

A PCV INSIGHT PUBLICATION

INSIGHT   
AT PACIFIC COMMUNITY VENTURES

# INVEST NORTHWEST

Eight-year Social Performance Review

A Comprehensive Case Study on the Impact of a Northwest Area  
Foundation Mission-Related Investment

**SEPTEMBER 2014**

InSight at Pacific Community Ventures



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## About PCV InSight

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PCV InSight ([www.pacificcommunityventures.org/research](http://www.pacificcommunityventures.org/research)) is the impact evaluation and research 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 underserved markets. PCV InSight's work has provided the basis for national policy initiatives, including the White House Impact Economy Forum. PCV InSight clients include the California Public Employees' Retirement System (CalPERS), The Rockefeller Foundation, The Omidyar Network, Community Capital Fund, PG&E, Hamilton Lane, Neighborhood National Bank, Macquarie Funds Management, 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 \$25 billion of institutional investments, across asset classes.



PCV InSight's research on Invest Northwest over the past eight years has been financially supported by the Northwest Area Foundation and the Annie E. Casey Foundation.



## EXECUTIVE SUMMARY

Invest Northwest – a mission-related private equity investment established by the Northwest Area Foundation (NWAFF) in 2004 – has delivered consistent social impact since inception, including through:

- > Strong job growth;
- > Steady increases in annual median wages in most years;
- > Higher employee wages than at other private businesses nationally and regionally;
- > Generous health and retirement benefits offered at higher rates than private businesses nationally;
- > Opportunities for upward mobility through both formal and informal training.

Select IRIS metrics highlighting the social performance of the Invest Northwest portfolio over eight years are summarized in the table below:

TABLE 1: Invest Northwest Portfolio Social Outcomes								
	12/31/06	12/31/07	3/31/09	3/31/10	3/31/11	12/31/11	12/31/12	12/31/13
<b>Number of Active INW Portfolio Companies</b>	10	11	12	12	14	15	13	11
<b>Job Growth or Loss Since Time of Investment</b>	21%	23%	-9%	10%	28%	14%	24%	22%
<b>Annual Job Growth or Loss</b>	n/a	3%	-34%	22%	19%	-10%	3%	-1%
<b>Annual INW Portfolio Median Wage Growth or Loss</b>	n/a	15%	9%	6%	22%	-14%	2%	3%
<b>Percentage of Companies Offering Healthcare Benefits to Hourly Employees</b>	90%	91%	92%	100%	100%	100%	92%	91%
<b>Percentage of Companies Offering Retirement Benefits to Hourly Employees</b>	100%	100%	100%	100%	100%	100%	92%	91%

NOTE: The above metrics leverage the Impact Reporting & Investment Standards (IRIS). IRIS creates a common language for reporting social and environmental performance. The following IRIS metrics were used for tracking and analyzing the social outcomes of the Invest Northwest portfolio: (P11914) Equity Portfolio Outstanding - Number of Investments, (O12742) Employment Benefits, and metrics computed from changes in (O18869) Permanent Employees, and (O19677) Permanent Employee Wages across different time periods.

At the same time, the social outcomes of Invest Northwest have been consistent with the manner in which companies grow and develop – illustrating both the opportunities and challenges in seeking impact through private equity investment. Specifically, targeting underserved communities in the eight-state region was *not* an explicit objective of INW. Not surprisingly, INW’s portfolio companies have largely been located outside the most rural, disadvantaged, or racially diverse areas. Similarly, while the eight-state region has provided a sufficient market opportunity in which to make all of the fund’s investments – an important lesson and achievement in its own right – the economic imperatives that each company faces has led two companies to relocate outside the area, diminishing the social benefits that have accrued locally.

In sum, the eight-state region is a place where poverty is less pervasive and more evenly disbursed, making it more difficult to achieve highly targeted impacts through an equity-based MRI program (e.g. for low-income or high-poverty populations). Yet the social impacts generated by Invest Northwest are measurable, meaningful, and provide an invaluable reference for other Limited Partners, General Partners, and related stakeholders, both for designing and implementing a geographically-focused MRI program, and for tracking social impacts using rigorous methods that resemble traditional financial reporting.

## INTRODUCTION

### Overview

Invest Northwest was established in August 2004 with the twin objectives of realizing “significant social returns and a 15 percent internal rate of return.”<sup>1</sup> As the founding investor, NWAF invested \$10 million in Invest Northwest and contracted with Invest America to manage the funds. Several other investors, including The Annie E. Casey Foundation, RAIN Source Capital, and Wells Fargo Community Development Corporation also invested in Invest Northwest, bringing the fund to \$15.3 million. The first Invest Northwest investment was completed in November of 2004 and to date 20 companies have received investment with nine company exits. NWAF engaged InSight at Pacific Community Ventures to develop and implement a comprehensive system to measure and provide detailed reports on the social impact of the fund; research that has also been supported by the Annie E. Casey Foundation.

Invest Northwest is directly aligned with NWAF’s mission of seeking to reduce poverty and promote sustainable prosperity in the communities of its 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.

TABLE 2: Invest Northwest - Quick Facts

YEAR OF INCEPTION	2004
INVESTMENT TYPE	Mission-Related Private Equity Investment
ASSETS UNDER MANAGEMENT	\$15.3 million
FUND MANAGER	InvestAmerica NW, LLC
FOUNDING INVESTOR	The Northwest Area Foundation - \$10 million
OTHER INVESTORS	Wells Fargo Community Development Corporation – \$3.45 M The Annie E. Casey Foundation – \$1.5 M RAIN Source Capital – \$250k InvestAmerica – \$150k
COMPANIES RECEIVING INVESTMENT	20
ACTIVE INVESTMENTS AT DECEMBER 31, 2013	11
COMPANY EXITS	9

### NWAF, INVEST NORTHWEST AND MISSION-RELATED INVESTING

NWAF's investment in Invest Northwest is a mission-related investment (MRI). It explicitly seeks to further the foundation's mission while earning a competitive financial return.

NWAF created its mission-related investing and program-related investing initiatives in hopes of supporting a self-reinforcing framework that aligns its asset management and grant making while sustaining additional financial resources for achieving its mission.<sup>2</sup>

In the RFP seeking a manager for Invest Northwest, NWAF outlined five important beliefs that describe the intended social impacts NWAF hoped to achieve through Invest Northwest. NWAF asserted that:<sup>3</sup>

- Equity capital is vital to the success and growth of small businesses;
- Equity capital is scarce and is needed across the region to allow businesses to expand – creating jobs and productive wealth in communities;
- Companies receiving equity would provide substantial financial returns and also create jobs that pay livable wages and 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.

