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Positive Community Impact

Since its inception, St. Cloud Capital has believed that the proper alignment of interests within small businesses is vital for driving job creation, economic growth, and long-term value for our investors. We prioritize adoption of best practices including corporate governance at our portfolio companies and often recommend instituting broad-based stock programs. These thoughtfully constructed incentive plans promote an ownership culture beyond the traditional C-suite level.

Amidst the current challenging market conditions, we are seeing compelling opportunities. Traditional lenders have maintained a cautious stance in the market due to the first quarter’s Global Banking Crisis. All the while, rates have quickly reached heightened levels. This has enabled St. Cloud to create deal structures that meet the needs of growing small businesses.

We are excited to present our first annual impact report that highlights the Positive Community Impact approach we have had thus far with our fourth fund, St. Cloud Capital Partners IV SBIC, LP (“Fund IV”). This report illustrates our comprehensive impact strategy, including St. Cloud’s impact partnership activities. Additionally, we have included several case studies that showcase our commitment to aligning interests as well as impact screening.

We take our responsibility as investors, board members, and small business advocates seriously. We are delighted at this opportunity to share our vision for how we provide growth capital to small businesses in Underserved Communities (1) of the United States. Thank you for taking the time to learn about our approach.

Benjamin Hom
Managing Partner

Kacy Rozelle
Managing Partner

Robert Lautz
Managing Partner

“Our impact strategy is based off a long-standing best practice here at St. Cloud. While serving as a board member we recommend, where appropriate, the adoption of broad-based ownership – which parallels the well-established practice of granting equity to senior leadership.”

(1) Defined as companies located in LMI or SBA HUBZone areas; women, minority, or veteran owned/operated.
WHO WE ARE
And The Impact We Have Had

Since 2001, St. Cloud Capital has provided debt and equity growth capital to U.S. small businesses driving economic growth in Underserved Communities. St. Cloud has managed over $700 million across 77 portfolio companies. Our diverse team possesses investing and board experience through multiple economic cycles and across financial disciplines. St. Cloud’s investments cover a wide range of industries and reside in every layer of the capital structure. We typically invest in non-control situations, acting as both a financial and strategic partner to strong management teams and industry entrepreneurs in fulfilling their long-term growth plans.

Key Industries
- Healthcare Services
- Mission Critical Manufacturing
- Tech-Enabled Services
- Health & Wellness

Portfolio Companies
- Sight360
- STAT Health
- AERO Turbine Inc.
- ATOMICA
- AdvancedONE
- Jib
- LashCo
- orangetheory

Investment Approach
Financial Attributes
- Revenue of $10 - $150M
- EBITDA < $10M

Business Attributes
- Strong management team
- Recurring revenue
- Diverse customer base with high retention rates
- Defensible market position
- Headquarters in the U.S.

Investment Structure
Investment Size
- $5 - $20M per transaction

Structure
- Senior and subordinated debt
- Minority equity stake

Financial Attributes
- Growth capital
- Management and financial sponsor buyouts
- Generational ownership transfers
- Recapitalizations

Impact Partnerships

(1) Companies (i) with a controlling or non-controlling ownership stake from women, minorities, or veterans or (ii) that have at least one woman, minority, or veteran (WMV) among senior management, including board members.
Impact Mission & Principles

Creating Positive Community Impact

OUR MISSION
Inspires Us To Do More

St. Cloud Capital’s impact mission aims to achieve Positive Community Impact by providing growth capital to small businesses in Underserved Communities of the U.S., driving job creation and economic growth. Our mission includes:

Addressing the wealth gap prevalent in Underserved Communities across the United States by promoting access to skilled employment opportunities with total cash compensation that comparatively meets or exceeds the median household income in the company’s market area.

Advocating for best practices in corporate governance and incentives alignment with the goal of underwriting at least 30% of Fund IV’s investments that directly address our impact mission, known as Impact Covered Assets1.

Supporting Global Impact

In 2022, we joined as a signatory to The U.N.’s Principles for Responsible Investment. The U.N. Sustainable Development Goals (SDGs) most directly linked to St Cloud’s strategy include:

8) Decent Work and Economic Growth

10) Reduced Inequalities

OUR PRINCIPLES
Guide How We Approach Risk Management

Avoid Harm: We seek to avoid investments with companies whose products or services cause meaningful environmental or social harm.

Measure ESG Performance: We seek to measure changes in ESG performance over the course of an investment to guide future decisions while leveraging our position on the board of our portfolio companies to guide managers through the process.

