

Royalty Income Funds Would Make Sense for San Diego Indian Tribe Investment[©]

Arthur Lipper

Royalties, an agreed percentage of a company's revenues for an agreed period, are the best way of participating in the growth of privately owned companies.

Investing in royalties is an essentially conservative approach as the investor benefit is based on the growth of revenues and not profits of the royalty issuing company.

Therefore, a royalty-investing fund can be created to invest in privately owned companies in specific geographic territories and in specific industries. Also the investment policy of the fund can favor investment in specific industries and focus on companies having specific characteristics.

A royalty income fund can be restricted to considering companies having had increasing revenues for a designated number of prior years. Clearly the economic outlook for the industry in which the company operated should be favorable.

Private company owners will be interested in considering raising grown capital through the sale of a royalty, as the royalty does not require any equity dilution or the reporting of ever increasing quarterly per share profits.

The royalties we recommend have a 20-year maturity but are unlikely to be around for that long as there is a redemption right, as a part of the royalty agreement, which will most probably be exercised by the royalty issuing company. The redemption price will be a multiple of the initial cost of the royalty as paid by the fund.

Royalties we structure also have 5-year put requiring the royalty issuer to offer to repurchase the royalty sold at the original cost of the royalty, less the cumulative value of the royalties paid to the investor.

Also the royalties we recommend require the payment of the agreed percentage of all revenues at the time of the revenues being received. For further investor protection the patented approach we use requires the company to use its critical assets to secure its contractual compliance. There is also a personal attestation required of the controlling owners of the business that all revenues have been deposited as received in the investor approved banks. Personal guarantees of capital invested are not a part of the royalty agreement.

We design royalties to provide investors in excess of an Internal Rate of Return of 15% over the course of the royalty payment period, all based on the issuer's projected revenues.

San Diego area Indian tribes have generally been really good citizens. A number of the tribes have made substantial regional investments. Companies which are expanding are good for the community and therefore for local Indian tribes. Providing growth capital for established privately owned companies will be good for the royalty investors, the companies obtaining the growth capital, the communities and the tribes.

We can either assist in the management of an investor managed royalty income fund or provide the management.

There are also ways of an Indian tribe benefitting by guaranteeing the loans made by an investor owned royalty income fund, as royalties issued by established companies are such a conservative investment

It all makes sense, as royalties are the better way of both investing in and financing of privately owned companies.

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

**© Copyright 2017 British Far East Holdings Ltd.
All rights reserved. May 24, 2017**