### INVEST NORTHWEST INVESTMENT STRATEGY

Invest Northwest seeks to achieve a market rate of return through a strategy of investing in later stage companies with established products, services, and markets. Investment in later stage companies provides Invest Northwest with a lower risk profile while simultaneously providing significant opportunities for positive social outcomes and financial performance, according to the fund's manager. Invest Northwest also invests capital in a smaller number of growth opportunities or earlier stage companies it believes will produce positive social and financial results.

Invest Northwest generally targets manufacturing, service, distribution, and technology companies with \$10 million – \$50 million in sales. The median initial investment for the current group of portfolio companies is \$500,000 and the average investment is \$498,427.

Together with the Annie E. Casey Foundation, NWAF is committed to tracking the impacts of investments, dedicating significant resources to the effort, and argues this enables the foundation to understand what works and what doesn't within their set of investments and how they can most effectively leverage capital to further their mission.

*Invest Northwest funds are deployed by InvestAmerica, a private equity fund management group based within the eight-state region that has provided financing of over \$100,000,000 to more than 120 companies since inception, in 1985.<sup>4</sup> InvestAmerica was selected by NWAF to manage Invest Northwest given the firm's successful track record and offices and investment history in the eight-state region. InvestAmerica produces quarterly reports on the financial performance of Invest Northwest and meets quarterly with NWAF to review the financial performance of each individual portfolio company.*



## THE INVEST NORTHWEST PORTFOLIO

The Invest Northwest (INW) portfolio includes a total of 11 companies in operation as of December 31, 2013, employing 735 workers. INW portfolio companies range in size from 25 employees to 141 employees. INW portfolio companies are also located in different settings, some within small towns and others in large metropolitan centers.

Invest Northwest’s investments have enabled portfolio companies to increase their workforce, creating quality, full-time, salaried jobs with benefits that enable area residents to improve their lives.

A map depicting the locations of INW portfolio company headquarters and facilities across the eight-state region is below. More detailed individual maps showcasing headquarters location and company size alongside the characteristics of the communities where companies are headquartered are included in the appendix.

TOTAL ACTIVE PORTFOLIO COMPANIES	11
PORTFOLIO COMPANIES IN THE EIGHT-STATE REGION	10
PORTFOLIO COMPANIES LOCATED WITHIN RURAL COMMUNITIES <sup>5</sup>	3
PORTFOLIO COMPANIES LOCATED WITHIN LOW - TO MODERATE - INCOME COMMUNITIES <sup>6</sup>	3
PORTFOLIO COMPANIES IN COMMUNITIES WITH HIGH LEVELS OF UNEMPLOYMENT <sup>7</sup>	3

## INVEST NORTHWEST EIGHT-STATE REGION



The INW portfolio has invested in a total of 20 companies from a diverse set of industries. The 11 companies currently within the INW portfolio and their initial investment amounts are described in the table below:

TABLE 4:	
Company Description	Initial Investment Amount
An online outdoor sports and retail company with sales of premium outdoor clothing and gear from more than 290 brands.	\$250,000
A national supplier of steel containers, manufacturing high grade steel products for over 100 years, including steel cans, tubs, ovals, pails and watering cans.	\$420,012
Producer of industrial, commercial, fire-rated, aviation and specialty door solutions.	\$439,536
An online company enabling access to independent service technicians providing field services for leading electronics manufacturers, resellers and service providers.	\$190,000
A producer, designer, and engineer of wood kitchen cabinet accessories and cabinet doors.	\$506,754
An employment focused media company that assists businesses with hiring and recruitment of employees.	\$500,000
A developer and provider of software products and services for information systems in order to optimize real-time operations for complex manufacturing and other businesses.	\$500,926
Provider of electronic products with encrypted voice, data, security, and video technologies.	\$500,000
A spinal injury and reconstructive medical device company.	\$300,000
A manufacturer of smart buildings that provide shelter and transmission capability for electronic equipment and components of cell phone and other communication towers.	\$1,000,474
An herb farm and laboratory that produces and sells liquid herbal extracts while educating clients on medicinal herbs.	\$875,000

NOTE: Initial Investment Amount does not reflect any follow-on investments.

## SOCIAL OUTCOMES OF THE INVEST NORTHWEST PORTFOLIO

Eight years of social outcomes data collection, analysis and reporting for Invest Northwest is presented in the following sections. Social outcomes data is aggregated from active portfolio companies in order to measure the non-financial performance of the INW portfolio across time. The social outcomes data leverages IRIS metrics. IRIS, an initiative of the Global Impact Investing Network, assists fund managers and investors through the creation of a common language for reporting social and environmental performance. The particular IRIS metrics employed in the analysis of social outcomes data are indicated in the sections below.

### EMPLOYMENT AND EMPLOYMENT GROWTH

The INW portfolio has added a significant number of jobs, with 22 percent employment growth since the time of investment (when each company completed a baseline survey), compared to employment changes of -0.4 percent and 1.1 percent in the United States and the eight-state region, respectively, between December 2007 and December 2013.<sup>8</sup>

The -1 percent dip in total jobs in the INW portfolio from 2012 to 2013 was due largely to a reduction in headcount at one portfolio company captured in year-end 2013 data prior to filing for Chapter 11 bankruptcy in January 2014. During the same period the U.S. private sector experienced 2.1 percent employment growth.<sup>9</sup>

While job growth has been impressive, the INW portfolio did suffer from the effects of the recent recession. In 2009, the portfolio sustained large job losses, with a 34 percent annual decrease in employment, before rebounding the following year. The portfolio also reported decreased employment in 2011, although this can be attributed to the change in date of data collection from March 31 to December 31 and the seasonal employment characteristics of a single portfolio company that has since exited the portfolio, illustrating the influence of chosen research methods in the tracking and reporting of impact.

TABLE 5: Invest Northwest Employment Growth Over Eight Years

	12/31/06	12/31/07	3/31/09	3/31/10	3/31/11	12/31/11	12/31/12	12/31/13
<b>INW Portfolio Job Growth or Loss Since Time of Investment*</b>	21%	23%	-9%	10%	28%	14%	24%	22%
<b>INW Portfolio Annual Job Growth or Loss</b>	n/a	3%	-34%	22%	19%	-10%	3%	-1%
<b>Annual Job Growth or Loss in the Eight-State Region</b>	n/a	1%	-4%	-2%	1%	1%	2%	2%
<b>Annual Job Growth or Loss in the U.S.</b>	n/a	1%	-5%	-2%	2%	1%	2%	2%

NOTE: 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 (O1886) Permanent Employees.



