

Managing a Royalty Income Fund Requires Portfolio Investment Management Practices and Skills[©]

Arthur Lipper

To professionally acquire and manage a royalty income fund portfolio as a responsible fiduciary, the following are required to be either possessed by the manager's internal staff or obtained from a qualified external provider.

Experienced and vetted legal and accounting capabilities must be available on a demand basis. The companies wishing to sell a percentage of their revenues for an agreed period on terms acceptable to the manager, a royalty, must be properly incorporated and have a satisfactory financial management system in place. The manager of a royalty fund must be absolutely comfortable with these initial elements.

The manager of the fund must be able to assess the revenue projections provided by the prospective royalty issuer. In many cases, the investment manager should seek the opinion of those who have direct knowledge and experience in the company's field of activity. There must be an understanding of the prospects for the industrial segment in which the company operates and a justification for an opinion that the company's rate growth of revenues will exceed that of the industrial segment. The company must have a competitive advantage over its competitors to be an attractive royalty investment.

Assuming the company's legal documentation, including that relating to employees and intellectual property, and its financial history and management are satisfactory, the negotiation process begins.

Negotiating the acquisition of a royalty is made much easier by the use of the following website calculators: www.REXRoyalties.com, www.REXdebt-shareRoyalties.com, www.REX-PV.com and www.REXScaledRoyalties.com.

The royalty income fund manager is not dependent on mega winners to have achieve a significantly superior result to the alternative investment class of funds. The royalty fund manager seeks companies, which are believed to have good pre-tax profit margins and a likely compound annual growth rate of revenues of greater than 10% - 15%. The website calculators noted have sample cases showing the result of such achievable revenue projections.