



ARKVIEW CAPITAL: FILLING THE CAPITAL VACUUM TO SCALE DIVERSE BUSINESSES

The Largest Network of Diverse- Owned
Private Equity Firms and Hedge Funds

Within a year after its founding, Arkview Capital completed its first investment – Genesis Bank, a state-chartered, digital-first Minority Depository Institution (MDI) in Los Angeles focused on serving diverse communities in Southern California. With that transaction – which came by way of an oversubscribed initial capital raise of \$57 million – the firm took its first step toward its long-term objective of helping diversity-oriented businesses gain access to capital.

The investment thesis was sound. MDIs have competitive advantages, including access to low-cost, mission-driven deposits, regulatory and tax credits to help MDIs achieve their objectives, and support from the Federal Deposit Insurance Corporation (FDIC) in acquiring distressed banking institutions. Banks that receive the MDI designation are also eligible for government funding programs, including the Treasury Department’s recently announced \$9 billion Emergency Capital Investment Program. MDIs are also exceedingly uncommon. Of the 4,978 commercial banks and savings institutions insured by the FDIC, only 142 were designated as MDIs as of March 31, 2021, and Genesis Bank is one of only two multi-racial MDIs in the nation.

While conducting its on-the-ground due diligence, the Arkview team learned that many banks stopped lending and supporting one of their most vulnerable customers – people of color. This dynamic, which occurred despite the strong tailwinds associated with diversity, created a capital vacuum. “People were having issues accessing PPP loans,” recalls Pavel Chernyshov, who co-founded Arkview Capital in 2020 with Joon Chang and Vijay Mehta. “The checkbook was closed unless you were one of the top 10 customers. Many businesses in the community, especially in predominantly diverse communities, were basically left to fend for themselves. It was a very interesting opportunity to bring in fresh capital and fill that gap.”

Despite the record-low interest rate environment during Covid, the Arkview team saw the potential to earn multiples of their invested capital over a long-term horizon and multiple paths to upside, including possible acquisitions of troubled banks. The firm brought in a diverse management team, diverse capital base, and a diverse board of directors to target a diverse market. Each dollar of equity invested in the bank would have a multiplier effect of approximately 10x in terms of loans that would support the local economy through investments in affordable and workforce housing and small- and medium-sized businesses. A local, digital-first bank with no legacy liabilities would also be an important mechanism to help the local community prosper through recycling its own capital. The transaction closed, and Genesis funded its first loan in September 2021.

FILLING THE CAPITAL VACUUMS

Joon Chang, Pavel Chernyshov and Vijay Mehta founded Arkview Capital in 2020 to identify and invest in capital vacuums – a condition where a market segment has limited access to capital. The firm is also built around a conviction that diversity in thought is the key to success. Named after the first letters of the founders’ respective children, A-R-K, the team developed a framework to invest in capital vacuums working together at the Ziff family office over the past decade. “Capital vacuums are attractive to us because limited interest from other investors typically results in very attractive valuations for us and ultimately outsized return potential,” explains Chernyshov.

Corporate spend in diverse communities and enterprises became a major topic of 2020 as mainstream America became more aware of social and economic inequities within the U.S. As a result, CEOs at large corporations announced major increases in their supplier diversity programs. “These Fortune 1000 companies have explicit goals that they have posted to their websites about spending 15% of their corporate spend with minority business enterprises,” explains Chang. “But they’re only spending about 5% today.” That difference between the 15% stated goals and 5% actual spend results in what Arkview estimates is a \$2 trillion opportunity. Despite the staggering sum, less than 1% of capital in the asset management industry focuses on this area.

The idea is that Arkview, a certified Minority Business Enterprise (MBE), can help fill the capital vacuum diverse and minority-owned businesses experience by providing capital, diverse management talent and access to Fortune 1000 customers. Once these diverse-owned businesses are scaled, they have greater access to that \$2 trillion spending opportunity, and Arkview has a stake in a larger and more valuable enterprise.

In the case of Genesis Bank, filling the void is only part of the equation. “MDI’s often get access to lower costs and mission-driven deposits by corporations. For example, Netflix announced a year ago that the video streaming service would deposit \$100 million of its cash with Black-owned banks. “Also, as an MDI, competing banks are often willing to partner with and help MDIs scale as they receive regulatory credits for doing so,” says Chang. “So there are real benefits that an MDI has by way of corporates looking to make deposits as well as the regulatory bodies looking to support these minority banks, given how few there are.”

Access to capital remains one of the main challenges facing diverse entrepreneurs. “We believe that the historical system has blocked access to capital for MBEs to flourish and provide services to these large corporates,” says Mehta. “Something on the order of magnitude of 85% of the MBEs out there are self-funded or funded through friends and family. They haven’t had access to venture capital, private equity or public markets to grow their businesses to a point where they can serve the large corporations of America.” That lack of access to capital is part of the solution that Arkview brings.

BUILDING SUPPLY CHAINS

With two transactions under its belt (the firm also has a stake in Clean Sea Transport, a shipping company that owns and operates a fleet of methanol-powered vessels, which can reduce emissions by 95% compared to conventional ships), Arkview looks to deliver on its long-term objective – helping Fortune 1000 companies support diversity through their supply chains. The firm also hopes to become a preferred capital partner to minority suppliers that work with Fortune 1000s that value diversity.

The firm’s long-term goals include becoming the go-to source for corporations looking to diversify their supply chains and needing scalable diverse-owned enterprises. “We can help connect those minority businesses to large corporate spending opportunities, but also help corporations meet their supplier diversity goals, whether it’s through their corporate investment program or pension funds to apply that capital to develop their supply chains,” says Mehta. “We want to be part of a solution for corporations to develop and diversify their suppliers.”