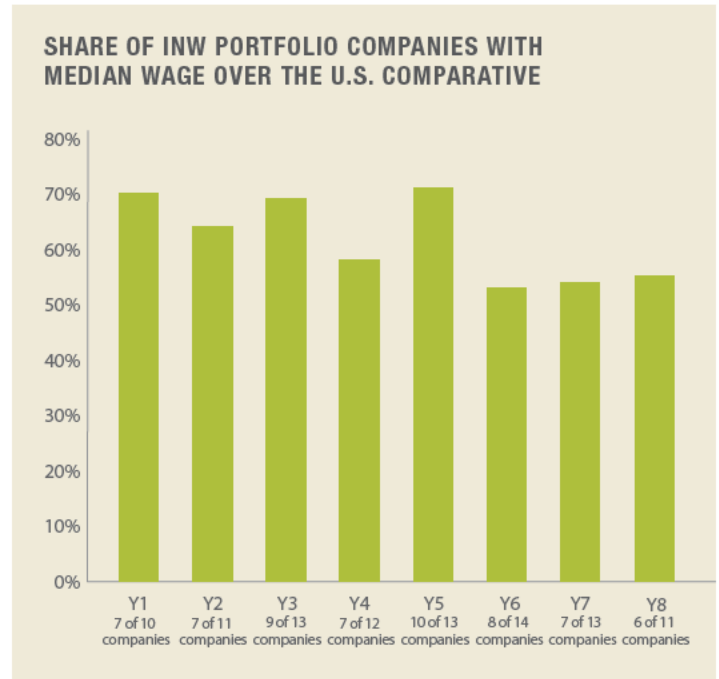
**EMPLOYEE WAGES**

Employee wages are tracked annually for the INW portfolio using IRIS metrics.<sup>10</sup> Since its inception the INW portfolio has paid higher wages than private businesses nationally, although since 2011, the extent to which the INW portfolio has exceeded national benchmarks has diminished.

TABLE 6: Employee Wages								
	12/31/06	12/31/07	3/31/09	3/31/10	3/31/11	12/31/11	12/31/12	12/31/13
<b>INW Portfolio Median Wage</b>	\$31,200	\$32,729	\$38,396	\$38,672	\$41,395	\$38,902	\$36,099	\$37,238
<b>U.S. BLS Median Wage</b>	\$30,389	\$31,410	\$32,390	\$33,190	\$33,840	\$34,460	\$34,750	\$35,080

This chart shows the percentage of portfolio companies in each year that have provided a greater median wage than the U.S. Bureau of Labor Statistics annual median wage. In each year, a majority of INW portfolio companies have offered a median wage outpacing U.S. private businesses.<sup>11</sup>

INW portfolio company wages compare favorably to benchmarks for living and average wages in analogous geographic locations, but also illustrate the difficulties for employees at the type of smaller private sector employers in the INW portfolio in providing the level of income necessary to support a family's overall needs. Of all INW portfolio company employees, 100 percent earn more than the living wage required to support one adult with no children and 61 percent earn more than the living wage required to support two adults with no children.



Living wage comparisons use the Massachusetts Institute of Technology (MIT) Poverty in America project living wage database by examining the municipality where each INW portfolio company is located and comparing each employee's wage against the living wage for the company's particular location.<sup>12</sup> The results of these comparisons are shown in Table 7.

**TABLE 7: Percentage of Employees Earning at or Above the Massachusetts Institute of Technology (MIT) Poverty in America living wage<sup>13</sup>**

<b>LIVING WAGE FOR ONE ADULT</b>	100%
<b>LIVING WAGE FOR TWO ADULTS</b>	61%
<b>LIVING WAGE FOR ONE ADULT AND ONE CHILD</b>	44%

## JOB QUALITY

In addition to supporting living wage jobs, Invest Northwest was created to support companies that offer health and retirement benefits and opportunities for upward mobility.<sup>14</sup>

**TABLE 8: Retirement and Healthcare Benefits in the INW Portfolio Over Time**

	12/31/06	12/31/07	3/31/09	3/31/10	3/31/11	12/31/11	12/31/12	12/31/13
<b>% of Companies Offering Healthcare Benefits to Hourly Employees<sup>1</sup></b>	90%	91%	92%	100%	100%	100%	92%	91%
<b>Average % of Premium Paid<sup>2</sup></b>	80%	77%	77%	76%	82%	79%	77%	79%
<b>% of Companies Offering Retirement Benefits to Hourly Employees<sup>3</sup></b>	100%	100%	100%	100%	100%	100%	92%	91%

<sup>1</sup> IRIS, 2013. (OI2742) Employment Benefits. v.2.2

<sup>2</sup> IRIS, 2013. (OI1503) Healthcare Benefits Premium Covered. v.2.2

<sup>3</sup> IRIS, 2013. (OI2742) Employment Benefits. v.2.2

Eligibility and enrollment rates at INW portfolio companies are generally higher than U.S. averages. Eighty-eight percent of INW salaried employees and 86% of hourly employees are eligible for health insurance, compared to 93% of salaried and 34% of hourly employees in the U.S.<sup>15</sup> At mid-range, 85% of salaried and 56% of hourly employees are enrolled in a health insurance program. Nationwide, 72% of salaried and 20% of hourly workers are enrolled in employer-sponsored health insurance plans.<sup>16</sup> As with healthcare benefits, INW portfolio companies offer retirement benefits at a similar or higher rate than U.S. companies. 100% of INW portfolio companies offer retirement benefits to at least a portion of their salaried employees. Only one INW portfolio company does not offer healthcare benefits to at least a portion of its hourly employees.<sup>17</sup> Approximately 64% of all U.S. workers have access to a retirement plan and 49% of workers participate.<sup>18</sup> Eighty-six percent of salaried INW employees and 72% of hourly workers are eligible for retirement benefits. Notably, INW companies outpace U.S. private companies in the percentage of hourly employees eligible for the 401(k) plan (72% compared to 38% for the U.S.)

Most training at INW portfolio companies occurs within the first quarter after an employee is hired with 45% providing over 10 hours of formal training and 27% providing over 25 hours.



### PRESENCE IN THE EIGHT-STATE REGION

The INW portfolio was created to provide capital to companies that retain and create jobs within the eight-state region. Since inception, all Invest Northwest portfolio investments have been made in companies headquartered and with significant operations in the eight-state region.

Over time, however, business and economic realities have diminished this achievement, with two INW portfolio companies relocating outside the eight-state region. One company relocated in an effort to attract new management as candidates had been unwilling to move their families to the small town where the firm was headquartered. By relocating to a more populous area, the company was able to successfully recruit new leadership. The second portfolio company consolidated operations and relocated its headquarters to an existing facility outside the eight-state region following the loss of a key customer during the economic downturn.

