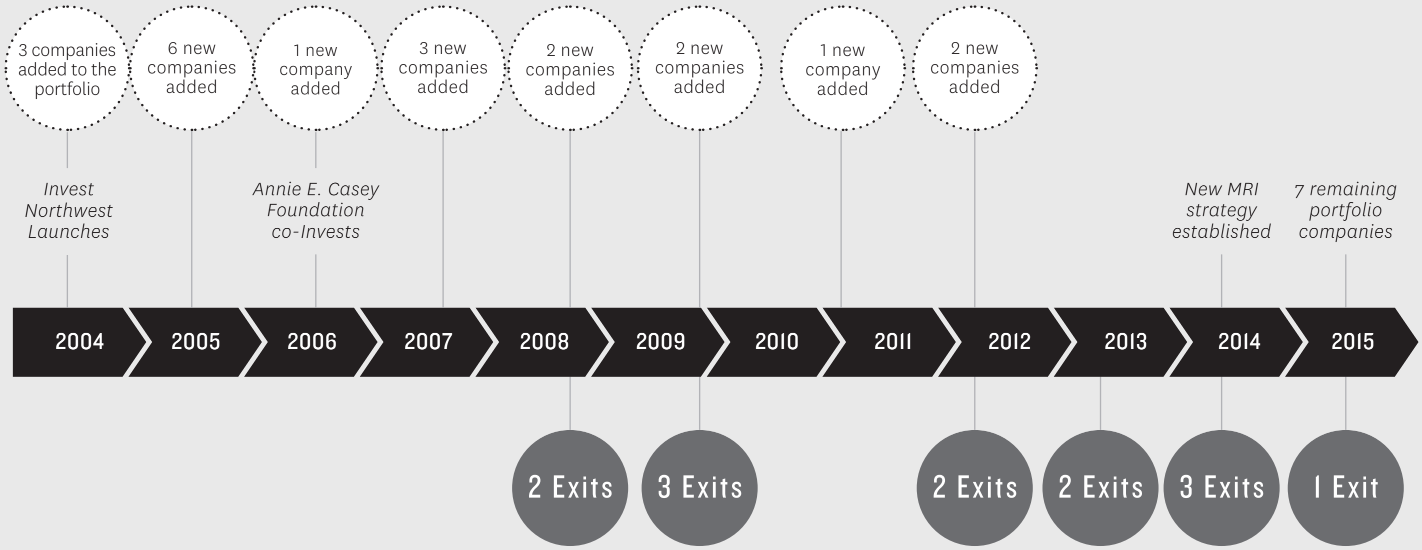
INW and its investment partners held either board seats or board observer rights in portfolio companies and actively participated in strategic decision-making to ensure that its portfolio companies were taking the necessary steps towards business growth, profitability and creation of jobs.

ATTRACTING ADDITIONAL CAPITAL

By backing its portfolio companies with private equity, INW enabled several companies to leverage and attract additional sources of capital from commercial lenders and other financial institutions that would have otherwise not been accessible to these companies easily.

