AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. HRG. 117–211

REVIEW OF THE SMALL BUSINESS INVESTMENT COMPANY PROGRAM

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

OF THE

UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

JUNE 9, 2021

Printed for the Committee on Small Business and Entrepreneurship



Available via the World Wide Web: http://www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
47–000 PDF WASHINGTON : 2022

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

ONE HUNDRED SEVENTEENTH CONGRESS

BENJAMIN L. CARDIN, Maryland, *Chairman*
RAND PAUL, Kentucky, *Ranking Member*

MARIA CANTWELL, Washington	MARCO RUBIO, Florida
JEANNE SHAHEEN, New Hampshire	JAMES E. RISCH, Idaho
EDWARD J. MARKEY, Massachusetts	TIM SCOTT, South Carolina
CORY A. BOOKER, New Jersey	JONI ERNST, Iowa
CHRISTOPHER A. COONS, Delaware	JAMES M. INHOFE, Oklahoma
MAZIE HIRONO, Hawaii	TODD YOUNG, Indiana
TAMMY DUCKWORTH, Illinois	JOHN KENNEDY, Louisiana
JACKY ROSEN, Nevada	JOSH HAWLEY, Missouri
JOHN HICKENLOOPER, Colorado	ROGER MARSHALL, Kansas

SEAN MOORE, *Democratic Staff Director*
WILLIAM HENDERSON, *Republican Staff Director*

C O N T E N T S

Opening Statements

	Page
Cardin, Hon. Benjamin L., Chairman, a U.S. Senator from Maryland	1

Witnesses

Wittelsberger, Mrs. Stacey R., Principal, Patriot Capital, Baltimore, MD	4
Rodriguez Simon, Mrs. Ivelisse, Managing Partner, Avante Capital Partners, Los Angeles, CA	13

Alphabetical Listing and Appendix Material Submitted

Cardin, Hon. Benjamin L.	
Opening statement	1
Rodriguez Simon, Mrs. Ivelisse	
Testimony	13
Prepared statement	15
Responses to questions submitted by Senators Hirono and Rubio	44
Wittelsberger, Mrs. Stacey R.	
Testimony	4
Prepared statement	6
Responses to questions submitted by Senators Hirono, Rubio, Inhofe, and Young	36

REVIEW OF THE SMALL BUSINESS INVESTMENT COMPANY PROGRAM

WEDNESDAY, JUNE 9, 2021

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 2:30 p.m. in Room 215, Dirksen Senate Office Building, Hon. Ben Cardin, Chairman of the Committee, presiding.

Present: Senators Cardin, Cantwell, Duckworth, Rosen, Hickenlooper, Scott, Ernst, Inhofe, Young, Hawley, and Marshall.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, CHAIRMAN, A U.S. SENATOR FROM MARYLAND

Chairman CARDIN. The Small Business and Entrepreneurship Committee will come to order. I have checked with Senator Paul and he will be here shortly, and he has asked that we start the hearing, so we will start the hearing, with Senator Inhofe here in person, Senator Ernst here in person. I think I saw Senator Young on the Webex. We are still doing these hybrid hearings between the Webex and in person, and I take it we have one of our witnesses that is going to be also by Webex.

So today's hearing involves the small business investment companies, the SBIC. I want to thank Senator Paul for his help in allowing us to put together this hearing. The SBICs were created in 1958, and to date have been responsible for investing over $100 billion into small businesses, to tens of thousands of small businesses that have benefited through the SBIC.

The companies that have benefited from small businesses, many have gone on to become even global brands, such as Intel, Apple, FedEx, so good things happen when we can find a way to finance creative ideas.

I have my own experience with the SBICs. Before I was in Congress, I represented small businesses and had the opportunity to help manage an SBIC that provided help to independent groceries that were struggling to get started. I am proud to say that some of these small, independent grocers are now regional chains that have grown as a result of being able to get financing to start, and the SBIC helped make that a reality.

The 2020 numbers are extremely impressive—$4.8 billion was invested to over 1,000 companies, without any cost to the taxpayers

whatsoever. I know that is going to make a lot of my colleagues on this Committee very happy to know that this is one in which there has been no cost to the taxpayers. It actually is a benefit to our small businesses and it allows our economy to grow.

It is our Committee's responsibility to find ways to make this program even more effective, particularly coming out of COVID–19, considering the impact it has had on small businesses. So we have challenges. We have challenges in all of our programs. We have the historic problems of women-owned businesses, black, Hispanic, rural, and other underserved communities that existed before COVID–19, that was made more difficult as a result of COVID–19 in attracting capital.

This is particularly acute in venture capital, startup companies. The numbers there are shocking. Ninety-three percent of venture capital is controlled by white male ownership. A majority of our venture capitalists are located in three communities: Boston, New York City, and Silicon Valley. When we look at venture capital and the availability of venture capital today, less than 1 percent goes to black-owned businesses, 2 percent to Hispanic-owned businesses, and 3 percent to women-owned businesses. We can and must do better, and the SBIC can play a very important role in making that a reality.

Consider, for example, CSS Antenna, a women-owned business founded in Edgewood, Maryland. Founded in 1997, CSS was a designer and manufacturer of telecommunications products such as antennas and filters. Between 1999 and 2005, the company increased revenue by more than 2,000 percent, from $2 million to $44 million.

By 2007, due to the slowdown in cellular technology development and the growing economic crisis, CSS experienced a significant decline in sales, and was in desperate need of capital. The company's primary lender at the time was not willing to provide capital during the downturn, but through an investment from Patriot Capital, which is being represented here today by our witness, Stacey Wittelsberger, CSS was able to bounce back.

After being forced to lay off employees due to lack of funding in 2008, the company grew from $8 million in revenues that year to $19 million in 2009, and were able to rehire their workforce. By 2013, annual sales at the company were once again more than $40 million. A clear example of where the SBIC really came in to serve our small business community. When the company was eventually sold to competitors based in Liverpool, New York, in 2013, all of their employees, which at the time numbered more than 100, kept their jobs. That success story would not have been possible without SBIC funding.

Our focus today must be on how we can take SBIC from a good program to a great program, a more inclusive program, that reaches underserved communities frozen out of traditional venture capital markets.

I want to thank our colleagues, Senator John Hickenlooper and Senator Jim Risch for their leadership on this issue. This is bipartisan support in our Committee. They have introduced the MicroCap Small Business Investing Act, legislation to authorize the SBA to create a MicroCap SBIC license that would encourage

more underrepresented investment managers to participate in the program. The bill is important because we know that racially and gender-diverse SBIC funds invest more frequently in minority- and women-owned businesses.

We must also create an on-ramp for fund managers from underrepresented communities to get into existing SBIC programs. One of our witnesses, Ivelisse Rodriguez Simon, of Avante Capital Partners, has spearheaded an excellent internship program at her firm that could serve as a model as we continue our work to diversify the SBIC program, and I look forward to her testimony and explaining that program.

We also need to explore ways to restore one of the pillars of the program, equity investing. After the collapse of participating securities 15 years ago there has been a gap in the program's ability to deliver patient capital to startups and small manufacturers.

And we must also explore policies that will create strong innovation ecosystems in underserved communities. In January, Senator Hirono and I introduced the UPLIFT Act, which would nurture innovation ecosystems in minority, low-income, rural, and other underserved communities by providing HBCUs, minority-serving institutions, and community colleges with the resources to establish and expand incubators and accelerators for underserved entrepreneurs.

Because while SBIC is able to support innovation to small businesses ready to take on investment, it is also vital that we fund growth accelerators and incubators that could help innovators turn their ideas into a startup.

So I am looking forward to a robust discussion with our witnesses today about what the Federal Government can do to better support these programs. The months and years ahead will provide us an opportunity to reshape our Nation's economy. We should also improve the SBIC, invest in it, and make it more equitable so we can build back better. We have a unique opportunity, and this hearing will help us in what we should do in order to improve that program, that very important program.

With that, I will interrupt our witnesses when Senator Paul arrives so he can have a chance to make opening statements, but at this point we will proceed with our witnesses. Our first witness—I have already alluded to our two witnesses today, but our first witnesses is Stacey Wittelsberger, who is the Principal Partner at Patriot Capital. Patriot Capital is an SBIC located in Baltimore, and she has been there since June 2010. She is responsible for originating, underwriting, execution, portfolio management, and investor relations, and she lives in the Fells Point neighborhood of Baltimore, Maryland, one of my favorite places to go in the city of Baltimore.

Our second witness is Ivelisse Rodriguez Simon, Managing Partner of Avante Capital Partners. She is a managing partner, which is based in Los Angeles. She currently manages the fund's portfolio and new deal activities. Ms. Rodriguez Simon joined Avante in 2009, as a founding member of the firm.

So we have two individuals who are intimately involved in the management of SBICs, so they can tell us how it works and hope-

fully ways in which we can innovate to make the program work even better as we look at ways to improve the program.

We still start with Stacey.

By the way, your full statements will be made part of the record, and you may proceed as you choose.

STATEMENT OF STACEY R. WITTELSBERGER, PRINCIPAL, PATRIOT CAPITAL, BALTIMORE, MD

Mrs. WITTELSBERGER. Thank you. Chair Cardin and members of the Committee, thank you for inviting me to testify today on behalf of the Small Business Investor Alliance. My name is Stacey Wittelsberger. I am a principal with Patriot Capital, headquartered in Baltimore, with offices in Chicago, Dallas, and Atlanta.

Patriot Capital is a multi-strategy middle market investment manager that is a five-time licensee in the program. Additionally, we are an active member of the SBIA. Our firm focuses on investment opportunities in small and medium-sized, privately held companies. We typically invest $3 to $25 million in each of our portfolio companies. According to internal data from our three most recent funds, representing a portfolio of about 84 small businesses, either current or exited, our companies employ approximately 33,100 employees, which represents a 27 percent increase in jobs from the time in which we made the initial investments.

One example of a portfolio company investment, previously discussed by Chair Cardin, with strong job creation right in my home State of Maryland and also women owned, was a telecom manufacturing business called CSS Antenna. At the time of our investment in 2008, the company employed approximately 40 individuals. Our capital helped the business survive as the industry was transitioning from 3G to 4G technology development buildout, causing a lull in customer demand. CSS further grew to over 150 employees at the time of our exit in 2013.

SBICs are an American success story, an example of successful Federal public policy that aligns the power of private markets with the public interest of job creation and expanding economic growth and opportunity. The SBIC program is largely working well, but targeted improvements would help. I would like to discuss some potential recommendations for improvement.

First, SBA Administrator Guzman has inherited an agency operating an unprecedented number of new pandemic trigger programs, set up in an inconceivably short amount of time. The SBA, however, continues to be chronically understaffed, with outdated technologies and a limited budget to secure new technology tools. The SBIC program, in particular, needs an appointed leader to serve as the Associate Administrator for the Office of Investment and Innovation.

The OII staffing shortages are also not conducive to capital access or healthy oversight of the program. For example, frontline SBIC regulators typically monitor and regulate only about 10 to 12 funds per regulator, because of the unique nature of each of the funds. Today, however, the SBA is so short-staffed that the ratio between OII regulator and regulated SBIC fund is at an impossible level of about 45 or more funds per operations analyst. We encourage Congress to provide the necessary resources, both human and

technological, to ensure that the SBA is able to run this successful program and provide necessary oversight.

The SBIA also supports the Investing in Main Street Act, a bill introduced during the last Congress session by Senators Duckworth and Young. The bipartisan bill, which passed in the House by a vote of 403–2, but was not considered in the Senate, would fix a drafting discrepancy between small business and banking law, and permit banks to invest up to 15 percent of their surplus capital in SBICs.

Next, the SBIA supports a bipartisan bill, introduced recently by Senators Hickenlooper and Risch, the MicroCap Small Business Investing Act of 2021. It would authorize the SBIA to create a new pathway to license newer, smaller funds within the existing parameters of the current SBIC program. The goal of the legislation is to expand the pool of qualifying fund managers in the SBIC program by providing broader access for talented, underrepresented, diverse people, in potentially smaller geographies, where there is currently limited access to participating in the SBIC program, with the goal of directing much needed capital to smaller markets. The SBIA encourages the Senate to pass the Hickenlooper-Risch bill.

Finally, small businesses need more access to equity, which is the most patient form of capital. Equity investments are typically less of a cash constraint than debt, allowing for more money to be reinvested into a business, fueling growth. Equity is also typically more appropriate for earlier-stage businesses, not yet generating significant revenue. Equity capital, however, can be the hardest for small businesses to access, especially many early stage businesses which tend to be composed of a younger, more diverse demographic than prior generations.

The SBIA supports empowering SBICs to provide more equity investments than currently allowed by the SBA. This would also help create economic opportunity in parts of the country that are undercapitalized compared to the three regions previously mentioned that receive an estimated 75 percent of early stage capital investments today.

In conclusion, the SBIC program is well positioned to provide much-needed capital to domestic small businesses, and Patriot Capital is proud to be one of the growing numbers of SBIC's licensees, helping U.S. small businesses, stimulate the economy, and create jobs.

Thank you again for the opportunity to testify on behalf of the SBIA.