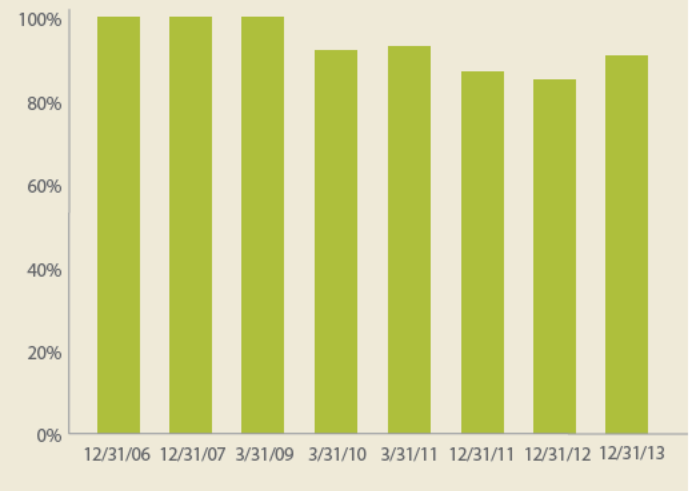
Though the percentage of companies headquartered in the eight-state region rose to 91% in 2013 from 85% in 2012, this was due to the 2013 exit of one of the companies located outside of the region.

This chart plots the percentage of companies headquartered within the eight-state region over eight years of data collection.

### THE INVEST NORTHWEST PORTFOLIO IN DIVERSE COMMUNITIES

The eight-state region is less diverse than the nation as a whole, with a non-white population of 13 percent versus 25 percent across the U.S.<sup>19</sup> Due to the smaller size of INW portfolio companies, most are not required to track employee race and ethnicity.<sup>20</sup> PCV InSight analyzed diversity by examining the racial and ethnic make-up of the NWAF eight-state region using the U.S. Diversity Index.<sup>21</sup> INW companies are located in relatively more diverse communities. Eight of the 11 (73%) companies are headquartered in a county with a diversity index greater than the median index of the counties in the eight-state region. Of all INW portfolio employees, 49 percent live in a community that has a higher diversity index than the median diversity index for counties in the eight-state region.

**INW PORTFOLIO COMPANY HEADQUARTERS IN THE EIGHT-STATE REGION**



### THE INVEST NORTHWEST PORTFOLIO IN DISADVANTAGED COMMUNITIES

The social impacts of INW portfolio companies are impressive – including job growth, higher wages than regional comparables, and excellent health and retirement benefits – but have not been centered within the most disadvantaged communities across the eight-state region.

Three of the 11 active INW portfolio companies are headquartered, and 29 percent of employees reside, within a low- to moderate-income (LMI) community.<sup>22</sup> These results can partly be explained by a lower proportion of LMI census tracts within the eight-state region (33%) than in the U.S. (46%).

It is important to note that Invest Northwest was not created with explicit investment guidelines for investing in especially diverse or disadvantaged communities, although the outcome is seen as desirable for NWAF and the Annie E. Casey Foundation. Where there are attractive investment opportunities in these communities, INW has pursued these as actively as in any other area.

### THE INVEST NORTHWEST PORTFOLIO IN SMALL TOWNS AND RURAL COMMUNITIES

Invest Northwest has invested in a total of six companies headquartered in communities with less than 20,000 residents since inception.

The companies receiving investment in these smaller towns and communities have grown significantly as a result of the infusion of additional capital at investment, with job growth since investment outpacing the overall INW portfolio for seven of the eight years data was collected. Most job growth occurred at these businesses during the period immediately following investment by INW, demonstrating that capital scarcity is an especially problematic barrier to the expansion of company operations in small towns.

TABLE 9: Job Growth Comparison: Portfolio Companies in Small Towns vs. Overall Portfolio

	12/31/06	12/31/07	3/31/09	3/31/10	3/31/11	12/31/11	12/31/12	12/31/13
<b>Job Growth or Loss Since Investment at INW Portfolio Companies in Small Towns</b>	73%	83%	16%	19%	20%	29%	32%	32%
<b>Job Growth or Loss Since Investment of the INW Portfolio Outside of Small Towns</b>	-7%	-7%	-28%	3%	31%	7%	16%	18%
<b>Annual Job Growth or Loss at INW Portfolio Companies in Small Towns</b>	—	6%	-36%	2%	-8%	11%	2%	0%
<b>Annual Job Growth or Loss of the INW Portfolio Outside of Small Towns</b>	—	-1%	-24%	48%	36%	-18%	4%	-1%

NOTE: For purposes of this analysis small towns are defined as having fewer than 20,000 residents

The INW portfolio has had a limited, yet growing, presence in entirely rural communities with at least one INW portfolio company each year, and two companies in 2013, headquartered in an entirely rural community with a population of less than 5,000 residents over the past eight years.<sup>23</sup> However, companies do hire from rural communities, with between 19 percent and 28 percent of the INW portfolio workforce in any one year coming from entirely rural communities, pointing to positive economic effects outside of the more urban areas where INW portfolio companies are headquartered.

InvestAmerica was also not explicitly required to target investments in rural areas or small towns. Again, Invest Northwest's presence within these communities is entirely a function of the availability of attractive investment opportunities with prospects for excellent financial and social returns.



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## Observations and Lessons Learned Managing the Invest Northwest Portfolio

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InvestAmerica has examined hundreds of investment opportunities across the eight-state region as fund manager to Invest Northwest, acquiring significant experience in mission-related investing. The following insights from InvestAmerica highlight lessons from this work.

### **INVESTMENT OPPORTUNITIES ARE RARE IN RURAL COMMUNITIES OR SMALL TOWNS AND POSE ADDITIONAL CHALLENGES**

Businesses tend to locate outside of small towns or rural communities in the eight-state region and gravitate towards larger regional centers with closer proximity to key suppliers, a larger base of workers, and access to important amenities such as education, retail, health, and financial services. The absence of these important services has the potential to constrain business growth and success. Companies may also encounter difficulties recruiting new management to these communities as candidates may be reluctant to relocate their families to a small town or rural area. Companies located in these communities may also find there are fewer buyers interested in purchasing their business for the same reasons.

### **REGIONAL CENTERS ARE FERTILE GROUND FOR INVESTMENT**

Regional centers have proven to be promising areas for finding attractive investment opportunities. Regional centers are communities with larger population centers (20,000-50,000 residents) and are typically located near a county seat that provides access to education (community colleges, technical schools, etc.), basic retail, financial services, and health services (e.g. a hospital). Regional centers provide employment opportunities for residents in town and from surrounding rural communities.

### **DEAL FLOW IN A CONSTRAINED GEOGRAPHY HINGES ON LOCAL PRESENCE AND KNOWLEDGE**

The eight-state region has a population of 20 million and thousands of businesses located throughout the area. However, without local knowledge, an understanding of the communities of the eight-state region, and local relationships and networks, it would be difficult to source a sufficient number of prospective deals in order to make an investment like INW successful. InvestAmerica has invested time, energy, and capital into the eight-state region and has identified deals through its local on-the-ground presence, history and experience in the region.

