

# Expanding SBA's Impact Investment Fund

Thursday, October 9<sup>th</sup>

2:30 – 3:00 PM (ET)



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# Agenda

<b>Introduction &amp; Agenda</b>	<b>2 minutes</b>
<b>Key Takeaways</b>	<b>2 minutes</b>
<b>SBA 101: Three C's and a D</b>	<b>3 minutes</b>
<b>The SBIC Program</b>	<b>3 minutes</b>
<b>SBA's Impact Investment Fund</b>	<b>15 minutes</b>
<b>Q&amp;A</b>	<b>5 minutes</b>

# Key Takeaways

Impact Investing aligns with the U.S. Small Business Administration's core mission of assisting small businesses

The Impact Investment Fund has been expanded to include a broader range of impact investing strategies

SBA has adopted industry best practices with regard to impact reporting and measurement

# Three C's and a D

The U.S. Small Business Administration's mission is to aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns.



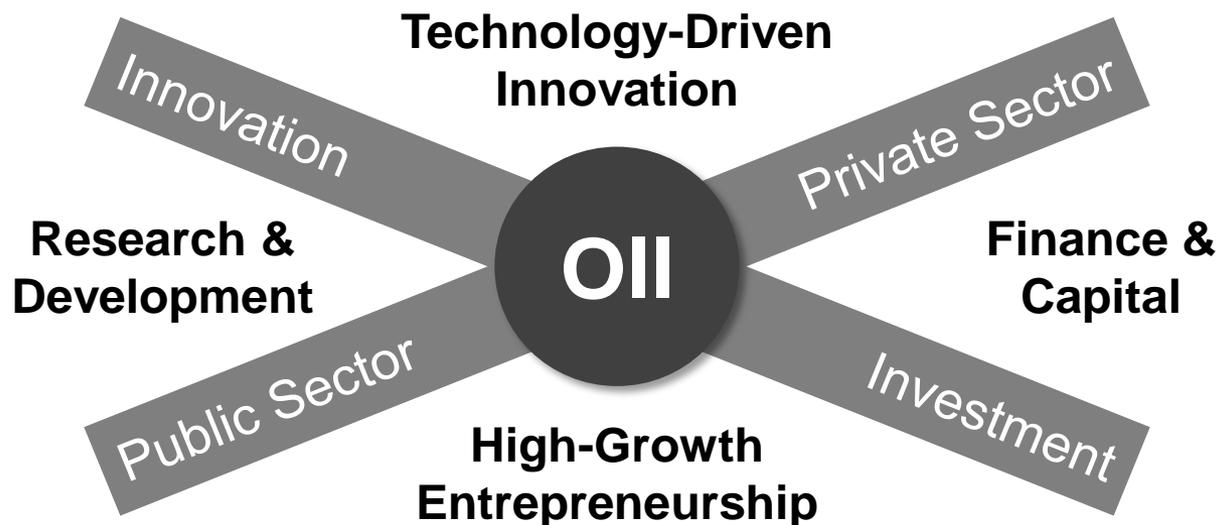
Capital

Contracting

Counseling

Disaster

# Office of Investment & Innovation (OII)



## Office of Investment & Innovation Programs:

- ▶ Small Business Investment Company (SBIC)
- ▶ Small Business Innovation Research (SBIR)
- ▶ Small Business Technology Transfer (STTR)
- ▶ Growth Accelerator Competition