[The prepared statement of Mrs. Wittelsberger follows:]



U.S. Senate Committee on Small Business

Review of the Small Business Investment Company Program

Statement of

Stacey R. Wittelsberger, Principal, Patriot Capital,
Baltimore, MD

On Behalf of the Small Business Investor Alliance ("SBIA")

June 9, 2021

Chair Cardin, Ranking Member Paul, and Members of the Committee, thank you for inviting me to testify on behalf of the Small Business Investor Alliance ("SBIA") at this important oversight hearing.

My name is Stacey Wittelsberger. I am a principal with Patriot Capital, headquartered in Baltimore with offices in Chicago, Dallas, and Atlanta. Patriot Capital is an active member of the SBIA, a national association founded in 1958 that develops, supports, and advocates policies to promote a healthy small business investing market. SBIA's membership includes Small Business Investment Companies (SBICs), Rural Business Investment Companies (RBICs), Business Development Companies (BDCs), conventional venture and private equity funds, private debt funds, and other funds committed to investing in growing domestic private small businesses. These long-term, illiquid investments help small business owners grow their businesses from small to medium-sized businesses while increasing employment and opportunities for their communities.

Patriot Capital is a multi-strategy middle market investment manager that is a five-time licensee in the SBIC program. Our firm focuses on investment opportunities in small and medium-sized, privately-held companies with annual revenues as low as $10 million. We typically invest between $3 and $25 million in our portfolio companies. According to internal data from our three most recent funds, our portfolio of 84 small businesses, either current or exited, employs approximately 33,100 people, which represents a 27 percent increase in jobs from the time Patriot Capital made its initial investment in each company. Patriot Capital, like other SBICs, is a small business and we know first-hand the challenges that our portfolio companies face because of our team's extensive and diverse professional backgrounds.

My testimony will focus on these key points:

- The SBIC program, administered by the U.S. Small Business Administration ("SBA"), is largely working well but, as with any federal program, targeted improvements can help strengthen the program's ability to expand the benefits of free enterprise to more people and places. It is struggling from wholly inadequate technology tools and too few employees to do the job properly.

- The SBIC industry has a record of supporting female leaders, but the SBIC program could be improved to help grow a far more diverse pool of investment fund managers, skilled at helping domestic small businesses access capital.

- Small businesses need access to more of the most patient form of capital – equity. The SBIC program severely limits the amount of equity available to smaller businesses and would benefit from thoughtful tools to facilitate more access to this type of capital.

Targeted Improvements to the SBIC Program

SBICs are an American success story and an example of a successful federal public policy that aligns the power of private markets with the public interest of job creation and expanding economic growth and opportunity.

The SBIC program is a market-driven program that is one of the best, most cost-efficient job creating tools in the government.[1] SBICs have empowered small businesses to create millions of jobs across the country.

One such example of job creation is a Patriot Capital portfolio company that grew its employee base right in our home state of Maryland and was also a women-owned business. The company was a telecom manufacturing business called CSS Antenna. At the time of our investment in 2008 the Company employed approximately 40 individuals and endured a difficult time in the lull between the 3G and 4G technology development and rollout. Our capital allowed the business to maintain its operations during such uncertainty and be well positioned to support its customers when the 4G technology launched. CSS grew to 150 employees at the time of our exit from the investment in 2013.

During the pandemic, the SBA did an extraordinary job under extraordinary circumstances setting up and executing in a matter of weeks some of the largest government aid programs in American history. These massive emergency actions saved tens of millions of jobs and millions of small businesses.

---

[1] An independent study prepared for the Library of Congress found that SBIC-backed small businesses created almost 3 million new jobs and supported an additional 6.5 million jobs over the 20-year period of their study. The average administrative cost was approximately $35 per job created, and about $11 per job created or sustained." *Paglia and Robinson, Measuring the Role of the SBIC Program in Small Business Job Creation, Report for the Library of Congress, at 4 (January 2017) <https://www.sba.gov/sites/default/files/articles/SBA_SBIC_Jobs_Report.pdf>.*

The Office of Investment and Innovation (OII) staff did an extraordinary job during the pandemic. With a deadly virus rapidly spreading, the economy seizing, mass shutdowns across the country, and a completely unplanned transition to entirely remote work with third-rate technology tools, the OII staff adapted quickly and actually improved performance and output. In 2020 during the pandemic, more than double the number of SBIC licenses were processed during the second half of the fiscal year than during the first half. Leverage was processed at a faster rate and exams were completely remotely. It was impressive and we are thankful for their efforts.

Administrator Guzman has inherited an agency that is operating an unprecedented number of new programs set up in an inconceivably short amount of time. The political leadership and career staff at SBA deserve recognition for their heroic efforts administering these rescue programs, especially given that the SBA continues to be chronically understaffed with an anemic technology budget and archaic technology tools.

As the pandemic ends, small businesses will need an effective SBA to provide the help they need to grow. In particular, the SBIC program needs an appointed leader to serve as Associate Administrator for the Office of Investment and Innovation. The Associate Administrator for the Office of Investment and Innovation is one of the last senior positions that remains vacant. Additionally, staffing shortages in the Office of Investment and Innovation are severe and are not conducive to capital access or healthy oversight. For example, frontline SBIC regulators typically monitor and regulate only about 10-12 SBIC funds per regulator because of the unique nature of each fund. Today, however, the SBA is so short-staffed that the ratio between Office of Investment and Innovation regulator and regulated SBIC is at an impossible level of 45 or more funds per operations analyst. Regulated entities do not normally ask for more regulators, but we are. We encourage Congress to provide the necessary resources, both human and technological, to ensure SBA is able to run this successful program and provide necessary oversight.

Expanding Opportunity with a New MicroCap SBIC License

As Congress and the Administration contemplate next steps to help small businesses emerge from the pandemic-induced economic slowdown, SBIA recommends modifying the existing SBIC investment program to fill ongoing market gaps, both geographic and demographic.

SBIA supports the creation of a MicroCap SBIC license to encourage formation of more small funds providing smaller dollar amounts in smaller geographic markets. A bipartisan bill introduced recently by

Senators Hickenlooper and Risch, *MicroCap Small Business Investing Act of 2021*, would do just that by creating a pathway to increase not only the breadth of participants in the program, but also the geographic reach of investment capital, especially to small businesses located in regions with limited capital access. The SBIA encourages the Senate to pass the Hickenlooper-Risch bill.

The Hickenlooper-Risch bill would authorize the licensing of new, smaller funds within the existing parameters of the current SBIC program. The goal of the legislation is to expand the pool of qualifying fund managers in the SBIC program by providing broader access to talented, underrepresented, diverse people in potentially smaller geographies that currently have limited access to participating in this successful small business program, while directing much needed capital to smaller markets. If enacted, this legislation will seed a whole new generation of fund managers that will be more demographically and geographically, representing a far more characteristic swath of America.

While first-time funds may be higher risk, this proposal offers a way to manage that risk. Under the bill, fund managers who have a documented record of business experience relevant to the investing strategy being pursued would become eligible for a license to manage a smaller SBIC fund with access to much less SBA leverage than other SBICs. This maximum leverage ratio would be 1:1 (up to $25 million) relative to the private capital that the fund raises. This significantly lower leverage cap for MicroCap SBIC funds would lower taxpayer risk while increasing capital access.

It is critical that these new fund managers not only get a license, but they also are being set up to succeed. They are not being given a license and left to figure it all out themselves, with the potential for failure. To provide further safeguards and to promote successful investments, each fund will have two independent members of their investment committee who are or who have been licensed SBIC fund managers and who will help these first-time funds identify and structure their investments and to act as a sounding board for these investments once completed. In this advisory capacity, the independent investment committee members serve as mentors to the MicroCap SBIC fund managers. MicroCap SBIC funds are also required to invest at least 25 percent of their capital in a combination of the following: small businesses in underserved areas, low-to-moderate income areas, Qualified Opportunity Zones, and rural areas, or businesses in research & development and manufacturing.

This legislation would deliver a powerful addition to the SBIC program and thereby help domestic small businesses. We believe it would also encourage more diversity in the SBIC program while maintaining the successful market-driven SBIC model. The SBIA urges the Committee to support the proposal.

Bank Investment in SBICs

The SBIA also supports the *Investing in Main Street Act*, a bill introduced during the last Congress session by Senators Duckworth and Young, designed to increase bank investments in SBIC funds. The bill passed in the House by a vote of 403-2, but no action was taken in the Senate.

This proposed legislation would amend the Small Business Investment Act of 1958, which currently restricts SBICs from taking capital investments from banks that have more than five percent (5%) of their institution's capital and surplus invested in SBICs. Bank regulations currently permit these same banks to invest up to 15 percent of their capital and surplus (with regulatory approval) in SBICs.

This simple change would create symmetry between statute and bank regulation and would increase the amount of capital that banks can deploy into SBICs. Increasingly, SBIC funds are encountering smaller banks who have hit the five percent (5%) statutory cap but want to invest more in job creation that is a hallmark of the SBIC program.

Allow for More of the Most Patient Capital - Equity

All SBICs provide long-term patient capital. This longer-term strategy is an incredible advantage to small businesses in surviving the bumps, sometimes jarring bumps, that small businesses face. But SBA discourages equity strategies in large part because the SBA does not have tools tailored specifically for equity investing.

The SBIA supports empowering SBICs to provide more long-term patient capital in the form of equity investments than they are permitted to do today because equity capital is the most patient form of capital and can be the hardest for small businesses to access. Equity provides a capital infusion that, unlike debt, typically does not drain the cash a business is generating. This allows for more money to be reinvested into the business to fuel growth. Equity also allows for investing in earlier stage (younger and newer) businesses that are not yet generating significant revenue. When the SBA pivoted away from equity investing, the number of minority-owned business receiving capital plummeted due to the fact that younger businesses today tend to be composed of a more diverse demographic that is representative of their generation. Further, when the SBA moved away from equity investing, fewer funds were formed in smaller states and funds providing equity became very concentrated in a few areas.

The SBIC program would benefit from creation of equity investment tools to help small businesses outside of the three concentrated areas that receive 75 percent of the early-stage capital today. Equity investments mean no debt service for the fund or its portfolio company investments. This proposal would help create economic opportunity in parts of the country desperately undercapitalized and immediately begin creating jobs and domestic production in critical industries.

Conclusion

Congress declared in its original authorizing legislation that the SBIC program should "stimulate and supplement the flow of private equity capital and long-term loan funds which small business concerns need for the sound financing of their business operations" while also stimulating the national economy and job growth.[2]

As of the first quarter of 2021, the SBIC program has grown to a combined SBA guaranteed and private capital program exceeding $33 billion, an increase of 19 percent since 2016 and the highest level ever in program history.[3] SBICs completed $630 million in financings to small businesses in the month of December 2020 alone, representing a 25 percent increase from only $500 million in the month of December 2019.[4] At the end of fiscal year 2020, the SBIC program included more than 300 licensed funds.[5] Over the last five fiscal years, on average, SBICs have invested nearly $6 billion annually in over 1,100 small businesses, creating or sustaining nearly 109,000 jobs annually.[6]

The SBIC program is well positioned to provide much needed capital to domestic small businesses, helping them lead the way in producing innovative products and services that will continue to spur America's growth through the 21st century. Patriot Capital is proud to be one of the growing numbers of SBIC licensees helping U.S. small businesses stimulate economic growth and create jobs.

Thank you again for the opportunity to testify on behalf of the SBIA.

# # #

[2] Small Business Investment Act of 1958, Pub. L. 85-699 (Aug. 21, 1958). 15 U.S.C. 661.
[3] *An Update from SBA's Office of Investment and Innovation,* presentation to SBIA Outlook 2021 Virtual Conference at 2, https://www.sbia.org/wp-content/uploads/2021/02/SBIA-Outlook-SBA-Update-Presentation-HANDOUT-1.pdf (last visited Feb. 7, 2021).
[4] Id.
[5] SBA – *SBIC Program Overview* at 2 (Sept. 30, 2020). Accessed Feb. 1, 2021 (unpublished).
[6] Id.

Chairman CARDIN. Mrs. Wittelsberger, thank you very much for your testimony. We will now turn to Mrs. Rodriguez Simon, via Webex.

STATEMENT OF IVELISSE RODRIGUEZ SIMON, MANAGING PARTNER, AVANTE CAPITAL PARTNERS, LOS ANGELES, CA

Mrs. Rodriguez Simon. Good afternoon, Chairman Cardin, Ranking Member Paul, and members of the Committee. It is my sincere honor to be speaking with you all today. My name is Ivelisse Rodriguez Simon. I am originally from Puerto Rico, and I grew up in a low-income neighborhood on the south side of Chicago. I was the first person in my family to attend college, and I started my career in the mid-1990s in investment banking on Wall Street. I have more than 20 years of experience in investment management and an MBA from Harvard Business School. I am a managing partner and one of the founders of Avante Capital.

Avante is a 100 percent women-owned firm with close to $900 million of capital under management. Our firm was founded in 2009, and has been a proud member of the SBIC program ever since. In 2018, we were selected as the SBIC Fund of the Year for our strong track record of performance and our commitment to job creation. Over the last decade, we have invested more than $500 million in both debt and equity in over 100 companies, and we have never had a cash loan loss.

Of our 16 team members, 12 are women, minorities, or both. We are passionate about supporting women and underrepresented communities in this industry, and we fundamentally believe that diversity is not only a social imperative, it is also good business that drives better returns and incremental job creation.