### **MANAGEMENT IS A KEY DETERMINANT IN THE SUCCESS OF INW PORTFOLIO COMPANY INVESTMENTS**

Strong INW portfolio company management has ensured that businesses have survived and thrived following the economic downturn and is an especially important determinant of success. InvestAmerica seeks strong management teams that are honest, compatible –through strong working relationships and an aligned set of goals – and have the ability and knowledge to position a company to be financially successful. The three companies that have failed in the INW portfolio have been deficient in one or more of these areas. The six companies that have succeeded have had strong management teams in place that have followed and met the goals established at investment, reaching a point of exit with good financial returns.

## CONCLUSION

Invest Northwest has met the impact objectives for the fund established by NWAF. Across eight years of measurement, Invest Northwest has benefitted the communities of Idaho, Iowa, Minnesota, Montana, North Dakota, Oregon, South Dakota, and Washington. The INW portfolio has delivered noteworthy social impacts including employment growth, steadily rising wages, and benefit levels that surpass regional and national benchmarks during a time when businesses nationwide have struggled to recover from the recent recession.

Much can be learned from Invest Northwest, including the manner in which social impact evaluation can be designed to replicate financial reporting. Few organizations currently collect, analyze, and report on a set of social outcomes data that is as comprehensive as INW's; a practice made possible through the support of especially committed investors like NWAF and the Annie E. Casey Foundation.

Key observations and findings over the past eight years of analysis of the INW portfolio include:

- > Infusion of equity has been a valuable resource for INW portfolio companies and has facilitated growth in company operations, creating a significant number of new jobs.
- > The eight-state region is a sufficiently large market for generating investment opportunities, with InvestAmerica identifying and investing in 20 companies for the INW portfolio leveraging its local presence, networks, and long-standing relationships. PCV InSight research has demonstrated that, when a target geography for investment is defined too narrowly, deal flow and investable opportunities become more scarce, jeopardizing the potential for achieving financial returns and social outcomes.
- > Achieving targeted social outcomes in communities that are especially diverse or underserved through private equity investment, while not an explicit objective of Invest Northwest, has been more difficult. Invest Northwest's strategy of investing in later stage companies has tended to favor more established markets that closely reflect the overarching socioeconomic characteristics of the eight-state region, which is less diverse and underserved than other parts of the U.S.
- > It is difficult to assign causality when analyzing Invest Northwest's investments and their particular social outcomes, including wage increases, benefit levels, opportunities for training, and employment growth. However in comparing the social impacts of the INW portfolio to the performance of the private sector more broadly, it is clear that access to capital has been a vital factor in the growth and expansion (and associated social benefits) of many INW portfolio companies.
- > Tracking of non-financial performance over time is especially important given the dynamic nature of business and the need for companies to respond to changing market conditions. Companies often move headquarters and operating locations, increase and decrease employment, or improve or trim benefit offerings, all within the course of a year. In order to best account for this flux and most accurately capture social outcomes, it is necessary to track impacts on a regular basis in order to understand and respond to the sustained social outcomes resulting from investment.



## ABOUT THIS RESEARCH

This white paper represents an important exercise in transparency, contributing concrete data to the field of impact investing<sup>24</sup> at a critical juncture, and building on companion projects focused on disclosure, including Impact Investing 2.0, an initiative led by PCV InSight alongside CASE at Duke University and ImpactAssets.<sup>25</sup> Utilizing longitudinal data from eight annual evaluations of the Invest Northwest portfolio this white paper is made possible by NWF's and the Annie E. Casey Foundation's continued commitment to rigorous and consistent impact evaluation. As with all research projects, the intention of the white paper is to raise as many questions in readers' minds as it answers. However, we hope that through sharing this white paper NWF's and the Annie E. Casey Foundation's approach to measurement through Invest Northwest can serve as a guide for others as they seek to track and measure impact.

## APPENDIX

1. Measurement of the Invest Northwest Portfolio
2. Invest Northwest Financial Performance
3. Maps - Invest Northwest Company Headquarters and Facility Locations

## MEASUREMENT OF THE INVEST NORTHWEST PORTFOLIO

For over eight years, PCV InSight has tracked the social outcomes of the INW portfolio through annual data collection and reporting efforts. PCV InSight utilizes Impact and Reporting Investment Standards (IRIS) metrics where possible. The reporting designed by PCV InSight 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. PCV InSight's reporting also provides important independent third-party verification to NAAF and the Annie E. Casey Foundation ensuring social impact results are unbiased and accurate.<sup>26</sup>

Measurement and reporting of the social outcomes of the INW portfolio is highly customized and leverages a decade of experience measuring non-financial performance of private equity investments.

PCV InSight's data collection and reporting utilizes one-time data reporting at time of investment and ongoing annual data collection. Data collection for INW portfolio companies is designed to be detailed yet practical and non-burdensome, capturing all necessary information for understanding social outcomes while being as non-intrusive as possible for the companies providing data.

Data reporting at time of investment includes company headquarters location and employee totals: salaried, non-salaried, full-time, and part-time. This subset of the reporting process is intended to create a baseline that can be compared against subsequent annual datasets by capturing the state of the company prior to it receiving investment. Comparison to baseline allows for examination of the company and portfolio both pre-investment and post-investment.

PCV InSight's annual data collection and reporting for Invest Northwest is comprised of a short annual survey in addition to a worksheet for companies to provide employee wage and residential zip code data. Wage and residence data is collected from companies for each individual employee. Through continued collection of data on the following metrics PCV InSight is able to analyze and report the social returns or social outcomes of the INW portfolio longitudinally:

- > Company headquarters location
- > Location of other company facilities
- > Employee totals, including those working within and outside the eight-state region
- > Number of full-time and part-time employees
- > Number of salaried and hourly employees
- > Benefits-description, eligibility, enrollment
  - Healthcare
  - Retirement
- > Opportunities for advancement/training
- > Community involvement
- > Alternative employment arrangements
  - Contracted Labor
  - Furloughs / reduced work hours

The review and analysis of social outcomes includes external benchmarks. These benchmarks utilize publicly available data from sources including, but not limited to, the United States Census Bureau, United States Bureau of Labor Statistics, and the Massachusetts Institute of Technology (MIT) Poverty in America project. Both national and regional benchmarks specific to the eight-state region and the communities in which INW portfolio companies reside are selected, allowing for targeted comparisons against Invest Northwest social outcomes data.