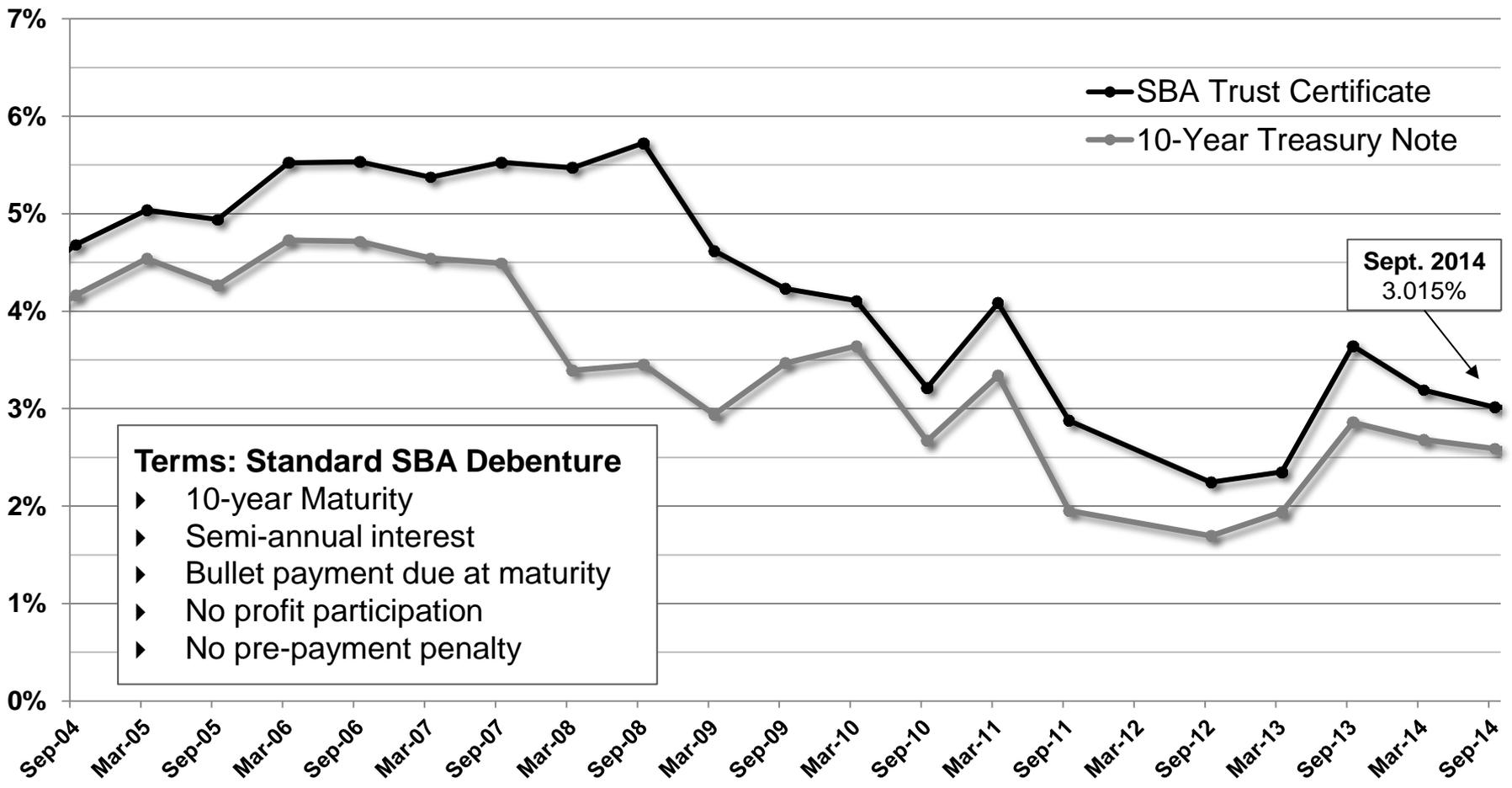
# A Public-Private Partnership

The SBIC Program harnesses the talents of professional fund managers to fill the gap in long-term financing flowing to U.S. small businesses



# Low-Cost of Capital

## SBA Trust Certificate vs. U.S. 10-Year Treasury Bond



**Terms: Standard SBA Debenture**

- ▶ 10-year Maturity
- ▶ Semi-annual interest
- ▶ Bullet payment due at maturity
- ▶ No profit participation
- ▶ No pre-payment penalty



# Addressing Capital Gaps

**The SBIC Program has a long history of driving much-needed capital to America's underserved communities...**

- ▶ Since its inception in 1958, the SBIC Program has channeled **over \$67 billion** in capital to American small businesses
- ▶ From FY2009 through FY2013, **29% of companies** financed by SBICs were located in LMI areas or were women-, minority- or veteran-owned

**...and its most innovative sectors.**

- ▶ Many of the country's first venture capital funds were SBICs
- ▶ Some of today's most iconic brands were financed with SBIC capital  
*Apple, Amgen, Intel, AOL, Adaptec, HP, Tesla*
- ▶ The SBIC Program facilitated the development of market infrastructure  
*Thomson Reuters VentureXpert began as the SBIC Reporting Service in 1961*

# Version One – SBIC's Impact Investing Initiative

**The Impact Investment Fund builds on the SBIC Program's legacy of filling critical gaps in the private capital markets, spurring innovation**

## **The Impact Investment Fund**

*To support investment funds seeking to generate measurable social, environmental or economic impact alongside financial return*

*SBA makes available*

**\$1 billion, over 5 years**

*to*

### **Impact SBICs**

- ▶ Impact SBICs commit 50% of capital to “impact investments”
- ▶ Impact SBICs are expedited through the licensing process
- ▶ “Impact Investments” defined by SBA

# Version Two – SBIC Impact Investment Fund

**On September 25<sup>th</sup>, SBA announced significant policy improvements to the Impact Investment Fund**

## Launched in 2011

\$1 billion commitment  
*FY2012 to FY2016*

Hard cap on annual leverage commitments to Impact SBICs

Impact SBICs limited to SBA-defined “impact investments”