There are two questions I would like to discuss with the Committee today. First, how could we better utilize the SBIC program to drive additional job creation and innovation across the country? And second, how do we increase diversity within the program to spur investments in underserved communities?

The existing SBIC debenture program is, by all accounts, a huge success. As mentioned by Senator Cardin, SBIC funds have provided more than $100 billion of funding across 200,000 financings to small businesses, creating more than 3 million jobs in just the last 20 years. Last year alone, SBIC funds facilitated more than $4.8 billion in investments to more than 1,000 companies across the country, at no cost to American taxpayers.

Despite the success of the SBIC program, it is underutilized. While the SBA is authorized to provide up to $4 in leverage to SBICs annually, SBIC funds are only drawing about $2 billion in SBA leverage each year. We should expand the program and fully utilize it to get more capital invested in small businesses, especially now when those businesses will be key to our economic recovery and growth.

One way to do this is by providing more capital and human resources to the Office of Investment and Innovation at the SBA. They are a highly competent, committed group of professions. However, they are under-resourced. Providing them additional resources would allow them to process and manage more license, and as a result, SBICs will deploy more capital to small businesses.

Another way to inject more capital into small businesses is to establish an SBIC equity program. An equity program would broaden access to capital for small business that are prime for growth but unsuited for the current debenture program.

Broadening the impact of the SBIC program, however, does not just mean adding resources and new types of financing. It also means deploying capital in a more fair and equitable way. Each year, SBICs provide only 5 percent of the total financing to minority-owned businesses, and about 3 percent to women-owned businesses. This lack of diversity in investments stems directly from the lack of diversity among SBIC fund managers. This is no more than a handful or two of women and minority-owned investment managers in the 300-plus SBIC licenses outstanding. Yet we know that SBIC managers, diverse SBIC managers, invest more frequently in minority and women-owned businesses. To invest more equitably, we need more diverse managers in the existing program.

When I talk about diversity in this industry I often hear that there is not a robust pipeline of qualified diverse managers. I am here to tell you that is just not true. There are many experienced women and people of color with proven track records, who are amply qualified to manage a successful SBIC fund. We need to reach out to these diverse managers and recruit them to benefit from their experience and their diverse networks.

To further facilitate the growth of diverse SBIC managers, we should also establish an official Mentor–Protégé program. We should provide incentives for established funds to invest in and support new, diverse manager funds and guide their development within the SBIC program.

Lastly, diversity efforts work best when everyone is involved. We should create a diversity task force or working group charged with implementing and tracking initiatives that drive meaningful diversity of manager and investments. And we should work closely with private industry. As Senator Cardin mentioned, my firm launched the first-ever internship program in the SBIC industry. This summer, we will welcome 30 interns, all women and people of color, who will work at 25 SBIC funds across the country. We are very excited about growing the program.

In closing, I would like to offer my continued support to work with any of the members of the Committee in our collective efforts to expand the SBIC program and drive diversity within it.

And thank you for allowing me to participate virtually. I actually had a baby eight days ago, and so while I may be sleep deprived, I am very honored to be here today.

[The prepared statement of Mrs. Rodriguez Simon follows:]

Ivelisse Rodriguez Simon
Managing Partner of Avante Capital Partners

Testimony of Ivelisse Rodriguez Simon

June 9, 2021

Good Morning, Chairman Cardin, Ranking Member Paul, and members of the Committee. Thank you all for your leadership during these unprecedented times. It is my sincere honor to be speaking with you all today about the SBIC program, the opportunity to diversify its license holders, and ultimately how to get capital to American business owners. My name is Ivelisse Rodriguez Simon, and I am the Managing Partner at Avante Capital Partners. As an SBIC fund, we have never been prouder to operate within the SBA and to support the agency's efforts to sustain small businesses and drive the recovery of our economy.

Avante Capital Partners Background

Avante Capital Partners was founded in 2009 and has been a proud member of the SBIC program since our inception. Our first fund closed in 2010 at $218 million of capital, our second fund in 2015 at $250 million of capital, and we are about to close our third fund at nearly $400 million of capital. Based in Los Angeles, California, we have invested both debt and equity in over 100 companies (platform and add-on acquisitions) throughout the United States, and we have generated zero cash loan losses since inception. The SBIA named Avante its SBIC Fund of the Year in 2018 based on our excellent track record, as well as our commitment to the mission of the SBIC program.

Avante is 100% women-owned and 50% minority-owned. Of our 16 team members, 12 people are women, minorities, or both. We are passionate about supporting women and underrepresented communities in this industry, and we fundamentally believe that diversity is not only a social imperative, but it is also good business that drives better returns and incremental job creation.

Avante Diversity Initiatives

Avante has implemented several initiatives focused on diversity in the SBIC industry. The first initiative that Avante created is the Small Business Investing Scholars Program, the first diversity internship in the SBIC industry. Started in 2020, the program seeks to create a pipeline of diverse talent for the SBIC industry. Our first internship class in Summer 2020 consisted of nine undergraduate interns across six California SBIC firms. Three of the interns received full-time offers with SBIC firms, and the others are pursuing other roles in the industry. This Summer 2021, we are pleased to report that we will be welcoming 30 interns across 25 SBIC firms around the nation; 73% of the interns are women, and 73% are people of color. Some of these SBIC firms

have never had a woman or person of color on their investment teams, and our vision is that eventually the SBA will officially sponsor the program and that all 175+ SBIC firms will participate.

Our second relevant initiative is the SBA diverse manager panel. Beginning this Spring, Avante hosts a recurring panel with the SBIC licensing team to prepare diverse managers for potential SBIC licensing applications. The initial panel includes 11 diverse managers with proven investment track records who provide invaluable advice to those emerging funds seeking to learn from established SBIC funds. A number of these experienced, diverse managers are already considering applying for a license within the debenture program. We have found the staff at the Office of Investment and Innovation ("OII") including the licensing team to be highly competent professionals who are committed to increasing diversity in the program and we have appreciated their collaboration and partnership on our diversity efforts.

We also support other initiatives within our firm and the broader industry to drive diversity including an internship at Avante to support women from non-traditional backgrounds, an industry wide effort to support women professionals in private equity (with over 300 women investment managers participating in our programs) and an effort to drive more women on private equity board of directors. In all our initiatives, Avante seeks to advocate for underserved communities and diverse populations in our industry. During the recent COVID-19 pandemic, Avante deployed a significant pro bono outreach program to educate and help other independent small businesses access capital to help them to survive the crisis and maintain their employee bases. We greatly appreciate the U.S. Small Business Administration's support and continue to be amazed by the resiliency of U.S. businesses during this difficult time.

Existing SBIC Debenture Program is Successful and Should be Expanded

Established in 1958 to spur job creation and long-term investment in small businesses, the SBIC program has achieved its intention of expanding small business access to investment capital which in turn has facilitated growth, modernization, and more vibrant communities where these companies conduct business. From the program's inception through 2020 year-end, SBICs have provided more than $108 billion of funding across 186,400+ financings to small businesses, with these businesses having created more than 3 million jobs in just the last 20 years[1].

Last year alone, SBICs facilitated more than $4.8 billion in investments to more than 1,060 companies across the country on a zero-subsidy basis (i.e., no cost to the American taxpayer), which is a testament to the success of the program in supporting disciplined and experienced investors in directing capital to small companies across the country. However, the existing program is currently underutilized – while the SBA is authorized to provide up to $4 billion in leverage to SBICs annually, SBICs are generally drawing on only ~$2 billion in SBA leverage each year.

[1] U.S. Small Business Administration Offering Circular, Series SBIC 2021-10A, March 16, 2021

We recommend continuing to support this successful program by investing in the Office of Investment and Innovation and **significantly increasing resources and staff to increase the number of licenses approved every year**. This would translate to a larger pool of companies being financed, and more capital directed to creating jobs. Not only could this change be implemented quickly but the fact remains that the current SBA leverage utilization in the aggregate is about half of what it could be.

Increasing Diversity of SBIC Managers and Investments

While some progress has been made, significant work remains to be done, especially in promoting greater access to capital for underserved communities and underrepresented business owners. Each year, SBICs provide only about 5% of their total financing to minority-owned and controlled small businesses and about 3% to women-owned small businesses[2]. **One primary cause of this lack of diverse investment is the lack of diversity among SBIC fund managers.** As substantiated by data including the 2016 Library of Congress study, racially- and gender-diverse SBIC funds invest more frequently in minority- and women-owned businesses.

It is incumbent upon the SBIC investment community to foster a more diverse and inclusive entrepreneurial ecosystem, as the long-term economic vitality of this country depends on it. Improving the SBIC program to be more inclusive by encouraging increased participation by diverse fund managers will drive capital investment in underserved communities. Various research studies reinforce the prevailing takeaway that teams comprised of diverse backgrounds – be it ethnic, socioeconomic, or gender, *inter alia* – drive better decision-making. Specifically, a 2015 McKinsey study analyzed the relationship between diversity and business results and concluded that companies in the top quarter for racial and ethnic diversity are 35% more likely to have financial returns above their respective industry medians. Diversity drives enhanced returns and job creation through growth.

If we seek to foster a more diverse and inclusive entrepreneurial ecosystem, we should learn from our previous successes and challenges. Despite the best of intentions, and our collective aspirations to diversify the allocation and deployment of capital through the SBIC program, there are still only a handful of women- and minority-owned SBIC funds in the program. What we have attempted in the past simply has not worked. What can we do differently to achieve a new and better result?

Based on my experience working as a diverse professional in the investment management industry for over 20 years, I believe that our efforts to drive diversity should adhere to certain principles that are directly informed by our previous attempts in this area:

1. We cannot rely solely on lesser programs designated for women and minority fund managers. Such programs place these funds at a distinct disadvantage to the established SBIC funds. Whether through investment restrictions, fund size limitations, or investment

[2] SBA, Office of Legislative and Congressional Affairs, "Correspondence with the author," December 20, 2018

committee mandates, these funds are inherently prevented from competing on a level playing field and are destined to achieve sub-par returns. That leads to the foreseeable, but erroneous, conclusion that women and minority-owned funds simply cannot compete.

2. We should endeavor to leverage what is already working extremely well in the SBIC program to achieve our diversity goals. SBIC funds already generate excellent returns, create thousands of jobs each year, and invest significant capital into the economy. Our diversity efforts should focus on **recruiting diverse managers to this existing, successful program** and to supporting emerging firms to be well positioned to succeed.

3. We should use carrots rather than sticks to encourage diversity. We can design a program that encourages existing funds to become part of the solution. These funds have decades of institutional knowledge, investing experience, and program expertise that constitute the exact recipe for success that new, diverse fund managers need. Established SBIC funds have been highly successful in executing on the SBIC's mission and can play a powerful role in supporting the growth and increased inclusion of the program. We can and should encourage these funds to share those resources, and we should incentivize them to help support diversity. As demonstrated by the significant interest in the diversity internship program, SBIC incumbent funds are supportive of expanding the program to include more diverse communities.

4. Lastly, we should make it a continuing mission of the SBA to license diverse funds and to facilitate the deployment of that capital into underserved sectors of the economy. Woman- and minority-owned small businesses, rural areas, and manufacturing businesses continue to struggle to attract capital in meaningful ways, and that leads to a great imbalance in the economy. SBIC funds will continue to adjust based on the guidance and priorities of the SBA, and we should continue to reinforce the priority of diverse investors and investments through all channels at our disposal.

Given these principles, I have the following recommendations to advance diversity and inclusion within the SBIC investment community. I firmly believe that greater diversity will lead to improved decision making, enhanced returns, and incremental job creation across the country.

- First, we should make it a **priority within the SBIC to recruit <u>experienced</u> diverse managers** that have proven track records and can successfully manage an SBIC fund within the existing debenture program. Contrary to popular belief, their already exists a large talent pool of diverse investment professionals who are highly capable of managing an SBIC fund. Resources should be provided to the OII to expand its reach and to prioritize licensing for these candidates. In addition, the program should partner with private industry to collaborate on initiatives that can increase diversity. Together through a

public-private partnership we can work jointly to expand the program to serve more communities.

- **A mentor-protégé program should be officially established** as a means to increase access to capital for diverse managers that have significant investing experience but may not meet all of the existing licensing criteria in the existing debenture program (specifically the requirement that every fund have two managers that have prior experience working together). One of the best ways for new, diverse managers to succeed as an SBIC fund is to learn from those who have already been successful. Encourage existing funds to take meaningful ownership positions in new funds run by diverse managers. The veteran fund will help in the establishment and operation of the new fund, providing the very experience and tutelage the diverse managers need to succeed.

- How should we encourage established funds to mentor new funds? They clearly have enough on their plate already, and previous attempts to drive diversity have not succeeded as intended. A meaningful motivation for established funds is greater access to SBIC leverage. Allow established funds that mentor new, diverse-manager funds to increase the current SBA leverage cap of $175 million for an individual SBIC fund to $250 million, and to increase family of funds cap from $350mm to $600mm. That incentive makes a meaningful difference to an SBIC fund. I predict this simple change would generate an immediate response from established funds, and it would quickly create a virtuous cycle of established funds teaching new funds how to emulate their methods of success. Another incentives can and should be considered.