The final report describing the social outcomes of the INW portfolio is distributed annually to both NWAFF and the Annie E. Casey Foundation, the funders of this research. The report details all calculations, methodologies, and definitions ensuring the methods for analysis are completely transparent and replicable. Report findings are also presented annually before the NWAFF Investment Committee.

## INVEST NORTHWEST FINANCIAL PERFORMANCE

June 30, 2014

### INW, LP, FINANCIAL STATUS

#### 1. FUND LIFECYCLE STATUS

##### A. First Closing

August 17, 2004

##### B. Investment Period

August 17, 2004

To

February 28, 2012

##### C. Harvest Period

March 1, 2012

To

(i) September 2015 (End of Partnership)

(ii) Fund life may be extended by the General Partner for up to two one year periods.

#### 2. CAPITALIZATION SUMMARY – 6/30/14

##### A. Total Capital Committed by LPs and GP

\$15,353,535

##### B. Total Capital Contributed

\$13,135,153

##### C. Cumulative Distributions – 6/30/14

\$6,747,273 (51.4% of Contributed Capital)

##### D. Actual Distributions in 2014

June 18, 2014 - \$400,000

Total 2014 Actual Distributions \$400,000

Total Cumulative Actual Distributions \$6,747,273 (51.4% of Contributed Capital)



### 3. EXITS THROUGH JUNE 30, 2014

	Total Cash Invested (\$)	Total Cash Received (\$)	Net Cash (\$)	IRR
A. Company 1	777,379	16,600	(760,779)	n/a
B. Company 2	571,150	221,408	(349,742)	n/a
C. Company 3	264,000	548,145	284,145	26%
D. Company 4	840,000	28,208	(811,792)	n/a
E. Company 5	330,000	498,850	168,850	24%
F. Company 6	200,000	1,560,170	1,360,170	68%
G. Company 7	666,670	1,041,371	374,701	20%
H. Company 8	500,000	501,075	1,075	0.09%
I. Company 9	586,015	1,254,663	668,648	12%
J. Company 10	420,012	2,362,714	1,942,702	30%
K. Company 11	750,000	68,222	(681,778)	n/a
<b>TOTAL</b>	<b>5,905,226</b>	<b>8,101,426</b>	<b>2,196,200</b>	

### 4. EXITS EXPECTED BY DECEMBER 31, 2014

INW does not expect any further exits in 2014. Several profitable exits are anticipated in 2015.

### 5. FUTURE EXIT EXPECTATIONS

Assuming favorable exit metrics, 2015 could yield as many as two to four exits with the balance of the portfolio expected to exit by the end of 2017.

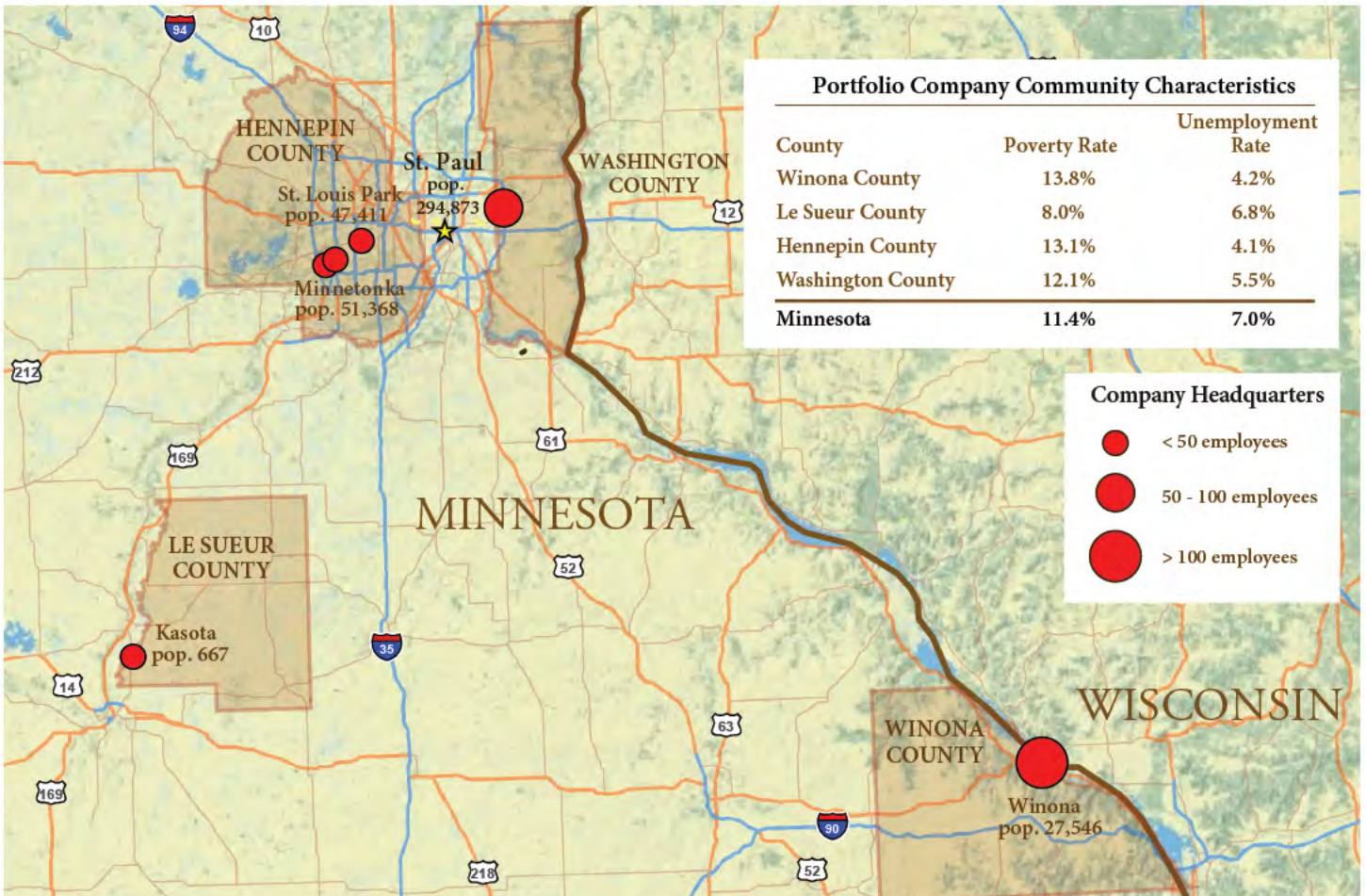
### 6. PORTFOLIO PERFORMANCE AND VALUE AT JUNE 30, 2014

As of June 30, 2014, eight of INW's nine operating portfolio companies continue to add value to INW, with one "watch list" company with continued weak performance. The portfolio was valued at \$5,972,729 on June 30, 2014.

