Serra Capital III (SBIC), LP

The Serra Capital III (SBIC) fund officially launched fundraising efforts in July 2017 after receiving the “green-light” letter from the SBA. With a rigorous underwriting and approval process, the Serra Ventures team is very pleased to be accepted into this program and eager to begin accepting commitments. Throughout this process, we have been approached with a variety of questions. What is an SBIC Fund? Why invest in an SBIC Fund? How does the SBIC Fund differ from its sister fund, Serra Capital III? This high level white paper will address these questions - and explain why an SBIC Fund is attractive for banks and non-bank investors alike.

First, what is the SBIC Program and why was it created? “The Small Business Investment Company (SBIC) Program, administered by the U.S. Small Business Administration (SBA), is a multi-billion investment program created in 1958 to bridge the gap between entrepreneurs’ need for capital and traditional sources of financing…..The SBIC Program harnesses the talent of professional investment fund managers to identify and finances promising small businesses. Qualified fund managers who complete the SBIC Program’s rigorous application process are granted a license to operate their fund as an SBIC - The SBIC manager can then assemble a portfolio of long term investments in American small businesses.” (excerpted from the SBA website)

What does this mean for Serra? Our acceptance into the program, and ultimately obtaining licensure, enables Serra to pursue a new class of investors (i.e. financial institutions) while at the same time extending the investment opportunity to non-bank investors. We have pursued licensure of an un-leveraged SBIC Fund and will begin to aggregate funds to invest in new portfolio companies, alongside our Serra Capital III Fund. We are excited about this opportunity, as very few other venture firms are offering an SBIC alternative. Read further for more information about the SBIC, it’s unique features, and why investing with Serra might be worth pursuing.
Some quick facts about the SBIC Program (2011 to 2015):

![INFOGRAPHIC]

1. More than $21 billion in financing was invested in small businesses.
2. More than 6,400 businesses received investments.
3. 19% of the small businesses financed were located in low-to-moderate income areas.
4. 7% of the small businesses were women, minority or veteran owned.

Rigorous Underwriting Criteria

Serra underwent significant scrutiny, meeting rigorous criteria throughout the application process in order to be accepted into the SBIC program. In all, the process took over a year to complete. To be considered for an SBIC license, applicants must demonstrate the same key qualifications sought by private investors:

- **Manager Assessment**
  - A cohesive team of individuals with strong reputations and years of investment experience.

- **Performance Analysis**
  - A high quality track record of analogous investments that have yielded strong returns and successful exits.

- **Strategy Evaluation**
  - A well-articulated investment strategy and which targets small businesses.

- **Fund Structure and Economics**
  - Sufficient fund infrastructure to support the strategy and a strong alignment of incentives between the fund’s general partner, limited partners and SBA.

Why Serra Is Pursuing an Un-Leveraged SBIC Fund

Serra has launched an SBIC Fund for a variety of reasons. First, the SBIC will allow Serra access to bank capital. Having an SBIC license is a meaningful difference to banks that are seeking above-market returns from alternative asset investing. Banks receive Community Reinvestment Act (CRA) consideration as well as the Volcker rule exemption when investing in an SBIC licensed fund (see more below).

Also for Serra, the SBIC license opens up access to a broad network of banking expertise and a new source of portfolio company deal flow.

Third, the SBIC Fund enables Serra to attract additional capital by adding non-bank investors who appreciate and demand the challenging vetting process that the SBA applies.
Serra will be able to utilize the SBIC side-car fund capital as a complement to the $32 million in capital commitments to Serra Capital III, LP. Between these two funds, our team will have the capital and tools necessary to construct a high performance portfolio of early stage, high tech companies.

SBIC Funds are an Attractive Investment Vehicle for Bank Investors.

As noted above, financial institutions have a unique set of incentives to invest in Serra’s SBIC Fund. These benefits are further described below.

1. Community Reinvestment Act Credit: Bank regulators are required to monitor the level that banks participate in the “investment in their communities”. Probably the most common way banks get “credits” for investing in their communities is by making mortgage loans in underserved neighborhoods. Another way that banks can earn CRA credits is by investing in SBIC funds that make investments in small businesses in their geographic areas. Hence participation in an SBIC fund that has a well aligned geographic focus with the bank’s service area, can be an expedient method of generating CRA credits.

2. Exemption from the Volcker Rule: The Dodd–Frank Wall Street Reform and Consumer Protection Act contains a provision, the Volcker Rule, which prohibits banks from investing in private equity funds, of which venture is a sub-class. SBIC funds, however, are exempt from this prohibition. Furthermore, the level of investment by banks into an SBIC fund is not limited to 3% of a bank’s Tier 1 Capital (as the Volcker rule requires for other types of investments). Subject to certain limits, the investments in SBIC’s are treated as Tier 1 Capital, which can be critical if a bank is less than “well capitalized”.

3. Opportunity to Expand the Bank’s Client Base: Most banks are focused on developing relationships in the small business community. When investing in SBIC funds as LPs, many banks build financial relationships with the companies that comprise the SBIC’s investment portfolio. For example, SBICs often refer their portfolio firms that need commercial banking services to the banks that have invested in the SBICs as LPs. Similarly, banks may refer their small-business customers that do not meet the banks’ underwriting guidelines to the SBICs in which the banks have invested. By doing so, banks can maintain their commercial banking relationships with small-business customers.

SBIC Funds are an Attractive Opportunity for All Investors.

While banks have some specific incentives to invest in SBIC Funds, all investors should give due consideration to this unique offering, as noted below.

1. Serra’s SBIC Fund is open to all investors seeking an attractive rate of return. A well-balanced investment portfolio often includes a modest allocation to venture capital. Historically, venture funds have proven to yield above-market rates of return. The SBIC fund welcomes all investors, banks and non-banks, interested in earning an attractive rate of return.

2. The SBA underwriting and review process brings a level of assurance to potential limited partners that they are investing in a well run, high quality group of fund managers. The SBA provides ongoing oversight of the SBIC Fund through regular financial and operational reporting, transitional reporting, and periodic on-site examination by field examiners.
The Serra SBIC will invest in a diverse portfolio of early stage, high technology companies vetted against specific criteria:

- Strong founding team
- Easily defined problem, solution and target customer
- Capital efficiency
- Large market, well defined and addressable from the “bottom-up”
- Demonstrated customer discovery/market traction
- Universe of potential buyers for company is clear

The Serra track record on Funds I and II instill confidence for Serra III and Serra III SBIC:

- Both Serra I and II are top tier performers in comparison to their peers
- Both funds are top decile in Distributions to Paid in Capital (DPI)
- Both funds are top quartile in Total Value to Paid-in Capital (TVPI)
- The most reliable predictor of future success is past performance

The Serra SBIC fund represents an opportunity to participate in the emerging “new economy” of high tech companies that are changing the world. With expert management provided by a team of former tech company CEOs complemented by the rigorous vetting and oversight of the SBA, Serra represents the winning combination sought by discriminating investors. We encourage all potential investors to engage with our team, to carefully review the Private Placement Memorandum, and to consider joining Serra Capital III (SBIC), LP.