- **Support the establishment of an equity program** (as compared to the existing SBIC program where funds invest primarily in debt securities) to broaden the universe of growing small companies that gain access to longer term capital. Many small businesses cannot support the burden of a debt investment and require equity to grow and create job and wealth in a community. The agency should consider establishing a new program designated for experienced fund managers to invest equity capital into small businesses. A specific plan to ensure that a meaningful number of these equity managers are experienced, diverse investment professionals should be enacted to safeguard that underserved communities will also gain access to this equity capital.

- **Create a Diversity Task Force or working group** that would be charged with implementing and tracking initiatives that drive meaningful diversity of managers and investments. We suggest that the task force be comprised of existing women and minority SBIC fund managers along with members of the team at the Office of Investment and Innovation. The group should report back to this committee on a consistent basis to increase accountability and success.

A hallmark of the SBIC's program enduring success and tenure has been a willingness to continually adapt and improve as well as revisit past policies and initiatives to ascertain their effectiveness. Throughout the course of the program's 63-year history, it has undergone significant changes that have strengthened the efficacy and reach of the program. I believe it is an ideal time in history to significantly invest in the SBIC program and drive additional investment to small businesses across a diverse set of communities.

Private Partnerships to help drive Diversity

Women and people of color have made significant strides in the investment management industry over the last decade and while we continue to represent a small percentage of the industry our numbers are growing. As demonstrated by organizations like the Robert Toigo Foundation, a foundation that supports diverse investment professionals, the number of experienced diverse investment managers has significantly grown in the past years. The Toigo Foundation now has over 1,000 alums who are all women and people of color who have graduated from top business schools and have significant investment experience.

I recommend that the agency consider partnering with some of these industry organizations that support and develop diverse investment professionals to recruit qualified managers to the existing SBIC debenture program and eventually to any newly established equity program. Specifically, I recommend a partnership with The National Association of Investment Companies (NAIC), a Washington DC-based trade association and the largest network of diverse-owned private equity firms and hedge funds. The NAIC is comprised of 120 member firms, managing $225 billion in institutional capital, in the aggregate. Through education, advocacy and other innovative programs, the NAIC is focused on increasing the flow of capital to high-performing diverse investment managers often underutilized by institutional investors. The NAIC can play a pivotal role along with the OII to recruit and attract experienced diverse managers to the existing program as well as the mentor-protégé program. They have a large network of diverse managers and offer a well established training program for new, emerging investment managers entitled "Establishing the Next Generation of Private Firms". By partnering with organizations like the NAIC, the agency can significantly increase the number of diverse license holders and ultimately increase the number of diverse companies and communities who gain access to SBIC capital. Also, according to research conducted by the NAIC (represented by NAIC member funds in the NAIC Private Equity Index) diverse managers performed better than the Burgiss Median Quartile in 78.6 percent of the vintage years studied. For the continuous reporting period of 2011 to 2018, NAIC member funds reported a net IRR of 20.99 percent, a net MOIC of 1.48x and a net DPI of 0.53x. Recruiting diverse managers to the existing, SBIC debenture program should be deemed a critical imperative for the agency.

Additional Considerations

We support the intention behind all the proposals to increase diversity and support investments in underserved markets. However, I would like to include words of caution related to the SSBIC program and the MicroSBIC Designation proposals.

SSBIC Program

One of the key learnings from our observations of the SSBIC program's history is that the lackluster adoption and success of the program can partly be attributable to an overly restrictive set of parameters on the permissible investment opportunity set. While we appreciate the desire to address the funding gap for the economically and socially disadvantaged, the addressable market of companies to whom the SSBIC fund managers were limited made this challenging from the outset. We believe the objectives of the SSBIC program can be addressed in the existing program through active recruitment of experienced diverse managers and the establishment of a mentor protégé program.

MicroSBIC Designation

Investing, like any profession, requires training and expertise. We would recommend some level of investment experience required for those participants in a MicroSBIC program. Alternatively, we would at a minimum recommend that the Independent Managers (i.e., licensed SBIC managers who participate on Investment Committee) be paid a stipend or management fee, rather than carried interest only. This will ensure the full participation of experienced professionals in the investment decision process. We would also recommend compulsory training for this cohort of managers (for example, the training provided by the NAIC would be a viable option). Additionally, we would recommend not constraining the investment universe for potential portfolio opportunities. The goal is to afford these managers maximum potential for success, such that over time they would be able to participate in the broader SBIC program and prudently invest more capital in American businesses. And finally, we would strongly recommend a clear path for these investors to enter the existing, larger SBIC program.

In closing, I would like to offer my continued support, and that of my firm, to work with any of the Senators on how we might, together, further expand the SBIC program and drive diversity within it. We are committed to broader representation to the benefit of greater prosperity as a whole and are ready to partner with you at any time to forge toward progress.

Chairman CARDIN. Well first, congratulations on your child. A boy, I understand?

Mrs. Rodriguez Simon. A boy. Yes, sir.

Chairman CARDIN. He is doing well?

Mrs. Rodriguez Simon. He is doing very well. He is baby number four, so it is old hat by now.

Chairman CARDIN. So you are used to this. You are a real pro at this. Well, congratulations to you, and thank you very much for your testimony.

I want to first cover a point that both of you have talked about, and that is equity funding and how we need to deal with this. It is interesting that we have provided help to large industries during economic downturns. During the Great Recession we provided substantial help to major industries. We took back notes that gave us the ability to take some of the profits, based upon what happens in the future. So the government has been involved in ways in which we can provide help to industries.

The SBIC has traditionally not been involved in that particular field, so you are suggesting perhaps a separate fund that would deal with equity investment or startup. Is that what I understand the recommendation? I think, Mrs. Rodriguez Simon, you specifically mentioned that, and Mrs. Wittelsberger, you said we have to do something in regards to equity funding. Are there specific recommendations you have in that regard?

Mrs. Rodriguez Simon. Yes, sir.

Mrs. WITTELSBERGER. Go ahead.

Chairman CARDIN. Go ahead, Mrs. Rodriguez Simon.

Mrs. Rodriguez Simon. Yes. There is a very significant opportunity for us to continue to support small businesses through equity investing. Currently, the debenture program invest primarily debt, which is a very effective way to help companies grow. However, not all companies are suited for debt. There are businesses that are either too small, too new in their cycle, do not generate enough cash-flow, that really could utilize equity.

And so my suggestion would be that we create a program very similar to the debenture program but that allows for equity, allows for SBIC funds to invest equity rather than debt. They would go through a very similar process for licensing, and they would be managed in a very similar way.

My additional suggestion, though, is that we need to be very intentional about making sure that we recruit diverse managers into that equity program, so that we do not face the same challenges we face in the debenture program, which is the large majority of investment managers are not diverse, and so the majority of the capital goes to businesses that are not diverse.

And so if we can start the program off in a good way, and make sure that a number of those managers are also diverse, I think that we would be able to significantly increase the amount of capital and the amount of jobs that we can create through that equity program.

Chairman CARDIN. I want to come back to the diverse fund managers. In startup capital, the numbers are even much worse than general capital, when it comes to opportunities from underserved communities. So having a mechanism to deal with equity capital,

under our supervision, would certainly be a tool that could help deal with that.

Mrs. Wittelsberger, in regards to equity capital?

Mrs. WITTELSBERGER. Yes. Thank you, Chair Cardin. As I mentioned in my testimony, I think the program is largely working, and I am not sure that we entirely need a new equity program, and my main issues there are things that I mentioned in the testimony, of the SBA being short-staffed right now and not having the technology tools to run the existing program in its volume.

So I think that it is set up appropriately and that we could potentially add a subset or equity tools to the existing program that would address some of the issues and concerns that you have, with the primary focus really being that we make sure that the subset and the tools work for small business participants, and that it works for the taxpayer as well.

Chairman CARDIN. Let me drill down on the resources at SBA. We provided substantially more resources to SBA during COVID–19, not just in the trillion dollars of relief it provided to small businesses, but in their administrative support. We did give them more help.

Both of you have mentioned a need for additional personnel and technology. Personnel, I understand. Talk a little bit about technology. Where is the SBA lacking in providing the technical support necessary to process the SBIC applications?

Mrs. WITTELSBERGER. Sure. I am happy to speak on that. So the SBA is running about a $33 billion program today on very antiquated tools, including Microsoft Access and Excel, and we are a $315 million fund and have better technology and resources than the SBA, and we only have 30-some companies to manage. You know, key challenges like getting something out of the SBA's Access and Excel tools can take a week or days for them to reformat in order to be able to review the data, which just really is not good for the program overall or the taxpayer. So upgrading the technology tools that are available to the SBA would be a huge add.

Chairman CARDIN. Thank you. I have some questions in regards to the diversity managers, but I am going to yield to my other colleagues that are here, and I will come back on a second round.

Senator Marshall?

Senator MARSHALL. Thank you, Chairman. It is great to be back here and talk small business issues. Certainly every trip back home, access to capital is a question I get and a riddle we have not been able to solve.

These SBICs, there is only one in Kansas, and it is currently listed as not likely investing. The passage of the Spurring Business and Communities Act of 2017, the SBA gave first priority to companies in an under-licensed or under-financed State. Kansas was not included on either list. Are there moneys that are not being used and Kansas was too far down, or pretty much are you able to utilize all the capital that you have available to us? Stacey, Mrs. Wittelsberger, if you want to go first. Wittelsberger—I am going to get that right. If you want to go first, if you can help me out.

Mrs. WITTELSBERGER. Yes. So I think Chair Cardin mentioned this in his remarks as well, but we have about $4 billion in accessible capital to the program. We expect to be over $3 billion of that

this year, so there are certainly more funds to be used. And I think to address your concern, Senator Marshall, that the MicroCap bill is a potential outlet for that to bring new managers to the program, potentially, in your State, that maybe through the existing SBIC program would not be licensed. So, you know, bringing more capital to your State and the small businesses there.

Senator MARSHALL. So help me understand. Is the reason nobody in Kansas has applied for it is because they just have not applied, or they have applied for it, you think, and they are just not high enough on the list then?

Mrs. WITTELSBERGER. Potentially within the existing requirements for the SBIC program it is just too daunting or they do not think that they will be able to get a license so they do not attempt to do it.

Senator MARSHALL. Okay. Mrs. Rodriguez Simon, anything to add? It sounds like we covered it pretty good.

Mrs. Rodriguez Simon. I think she covered it. One thing I would say is, you know, if we are intentional about recruiting either rural or from a specific State, and it is the same comment I have about recruiting diverse candidates, I think that there are many, many investment professionals out there that could be recruited to this program. However, we have not been intentional. We have not made that a priority and a goal. And so I think we can certainly include making sure that we have investment managers from states that are not represented.

Senator MARSHALL. Okay. And I will start with Mrs. Rodriguez Simon and go backward, to give you both a chance at first shot. My next one is, like I mentioned, this company in Kansas is not likely investing. Is that a common thing, and why are people, I guess, dropping out or not active? Is that common for people to become not likely investing now?

Mrs. Rodriguez Simon. I have not heard that that is common. I think that there are a number of us that have been in the program for a very long time, like Avante has been. We have four licenses. So I do not have a good answer on that, sir.

Senator MARSHALL. Yes. Mrs. Wittelsberger, any further comment?

Mrs. WITTELSBERGER. Yep, I do not have the specifics.

Senator MARSHALL. Okay. What are the barriers to more firms being licensed as an SBIC and participating in this program? Or are there any barriers to be licensed as an SBIC and participate? Mrs. Wittelsberger, I will let you go first.

Mrs. WITTELSBERGER. Sure. Thank you. The licensing process today is very subjective. There is a lot of uncertainty around the time related to the licensing process. It can be very slow. It can cost hundreds of thousands of dollars. So for a first-time fund manager that is pretty daunting and risky to leave your existing job. For repeat managers like Patriot Capital and Avante, we have been through it so we have some level of certainty in getting through the program.

Senator MARSHALL. Okay. I will go to Mrs. Rodriguez Simon for my last question. I am going to hate to admit this, Chairman, but I did not know about this program until today. And, I was a Congressman for four years, ran multiple small businesses, party of a

community bank, and this is the first time I have heard of this program. What can we do to raise awareness?

Mrs. Rodriguez Simon. Senator, that is such an excellent question, because I think that that is one of the reasons why we do not have diverse or rural participants, because there is really a lack of education across the investment industry about this program.

It is an amazing program. I mean, it is compelling for the funds. It does a lot of good for our country. I think, again, we have to be intentional about it. We have to give the SBIC the resources to be able to go out and convince other people, or convince more of the investment managers to join the program.

Senator MARSHALL. Again, we invite you all to participate. You know, some of my urban areas, the Chambers there, I think my Hispanic Chamber in Kansas City is one of the best Chambers in the country, and this would be one more tool that they could put in their toolbox. So thank you so much.

Chairman CARDIN. Senator Marshall, I agree with you completely. That is one of our real challenges. We only have 300 managers in the country and it is not diverse at all. And from the point of view of not just minority and underserved communities but also geographically. So it is an area that we really need to improve, and that is going to be one of the goals of this. So thank you for raising those issues.

Senator Duckworth is available through Webex.

Senator DUCKWORTH. Thank you, Mr. Chairman. Already the discussion is very interesting.