# INVEST NORTHWEST EIGHT-STATE REGION

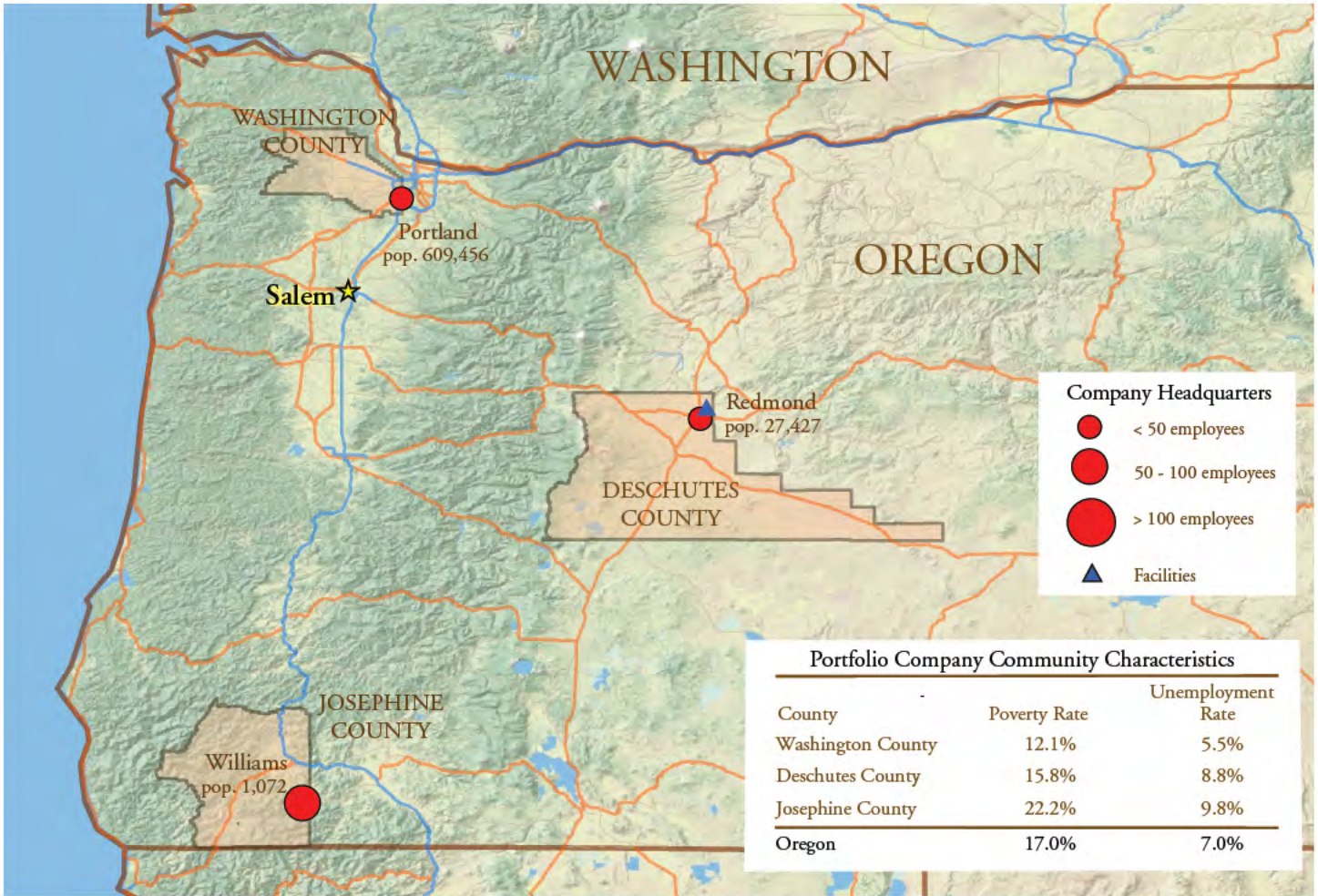


# INVEST NORTHWEST COMPANIES IN MINNESOTA



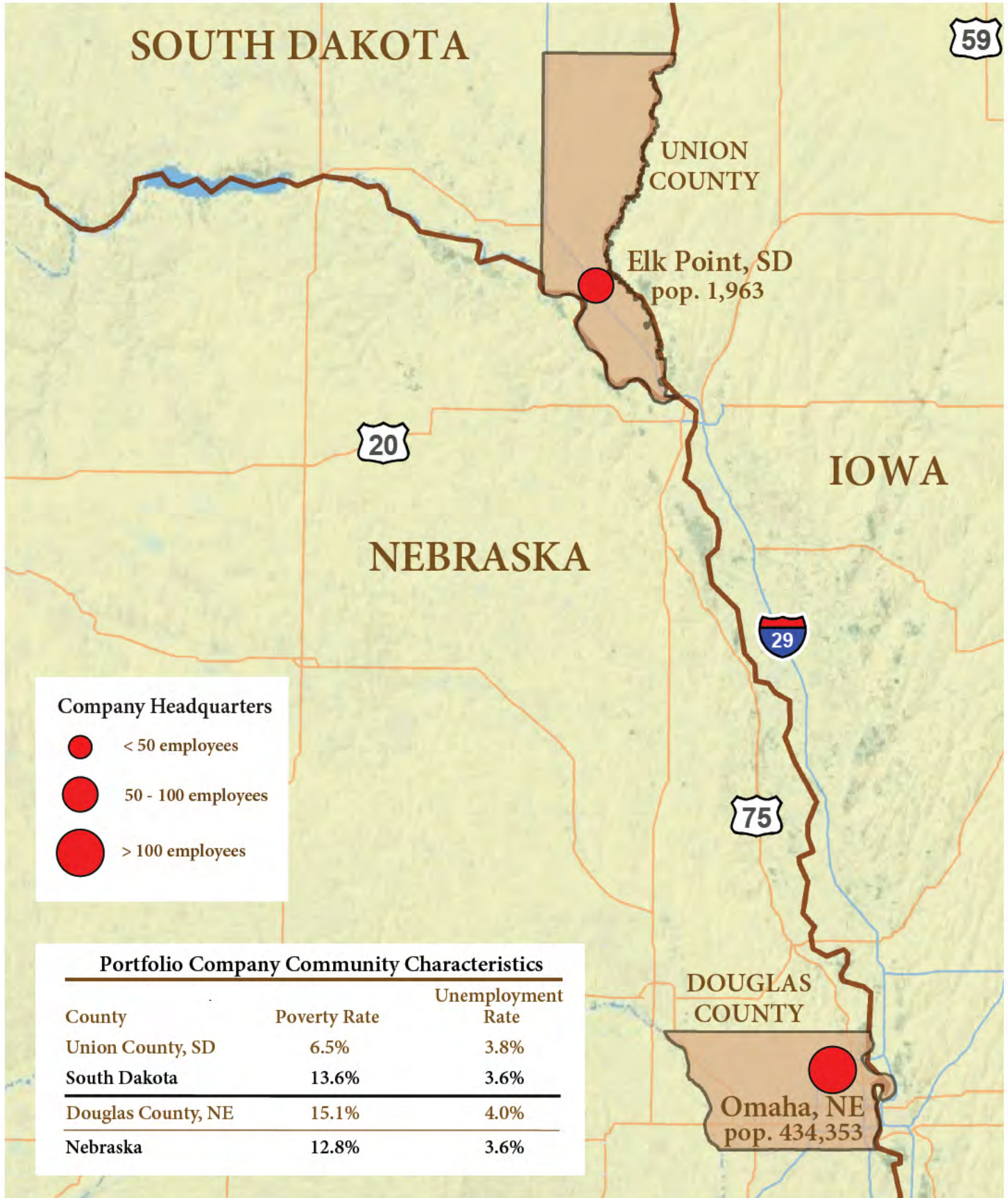


# INVEST NORTHWEST COMPANIES IN OREGON





# INVEST NORTHWEST COMPANIES IN AND NEAR SOUTH DAKOTA



## FOOTNOTES

- <sup>1</sup> A New Journey: Aligning Investment with Mission at the Northwest Area Foundation; NWAFF publication, page 4.
- <sup>2</sup> Ibid.
- <sup>3</sup> Northwest Area Foundation Mission Related Venture Capital Initiative Request for Proposal, September 2003.
- <sup>4</sup> <http://www.investamericaventure.com/funds/>
- <sup>5</sup> Three companies are located (27%) in zip codes that are over 50% rural based upon U.S. Census Bureau data. A rural community is defined as an area that encompasses all population, housing, and territory not included within an urban area. An urban area is defined as an area that comprises a densely settled core of census tracts and/or census blocks that meet minimum population density requirements, along with adjacent territory containing non-residential urban land uses as well as territory with low population density included to link outlying densely settled territory with the densely settled core. To qualify as an urban area, the territory identified according to criteria must encompass at least 2,500 people, at least 1,500 of which reside outside institutional group quarters.
- <sup>6</sup> Three of the 11 active portfolio companies (27%) are headquartered in a low- to moderate-income census tract. A census tract is defined as low- to moderate-income if the census tract's median family income is less than 80% of the area median family income. Federal Financial Institutions Examination Council. <http://www.ffiec.gov/>
- <sup>7</sup> Three INW portfolio companies are headquartered in counties where the unemployment rate is higher than the United States rate of 6.7%. Based on Bureau of Labor Statistics. December 2013. Unemployment Rate, National Population Survey.
- <sup>8</sup> Bureau of Labor Statistics (change measured from 12/07 – 12/13) Employment Statistics, National Population Survey.
- <sup>9</sup> Bureau of Labor Statistics (change measured from 12/11 – 12/13) Employment Statistics, National Population Survey.
- <sup>10</sup> IRIS metric ID OI9677 is used for tracking INW portfolio employee wages.
- <sup>11</sup> Bureau of Labor Statistics. May 2013. National Occupational Employment and Wage Estimates.
- <sup>12</sup> Each employee's wage is compared to the living wage for one adult with no children and one adult with one child in that employee's company location. The Massachusetts Institute of Technology (MIT) Poverty in America project calculates a "living wage," the income level at which a person can cover all expenses without making significant tradeoffs that compromise well-being. 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 co-pays) in its calculations. MIT's living wage data is available at the city/town level. See <http://livingwage.mit.edu/>
- <sup>13</sup> According to the Massachusetts Institute of Technology (MIT) Poverty in America project, the cost of housing and childcare for families with children exceeds all other expenses. This helps explain how the cost of supporting one adult and one child is greater than that of supporting two adults.