Impact SBIC license available only to new applicants

Impact SBICs receive expedited processing in licensing

## Expanded in 2014

About \$200 million annual allocation  
*FY2016 and beyond*

Impact SBICs have equal access to leverage commitments

Impact SBICs may pursue their own, Fund-Identified strategy

Existing SBICs may opt-in by December 1, 2014

Impact SBICs ***still*** receive expedited processing in licensing

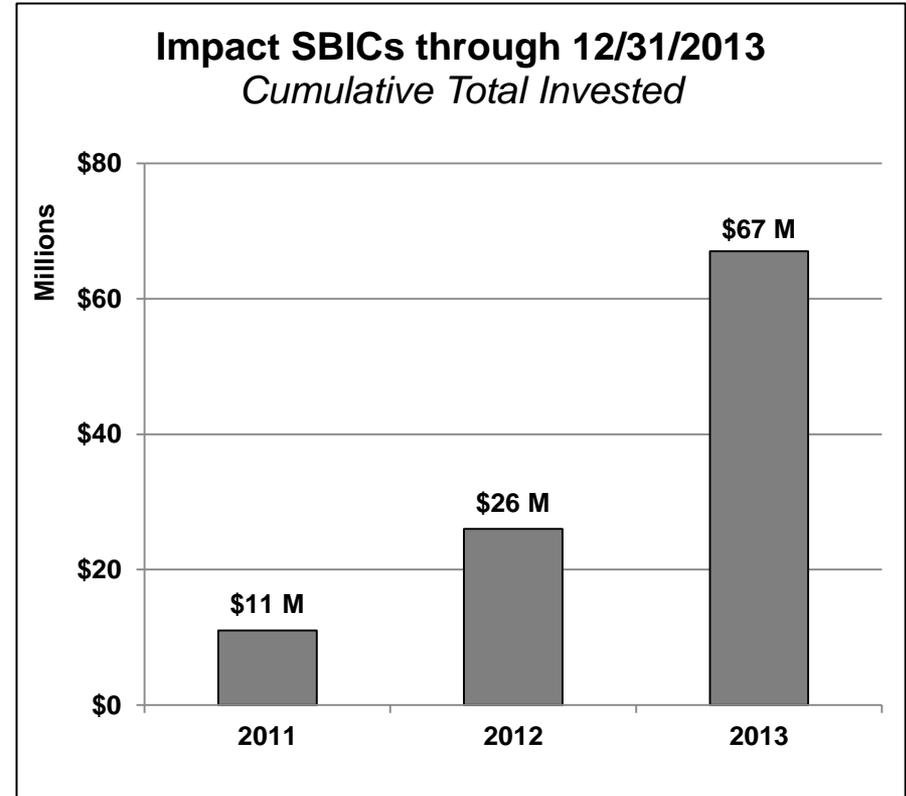
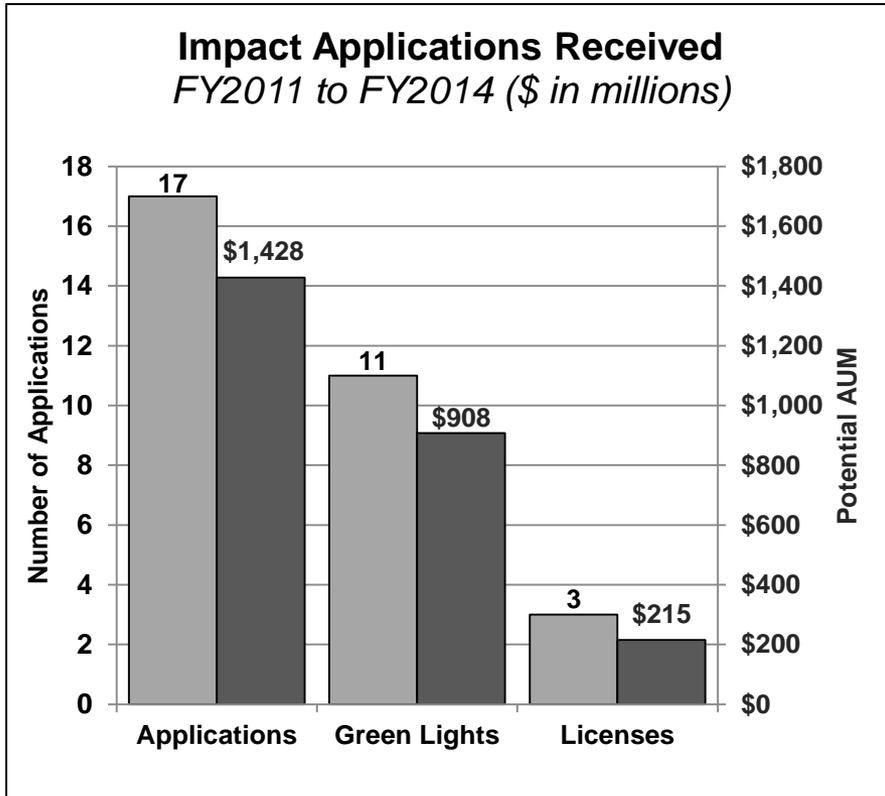
# Obtaining an Impact SBIC License