My first question is for Mrs. Wittelsberger. As part of the President's fiscal year 2022 budget, the Small Business Administration recently identified expanding access to capital for small businesses as Strategic Objective 1.1, and I could not agree more. My top priorities to assist small businesses are to increase access to capital and to double down on proven in-demand programs that already work.

The SBIC program meets both priorities. First, we know it is popular, especially in times of recovery, and after the Great Recession the SBA witnessed a significant uptick in SBIC applicants, and the agency expects a similar uptick during this recovery. And we know that it works, right? Not only is it popular, it works, because over the past six years it has supported an average of more than 100,000 jobs per year, and that is why we must increase funding available to SBIC participants.

Last Congress, I worked with Senators Young and Risch to introduce the Investing in Main Street Act, legislation that would allow banks, particularly small ones, to provide more money to SBICs. The bill passed the House, 403–2, but it did not receive a vote in the Senate.

Mrs. Wittelsberger, I know that was a long preamble. You mentioned this bill in your testimony. Can you describe how this simple initiative could spur even greater investments into SBIC funds, and how vital this capital would be as we emerge from the pandemic?

Mrs. WITTELSBERGER. Thank you, Senator Duckworth, and yes, we are totally supportive of the Investing in Main Street Act. As you mentioned, it seems pretty simple to us. There is a mismatch

today between the banking laws and the small business laws. Banks are allowed to invest more dollars in SBICs than SBICs are allowed to accept today. You know, a lot of this is mainly impacting smaller banks.

So cleaning up the mismatch between the 15 and 5 percent we think is an easy fix, and we are supportive of the act.

Senator DUCKWORTH. Thank you. My second question is for Mrs. Simon. Mrs. Simon, I know you live in Los Angeles, but I know that you are a native Illinoian, with Chicago roots, and as you said, you just gave birth last week. Now I brought my baby to the floor of the Senate to vote at 10 days, so you have beat me in terms of time. You are a true inspiration.

I appreciated your testimony about the importance of mentorship programs, and in Illinois we have seen this importance firsthand. Commissioner Jamie Rhee at the Chicago Department of Aviation is spearheading a mentorship program between large and small businesses for projects at the O'Hare and Midway airports, with the goal being to create a more diverse set of participating company owners and to give the smallest of small businesses more prime contracting opportunities.

I want our recovery to include more initiatives like the one at the Chicago Department of Aviation. Mrs. Simon, can you describe why having a mentorship program is crucial for promoting opportunity for new and diverse business owners within the SBIC program?

Mrs. Rodriguez Simon. Absolutely. Thank you so much for your question, Senator Duckworth. It is an honor to speak to you. I have admired you for a very long time.

The mentorship program, I think, is instrumental in increasing the number of diverse investment managers, and also can be used to increase the number of investments in diverse businesses. This is an industry of very talented investment managers. The existing SBIC funds, while not diverse, include a number of really, really great, talented investors. And if we can connect them with first-time managers, like funds that may have diverse investment professionals that may already have track records but that have never run a fund before, if we could connect them with established funds it will have a significantly higher chance of success.

And this program has always been a public-private partnership. It has been since its very beginning. And so if we continue that strategy, where we are continuing to partner together with all of the incumbents within the existing program, I think that we can make really very significant change.

I think it is an easy program to implement. I think that talking to my colleagues, a large number of them would be interested, and again, I think it would make a very significant difference in making sure that we get more diverse managers and more capital to diverse companies.

Senator DUCKWORTH. Thank you. And I know that our Chairman, Senator Cardin, is working on this very program with President Biden, and I look forward to joining them in this endeavor. Thank you so much to both of you for being here today.

I yield back, Mr. Chairman.

Chairman CARDIN. Thank you, Senator Duckworth. Senator Cantwell.

Senator CANTWELL. Thank you, Mr. Chairman. Carrying on that same line, Mrs. Rodriguez Simon, this issue of—in my State we had SBICs invested $204 million in small businesses between 2016 and 2020. So that could have been more if we looked at our 215,000 women-owned businesses. So as you pointed out, we need to do more. We are only financing about 5 percent of those minority-owned businesses.

So I know you just elaborated, and know the Chair, I so appreciate Chairman Cardin exploring this issue as well. So what is that we need to do? I want you to speak more about what increasing diversity at the SBIC investment team or management teams, what we could do to help the teams look more like the women and minority businesses that they are taking a look at? I know there is a fund in my State that was started by a group of women for this very reason, but what else could we do? What else should we be doing to make sure these investment teams look more like the people that we are trying to attract, or fund, I should say.

Mrs. Rodriguez Simon. I appreciate the question. It is really a passion of my team and I to recruit more diverse managers into this program. So first, I want to start by saying that they exist. People of color exist as investment managers. We already are out there, working outside of the SBIC, in a large number.

The NAIC, which is an organization that supports diverse-owned managers, there are 120 members that that have under management $225 billion. They are out there, a lot of them. I am not a unicorn, right? Even though I am one of the very few in the SBIC fund, the SBIC program, there are many out there. We need to recruit them.

And it is not as hard, I think, as we expect it to be. In fact, I started a few months ago with a small panel connecting diverse managers to the licensing team at the SBIC, which, by the way, they have been incredibly collaborative and just fantastic partners. We connected 11 diverse managers to this team, and 3 are already interested in applying. So it is a matter of being very intentional about recruiting these managers, about helping them through the process, creating a Mentor–Protégé program so that they are positioned to succeed, and making it a clearer path to getting into the program.

I hope that answers the question.

Senator CANTWELL. It does. We are dealing with the same issue as it relates to science, engineering, and math, what we need to recruit more women into the sciences. And we have studied it, actually. NSF studied it. They said we needed to be aggressive, that it cannot be passive. It has to be aggressive. So what you are saying is the same thing.

And I am just thinking about this group that did a fund in the Pacific Northwest. It really did not take them long to get the resources. It is almost like there was a ready-made group of people that were waiting for them to form so they could give them the funds. So they came up with funds very quickly. And then by doing that, you can then attract—and people can say, "Oh, I can go to them. I can go to them to talk about my business idea because of who they represent."

And they did target more mentoring. I think that is the other thing, too. Once you create a more representative group, they focus in on those things that you think are important, and in this case these women knew that mentoring, in a certain particular way, was going to be more important, and that they would have to spend more time with people looking at that particular fund.

So I just feel like part of our challenge, right, is to have a distributed network of opportunity throughout the United States, and we should really think about what we can do, Mr. Chairman, in this area. What can we do, almost like incenting people to set up these funds that look more diverse.

Mrs. Rodriguez Simon. If I can just add, I think the words "being aggressive" is exactly right. It is really making it a top priority, putting resources behind it, having a diversity task force that really keeps all stakeholders accountable, and that reports back to this Committee on progress. It will happen.

I mean, at our firm everybody told us we would never be able to hire as many women and people of color as we thought we could. Well, 12 of our 16 people are women or people of color, because we have been intentional about it. People say there are none of us. There are tons of us. We are out there, and we are excited and ready to help.

Senator CANTWELL. Well, I think, to me, Mr. Chairman, 75 percent of job growth comes from small business, and 50 percent of our population are women. And so if you are not encouraging the job growth to happen within 50 percent of the sector of your population, you are limiting your job growth. So, to me, we should figure out a way to, as you said, accelerate or be aggressive on this and figure out how to get that distribution across the United States. Or, I do not know, even it was just to learn from the ones that are already out there.

But I almost feel like there are a lot of women who are in these business positions that probably—I am not saying they do not think they are ready. I think if you said, "Please take up the mantle, and here is a little bit of resource so that you can start doing that," I think we would see a response.

Mrs. WITTELSBERGER. Senator Cantwell, if I could add, we have talked about this today, but the MicroCap program that is part of the discussion I think would address some of these concerns. It is really growing the on-ramp of potential fund managers, which would be most likely first-time fund managers. So people are not as scared to risk leaving their current job to enter the program. We would have a clear path, and likely a clear path to a smaller first-time fund, which would allow these funds to invest in smaller companies, smaller dollar amounts, and, you know, covering more diverse companies, and them themselves being more diverse.

Senator CANTWELL. Thank you. Thank you, Mr. Chairman.

Chairman CARDIN. Just to underscore Senator Cantwell's point. According to information I have, only 5 percent of the funds go to companies owned by women, veterans, or minorities. I mean, we are talking about a very small amount of SBIC funds actually getting into the minority community or women-owned businesses. And then you look at the geographical division, we have some states where there is zero activity on SBIC. So we have a geographical

problem and we have certainly a problem of reaching the underserved community. And as I said, this is a good program that can be made much better.

Senator Rosen via Webex.

Senator ROSEN. Well, thank you, Chairman Cardin and Ranking Member Paul. I appreciate you holding the hearing on the SBIC program, and I want to thank everyone for being here today. I know we are on the topic of women and working women, and so, Mrs. Simon, I hear you just had a baby, so congratulations to you for being one of those working moms that we are talking about, and congratulations on your new addition.

Mrs. Rodriguez Simon. Thank you.

Senator ROSEN. And, you know, I just want to talk a little bit about what others have been talking about, that lack of SBICs. We have them in Nevada, and Nevada is home to more than 280,000 small businesses, which make up over 99 percent of all businesses in my State. Unfortunately, there are no SBA-licensed small business investment companies located in Nevada, meaning that Nevada small businesses seeking private capital need either to pursue funding from SBICs located in neighboring states, like California, or look elsewhere around the country for access to capital.

So given that most SBICs, they focus on investing in very specific geographic areas, small businesses in Nevada, and of course in other states without SBICs, they really may be missing out on these types of impactful, private capital opportunities that really uplift their business, especially those that simply just need additional streams of capital to grow.

So, Mrs. Wittelsberger, as a member of the Small Business Investor Alliance, what barriers in the SBIC program do you see for states like Nevada that currently lack SBICs, and then I would like to go over to Mrs. Simon, and say coming from a western State, obviously bordering Nevada, I would like your take on that as well.

Mrs. WITTELSBERGER. Thank you, Senator Rosen. I think the key barriers today are the uncertainty around the licensing process, and, you know, previously discussed, the MicroCap bill, I think, would be a perfect solution for your concerns around the lack of SBICs in the State of Nevada. Nevada is a perfect place for SBICs to set up shop, and I think the MicroCap would address focusing on these areas outside of the SBIC epicenters.

And it would provide, as we mentioned before, a wider on-ramp for bringing new fund managers into the program, given that there would be a change in the licensing process as compared to the overall SBIC program for these new fund managers who would be looking to set up funds in the State of Nevada.

Mrs. Rodriguez Simon. I agree, although I imagine that in your great State of Nevada there has to be at least somebody that is qualified to join the existing program and would not need to on-ramp through a MicroSBIC program. And I probably sound like a broken record, but it is really all about being intentional about recruiting where you need and want more capital available.

It all starts with investment managers. The investment managers decide what investments they are going to make. And so if there is nobody in the program that cares about Nevada, well, then Nevada is not going to get any capital. If there is nobody in the

program that really has a network within women or diverse companies, then those companies do not get capital.

And so, again, it is about really being aggressive and recruiting diverse managers, and I do not mean diverse just women and minorities but also geographically, and expanding those programs so that there is room for additional managers. As I just discussed in my testimony, we only use about half of the leverage available. It is just such a wasted opportunity. This is such incredible capital that should be going to our small businesses. We should be using every last dollar of it. And in order to do that, we have to have more licenses. In order to do that, the very hardworking team at the OII needs more resources. They need more people to process licenses and to manage it.

Senator ROSEN. Well, thank you. I could not agree more. I would love to see it expand in Nevada, because we also need to invest in our minority-owned businesses, and in Nevada we have one of the Nation's largest Latino populations per capita, and one of the fastest-growing AAPI communities in the country. We are the proud home of more than 70,000 minority-owned businesses. However, SBA reporting says only 5 percent, just like you are saying, of total businesses, investments go to minority-owned businesses.

So again, Mrs. Simon, in your experience, what else besides attracting people to the table, how would we get them to see us? I know we are a small State, 3 million people, but we have a lot going on—99 percent small business, 50, 60, 70 million tourists through our State every year. We are prime opportunity to grow our small business.

Mrs. Rodriguez Simon. It certainly sounds like it, and it sounds like I need to spend a little bit more time in Nevada, as a fund ourselves.

You know, I think, Senator, it is recruiting people that have the network and sources in Nevada. It is making it a priority, pushing that agenda. I wish I had additional—I really think if we start there—if we get two investment managers in Nevada in the next two years, it will make a significant difference. We have zero now. Let's get one or two.

Senator ROSEN. Well, I am going to maybe reach out with you and see how we can set up some roundtables to make some of those things happen for my great State.

My time is up. Thank you, Mr. Chairman.

Chairman CARDIN. Well, thank you, Senator Rosen. I believe shortly we will be joined by Senator Hickenlooper, but let me ask a question, or just make an observation and then sort of bring us together. We have talked about this at great length.

The SBIC allows a lender to be able to leverage private sector investment, low-interest loans, affordability. It gives you all that flexibility. And most of the SBIC funds will concentrate in certain industries or certain locations. They have a strategy. And as has been pointed out by both of you, if you do not have diversity in the management and location, you are not going to have diversity in where these loans are made. And I think that is absolutely a certainty.

