

# Courthouse News Service

## U.S. Shuts Down \$14M Capital Venture Fund

By Daniel W. Staples

April 14, 2015

BALTIMORE (CN) - A federal judge dissolved a \$14 million capital venture fund backed by the U.S. Small Business Administration that saw too many investments go sour.

Tiffani Shea Clements, a spokeswoman for the U.S. Small Business Administration, said the agency is hopeful about recovering the money, but that "it is too early in the receivership to make any educated guesses."

Robb Doub and Mark Grovic ran the New Markets Growth Fund out of an office in Fulton, Md., according to the dissolution decision U.S. District Judge George Russell III signed on April 1.

That filing gives the SBA full receivership of the company's \$14 million portfolio, which had fallen below SBA's level of capital impairment, set at 70 percent of the entire portfolio.

Specifics on the \$4.2 million losses that formed the basis for the court action are not available in the record.

According to the SBA website, regulations that could have prompted the litigation could have included, but were not limited to fraud that causes detriment to SBA's position as a creditor or guarantor, fraudulent transfers, willful conflicts of interest, willful noncompliance on one or more of the substantive provisions of the law or any provisions of SBA's agreements, or repeated events of default.

Thaya Knight, an associate director of financial regulation studies at the Cato Institute, said that it was not uncommon for these venture capital firms, set up in 2003 as New Markets Venture Capital Program, to make higher risk investments that were backed with SBA debentures.

The New Markets Growth Fund was one of six organizations that the SBA approved to participate in the New Markets Venture Capital Program, according to the SBA website.

SBA created the developmental venture capital program in 2001, designing a pilot project "to promote economic development and the creation of wealth and job opportunities in low-income geographic areas and among individuals living in such areas," according to the website.

Despite funding cuts, organizations initially accepted into the program continued to operate.

The New Markets Growth Fund was one of six participants in the NMVC program and had made investments in 27 businesses including companies in the bio-tech, educational, marketing and education sectors.

Although it is not exactly clear how the two organizations are related, the New Markets Growth Fund appears to be part of a larger group of investments included in the New Markets Venture Partners.

Prior to becoming a general partner in the New Markets Growth Fund, Daud served as an associate of private equities at the Calvert Group, a \$10 billion socially responsible mutual fund, and was a managing director of the Small Enterprise Assistance Funds, a \$200 million managed emerging market venture capital company.

Grovic, another general partner who signed the settlement, is a lawyer and portfolio manager for the Small Enterprise Assistance Funds.

Both men served on many of the boards of directors for the companies that New Markets Growth Fund includes in their portfolio.

Neither Daud nor Grovic have returned requests for comment