

Fund can help seed business

Venture capital ideas in low-income areas will get money for projects

By LARISA BRASS, brass@knews.com
October 7, 2003

Seeking prospects in places other investors won't venture, the Southern Appalachian Fund is offering \$125 million in capital to start-up companies in low-income areas of Tennessee and four other southern states.

The fund will be officially unveiled in Chattanooga today.

It's one of six New Market Venture Capital Funds approved by the Small Business Administration in 2001 to assist economically suffering regions across the country.

The fund will invest \$200,000 to \$600,000 in companies located in low-income census tracts in Tennessee, Kentucky and the Appalachian counties of Georgia, Alabama and Mississippi. Qualifying areas are those in which median income is less than 80 percent of the national average.

"Traditionally, the major equity investors invest in the Northeast and the West Coast, Texas and Chicago," said Grady Vanderhoofven, vice president of equity programs for Oak Ridge-based nonprofit Technology 2020, which through its subsidiary Southeast Community Capital will co-manage the fund with a London, Ky.-based nonprofit, Kentucky Highlands Investment Corp.

"We're looking in areas where traditional (venture capital investors) won't look," he said. "I think what we're going to do is we're going to be doing a lot of sifting, looking for diamonds in the rough."

The fund launched its Web site today as well. The site, www.southappfund.com, allows companies to determine if they're located in the fund's qualifying areas and start the application process.

The fund is managed by the Appalachian Management Co., which is a for-profit entity created through the partnership between Technology 2020 and Kentucky Highlands.

The fund's investors include several foundations, regional banks and the Tennessee Valley Authority. The SBA also invested by providing a \$1.50 in federal money for every \$1 in private investments raised.

Vanderhoofven said fund managers already are looking at about six companies with plans to invest in 20 companies throughout the poorer parts of southern Appalachia. Those areas can include both city and rural regions, he said.

Although Technology 2020 is helping to manage the fund, technology-focused companies won't be the only ones considered, he said, but the fund has some restrictions.

"We can't invest in real estate. We're not going to invest in retail. We're not going to invest in restaurants," he said. "We're looking at manufacturing businesses. We're looking at software companies. We won't invest in companies that are going to require tens of millions of dollars to become profitable. Very often we will co-invest with institutional investors or angel investors. We just have to find something that fits."

In addition to direct funding, the fund also has a separate \$3 million fund to provide services for the businesses it invests in, including business planning, accounting, executive recruitment, technical assistance and other services.

The Appalachian Management Co. will receive a 3.5 percent fee for managing the fund, which will pay for salaries, travel and other expenses.

The fee is higher than the typical 2.5 percent fund management fee, Vanderhoofven said, because the fund is smaller than a typical venture fund and would not generate enough money to operate under the traditional fee.

He said that while the fund's guidelines don't specify how many investments to make per state, managers would seek to fund at least one company in each state included in the fund's footprint.

While fund managers are just beginning to get the word out, Vanderhoofven said he's already received investment inquiries - some from unusual places.

Southern Appalachian Fund

- Investment capital: \$12.5 million
- Investment area: Low-income census tracts in Tennessee, Kentucky and Appalachian counties in Georgia, Alabama and Mississippi
- Fund manager: Appalachian Management Co., created through a joint venture between Oak Ridge-based Technology 2020 and London, Ky.-based Kentucky Highlands
- Investors: Small Business Administration; TVA; F.B. Heron Foundation; John D. and Catherine T. MacArthur Foundation; BankOne Neighborhood Development Corporation; National City Bank of Kentucky; Farmers and Merchants Bank of Clarksville, Tenn.; First Bank of Lexington, Tenn.; Tennessee Commerce Bank of Franklin; and Concord EFS Inc. in Memphis.
- Target companies: Manufacturing, technology and software firms in start-up or expansion mode
- Investment term: Four to seven years
- Size of investments: \$200,000 to \$600,000
- Target number of investments: 20
- Web site: www.southappfund.com
- For more information: David Bradshaw at bradshaw@sccapital.org or 865-220-2025.

Knoxville News Sentinel – October 7, 2003

"I got a call from a lady in the Bahamas who wanted to open a roller rink," he said. Another caller wanted funding for a church construction project.

"I guess those are legitimate inquiries but they're not legitimate candidates," he said.

Vanderhoofven counters the notion that the Southern Appalachian Fund is strictly a charitable venture.

Vanderhoofven said the fund's target return on investment is 15-20 percent. That includes the 5-6 percent tax credit for-profit investors receive for putting money into the fund, he said.

"It's not a giveaway program. It's not a grant program," he said. "We still want to generate a return on investment."

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