So whether we are looking at underserved communities or we are looking at the geographic distribution of these loans, it is critically

important to have management that recognizes and has, as you said, Mrs. Simon, the connections to the different communities.

So your mentorship program that you have talked about, I am interested in that, because whether you are mentoring future managers that will connect to an existing SBIC or perhaps initiate a new license, by giving a person that represents diversity that opportunity we are creating the next generation of leaders that will represent opportunities in more diverse communities.

So what has your experience shown? It looks like you have gone through this for a while. Tell us a little bit about the experiences of your mentorship program, and how you got it started.

Mrs. Rodriguez Simon. So our internship program?

Chairman CARDIN. Yes, I meant internship.

Mrs. Rodriguez Simon. Internship program. Sure. Absolutely.

So we started our Avante internship program just at our firm to help support women in nontraditional backgrounds get access to this industry. It is a very difficult industry to enter. Typically you have to have a business degree from just a certain type of business school, and you have to have the network to enter into this industry. That is really the key.

And I understand how we got here. You know, 50 years ago, sir, women and minorities, we were not in the place to be successful in investment management—we did not have the education, we did not have the access. The great news is, 50, 60 years later, we have made a lot of progress. Many of us have been in education. Many of us are able to access the industry.

And so we started to just create opportunities for interns to break into the industry, and we have grown that program. We established the first-ever diversity internship program for the SBIC. It is called the "Small Business Investment Scholars," and we have 30 interns, all women and people of color, that will be working at 25 SBIC funds. And to the credit of my colleagues, my colleagues were very willing, very collaborative, and very excited about getting a diverse intern on their team.

And so they are going to be working with this intern, giving them incredible exposure to the industry, and putting them on a path so that they can eventually join their firm and eventually launch their own funds.

But these internships are incredibly important to build a pipeline, and the mentorship programs are incredibly important to provide guidance from established funds to funds that may have track records but have never run a fund before. And so that collaboration between existing funds, you know, that are willing to collaborate, and bringing on new, diverse managers is what we are pretty excited about.

Chairman CARDIN. We might be asking you specifically if there is something we can do in Congress as far as legislation is concerned to assist in this type of program. We would welcome your suggestions in that regard, because we are very much interested in workable programs to improve diversity among fund managers. So we are going to be working with you to try to see how we can advance that.

Now in Maryland we are blessed with having great leadership in our community on women-owned businesses and on minority-

owned businesses. We have now three Women Business Centers in Maryland. We are very proud about that. And the SBIC penetration is pretty strong in the State of Maryland.

So let me take it from a State that already has an established record here. What more can we do to reach underserved communities in a State like Maryland that has a rich number of minority small businesses and women-owned small businesses, and are still not getting the same percentage of help as the demographics would want to indicate?

Mrs. WITTELSBERGER. You are right, Chair Cardin, that we do have three existing, strong SBICs in the State of Maryland. I keep going back to the MicroCap program, but there has been discussion of this mentorship concept, which actually already exists in the MicroCap program proposal, which would expand the requirements, or not loosen the requirements but allow for new fund managers into the program at smaller amounts, and set them up for success, pair them with existing SBIC fund managers who have already been successful in the program.

So, you know, expanding the program through the MicroCap bill I think would allow for more diverse fund managers, even in the State of Maryland, which has a strong SBIC community.

Chairman CARDIN. Mrs. Wittelsberger, that is the best introduction you could give to Senator Hickenlooper, who is now joining us, who is the sponsor of that legislation. So Senator Hickenlooper.

Senator HICKENLOOPER. Thank you, Chairman Cardin, and I had to jump out there so I missed about 15 minutes of your testimony, and I apologize for that because it sounds like I missed some of the best parts.

Certainly, as a former entrepreneur—I refer to myself frequently as a recovering entrepreneur—the willingness, and actually the desire and the healthiness of mentoring a young entrepreneur once you have already become established and successful, it is not only healthy and pleasurable but it really does create a healthy ecosystem. And one of the things we did in Colorado, intentionally, was to try and take some of those mentorships out into the rural parts of the State and try and do kick-starts by kick-starts I mean trying to recreate the network that can provide that kind of mentoring, in rural Colorado as well as urban Colorado.

I want to ask both of you, Mrs. Wittelsberger and Mrs. Rodriguez Simon, to answer this, because you talked in the beginning, and I am sure you have continued to talk about it while I was out of the room, you mentioned the concentration of venture capital and investment in Silicon Valley, in Boston, and New York City. I think you could probably include Seattle these days.

The question is, could a MicroCap SBIC really jump-start capital in rural and other underserved areas, and by jump-starting I mean create an expansion and a follow-on effort. The SBIC program is credited with leading the way and, in essence, jump-starting or kick-starting the broader venture capital industry. How can we use the SBIC program to have that same impact and spur increased diversity in private equity and in the venture capital space, as well?

Mrs. WITTELSBERGER. I can start on that, Senator Hickenlooper. As we have talked about today, these individuals do exist that have the capability to run a first-time fund. So I think through the

MicroCap bill that you have introduced this would allow us to reduce the potential time, which is a hurdle for a new fund manager, potentially change the cost structure for them—it is very expensive for a first-time fund manager to take that risk and jump to raise a new fund, with a lot of uncertainty, and the overall licensing process, and the time that it is going to take. And then existing restrictions on the specific background that you need to have between you and your other partners in raising a fund. A lot of first-time fund managers may not have that.

So the slight tweaks to the program, as it relates to the MicroCap program, I think—and we are supportive of the bill—we think that it would attract new people to the program, especially in smaller markets that you have identified.

Senator HICKENLOOPER. Great. Mrs. Rodriguez Simon?

Mrs. Rodriguez Simon. Thank you, Senator. You know, I support and I commend all efforts to increase diversity in the SBIC program, and I certainly think that there is a place for the MicroCap SBIC. However, I would really caution this Committee on relying solely on those types of programs, and the reason I say that is that they have historically been challenging to administer. The investment restrictions, the fund size limitations, investment committee mandates, they make these funds inherently more challenging than the existing, successful fund. It is harder for these smaller funds to compete. It is harder for them to fundraise. It is harder for them to recruit teams, because they are smaller funds.

So there are some challenges with them. However, as I mentioned, I do support all diversity efforts, and I do think that there is a place for them. I just would hope that we do not rely solely on them, and that we really focus on the large program and attracting diverse managers to that program, which is already established. It is already successful. We already know it works.

And so that is my honest opinion, sir.

Senator HICKENLOOPER. No, that is why you are here, is for that honest, candid appraisal. And I applied for an SBA 504 in 1991. I am on the Hall of Fame in the Denver SBA offices. But the truth is, it drove me nuts. There was so much red tape and so much more bureaucracy. And it is pretty clear that that is because taxpayers do not want us to risk their money. So there are these extra layers of what they believe is security for the investment, which, in the end, really, I think, in many cases, drives away the better candidates who are more deserving and would be more successful, create more jobs, create better businesses if we got them the resources when they needed it.

You both talked a little bit about the importance of patient capital. And I struggled for a long time because I was in business four years before I could use the SBA 504, before I had enough wherewithal, and there was nobody. I had to do all friends and family, which took me two years, at $5,000 here and $10,000 there. It is a long story. I am sure you have each got your own long stories.

But the truth is, there is no reason why we cannot make the processes of the Small Business Administration more efficient.

Mrs. Rodriguez Simon. Absolutely.

Senator HICKENLOOPER. Isabel Guzman, the new Administrator, was out in Colorado last week, and so I got to spend several hours

with her, going and talking to small businesses in northern Colorado. And I think we share that recognition, that this is a time where making sure we protect the taxpayers' dollar, we can make it easier and more efficient for small businesses, truly small businesses, to get that.

I just used up my own time giving a speech, so I apologize. I will pass along my questions and make sure that you get them for the record and get to answer them separately. Thank you. I yield back to the Chair.

Chairman CARDIN. Thank you, Senator Hickenlooper, and we appreciate your leadership on this issue, and to sort of help us reach some of the states where we have not had as much participation. So thank you very much for your help on that.

President Biden's American Jobs Plan, the Build Back Better, includes a provision to help small businesses, and his charge to all of us is to figure out how we can get capital into underserved communities, and to do that particularly as it relates to startup capital, venture capital equity. So that he recognizes that historically we have had a challenge in reaching underserved communities, whether they are rural America, whether it is minority communities, women-owned businesses, veteran, disabled veteran communities. We have all these target communities, hub zones, and we recognize that we have programs to try to deal with that, but the President is challenging us to do better as we build back better.

So I think this hearing has been extremely helpful as to how the Small Business Investment program can really help us in achieving what President Biden has challenged us to do, in building back a better and fairer America that provides opportunity for entrepreneurship in all communities.

So we are going to certainly use the information you all presented as we try to work with President Biden on the American Jobs Plan. I know there are a lot of groups meeting and negotiating. We are going to make sure that small businesses are properly represented in those negotiations.

Let me thank both of our witnesses for your contributions today. We may be coming back to you with more specific requests for help as we craft the congressional response.

The record of this Committee will remain open for two weeks. If questions are asked for the record we would ask that you respond in a prompt manner. And with that the Committee will stand adjourned. Thank you all for your attendance.

Mrs. WITTELSBERGER. Thank you.

[Whereupon, at 3:40 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

RESPONSES TO WRITTEN QUESTIONS

Senate Committee on Small Business and Entrepreneurship
"Review of the Small Business Investment Company Program" (June 9, 2021)

Mrs. Stacey Wittelsberger
Patriot Capital, Baltimore, MD
July 8, 2021

Senator Hirono

Promoting access to capital for women and minority-owned businesses: Avante Capital is a women and minority-owned firm. Part of their focus is making sure women and minority-owned businesses have access to capital. Patriot Capital has worked with women-owned businesses that need access to capital.

Introduction: During the pandemic we have seen women and minority-owned businesses disproportionately impacted by COVID-19. In many cases, these businesses lacked the necessary capital to survive.

QUESTION 1:

How are firms like yours promoting access to capital for women and minority-owned businesses?

I am the most senior professional on our investment team that is a woman/minority. I joined the firm 11 years ago this past June 1, 2021. For us, it has been just as important to build out our female/minority members of the investment team as it has been to focus on investment opportunities with female/minority owner/management teams. As managers, we need to be more representative of the diverse populations we are targeting. We have added two female investment professionals in the last two years, of which I am proud. This past summer 2020 we also launched our internally developed Responsible Investing strategy, which has an inherent focus on screening for and identifying women/minority investments, with a commitment made to all of our key stakeholders relating to this strategy. We surveyed our active portfolio companies as a part of the launch of our Responsible Investing strategy earlier this year (36 active investments). Results included the following metric: 29% of active portfolio companies have diversity at the board level. We would like to improve upon this metric.

I am involved in a number of female investing associations and organizations, made up of both companies and fund managers where I am able to interact with potential situations/companies that are women/minority owned and looking for capital. Lastly, our involvement in the Small Business Investor Alliance (SBIA), both as members of the organization but also on the board of the organization, helps us to prioritize and provide solutions (i.e., MicroCap Small Business Investing Act) to issues like the limited access to capital for women/minority owned businesses.

QUESTION 2:

What can we do to help firms like yours promote access to capital for these businesses?

- **We need all of the SBA to be able to efficiently provide its full set of business assistance tools to all Americans that need them. If the SBA is short-staffed and ill-equipped to do its job, it will fail to live up to its core mission for all. Further, the COVID disruption amplified and**

exposed pre-existing disparities. Congress should provide greater human resources to the SBA to better fulfil their mission, provide better technology tools so that the SBA staff can do their jobs more effectively and efficiently, and SBA should reexamine structural biases in their systems that are making it more difficult for women and minorities to access all of SBA's tools. The Office of Investment is so severely short-staffed and has such rudimentary technology (a $33 billion program run largely on Microsoft Office) that it needs the Committee's oversight to make sure they can do the job they have been tasked with performing.

After adequately staffing the OII and providing basic information technology tools, the best way to diversify the SBIC program and to expand access to underserved areas would be for Congress to pass S. 1759, the *MicroCap Small Business Investing Act of 2021*, introduced by Senators Hickenlooper and Risch. This bipartisan legislation would broaden the pool of fund managers in the SBIC program by providing a wider on-ramp to talented people in underserved geographies that may have limited access to participating in the SBIC program. In addition to encouraging more inclusivity among participants in the SBIC program and the small businesses receiving SBIC financing, the bill will create smaller SBIC funds, which encourages investing in businesses that are considerably smaller than the SBA's maximum size standards. Licensing more funds as MicroCap SBICs will allow for more investments into the smaller end of the small business spectrum, and these smaller funds are also more likely to be first time funds led by women and minority managers.

SBIA also believes that expanding the ability for SBIC funds to provide more equity capital, the most patient form of capital, would be a significant enhancement. With the ability to offer more equity to small businesses, Congress and the SBA would enable SBICs to provide more capital to younger businesses and businesses not yet mature enough to access SBA's debt tools. When SBA had more equity tools there was a higher rate of investment in minority businesses.

Finally, Congress should enable "Bonus Leverage" for SBIC investments made in "Smaller Enterprises" and that are in underserved industries, geographies, or people.

