

**Using the Skills and Experience
of Being a Successful Lender
To Becoming a Successful
Royalty Fund Manager ©**

Arthur Lipper

As a successful independent real estate lender I have had to develop and use the skills necessary in both borrowing and lending. I have had to gain an understanding of the laws and regulations regarding lending and have had to develop contacts with borrowers and possibly lenders. Perhaps most importantly I have had to develop an ability to assess both the value of properties and the character and resources of borrowers.

I make money by arranging financing transactions for fees and at interest rates higher than that which I am required to pay. It has been a good business activity as the more deals I do the more money I make, assuming that all of the borrowers are able to meet their commitments.

There is, however one personal and one social failing of property-based lending. I do not have a continuing personal benefit from transaction, even those closing satisfactorily, and it is not clear that jobs are being created or other social benefit is created as a result of my efforts.

Using many of the skills I have had to possess to be a successful property lender I now understand that arranging for local established companies to obtain growth capital through the sale of a royalty is likely to be both increasingly profitable for me and for investors. As an added benefit, the funds used by the seller of the royalty will result in the expansion of businesses, which benefit its owners, employees and the community.

If I simply use my own capital and possibly that which I am able to borrow to buy 20-year royalties I will probably be able to earn, over the course of the royalty payment period, a very satisfactory rate of

return, including the recapture of my investment in less than five years.

However, if I am successful in attracting the capital of other investors in a fund which I manage, then I will have both the increasing returns based on the increasing revenues or the royalty issuing companies and fees for creating the transactions and for managing the funds invested in the fund.

Managing the investments of others has proven to be an excellent way of making significant income while providing a necessary and valuable service.

The reason royalties are such a great opportunity is the likely returns from well structured royalties issued by companies achieving their projected revenues is substantially better than the return from alternative forms of investment, when the lessened risk of royalties is understood.

That which must be understood is that with each royalty payment the investor's capital risk is reduced to a point when the royalties, probably increasing due the company's revenues increasing, continue to be paid for an extended period **without there being any capital at risk.**

Managers of royalty income funds can receive reimbursement of agreed fund administrative expenses, a fee for managing the fund and a participation in the income of the fund, possibly after an agreed amount has been received and paid to the investors.

Due to the inherently conservative nature of a royalty income fund there is the possibility that the fund may borrow institutionally for the purpose of buying royalties from more companies. The risk to the fund is reduced by the portfolio diversification of the number of different companies from which royalties have been acquired.

It is also possible that the original creator of the fund, who may be serving as its manager, may wish to sell the management entity or transfer the right to manage the fund and such a transaction could be

logical for the manager at some point. Any such transfer should be subject to the approval of the fund shareholders.

Managing other people's money is a good business and investing the money in royalties makes it an even better business for the manager and a better investment for the fund shareholder.

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