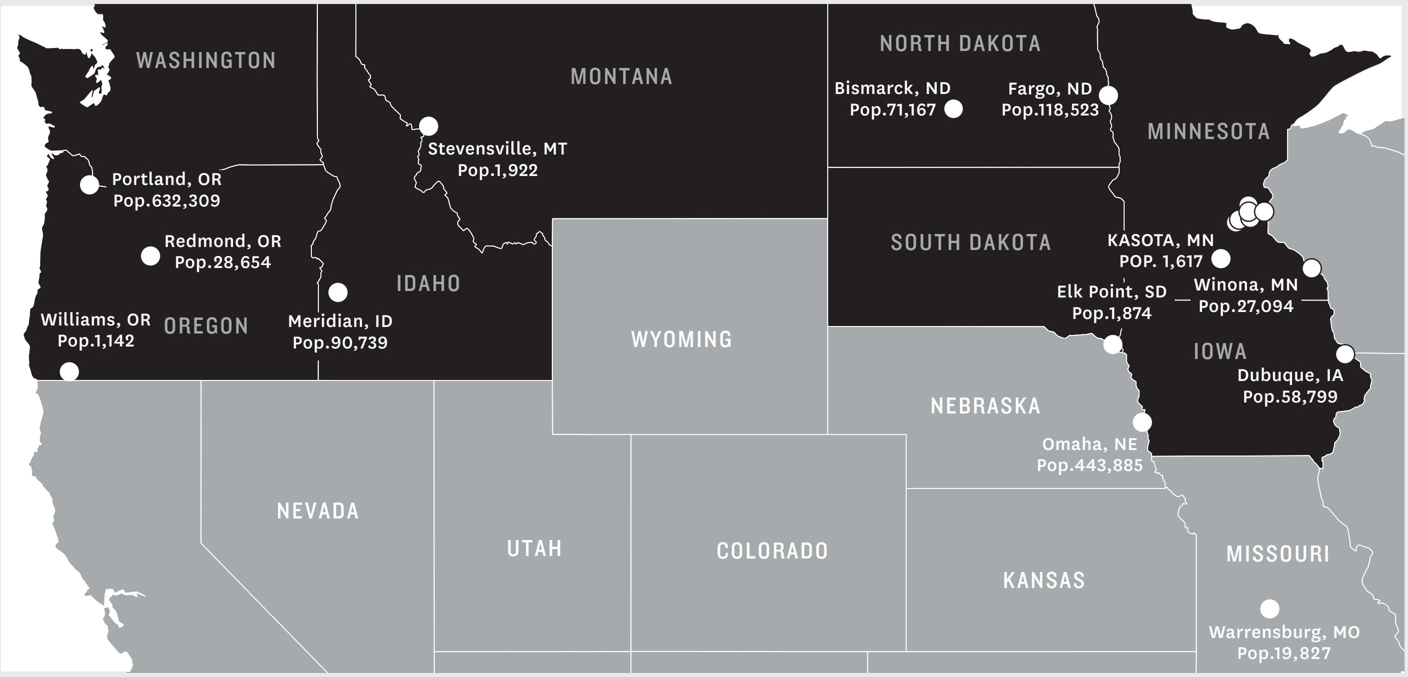
APPENDIX B

INVEST NORTHWEST FUND LIFECYCLE



APPENDIX C

INVEST NORTHWEST PORTFOLIO COMPANY LOCATIONS[47]