Senator Rubio

For years, venture capital funding in the US has been highly concentrated in Silicon Valley and other tech hubs, and largely benefited tech startups with short profit horizons. Advanced manufacturing, by contrast, is a capital-intensive industry in which new startups often take much longer to realize profits. As a result, this industry has suffered from a lack of access to capital. As reports published by this Committee last Congress have argued, that need is not currently being filled by private investment.

To address this challenge, Senator Risch and I recently introduced the American Innovation and Manufacturing Act, a bill that would create a new facility in the SBIC program to provide long-term debt with equity features to SBICs that invest in small domestic manufacturing firms. I'd like to explore this topic with you further:

QUESTION 1:

Do Patriot Capital or Avante Capital Partners currently invest in any advanced manufacturing firms, or have they invested in small manufacturers in the past?

We have invested in 138 companies and a total of over $900 million since we became a part of the SBIC program in 2000, with our first fund Allegiance Capital. Investing in domestic manufacturing businesses has been part of our DNA since day 1, with over 32 investments in the manufacturing sector representing over $300 million of invested capital. These companies vary in size, but all were considered "small businesses" at the time of the investment.

QUESTION 2:

What insights can you provide about SBICs investment decision-making and how that might affect the ability of manufacturing firms to access SBIC capital?

> **SBICs often invest in American manufacturers, with some investing solely in manufacturers. Allowing expanded "Bonus Leverage" for priority industries or geographies would encourage SBICs to seek out small businesses in these areas from early in the life of the SBIC fund. Allowing more equity tools in the SBIC program would also allow more types of investments into critical areas, such as manufacturing.**
>
> **Investing in manufacturing companies will always be an area of focus for us. We like a number of attributes about this sector, including more broadly the value-added positioning as it relates to customer relationships, the diversified end markets and applications potentially served, the tangible asset base, and the dedicated employee base and physical locations.**

QUESTION 3:

How might a new investment facility targeted toward advanced manufacturing be utilized by SBICs, and what benefits might such a program offer that are not currently available under existing programs?

In your testimonies, you both mentioned the benefits of equity investing in ensuring that more small companies that can access long-term capital.

- **The particular investment strategy for any given SBIC sets the trajectory of its investment targets. In general, SBICs regularly invest in the manufacturing sector, which would also capture advanced manufacturing. All manufacturing is important and nearly all manufacturing today is far more advanced than what was considered "advanced" in the 1980's. With adequate capital, particularly long-term capital, manufacturers can upgrade their technologies, production, and global sales.**

- **COVID-19 exposed weaknesses in American supply chains and our reliance on foreign manufacturing to produce much needed goods. There are also serious national security concerns with outsourcing manufacturing, and as COVID revealed, very grave public health concerns if we cannot produce supplies domestically. These factors identify growth opportunities for domestic small businesses, especially in advanced manufacturing, and those that demonstrate success are likely to gain investment attention from SBICs.**

- **As we continue our post-COVID recovery, many small businesses need equity capital to grow. Advanced manufacturing businesses, particularly those in their earlier stages, are more conducive to receiving equity capital, which is the most patient form of capital. SBIC funds would use their investing expertise to make equity investments in advanced manufacturing**

businesses to patiently grow them. SBIC investment teams, in addition to providing capital, also help to professionalize companies and make them more efficient so they can grow for the long-term and create stable employment and economic benefits for their communities.

- **Regarding equity investment, right now the SBIC program is heavily debt-focused, so an equity program is needed, and there is currently great interest among the investment community to make equity investments through the SBIC program framework. Many current SBICs would take advantage of an equity-focused program, and many new funds would form if an equity vehicle were available.**

- **The SBIC program would benefit from creation of equity investment tools to help small businesses outside of the three concentrated areas that receive 75 percent of the early-stage capital today. Equity investments mean no debt service for the fund or its portfolio company investments. This would also help create economic opportunity in parts of the country desperately undercapitalized and immediately begin creating jobs and domestic production in critical industries.**

QUESTION 4:

Can you expound on why equity financing may be a key component to expanding access to funding?

- **Equity allows for investing in earlier stage (younger and newer) businesses that are not yet generating significant cash flow. When the SBA pivoted away from equity investing fewer equity funds were formed in smaller states and funds providing equity became very concentrated in a few geographic and industry areas. Even for more mature businesses, equity provides a level of patient capital that many businesses need. As business access equity their ability to access conventional lending from banks is also significantly improved.**

- **Equity financing is especially critical right now for small businesses still recovering from COVID-19. Many existing small businesses were hard hit by the pandemic and most new small businesses do not have the ability to make debt payments right now. Access to equity capital is by far the hardest type of capital for smaller businesses to access, and it is also the most patient form of capital and the most impactful for job growth.**

QUESTION 5:

As Congress considers patient capital like that provided by equity financing, how can we ensure there remains some discipline to ensure that investment companies will invest the money efficiently?

- **SBICs have a strong financial incentive to invest in businesses that will grow and create jobs. If a business that receives SBIC investment fails, the SBIC will not make money. There is enormous financial incentive in the way the existing SBIC program is structured to encourage sound investment decisions.**

  In addition, the existing SBIC program's licensing process thoroughly vets prospective SBIC funds to ensure that only those with a strong track record of performance are allowed into the program. In addition, structuring an equity program so that any government participation requires that the taxpayer not be in first-loss position is critical. This puts the burden on the firm investing the private capital to produce returns so the government can

receive its portion and the SBIC can pay back its investors before it realizes any share of the profits.

Senator Inhofe

Investment in Chinese Entities

Mrs. Wittelsberger, through the SBA's SBIC program, taxpayer dollars are providing backing to small businesses, including technology companies.

On June 8, the Senate passed the United States Innovation and Competition Act, spending almost $190 billion to counter China in research and development.

I want to ensure that our federal dollars are not supporting companies investing in China. While current law prevents substantial investment in foreign companies within the SBIC program, we should know how this statute is being implemented.

QUESTION 1:

Mrs. Wittelsberger, what protections are in place in the SBIC program to prevent small businesses that receive funding, particularly in the tech world, from sharing their technology with China, or worse, to prevent China from stealing from these small businesses?

- **SBIC program regulations prohibit SBICs from using federal leverage to finance small business if those funds will be used substantially for a foreign operation, or if at the time of financing, more than 49 percent of the employees or tangible assets of the small business are located outside the United States. 13 CFR 107.720(g).**

- **By statute, SBICs are also not allowed to make investments that would increase unemployment in the United States.**

- **SBA also has restrictions on foreign investments into SBIC funds. Foreign investors into SBIC funds must submit fingerprints and other information to the SBA.**

- **The protections that you reference are most likely found in non-SBIC specific federal statutes and regulations that govern technology and intellectual property transfer (e.g., CFIUS) that applies to domestic businesses engaged in international business and trade.**

QUESTION 2:

SBA Resources in Oklahoma

In FY19, 42 entities received SBIC financing in Oklahoma, totaling $35.1 million. Nevertheless, I have heard from constituents about the need for SBA to increase its outreach to underserved areas. Many small businesses in Oklahoma are simply not aware of SBA's programs, and those that are often lack the expertise to successfully access these programs, hindering their ability to benefit from them. SBA should expand its outreach in rural states like Oklahoma to ensure that small businesses in underserved areas are aware of SBA's programs, including the SBIC?

Mrs. Wittelsberger, how would you recommend that SBA do this?

SBA has a district office in Oklahoma City tasked with outreach to small businesses in the state. I encourage the SBA's Oklahoma City office to do more direct outreach to small businesses and to work with the Governor's economic development and commerce team to educate about the SBIC program.

In addition, the Small Business Investor Alliance (SBIA), the trade association for SBICs, is eager to conduct outreach in states like Oklahoma that need more access to capital. SBIA would gladly work with the Oklahoma congressional delegation and the Governor to host roundtables and other events in the state to bring together investors and the local business community to highlight the SBIC program and the impact SBIC dollars could have on job creation and economic growth in the Oklahoma.

Senator Young

Last Congress, I introduced the bipartisan Investing in Main Street Act with Senators Duckworth and Risch. This bill would correct a mismatch between the SBIC program's authorizing statute, which allows banks to invest up to 5% of their capital and surplus into SBICs, and banking regulations, which allows banks to invest as much as 15%.

QUESTION 1:

Mrs. Wittelsberger, can you explain how much impact the passage of this bill will have on small business access to capital?

The Investing in Main Street Act would allow banks to inject more private capital into the SBIC program without increasing risk to the taxpayer. Currently, many banks want to invest more into SBICs but are hitting the five percent (5%) limit imposed by the Small Business Investment Act of 1958. If the cap were raised, banks currently investing could inject even more capital into SBIC funds that could then be invested in small businesses nationwide. Raising the cap could also be an incentive to attract more investment capital for small businesses because more banks would become limited partners in SBICs.

QUESTION 2:

Is this becoming a bigger issue for SBICs who are trying to raise capital for their funds?

Yes. As background, SBIC funds have a 10-year life cycle. Funds invest in small businesses, growing and professionalizing them for five years, then have a five-year harvesting period during which they wind down their funds and exit the investments. Most funds apply for a new SBIC license as they are winding down a fund and go out and raise additional private capital for their new funds.
Whether it be repeat licensees or first-time SBIC funds, many are reporting that more banks are eager to invest in SBICs because of the thorough vetting that takes place in the licensing process, and the decades-long track record of strong performance. But banks are currently prohibited from investing more than 5% of their capital and surplus into SBICs. If the cap were raised above the current 5% threshold, we would likely see a significant injection of private capital into the SBIC program.

QUESTION 3:

What types of banks are being affected by this 5% cap? For example, is it mostly smaller banks as opposed to large banks?

Years ago, there were initiatives – such as the SBA's Impact Investing Fund – that tried to spur additional investments in underserved markets through SBIC-licensed funds. Usually, these initiatives are bipartisan, but don't seem to gain the needed attention amongst the investment community.

I have concerns – specifically in a post-pandemic economy – that venture firms will not want to access SBIC leverage and increase their risk profile regardless of the incentives. Regrettably, this can overshadow the other benefits of partnering with the SBA.

Small community and regional banks are the ones being affected the most because larger banks are not as close to the 5% cap. Many smaller banks could easily invest significantly more into the SBIC program without increasing their risk profile, and as mentioned earlier, banks are attracted to SBICs because of the thorough vetting of them that takes place during the SBA's SBIC licensing process, which encourages more sound investing and better fund performance.

QUESTION 4:

Mrs. Wittelsberger, what can this committee focus on to improve the SBIC program to attract more investors?

I applaud the Committee's ongoing oversight and attention to the SBIC program. As I noted in my oral testimony, while the SBIC program is generally working well, it would benefit from additional attention to the following areas:

- ***Program Operations*. Upgraded technologies and more professional staff to meet the program's growing needs and opportunities.**
- ***SBIC Participation*. We can all help strengthen the SBIC program by helping to develop a far more diverse pool of investment fund managers, skilled at helping domestic small businesses access capital.**
- ***Patient Capital*. Small businesses need access to equity because it is the most patient form of capital. The SBIC program limits the amount of equity available to smaller businesses and the program would benefit from thoughtful tools to facilitate more access to this type of capital.**

BENJAMIN L. CARDIN, MARYLAND, CHAIRMAN
RAND PAUL, KENTUCKY, RANKING MEMBER

MARIA CANTWELL, WASHINGTON
JEANNE SHAHEEN, NEW HAMPSHIRE
EDWARD J. MARKEY, MASSACHUSETTS
CORY A. BOOKER, NEW JERSEY
CHRISTOPHER A. COONS, DELAWARE
MAZIE HIRONO, HAWAII
TAMMY DUCKWORTH, ILLINOIS
JACKY ROSEN, NEVADA
JOHN HICKENLOOPER, COLORADO

MARCO RUBIO, FLORIDA
JAMES E. RISCH, IDAHO
TIM SCOTT, SOUTH CAROLINA
JONI ERNST, IOWA
JAMES M. INHOFE, OKLAHOMA
TODD YOUNG, INDIANA
JOHN KENNEDY, LOUISIANA
JOSH HAWLEY, MISSOURI
ROGER MARSHALL, KANSAS

United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350
TELEPHONE: (202) 224-5175 FAX: (202) 224-5619

June 24, 2021

Mrs. Ivelisse Rodriguez Simon
Managing Partner
Avante Capital Partners
11150 Santa Monica Blvd., Suite 1470
Los Angeles, California 90025

Dear Mrs. Simon,

Thank you for appearing before the Committee on Small Business and Entrepreneurship on June 9, 2021, at the hearing titled "Review of the Small Business Investment Company Program."

Enclosed are questions for you that have been submitted by Senator Hirono and Senator Rubio for the hearing record. Please submit your answers to these questions by Thursday, July 8th via electronic mail to kathryn_eden@sbc.senate.gov. To facilitate the publication of the record, please reproduce the questions with your responses.

Again, thank you for your assistance. Please contact Sean Moore of the Majority Staff at sean_moore@sbc.senate.gov or Meredith West of the Minority Staff at meredith_west@sbc.senate.gov with any questions you may have. We look forward to reviewing your answers.