Active Stakeholder Communication: We maintain an active dialogue with our stakeholders to incorporate relevant ESG risk factors in our processes.

Promote Positive Practices: We aim to promote positive environmental and social practices through our direct engagement with portfolio companies and further review such practices during our due diligence.

Transparency: We annually update our ESG activities and distribute our policy to stakeholders via our website.

1) Impact Covered Assets are investments that directly impact our theory of change and are aligned with the U.N. SDGs.
KEY PERFORMANCE INDICATORS
Quantify Our Impact Investment Outcomes

During diligence, St. Cloud’s investment professionals are responsible for underwriting the potential measurable impact of our investments and monitor the impact accordingly along the following key performance indicators:

Socially Disadvantaged Persons Hired.
People who have been subject to racial, ethnic, or cultural prejudice within American society stemming from circumstances beyond their control.

Gainful Jobs Created.
Individuals who have received training services.

Generational Net Worth Opportunity Available.
Benefits enjoyed by employees ranging from insurance to stock options.

5 DIMENSIONS OF IMPACT
Define What We Look For

We provide growth capital to small businesses with the aim to achieve a risk adjusted return in conjunction with the outcomes of increasing capital to Underserved Communities, developing quality jobs and building wealth through employee ownership.

Underserved Communities includes companies located in LMI or SBA HUBZone areas; women, minority, or veteran owned/operated.

We will measure the change from investment in absolute numbers, percentages, and ratios. This change will be benchmarked by industry, location, and other applicable standards.

St. Cloud will assess the increased contribution from their influence as board members, committee members, and investors in changes made by the companies in the identified areas of impact.

We acknowledge that there will be risks associated with achieving our intended impact and will regularly review our assumptions and receive feedback from stakeholders.

“By serving on the compensation committee, we advocate for the employees of our portfolio companies and give them the opportunity to own a part of the business that they help drive every day.”

Sheila Emami
Vice President

(1) Federal Financial Institutions Examination Council designates Low and Moderate Income (LMI) areas. Small Business Administration (SBA) designates Historically Underutilized Business Zone (HUBZone).
## Process Overview

**How We Deliver Impact Through Exit**

<table>
<thead>
<tr>
<th>Screening</th>
<th>Underwriting</th>
<th>Monitoring</th>
<th>Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Identify companies that overlap with our principles and values</td>
<td>▪ Administer questionnaires to management teams and existing owners of Impact Covered Assets</td>
<td>▪ Track impact monitoring statistics through semi-annual reporting data and collection software</td>
<td>▪ Publish impact case studies as a component of our broader exit evaluation process</td>
</tr>
<tr>
<td>▪ Avoid companies that demonstrate negative risk factors due to potential harm within society or the environment</td>
<td>▪ Evaluate adverse answers</td>
<td>▪ Integrate impact workflow into quarterly board packages</td>
<td>▪ Publish our annual Positive Community Impact report</td>
</tr>
<tr>
<td>▪ Escalate diligence when necessary</td>
<td>▪ Establish the Positive Community Impact theory of change and mitigants to adverse answers</td>
<td>▪ Leverage data insights for continual improvement</td>
<td></td>
</tr>
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</table>

## Impact Diligence Methodology

**Helps Us Evaluate Impact Risks**

Pursuant to our objective to avoid harmful investments, St. Cloud Capital utilizes an impact screening matrix to identify specific areas of concern. A negative screen comprises certain products, services, or operating procedures that signify potential harm. Positive screens demonstrate sustainability, maintain diversity, and promote best practices.

### Positive
- Underserved community involvement
- Shared incentive alignment
- Governance best practices

### Negative
- Destructive social catalysts
- Absence of worker safety and wellness
- Negligent oversight and resourcing

The following questions are a sample of the due diligence questionnaires provided to the management teams and owners of Impact Covered Assets:

- Has the Company ever been accused or proved to have violated applicable human rights?
- Does the Company have any unfair or unsafe labor practices?
- Does the Company have policies for anti-discrimination, diversity, & equal opportunities?
- Does the Company have an employee stock option plan in place or following St. Cloud’s investment?

St. Cloud’s underwriting includes an impact review. An impact review is completed based on a summary of how the business plan will meet underwriting standards for the Positive Community Impact thesis, a demographic overview of owners, managers, and employees, LMI locations served, SBA HUBZone locations, and hiring practices and average employee compensation at close.

