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Investor's focus is Earth-friendly

SJF raises \$28 million to pump into socially responsible ventures

DAVID RANII, Staff Writer

DURHAM - SJF Ventures, an eight-year-old investment firm that wants to make money while doing good, has raised \$28 million to further its causes.

SJF, which calls itself a socially responsible venture capital firm, is looking to invest in "companies that have a positive impact in the world," managing director and co-founder David Kirkpatrick said. "The challenge is, a lot of the companies that want to do that don't have a financial focus."

At least half of the \$28 million it recently raised from banks, wealthy individuals and institutional investors is likely to be invested in clean-technology businesses. Clean-tech companies offer a broad range of products or services that are environmentally friendly or "green."

It has become a hot sector of late amid high energy prices and a growing recognition of global warming and other environmental concerns.

SJF isn't a newbie jumping in on the latest fad, however. The initial investment by the firm, which started out as the Sustainable Jobs Fund, was in an electric-vehicle company eight years ago.

Indeed, the founders' roots are in clean-tech careers: Kirkpatrick founded and headed SunShares, a nonprofit solar energy and recycling venture in Durham, and KirkWorks, an environmental business consulting firm. SJF co-founder Rick Defieux, who is the firm's part-time chief investment officer and works out of Philadelphia, is a former environmental scientist.

But the clean-tech sector's newfound popularity has a downside for SJF: the flood of new capital is inflating the market value of clean-tech companies, which can mean that SJF gets less of an ownership stake for its money.

"That's why I'm glad we're not clean-tech only," Kirkpatrick said.





SJF also is focused on consumer product companies, especially natural or organic products, and business services, particularly those that have a what's-good-for-employees-is-good-for-business philosophy.



SJF's portfolio includes B.B. Hobbs of Darlington, S.C., an automated irrigation systems company owned by Bryan Hobbs, above left, discussing a system with a seed company representative; ...

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SJF VENTURES

Business: Venture capital investments

Founded: 1999

Based: Durham

Managing director: David Kirkpatrick

Employees: Six full-time, including in its nonprofit arm, SJF Advisory Services

Funds under management: A total of \$45 million: \$17 million in its first fund and \$28 million in its latest fund

Current investment target: Initial investment of \$1 million in companies with annual revenue of more than \$1 million

Investment sectors: Environmentally friendly, consumer product and business-services companies.

North Carolina investments: SJF has invested in two Charlotte-based companies to date, but not a single Triangle company. Most of this area's early-stage companies are technology companies -- especially biotechnology and information technology -- that are outside SJF's investment zone, Kirkpatrick said. Or they are seeking huge infusions of capital that require larger venture capital funds. But "we're interested in investing

Kirkpatrick adds that the fund won't invest in clean-tech businesses, no matter how attractive, if it doesn't make financial sense.

Venture capital funds provide cash infusions for companies with high growth potential in exchange for an ownership stake in the business. They reap a return when the business is acquired or sells stock to the public.

Another facet of SJF's socially responsible focus is its self-sustaining, nonprofit arm, SJF Advisory Services. It provides free counseling to young businesses on issues including raising capital and broadening employee ownership, such as by establishing stock options for all employees, said Anne Claire Broughton, the nonprofit's executive director.

That effort can help SJF's for-profit motives, too. Several companies that started out as SJF Advisory clients have attracted investments from SJF Ventures.

"I think they have been very innovative in what they have done with their not-for-profit affiliate," said Kerwin Tesdell, president of the Community Development Venture Capital Alliance, a network of venture capital funds that invest in economically distressed markets. "It's a way to further both the financial and social goals of the fund."

SJF's sweet spot is investing in clean-tech businesses that use their environmental focus to gain a competitive edge. One example is GroSolar, a Vermont-based company that provides solar-based electric, hot water and heating systems for homes and businesses.

"We actually think that being socially responsible helps us make money," CEO Jeffery Wolfe said.

The company's environment-friendly systems engender customer loyalty and help GroSolar attract "higher quality" employees who are committed to their work, Wolfe said. "People say, 'it is really important that I do my job well. It is really important that GroSolar succeeds.' "

In September, SJF led a \$2.25 million investment in GroSolar that enabled the business to acquire a company of similar size, pushing its combined 2006 revenue to about \$24 million.

SJF has evolved since it set out to invest the money from its first fund, which raised \$17 million from investors.

Back then, the company's primary focus was creating jobs for low and moderate-income workers -- hence its original name, Sustainable Jobs Fund.

That name, however, was a mistake, Defieux

in companies in the Triangle," he said.

SJF'S INVESTMENTS

SJF Ventures has invested in more than 20 companies to date -- one of which went out of businesses. Of the rest, the firm's investment has declined in value in five cases.

Among SJF's successes

Doctor's Dermatologic Formula: The high-end cosmetics firm, based in New York, had \$4 million to \$5 million in annual revenue when SJF invested in the business in 2001. Two-and-a-half-years later, when it was sold, revenue was "in the mid-20s," said David Kirkpatrick, SJF's managing director. SJF tripled its money on the deal.

Ryla Teleservices: The minority-owned telephone call center, based in Georgia, has more than 10 times the revenue it had when SJF invested in the business five years ago, Kirkpatrick said. SJF recently sold part of its stake in the business, but still owns more than 10 percent of Ryla. The company has more than 400 employees and posted \$15 million in revenue last year.

Ed Map: The Ohio company provides software and services for distance-learning programs such as the University of Phoenix. It had \$1.5 million in annual revenue when SJF invested three years ago, and is on track to generate more than \$30 million in revenue this year. SJF has earned a profit on its investment by selling part of its stake back to Ed Map, and still owns an undisclosed stake.

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said. "It confused a lot of people," he said. "It didn't sound like a venture fund."

That hurt the fund, because it wasn't able to uncover as many young companies seeking funding as it would have liked -- a critical factor because the fund invests in only 1 out of every 500 or so companies it looks at.

Kirkpatrick and Defieux concede that, in the beginning, they erred by putting too much emphasis on creating jobs.

"We may have done some deals that had the social box checked, but the return potential wasn't as high as we demand today," Defieux said.


Creating jobs remains important to SJF, but it's more of a sub-text these days. The more than 20 companies that SJF has invested in have created more than 1,000 jobs after they put SJF's money to work. About 75 percent of those jobs have gone to low- and moderate-income workers.

Although it's too early to know what the fund's final returns will be, it's on track to be in the middle of the pack for venture capital funds that were created in 1999, Kirkpatrick said. The financial performance of firms of that vintage has been depressed by the dot-com bust.

SJF projects that after fees, expenses and factoring for inflation, its fund will produce a net rate of return in the high single-digits, percentage-wise. Moreover, Kirkpatrick said the fund's investments after it changed its name and adjusted its investment strategy in 2001 performed significantly better than that.

Consequently, it expects the second fund to perform significantly better than the first.

Staff writer David Ranii can be reached at (919) 829-4877 or davidr@newsobserver.com.

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Staff Photo by Harry Lynch

Rick Defieux, David Griest, David Kirkpatrick and Anne Claire Broughton of SJF meet for a monthly investment committee meeting. Kirkpatrick said the fund won't invest in businesses, no matter how attractive their missions, if it doesn't make financial sense.

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