Sincerely,

Benjamin L. Cardin

Benjamin L. Cardin
Chairman

Senate Committee on Small Business and Entrepreneurship Hearing
June 9, 2021
Follow-Up Questions for the Record

Questions for Mrs. Simon

Questions from:

Senator Hirono

Promoting access to capital for women and minority-owned businesses: Avante Capital is a women and minority-owned firm. Part of their focus is making sure women and minority-owned businesses have access to capital. Patriot Capital has worked with women-owned businesses that need access to capital.

Introduction: During the pandemic we have seen women and minority-owned businesses disproportionately impacted by COVID-19. In many cases, these businesses lacked the necessary capital to survive.

QUESTION 1:

How are firms like yours promoting access to capital for women and minority-owned businesses?

Generally, gender and racially-diverse funds invest more frequently in women and minority-owned businesses (Library of Congress, 2016). Avante Capital Partners is a women and minority-owned SBIC, and by natural extension we strive to identify, underwrite, execute and manage investment opportunities that promote access to capital for women and minority-owned businesses. At Avante we have invested in numerous companies with diverse ownership and diverse management teams. We have also worked to promote diversity across the industry so that more firms like ours invest in diverse investments. Avante maintains one of the largest networks of women private equity professionals and regularly sponsors events in support of this network. We have also launched internship programs to build the pipeline of diverse professionals and are working closely with the SBIC staff to recruit diverse investment teams. Our goal is to promote diversity across the industry and build the pipeline of talented diverse professionals. We would be honored to work with your office or any other Senators to continue to drive diversity within the SBIC program.

Avante additionally seeks to advocate for underserved communities and diverse populations beyond our investable universe. For example, during the recent COVID-19 pandemic, Avante deployed a significant pro bono outreach program to educate and help other diverse small businesses access capital to help them to survive the crisis and maintain their employee bases.

QUESTION 2:

What can we do to help firms like yours promote access to capital for these businesses?

Promoting gender and racial diversity in investment: While firms like Avante focus on promoting access to capital for women and minority-owned businesses, overall investment in these businesses by SBICs is limited. A primary cause of this lack of diverse investment is the lack of diversity among fund managers.

Introduction: Currently there seems to be a lack of investment in women and minority-owned businesses by SBICs. You highlighted that every year SBICs only invest around five (5) percent of their financing in minority-owned businesses, and three (3) percent in women-owned businesses. I think we can do better.

We should make it a continuing mission of the SBA to license diverse funds and to facilitate the deployment of that capital into underserved sectors of the economy. Woman and minority owned small businesses, rural areas, and manufacturing businesses continue to struggle to attract capital in meaningful ways, and that leads to a great imbalance in the economy. SBIC funds will continue to adjust based on the guidance and priorities of the SBA and this Committee, and we should continue to reinforce the priority of diverse investors and investments through all channels at our disposal.

Our chief recommendation is to create Diversity Task Force or working group that would be charged with implementing and tracking initiatives that drive meaningful diversity of managers and investments. We suggest that the task force be comprised of existing women and minority SBIC fund managers along with members of the team at the Office of Investment and Innovation ("OII"). The group should report back to this committee on a quarterly basis to increase accountability and success. Additionally, we recommend further support for the mentor-protégé program as well as active recruitment of diverse investment managers which I will discuss further in this response

QUESTION 3:

How can we incentivize firms like yours to invest in women and minority-owned businesses?

A meaningful motivation for established funds is greater access to SBIC leverage. We recommend allowing established funds that mentor new, diverse-manager funds to increase the current SBA leverage cap of $175 million for an individual SBIC fund to $250 million, and to increase family of funds cap from $350mm to $600mm. That incentive makes a meaningful difference to an SBIC fund.

You can additionally include a 'leverage bonus' tier as it relates to investments made in companies that support diversity and inclusion initiatives (for the avoidance of doubt, this would involve a leverage cap waiver for those investments, but leverage ratio / private capital requirements would remain unchanged).

QUESTION 4:

What incentives should there be for recruiting diverse and experienced fund managers who may be more likely to invest in these businesses?

A mentor-protégé program should be officially established to increase access to capital for diverse managers that have significant investing experience but may not meet all of the existing licensing criteria in the existing debenture program (specifically the requirement that every fund have two managers that have prior experience working together). One of the best ways for new, diverse managers to succeed as an SBIC fund is to learn from those who have already been successful. Encourage existing funds to take meaningful ownership positions in new funds run by diverse managers. The veteran fund will help in the establishment and operation of the new fund, providing the very experience and tutelage the diverse managers need to succeed.

QUESTION 5:

What other incentives should we consider to promote investment in these businesses?

Promoting gender and racial diversity in the industry

Avante has supported several initiatives to promote diversity in the SBIC industry. These initiatives include the Small Business Investing Scholars Program it created last summer to provide internship opportunities for women and minorities pursuing SBIC careers.

Introduction: Last summer your firm created a summer internship program for women and minorities pursuing SBIC careers. You described this summer program as the "first diversity internship" in the industry.

As previously mentioned, Avante believes that creating a strong pipeline of diverse talent in our industry will ultimately drive investment in diverse businesses. Beginning in 2020, Avante created the Small Business Investing Scholars Program to bring together undergraduate women and minority students to learn about private equity and specifically the SBIC program. Leaders from the private equity industry introduced students to private equity, financial modeling, deal underwriting and investment banking. One of the main hurdles for these students is exposure to the industry, and it is critical to have leaders in the industry helping to create a pipeline of diverse candidates from universities or investment banks.

QUESTION 6:

What led you to start this program? Do you believe there is a lack of diversity and opportunity in the industry pipeline?

As a woman and minority owned firm, diversity is a core value of the Avante team. While the industry is making strides to offer more opportunities for individuals from diverse backgrounds, there is still significant work to be done. Each year, SBICs provide only about 5% of their total financing to minority-owned and controlled small businesses and about 3% to women-owned small businesses. One primary cause of this lack of diverse investment is the lack of diversity

among SBIC fund managers. It is very difficult for women and people of color to break into the field of finance, so we wanted to address these challenges at the root by creating the first diversity and inclusion internship program in the SBIC industry. Our internship program is not only an unparalleled opportunity to expose young, bright future investment professionals to the SBIC industry as a whole, but also to foster a network of diverse individuals who can mentor and learn from each other. We hope that our scholars and SBIC firm partners will continue the work started by this program to create a sustainable pipeline of diverse talent that will, in turn, invest in diverse founders and business owners to ultimately uplift the entire small business ecosystem in this country.

QUESTION 7:

How can we expand programs like these to improve diversity and opportunity in the pipeline?

Continued education on the benefits of working in diverse teams and continued investment in diversity and inclusion initiatives like the SBIC program will be critical to the sustainability of our effort. Our vision is that eventually the SBA will officially sponsor the program and that all 175+ SBIC firms will participate. We hope that our scholars and their firms will adopt this mission and continue to invest in and exponentially grow opportunities for diverse individuals.

QUESTION 8:

What else can we do to make sure we have a competitive talent pool that's also representative?

<u>Creating a diversity task force</u>

Avante's recommendations for improving diversity within the investment community include creating a diversity task force that would be responsible for tracking initiatives to drive diversity of fund managers and investments.

Introduction: You have recommended creating a diversity "task force" that would be responsible for tracking initiatives to drive diversity of fund managers and investments. Such a task force would include members from SBA, women and minority fund managers, and others.

Many SBIC firms have never had a woman or person of color on their senior investment teams, and not for lack of qualified, competitive, diverse individuals. It is difficult for women and minorities to learn about the finance/SBIC industry unless they are exposed through classwork or have already found mentors and advocates with experience in this space. These individuals may not have the same coursework or prestigious finance internship experiences, but they are smart, ambitious, and hardworking and will make the most of their time in the program to emerge just as qualified as their counterparts. We believe initiatives like the SBIC internship program give these competitive, diverse individuals the opportunity to excel in this field. In addition, we urge the SBIC program to actively recruit diverse investment managers to launch SBIC funds. We

have been working with the staff of the OII to help identify talented diverse professionals. This effort can be expanded and prioritized, and it will result in more diverse funds.

QUESTION 9:

Can you elaborate on this recommendation to create a diversity task force?

This task force should include representatives of all stakeholders across the U.S. small business ecosystem -- from SBIC fund managers and their LPs to small business owners, especially in rural areas or underrepresented industries to SBA administrators -- with backgrounds that represent the diverse identities that have thrived within it. The various perspectives from across all stages of innovation, investment, and implementation will ensure that we are embedding diversity at every level. The task force will audit these stakeholders and establish a baseline report in order to assess the current state of affairs and project ambitious but achievable goals for improving representation in this industry and assuring that the success of the SBIC program is spread equitably for all.

QUESTION 10:
Besides reporting back to Congress, what other activities would this task force be responsible for conducting?

In addition to playing a monitoring role for the past and present state of diversity in the SBIC industry, this task force would also actively promote diversity and inclusion for years to come. Leading quarterly panels with practical information and best practices on how to improve diversity of the funds themselves as well as finding and supporting more diverse businesses will provide the momentum for these initiatives to continue to make an impact. The task force would also identify metrics for SBIC firms to report diversity both within the firms and the investments themselves.

QUESTION 11:

Would the task force be responsible for making recommendations to improve diversity?

The task force would make recommendations and outline actionable goals for SBIC funds and other stakeholders to achieve based on the data they collect from their monitoring. Recommendations could include best practices or case studies of individual firm initiatives that have successfully improved diversity. We believe that transparency and constructive feedback is critical to the success of the initiative. The task force should welcome feedback from any and all participants in the small business ecosystem to ensure that all voices are heard and included in our continued efforts to create a more equitable community.

Questions from:

Senator Rubio

For years, venture capital funding in the US has been highly concentrated in Silicon Valley and other tech hubs, and largely benefited tech startups with short profit horizons. Advanced manufacturing, by contrast, is a capital-intensive industry in which new startups often take much longer to realize profits. As a result, this industry has suffered from a lack of access to capital. As reports published by this Committee last Congress have argued, that need is not currently being filled by private investment.

To address this challenge, Senator Risch and I recently introduced the American Innovation and Manufacturing Act, a bill that would create a new facility in the SBIC program to provide long-term debt with equity features to SBICs that invest in small domestic manufacturing firms. I'd like to explore this topic with you further:

QUESTION 1:

Do Patriot Capital or Avante Capital Partners currently invest in any advanced manufacturing firms, or have they invested in small manufacturers in the past?

Avante Capital Partners has invested a significant amount of capital in manufacturing with 14 investments in manufacturing companies since the firm was founded over ten years ago. Half of these companies manufacture advanced products or components across various industries and end-markets.

1. Dexmet Corporation is a developer and manufacturer of expanded metals, a niche manufacturing segment that is used for lightning strike protection on aircraft, in high-performance batteries, and other end markets. (Status: Exited)
2. AdvancedCath Technologies is a developer and manufacturer of advanced catheters, guidewires and medical device components. (Status: Exited)
3. Katahdin Industries is a provider of specialized, high-tolerance coating and metal finishing services to medical and industrial manufacturers. (Status: Active)
4. Catheter and Medical Design is a medical device component manufacturer focusing on complex catheter-based delivery systems for a range of vascular and bronchoscopy applications. (Status: Active)
5. Channel Technologies is a manufacturer and supplier of mission-critical components and systems that utilize piezoelectric ceramic technology. (Status: Exited)
6. Delphon Industries is an advanced materials and assembly company. (Status: Exited)
7. Autometer is a developer and manufacturer of branded performance instrumentation for the specialty automotive aftermarket. (Status: Active)

QUESTION 2:

What insights can you provide about SBICs investment decision-making and how that might affect the ability of manufacturing firms to access SBIC capital?

The biggest current challenge for manufacturing firms to get access to SBIC capital is that many SBICs look for established, positive cash flows to support their interest requirements on their debt investments. Manufacturing firms are inherently capital intensive by nature. This makes it harder for earlier stage manufacturing firms to get access to capital as they have not had proper time to establish stable, positive cash flows due to the significant capital investments required for growth and expansion. An equity program such as the one Senator Rubio has proposed would be highly effective in increasing access to capital to manufacturing companies.

QUESTION 3:

How might a new investment facility targeted toward advanced manufacturing be utilized by SBICs, and what benefits might such a program offer that are not currently available under existing programs?

In your testimonies, you both mentioned the benefits of equity investing in ensuring that more small companies that can access long-term capital.

See answer to Question 4 below.

QUESTION 4:

Can you expound on why equity financing may be a key component to expanding access to funding?

Equity financing provides longer term or patient capital compared to debt investments. An equity-focused program could solve the challenge that manufacturing firms face as it would minimize interest and/or debt amortization cash flow requirements and allow companies to fully reinvest any cash flows they do have back into R&D and their manufacturing plant. From the SBIC's point of view, equity investing would provide higher return potential for investing in earlier stage companies. Other mechanisms that would function in similar ways to equity financing would be in the form of PIK only debt facilities or a preferred equity program. These would also allow firms to reinvest their cash flows upfront and pay off their loans over a longer period of time.

QUESTION 5:

As Congress considers patient capital like that provided by equity financing, how can we ensure there remains some discipline to ensure that investment companies will invest the money efficiently?

As mentioned in my testimony, we recommend selecting experienced investment managers who have proven track records. For investment managers investing equity capital, we recommend that there be an additional requirement of an equity track record in addition to a debt track record.