(1) St. Cloud engaged BlueMark to independently verify the alignment of its impact management practices with the Operating Principles for Impact Management, an industry standard for integrating impact throughout the investment lifecycle. BlueMark’s assessment findings cover both areas of strength and areas for improvement, as reflected in the Verifier Statement.
St. Cloud Capital remains steadfast in engaging with its partner network of private capital investment funds, investors, banking partners, entrepreneurs, and community leaders to maintain its awareness of impact trends. This supports the early identification of investment opportunities in Undererved Communities and informs the allocation of firm resources to maximize impact.

CONTRIBUTING TO IMPACT RESEARCH
How impact objectives enhance financial performance

Featured in “Alpha in Impact” report
ICM’s “Alpha in Impact” report(1) outlines the ways in which impact objectives enhance financial performance using evidence from ICM member funds. Matt Smith illustrated St. Cloud Capital’s methodology of creating an employee stock option program and improving financial literacy at Pipeworks Studios. Matt emphasized how the alignment of incentives between entrepreneur-owners, managers, and employees led to the sustainable creation of enterprise value. This report demonstrates the effectiveness of St. Cloud’s impact framework and highlights the progress we have made in achieving our impact mission.

FACILITATING CAREER TRANSITIONS
Bridging the knowledge gap towards a civilian career

Created a military veteran internship
St. Cloud Capital hired its first military veteran intern in March 2020 which exposed it to the U.S. Army’s Career Skills and DoD Skillbridge programs. Beginning in 2023, St. Cloud now offers an off-cycle internship program that mentors and trains veterans prior to entering graduate school or joining the private sector. The intent for the internship is to provide a rich learning environment and networking opportunities in support of veterans acquiring fulfilling civilian careers. Making these investments in veterans brings St. Cloud closer to fulfilling its impact mission by connecting with and shaping the next generation of veteran business leaders.

“Throughout my professional career I have observed the value of the phrase, ‘run it like you own it.’ St. Cloud’s impact framework ensures that mentality is inculcated within our portfolio companies.”

Matt Smith
Managing Director

“As St. Cloud’s first military veteran intern, I was provided a high degree of access and responsibility which informed future decisions in business school and my civilian career.”

Christopher Collar
Associate

Impact In Action
Our Continued Efforts Towards Change

COACHING JUNIOR IMPACT PROFESSIONALS
How to plan a career in impact investing

Partnered with ICM’s Mosaic Fellowship
The Mosaic Fellowship provides graduate students from traditionally underrepresented backgrounds summer associate roles with ICM’s member funds. Cordell Gee connected for several weeks with one of ICM’s Mosaic Fellows last summer as a mentor to impart wisdom related to goal setting and career progression. Cordell and his mentee also discussed industry obstacles associated with their shared backgrounds and solutions to them. The Mosaic Fellowship provides St. Cloud Capital with the opportunity to invest in Underserved Communities and the next generation of impact investors through means beyond capital allocation.

“...program provided me an opportunity to help shape the next generation of impact investors and learn from a mentee with a different set of experiences from my own.”

Cordell Gee
Controller

GUIDING CLEAN TECH ENTREPRENEURS
How to navigate and access the debt capital markets

Taught at LACI/U.S. Bank Financial Series
Los Angeles Cleantech Incubator (LACI) fosters a green economy by supporting startups, advancing cleantech, facilitating partnerships, and educating communities. Sheila Emami joined LACI’s Women in Cleantech and U.S. Bank professionals to help guide cohort members in a discussion on “Accessing Capital: Debt vs Investment.” Sheila shared insights on debt financing, accessing small business loans, and establishing lines of capital. By collaborating with traditional lenders like U.S. Bank in helping to educate women founders and leaders involved in cleantech, St. Cloud Capital lays the foundation for future investments in Underserved Communities.
INFORMING INVESTMENT DECISIONS
Where are the consumer and retail sectors headed next

Contributed to Kayo’s Conference Series
Kayo’s Conference Series unites a community of women investors that network and communicate about deal flow, capital, industry knowledge and career issues. Sheila Emami joined a conference panel discussion focused on consumer and retail trends alongside fellow industry investors. Sheila shared with attendees why brick and mortar retail has retained relevance, drivers of customer lifetime value, the industry’s deal volume dynamics, and what investors can do to realize lasting returns. Kayo and similar organizations help inform St. Cloud Capital in its commitment to investing in small businesses owned or operated by women across the U.S.

