

# **Royalties and Impact Funds ©**

**Arthur Lipper**

**Increasingly I am being approached to assist those interested in forming Impact funds. They are seeking insights as to the use of royalties and the structure and management of the funds.**

**The concept of investing in companies which provide services or products that benefit mankind is not new. In the post WWII period, serious private investors such as Rockefeller Brothers, J.H. Whitney and Payson and Trask had social benefit as one of their criteria for investment.**

**Investing in companies, or "Do well by doing good," is and has been a noble objective, one in which I am pleased to assist.**

**However, there are important questions, which should be considered before embarking on a program in which a lesser financial prospective profit may be acceptable due to the social benefit the investee company is expected to provide.**

**Questions:**

**What is the anticipated minimum overall portfolio annual return, once the funds invested in the fund have been deployed? What is the level of portfolio diversification believed necessary for the preservation of capital of the fund? Is the intent for the fund to distribute all of its annual profits to its interest holders or is the fund to be a taxable entity retaining profits from which to make additional investments? Will the fund be able to be the sole investor in investee companies or will the fund have to arrange and be a part of an investing group? Will the fund be permitted to invest in early stage companies, which have not yet either developed revenue and/or profitability? Will the fund managers or supporters be willing to take board positions in investee companies? To what degree will investee companies be required to share information about the company with the fund? Will the fund be permitted to invest in privately owned companies or will it be restricted to publicly traded companies? If a privately owned investee**

**company either merges with a listed company or raises additional capital through a public offering will the fund be allowed to maintain its position in the company? What will be the investment management structure and will the investment management be internal to the fund or be retained independent professional investment managers?**

**How should the fund be structured? Will there be more than one group of investors and if so are their interests aligned? Will the investors wish financial withdrawal ability as opposed to having the ability to sell or otherwise transfer the ownership of their shares or interests? How much control will the investors have regarding the investment managers of the fund? What will be the compensation basis for the investment managers? What financial structure works best for the investors? Would the investors be comfortable with a fund domiciled a non-U.S. location? Is there one of the U.S. states which is better for the investors? Will the investors wish to have an approval process regarding fund investment? If some of the investors in the fund wish to co-invest or invest subsequently in investee companies is there a conflict? Will the fund be able to loan funds or will it be restricted to the purchase of equities?**

**If the fund is allowed to purchase and own royalties issued by royalty issuing companies, what restrictions will there be as to the character of those companies? Must they be profitable? Must they have revenues of a certain size? Must they be U.S. companies? How is “social benefit” defined for possible investment consideration? Will all investee companies have to be independently audited? Will the selection of the possible investee process be separate from the structuring and negotiation of the royalty? Who will do either or both? How will the agreed royalties be collected? Will the royalties be distributed to the investors, and when? Who will perform the functions of Registrar and Transfer Agency, to the extent required by the structure of the fund? Who will serve as Custodian of documents and assets possibly assigned for royalty issuer contractual compliance purposes? What access and information regarding investee companies will be available to the fund investors? Will the fund allow royalty issuers to have redemption rights permitting them to terminate the royalty payment obligation?**

**There are lots more questions, but royalties are the better way of both investing in and financing of privately owned companies.**

**British Far East Holdings Ltd., Chaired by Arthur Lipper, will require the payment of an annual patent license fee and Arthur Lipper is also available to advise and consult regarding the above and other issues.**

**Arthur Lipper, Chairman  
British Far East Holdings Ltd.**

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