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### **Testimony of Ivelisse Rodriguez Simon**

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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<sup>1</sup>.

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.

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<sup>1</sup> 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<sup>2</sup>. **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

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<sup>2</sup> 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 experienced diverse managers** that have proven track records and can successfully manage an SBIC fund within the existing debenture program. Contrary to popular belief, there 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.