ENGAGING VETERAN ENTREPRENEURS
Identifying how to invest in those who have served

Attended the West Point Entrepreneur Summit
The West Point Entrepreneur Summit brings together graduate entrepreneurs, business leaders, and investors across the globe to create new partnerships and opportunities. Chris Collar attended the conference which featured West Point alumnus and SoFi CEO Anthony Noto as the keynote speaker. Chris educated fellow alumni about St. Cloud Capital’s investment approach, developed relationships with veteran focused venture funds, and connected veteran entrepreneurs with proven business leaders in his network. St. Cloud’s continued involvement with West Point’s Association of Graduates helps ensure it remains at the forefront of investing in veteran owned or operated small businesses.
Since 2002, St. Cloud Capital’s established college internship program continues to develop, mentor, and train the next generation of diverse leaders in the financial services industry.

Diversity – 61%+ interns representing women, minorities or veterans

Breadth - 56 undergraduate and graduate students from a wide array of universities and majors

Internship Overview

College internships with St. Cloud provide rising juniors and seniors an opportunity to gain valuable hands-on experience in nearly every area of the firm’s business. Interns will work closely with St. Cloud’s investment and operational team to drive value within the organization. Specifically, interns will provide support in the following areas:

▪ Deal execution and detailed due diligence
▪ Portfolio management
▪ Client relationship database management
▪ Industry research
▪ Financial modeling
▪ Marketing and fundraising support

St. Cloud offers 8-12 week paid internships in the summer (full-time); and in the spring, fall and winter (part-time).

“Through rigorous training and mentorship, St. Cloud has supported my development from entry-level intern to a full-time analyst.”

Francisco Flores
Analyst
**Fund Overview**

**St. Cloud Capital Partners III SBIC, LP**

### Fund Metrics

- **2015**
  - Year Of Inception
- **26**
  - Total Portfolio Companies
- **$307.3M**
  - Total Capital Invested

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Healthcare Services</td>
<td>36%</td>
</tr>
<tr>
<td>Mission Critical</td>
<td>28%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>16%</td>
</tr>
<tr>
<td>Health &amp; Wellness</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
</tr>
<tr>
<td>Tech-Enabled Services</td>
<td></td>
</tr>
</tbody>
</table>

### Portfolio Spotlight

- **Aero Turbine**
  - A maintenance, repair, and overhaul service provider for military aircraft engines and engine components.

- **BigRentz**
  - Largest online marketplace for the equipment rental industry, facilitating equipment rentals across the U.S.

- **JibJab**
  - A leading independent provider of social expression content through branded satires, eCards, and messages.

- **LashCo**
  - A leading platform of branded beauty products focused on eyecare.

### Underserved Community Metrics

- **$264.8M**
  - Capital Invested In Underserved Communities
- **$167.7M**
  - Capital Invested In LMI Areas
- **$154.2M**
  - Capital Invested In WMV Owned/Op. Co.’s

**Aero Turbine Inc.**

**Pipeworks**

**Thrive Venture Group**

**St. Cloud Capital LLC**
**Fund Overview**

**St. Cloud Capital Partners IV SBIC, LP**

<table>
<thead>
<tr>
<th>Fund Metrics</th>
<th>Portfolio Spotlight</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2023</strong></td>
<td><strong>Atomica Corp.</strong></td>
</tr>
<tr>
<td>Year Of Inception</td>
<td>The largest micro-electronic-machine systems (MEMS) engineering service and foundry in the United States. MEMS are miniature chips, made using the techniques of microfabrication.</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td><strong>Sentinel Offender Services</strong></td>
</tr>
<tr>
<td>Total Portfolio Companies</td>
<td>A leading provider of electronic monitoring services and equipment to correctional agencies from the national to local levels.</td>
</tr>
<tr>
<td><strong>$40.8M</strong></td>
<td><strong>Clear Sight Partners</strong></td>
</tr>
<tr>
<td>Total Capital Invested</td>
<td>A leading, vertically integrated vision care provider consisting of 6 ophthalmology clinics, 1 surgery center, and 12 optical locations.</td>
</tr>
</tbody>
</table>

### Fund Metrics

- **Healthcare Services:** 33%
- **Mission Critical Manufacturing:** 33%
- **Tech-Enabled Services:** 33%

### Underserved Community Metrics

- **$40.8M** Capital Invested In Underserved Communities
- **$25.8M** Capital Invested In LMI Areas
- **$40.8M** Capital Invested In WMV Owned/Op. Co.’s