The Performance of Small Business Investment Companies
Institute for Private Capital White Paper
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<u>Executive Summary</u>

Small Business Investment Companies (SBICs) were authorized by the United States Congress in 1958 to promote investment in domestic small businesses and to boost economic growth in communities across the country. SBICs are private investment funds that are licensed and regulated by the Small Business Administration (SBA). SBICs may only invest in American small businesses. Since they were first authorized, SBICs have deployed more than $130 billion of capital and made over 194,000 specific investments in U.S. small businesses.

Past research regarding SBICs has primarily focused on the impact of SBIC investments on portfolio companies and subsequent business and job creation. Comparatively less research has been focused on the financial returns that SBIC funds provide to investors when compared to non-SBIC funds. This report strives to analyze and quantify SBIC performance over a twenty-year period.

SBIC funds outperform comparable non-SBIC peers by an average of around 4% (median of 2.6%) in terms of internal rate of return (IRR). Similarly, SBICs have an average multiple on invested capital (MOIC) of 2.3x, which is 0.74 of a multiple higher than for the peer funds. SBICs performed better than the average comparable fund observed in the MSCI-Burgiss Manager Universe (BMU), which is widely considered the highest quality performance database for private funds.

For investors, the SBIC program represents a unique opportunity to achieve superior returns and superior risk adjusted returns while supporting the growth of small businesses that are vital to the American economy.

<u>Key Findings</u>

- Over the 2000-2020 period, SBICs had an average internal rate of return (IRR) of 16.9%, which is 4.13% higher than a comparable set of non-SBIC peer funds.

- The average multiple on invested capital (MOIC) for SBICs is 2.3x, which is 0.74x higher than for comparable non-SBIC funds.

- On average, all SBIC strategy types and levels of leverage have superior performance when compared to a non-SBIC peer group.

- Higher leverage ratios do not always equate to higher returns; the optimal leverage ratio for best performance (relative non-SBIC peer funds) is 1.00x to 1.75x. This suggests that SBICs offer a well-balanced approach to leverage and optimize returns while mitigating risk.