Common Requirements	<b>Apply</b> Meet SBA licensing standards and obtain expedited processing	<b>Invest</b> Deploy at least 50% of invested capital in "impact investments"	<b>Measure</b> Assess and report on the outcomes achieved
<b>SBA-Identified Strategy ONLY</b>	Describe strategy and track record of making impact investments.	Impact investments are those made in: <ul style="list-style-type: none"> <li>· Economically-Distressed Areas</li> <li>· Low-to-Moderate Income Areas</li> <li>· Rural Areas</li> <li>· Qualified Low-Income Communities</li> <li>· SBIR/STTR Recipients</li> <li>· Energy-Saving Activities</li> </ul>	Report impact investments using standard SBA reporting forms
<b>Fund-Identified Strategy ONLY</b>	Describe strategy, track record and provide the fund's customized definition of an "impact investment"	"Impact investments" must be consistent with fund's customized definition	Obtain an independent, third-party assessment of impact

## Fund-Identified Impact Measurement & Reporting:

- ▶ Reporting based on the GIIN's Impact Reporting and Investment Standards (IRIS), or another SBA-approved standard such as SASB or GRI
- ▶ An independent, third-party must conduct the assessment, such as B Lab's GIIRS

# Impact Fund Progress To-Date



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## Michigan Growth Capital Partners

**Licensed**  
2011

**Location**  
Detroit, MI & New York, NY

**Investment Mandate**  
Companies with nexus in Michigan

## SJF Ventures III

**Licensed**  
2012

**Location**  
Durham, NC

**Investment Mandate**  
National growth capital strategy

## Bridges US Sustainable Growth Fund

**Licensed**  
2014

**Location**  
New York, NY

**Investment Mandate**  
National growth capital strategy

## CONFIDENTIAL

**Projected Licensing Date**  
2014

**Location**  
New York, NY & Dallas, TX

**Investment Mandate**  
Regional private debt strategy

## CONFIDENTIAL

**Projected Licensing Date**  
2014

**Location**  
New York, NY

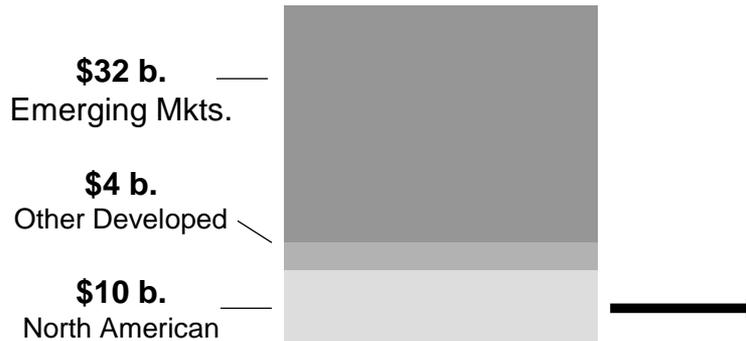
**Investment Mandate**  
Loans to LMI businesses

# Next Steps

## Program Growth:

- ▶ SBA is actively seeking to work with partners in the impact community
- ▶ In 2013, SBA signed a Strategic Alliance Memorandum with B Lab
- ▶ Impact Fund has potential to finance a major segment of Impact AUM

**Total Impact Assets Under Management**  
*Spotlight on the Market (JP Morgan & The GIIN 5/2014)*



\$200 M in Leverage Annually  
 +  
 1:1 Match with Private Capital  
 -----  
 \$400 M in potential Impact AUM Annually

**Potential to represent over 4% of Impact Assets in North America**

## Additional Policy Changes:

- ▶ The 2014 expansion is hopefully a beginning, not an end
- ▶ Currently evaluating additional incentives and improvements

Impact AUM: J.P. Morgan Social Finance & The GIIN, "Spotlight on the Market," May 2014.

# Q & A

## **For more information about SBA's Impact Investment Fund:**

- ▶ **Visit us online:** [www.sba.gov/inv/impact](http://www.sba.gov/inv/impact)
  
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