

Organizing Community, Business Owner and Investor Benefiting Royalty Investment Funds ©

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There is a business to be developed in creating capital funds for the benefit of communities, business owners and investors.

If a capital fund is community-focused, the local political realities have to be assessed and accommodated. Communities such as cities, counties and states may be able to issue Revenue Royalty Obligation Funds (RROF), similar to revenue bonds, and secured only by defined revenues as being payable to the entity offering the bonds. These revenue bonds are not full faith and credit obligations of the offering entity and are only secured by the defined assets. The income paid on revenue bonds is federal, and can be state, income tax free to the bondholders.

Were RROFs to purchase royalties from selected companies with a substantial presence in the community, the businesses would expand and benefit. The community would also benefit in a number of ways as employment increased and the new capital was expended on goods and services used by the companies to fuel their expansion. Revenues of the businesses selling royalties to the RROF would increase as well, and the net effect for the community would be increased fees and taxes.

Royalties are based upon agreed amounts, royalty rates, maturities and terms. They can include debt and can be secured by the assignment and/or transfer of assets of the business. Such securing of corporate obligations and the collection of the agreed royalty immediately on the receipt of revenue by the royalty issuer are covered in a U.S. patent owned by British Far East Holdings Ltd. (BFE). BFE is prepared to license RROFs and will assist in the development of the concept.

RROFs should be professionally managed, perhaps by individuals from the community once appropriately trained and certified. The primary fiduciary obligation of the RROF is to the investors owning

RROF units. The managers of the RROFs may be compensated and may retain the services of consultants to assist in the investment analysis and selection process.

The RROF's administrative functions will include: registrar and transfer agency, royalty collection and distribution, appropriate securing of the royalty issuer's contractual obligations and distributing agreed information about the royalty issuing companies to the RROF unit holders. These functions can be performed internally or contracted.

Assuming the investment policy of the RROFs will be to buy royalties only from established revenue-generating companies, the RROFs will be receiving immediate income. It is also assumed the royalty payments will be collected daily and distributed quarterly.

Depending on the size of the RROF and the fiscal strength and growth potential of local businesses in the community, appropriate portfolio diversification will have to be determined. There should be a limit as to the percentage of the RRO fund's assets which are exposed to any single royalty issuing company.

Additional RROFs can be offered by the community as the initial capital is employed, or a structure can be created through which investors can purchase units of the RROF periodically. Limited liquidity can be provided to RROF unit holders.

The entity organizing the first of the RROFs could develop a program through which other communities could license the intellectual property developed in the creation of the first BFE-licensed RROF.

Those seeking to create royalty income funds for optimum investor and manager returns tend to seek annual Internal Rates of Returns (IRR) in excess of 15% over the course of the royalty payment period. In the case of RROFs a modified objective could logically be adopted due to the favorable tax treatment resulting from the community's issuance of the RROF. The lower the investor's target IRR, the more favorable may be the terms to the company issuing the royalty and therefore the greater benefit to the companies and the community.

Therefore, if communities can offer Revenue Royalty Obligation Funds, taking advantage local awareness and insights of fund managers, there would be a win/win situation for all concerned.

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