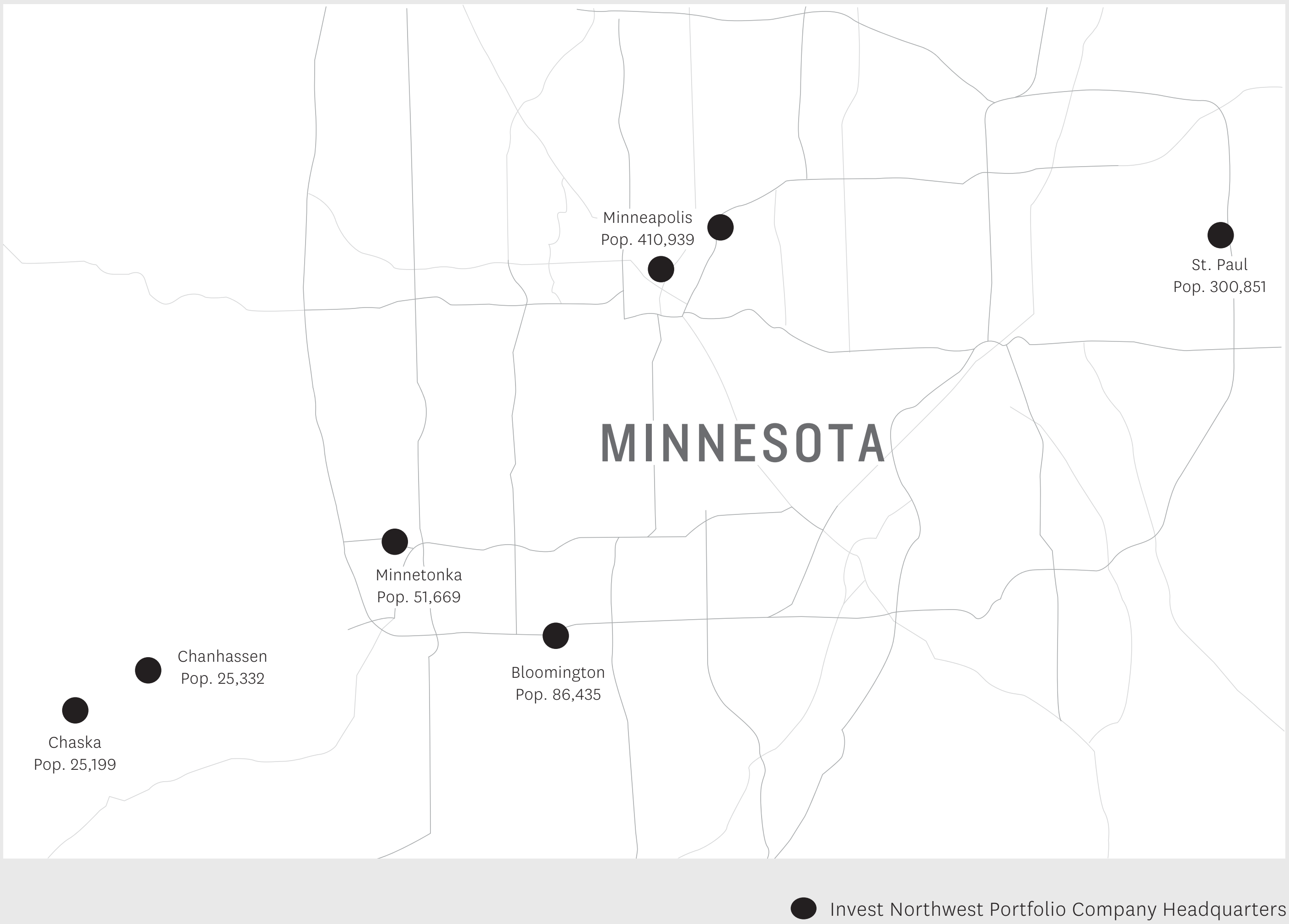


Invest Northwest Eight-State Region

Invest Northwest Portfolio Company Headquarters

APPENDIX C

INVEST NORTHWEST PORTFOLIO COMPANY LOCATIONS[48]



ENDNOTES

[1] Number of jobs supported increases as companies enter the portfolio and decreases as companies exit the portfolio

[2] Bureau of Labor Statistics (change measured from 12/07–12/15) Employment Statistics, National Population Survey

[3] U.S. benchmark is derived from data from the Bureau of Labor Statistics, Occupational Employment Statistics

[4] The MIT calculations account for the presence or absence of children in the household, in part by including or excluding child care expenses. MIT also includes expenditures for medical costs (such as insurance copays) in its calculations. MIT's living wage data became available at the county level in 2011 and can be found here: http://livingwage.mit.edu/

[5] U.S. Benchmark data from the National Compensation Survey: Employee Benefits in Private Industry in the U.S., 2006-2015

[6] Ibid.

[7] Thompson Reuters U.S. Private Equity Investments dataset, 2002-2012

[8] For the purposes of this analysis, small towns are defined as having fewer than 20,000 residents

[9] US Census 2010. Summary File 1, urban and rural file. The Census Bureau's urban areas represent densely developed territory and encompass residential, commercial, and other nonresidential urban land uses. The Census Bureau identifies two types of urban areas: "urbanized areas" of 50,000 or more people and "urban clusters" of at least 2,500 and less than 50,000 people. "Rural" encompasses all population, housing and territory, not included within an urban area

[10] Northwest Area Foundation Mission Related Venture Capital Initiative Request for Proposal, September 2003

[11] In 2014 PCV InSight published *Invest Northwest: Eight-year Social Performance Review* that outlines our approach to impact measurement with Invest Northwest alongside eight years of social performance data. See: https://www.pacificcommunityventures.org/2015/07/28/invest-northwest-eight-year-social-performance-review/

[12] From "Economic Pulse: The Pacific Northwest – a special report; Northwest's Fortunes, Once Grim, Thrive Despite National Recession," released by the New York Times, March 14, 1991. http://www.nytimes.com/1991/03/14/us/economic-pulse-pacific-northwest-special-report-northwest-s-fortunes-once-grim.html?pagewanted=all

[13] From "Economic Pulse:The Northwest; Rising Tide of the New Economy Recedes in the Pacific Northwest," released by the New York Times, March 3, 2003. http://www.nytimes.com/2003/03/03/us/economic-pulse-northwest-rising-tide-new-economy-recedes-pacific-northwest.html

[14] From "The Midwest Challenge: Matching Jobs with Education in the Post-Recession Economy," a report released by Georgetown University's Center on Education and the Workforce." https://www.luminafoundation.org/files/resources/the-midwest-challenge.pdf

[15] Thompson Reuters U.S. Private Equity Investments dataset, 2002-2012

[16] PRIs are below-market investments made to achieve specific program or mission objectives. Financial return is not a primary purpose of making a below-market mission investment. PRIs are eligible to count against the 5% payout ratio that foundations are required to make each year to retain their tax-exempt status. PRIs are defined by the IRS tax code. For more information on PRIs and MRIs see https://www.missioninvestors.org/node/7

[17] For more information on the Annie E. Casey Foundation's Social Investment Program (SI), see the report: Aligning Capital With Mission: Lessons from the Annie E. Casey Foundation's Social Investment Program; http://www.aecf.org/resources/aligning-capital-with-mission

[18] Bureau of Labor Statistics (change measured from 12/07–12/15) Employment Statistics, National Population Survey

[19] Job Growth or Loss Since Time of Investment tracks the number of jobs each portfolio company has added or lost since the date they received investment and aggregates these figures to reach a portfolio wide number. Portfolio companies enter the INW portfolio on different dates thus no definite timeframe can be assigned to INW Portfolio Job Growth or Loss Since Time of Investment. Job growth or loss since time of investment and annual job growth or loss is computed with IRIS metric ID (OI8869). v4.0 Permanent Employees.