- <sup>14</sup> A New Journey: Aligning Investment with Mission at the Northwest Area Foundation; NWAFF publication.
- <sup>15</sup> National Compensation Survey: Employee Benefits in Private Industry in the U.S., March 2013 at <http://www.bls.gov/news.release/pdf/ebs2.pdf>
- <sup>16</sup> Ibid.
- <sup>17</sup> While all companies, but one, offer retirement benefits to both salaried and hourly employees, not all salaried or hourly employees at these companies may be offered benefits.
- <sup>18</sup> National Compensation Survey: Employee Benefits in Private Industry in the U.S., March 2013 at <http://www.bls.gov/news.release/pdf/ebs2.pdf>
- <sup>19</sup> Data from the 2010 U.S. Census. The population share that is white (87% for the eight-state region, 75% for the U.S.) considers the total number of people who reported White, whether or not they reported any other race. Thus, 13% of the eight-state region population and 25% of the U.S. population is considered non-white and did not report White as a race option.
- <sup>20</sup> Companies that have fewer than 100 employees are not required by the Federal Government to report on the race/ethnicity of its employees. U.S. Equal Employment Opportunity Commission, <http://www.eeoc.gov/employers/eo1survey/faq.cfm>.
- <sup>21</sup> The diversity index represents the likelihood that two persons, chosen at random from the same area, belong to different races or ethnic groups. The diversity index ranges from 0 (no diversity) to 100 (complete diversity). For example, the diversity score for the U.S. is 60, which means there is a 60 percent probability that two people randomly chosen from the U.S. population would belong to a different race or ethnic group. [http://goto.arcgisonline.com/maps/Demographics/USA\\_Diversity\\_Index](http://goto.arcgisonline.com/maps/Demographics/USA_Diversity_Index)
- <sup>22</sup> IRIS, 2013. (OI8266) Employees Residing in Low-Income Areas. v.2.2. An area is defined as Low- to Moderate-Income if it meets 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
- <sup>23</sup> US Census 2000 and 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.
- <sup>24</sup> Impact investments are investments made with the intention to generate a measurable social and environmental impact alongside a financial return.
- <sup>25</sup> The Impact Investing 2.0 project seeks to supplant the guess work and conjecture in impact investing with solid evidence of high performance and, in the process, expose the concrete practices of outstanding funds for use as a foundation for a more sophisticated and successful market. <http://www.pacificcommunityventures.org/impinv2/>
- <sup>26</sup> Ben Thornley & Colby Dailey, "Building Scale in Community Impact Investment through Nonfinancial Performance Measurement", Community Development Investment Review, December 2010, Federal Reserve Bank of San Francisco, [http://www.frbsf.org/community-development/files/Thornley\\_Dailey.pdf](http://www.frbsf.org/community-development/files/Thornley_Dailey.pdf)