

# Larry and Barry Consider Starting a Royalty Income Fund ©

Arthur Lipper

**Larry:** Ok, I am convinced that royalties used in financing businesses are both better for the business owner wishing to retain full ownership of the business and also for the investor seeking a growing and higher return.

**Barry:** Now, do you think we should form and manage some sort of royalty income fund? The lawyers can determine the actual form.

**Larry:** Yes, and there should be a very good business for us in managing other people's money as invested in royalties.

**Barry:** But we have little experience in royalties, even though we have recently used them in our own business, since we needed more capital to grow faster.

**Larry:** Right, but the investment decision-making is so much easier than if we were buying stock in privately owned companies. As you know, many business owners legally report less profit than they might if they were publicly traded.

**Barry:** There are several places where we can get assistance with the things we have to do to responsibly manage other people's money. There is [Pacific Royalties](#), co-founded by Arthur Lipper, which is in the business of advising royalty income funds.

**Larry:** Doesn't Arthur Lipper also do some consulting?

**Barry:** Yes, he does but like [Pacific Royalties](#) Lipper is not responsible for making investment decisions. He does assist his clients in the structuring of royalties. Therefore, he can be retained by either or both investors and/or royalty issuing companies. He can be reached at [Chairman@REXRoyalties.com](mailto:Chairman@REXRoyalties.com).

**Larry:** So what do we need first?

**Barry:** Assuming that we will be the ones making the investment decisions regarding companies which are attractive for long-term revenue growth investment, we can negotiate terms that are fair to both the royalty issuer and the royalty investor. The rest seems to be pretty much administrative. We can either perform the necessary services or outsource them to appropriate service providers.

**Larry:** Well, using the website calculators available through [Royalties.Website](#) the impact of the revenues projected versus those actually achieved can be ascertained. Also, there are a number of structural variants in the format of the royalties. Some include using debt in the early years. Some provide for giving the company a stated benefit if royalty payments exceed projections by an agreed amount in an agreed period. Of course, in these cases there is also a penalty incurred by the company if they under paid the projected royalties by an agreed percentage. Finally, the royalties can be structured in a RIAR (Royalty Issuer Assured Return), as a minimum return over an agreed period.

**Barry:** Why would any business owner agree to other than a straight royalty for a number of years?

**Larry:** For two reasons: one is to attract the interest of the investor and the other is to be able to justifiably proposing a lower royalty rate. By assuming more of the risk of the revenue projections being achieved, the issuer expects to get better terms.

**Barry:** It's all ok and you will be able to obtain money to invest in royalties from people who know and respect us. However, will that be enough money for us to have the recommended risk-reducing portfolio diversification?

**Larry:** Good point; if necessary we may have to either acquire the services of an experienced investment manager or make a deal with an investment-management firm to assist us. That firm may also be helpful in attracting investors.

**Barry:** That's fine but won't this person or firm want a large percentage of the assets under management or revenues produced?

**Larry: Sure, but that negotiation will also be for a set period and be subject to the performance of the fund, and have both amount limitation and terms for cancellation.**

**Barry: Ok, but we will have to provide investors with the same range of services as they get in other funds.**

**Larry: What are they?**

**Barry: They are a Registrar, to keep a record of the owners of the fund. A Transfer Agent, to keep a record of changes in ownership, keeping the Registrar's records up to date. A royalty collection and distribution administrator. A royalty issuer information gatherer and distributor. Finally, there will have to be the holder of the royalty issuer's assets to assure contractual compliance.**

**Larry: Ok, these seem to be pretty straightforward, but who pays for what?**

**Barry: That seems to be partly dependent on the fees we charge to manage the fund. We could provide internally most, if not all, of the functions. However, either or both the investors and the issuer may feel more comfortable with an independent service organization providing the services.**

**Larry: Fine, if that were the case the issuer could pay for some of the services and the investors for others. The only function, which should certainly be independently performed, though perhaps in conjunction with us, is the holder of the assets assuring corporate compliance.**

**Barry: So, the next step would be to create events where we can meet potential investors and issuers. There we can describe the benefits of the royalty financing process. We can possibly introduce investors to some of the companies interested in raising growth capital by selling the fund a percentage of their revenues, but none of their ownership.**

**Larry: Yes -- and those attending the event would be both professional and accredited investors and the companies would be only those we had vetted by doing some research. Also, the companies would be required to**

**make available at least an agreed minimum amount of information about the company.**

**Barry: We will need a meeting site, a list of invitees and someone to describe to investors the benefits of royalty investing. We will also need someone to describe to the prospective royalty issuers the great benefits of royalties used in growth capital acquisition.**

**Larry: The event could be called “Royalty Benefit Exploration for Investors and Business Owners”.**

**Barry: Ok, let’s do it, since there doesn’t seem to be much downside for us, and a lot of upside for us, the investors and the royalty issuers.**

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