[20] For companies that have exited the portfolio, we looked at the number of jobs created since the time of investment (when the companies completed a baseline survey) until the year of exit. For active portfolio companies, we calculated jobs created/lost since time of investment until the most recent year for which data was collected, that is, as of December 31, 2015.

ENDNOTES *(continued)*

[21]Number of jobs supported increases as companies enter the portfolio and decreases as companies exit the portfolio.

[22]Based on INW portfolio data from 2011-2015. Benchmark data from the Bureau of Labor Statistics (change measured from 12/11–12/15) Employment Statistics, National Population Survey

[23]See Article: “Part Time Jobs puts Millions in Poverty or Close to it”, by Patrick Gillespie, CNN Money, Published on November 20, 2014. http://money.cnn.com/2014/11/20/news/economy/america-part-time-jobs-poverty/

[24]Ibid.

[25]Companies were designated to various industry categories using the following methodology: Each company’s NAICS (North American Industry Classification System) Code was obtained, and then the company was classified into a specific industry category on the basis of its NAICS Code, using data available on the US Census Bureau’s NAICS webpage. The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. http://www.census.gov/eos/www/naics/

[26]IRIS, 2016. Permanent Employee Wages: Total (OI9677). v4.0. https://iris.thegiin.org/metric/4.0/OI9677

[27]U.S. benchmark is derived from data from the Bureau of Labor Statistics, Occupational Employment Statistics

[28]Ibid.

[29]The MIT calculations account for the presence or absence of children in the household, in part by including or excluding child care expenses. MIT also includes expenditures for medical costs (such as insurance copays) in its calculations. MIT’s living wage data is available at the county level, and can be found here: http://livingwage.mit.edu/

[30]See: Annual Impact Investor Survey 2016, The Global Impact Investing Network https://thegiin.org/assets/2016%20GIIN%20Annual%20Impact%20Investor%20Survey_Web.pdf

[31]See: https://iris.thegiin.org/

[32]Invest Northwest’s impact measurement and reporting seeks to mirror traditional financial reporting by utilizing longitudinal data to reflect performance over time, comparisons to a baseline and external benchmarks, disclosure of calculations, methodologies, and definitions, and timely release and update of information. In 2014 PCV InSight published Invest Northwest: Eight-year Social Performance Review that outlines our approach to impact measurement with Invest Northwest alongside eight years of social performance data. See: https://www.pacificcommunityventures.org/2015/07/28/invest-northwest-eight-year-social-performance-review/

[33]See: https://www.pacificcommunityventures.org/2016/04/14/defining-and-measuring-the-creation-of-quality-jobs/

[34]10-year average, http://www.bls.gov/ncs/ncspubs.htm

[35]U.S. Benchmark data from the National Compensation Survey: Employee Benefits in Private Industry in the U.S., 2006-2015

[36]Enrollment rates were reported in intervals of 0-25%, 25-50%, 50-75%, and 75-100% of employees enrolled. A weighted average was calculated to estimate the 10-year average for all INW employees.

[37]Represents weighted average of salaried and hourly employees’ enrollment rates

[38]U.S. Benchmark data from the National Compensation Survey: Employee Benefits in Private Industry in the U.S., 2006-2015

[39]U.S. Benchmark data from the National Compensation Survey: Employee Benefits in Private Industry in the U.S., 2006-2015. The National Compensation Survey does not report on benefit rates for salaried vs. hourly employees, instead separates employees into wage percentiles. Hourly or non-salaried employees are assumed to inhabit the lowest 25th percentile of wages and salaried employees are assumed to be in the 75th percentile of wages.

[40]Ibid.

[41]Ibid.

[42]Thompson Reuters U.S. Private Equity Investments dataset, 2002-2012

ENDNOTES *(continued)*

[43]Low- to moderate-income communities are generally defined as meeting at least one of the following criteria:

- The median income is at or below 80% of the area median income.
- At least 20% of the population meets the federal definition of poverty.
- The unemployment rate is at least 1.5 times the national average.

[44]An employed individual living in an LMI census tract is based on data from the U.S. Census Bureau American Community Survey

[45]These employees both earn an LMI wage and live in an LMI area. These workers earn less than 80% of the MFI for the MSA of residence and live in a zip code that overlaps a census tract where the median income is less than 80% of the area median income.

[46]See: https://thegiin.org/impact-investing/need-to-know/#s8

[47]Population Estimates Source: American FactFinder, U.S. Census Bureau, 2015 Population Estimates (As of July 1, 2015)

[48]Ibid.

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51 Federal Street, San Francisco, CA 94107 • PH 415.442.4300
E-MAIL info@pcvmail.org • www.pacificcommunityventures.org