Management of an Investment Partnership

A Comparison of the Skills Required for Success with Equities and Royalties

Seaside Investments has a strong track record of success in providing superior investor returns through the application of a disciplined PIPE strategy. The Seaside principals are experienced and successful portfolio managers, with a focus on smaller publicly traded issues.

How is that success likely to translate into success with a revenue royalties strategy, as presented in the Seaside Royalties Limited Partnership?

To achieve superior performance with PIPE investments, the Seaside managers, Bill Ritger and Denis O'Donnell, selected publicly-traded equities in need of capital, structure private deals with the companies, purchasing and selling the securities at the optimal times. Seaside has extensive experience in negotiating with companies with a need for capital, to achieve specific results for investors.

The results, as reported by V2V -- the investment banking firm retained by Seaside -- are returns to Seaside's limited partners in excess of 216% of the S&P, over a six-year period from 2006 to 2014.

How will those skills translate into success at management of a revenue royalties partnership?

The skills required for selecting royalties are a subset of those required for equities. Since Seaside has proven its capability at superior execution with PIPE equities, there is a high degree of confidence that they will perform well with royalties, which are less complex and more fundamental.

Selecting royalties is somewhat simpler than selecting equities, as illustrated below; the considerations of valuation and marktet timing are not required. Professional judgment, portfolio management skills and market experience remain at the core of investment success, and some new skills must be adapted to the unique royalties environment.

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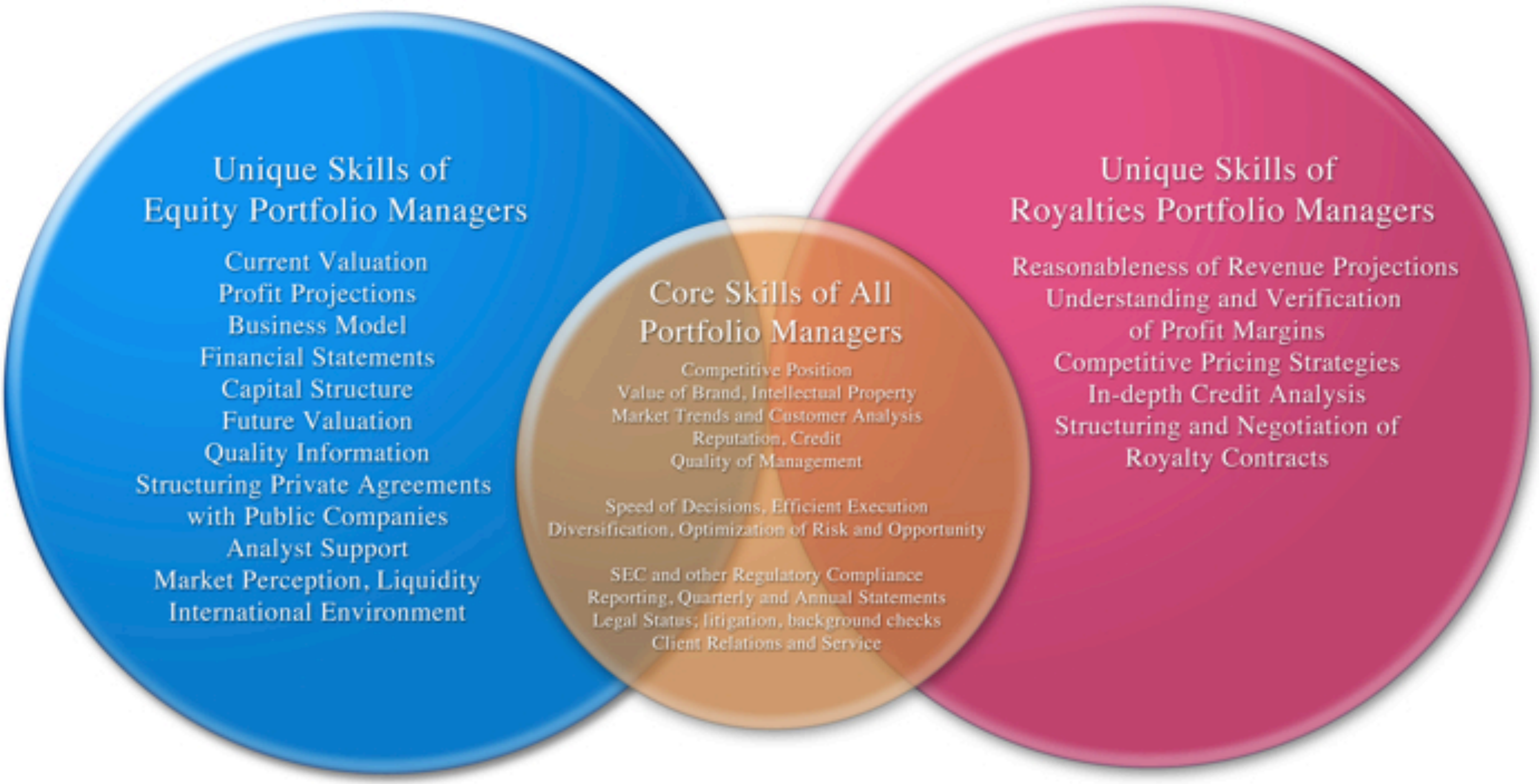
1. Unique Skills of a Successful Portfolio Manager of Publicly-Traded Equities

a. The portfolio manager of publicly-traded equities must correctly and rigorously assess the following internal qualities of each company before he invests:

1. Current Valuation
2. Profit Projections
3. Business Model
4. Financial Statements
5. Capital Structure
6. Future Valuation
7. Quality Information
8. Structuring Private Agreements with Public Companies
9. Analyst Support
10. Market Perception, Liquidity
11. International Environment


Unique Skills of
Equity Portfolio Managers
Current Valuation
Profit Projections
Business Model
Financial Statements
Capital Structure
Future Valuation
Quality Information
Structuring Private Agreements
with Public Companies
Analyst Support
Market Perception, Liquidity
International Environment
Core Skills of All
Portfolio Managers
Competitive Position
Value of Brand, Intellectual Property
Market Trends and Customer Analysis
Reputation, Credit
Quality of Management
Speed of Decisions, Efficient Execution
Diversification, Optimization of Risk and Opportunity
SEC and other Regulatory Compliance
Reporting, Quarterly and Annual Statements
Legal Status; litigation, background checks
Client Relations and Service
Unique Skills of
Royalties Portfolio Managers
Reasonableness of Revenue Projections
Understanding and Verification
of Profit Margins
Competitive Pricing Strategies
In-depth Credit Analysis
Structuring and Negotiation of
Royalty Contracts

2. Unique Skills of a Successful Portfolio Manager of Private Company Royalties

There is significant intersection between the set of skills above, and the set of skills needed for royalty investments, below. Some of these skills are different for royalty investments; they are marked with an asterisk * and discussed below.

a. The portfolio manager of a royalties fund must correctly and rigorously assess the following internal qualities of each company purchasing a royalty contract:

1. Reasonableness of Revenue Projections *
2. Understanding and Verification of Profit Margins *
3. Access to Quality Private Issuers, Deal Flow *

4. Structuring and Negotiation of Royalty Contracts *
5. Competitive Pricing Strategies
6. In-depth Credit Analysis

3. Core Skills of All Portfolio Managers

1. Competitive Position
2. Value of Brand, Intellectual Property
3. Market Trends and Customer Analysis
4. Reputation, Credit
5. Quality of Management

6. Speed of Decisions, Efficient Execution
7. Diversification, Optimization of Risk and Opportunity

8. SEC and other Regulatory Compliance
9. Reporting, Quarterly and Annual Statements
10. Legal Status; litigation, background checks
11. Client Relations and Service

* Discussion:

1. **Reasonableness of Revenue Projections:** Topline revenues are easier to predict than declared net profits. Many discretionary factors, including operating, marketing and administrative costs, affect declared profit. Revenues are more easily tracked and reported; this can be done daily using the patented approach. So investor returns, measured as a percentage of revenues, are more immediate and transparent.

2. **Understanding and Verification of Profit Margins:** Profit is still important to the royalty investor, for one focused reason; it must be sufficient to sustain growing operations, so that revenues increase. Margins must be well understood, especially since payment of royalties from the topline directly affects profit margins.

3. **Access to Quality Private Issuers, Deal Flow:** Working with private companies is challenging, for several reasons: there are far more private companies than publicly-traded companies, so screening for the good deals is demanding; the companies have not made disciplined, open reports to securities authorities, so gathering data takes more time and effort; there are many more types of equity and debt options open to private companies to evaluate (angel, venture, mezzanine, private equity, convertible debt, and more). On the other hand, private companies are always interested in fresh sources of capital, since they do not have efficient access to mainstream capital markets.

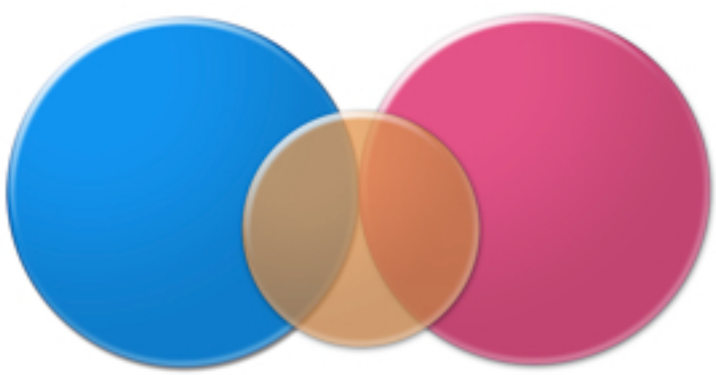
4. **Structuring Royalty Contracts with Private Companies:** Royalty contracts may contain a number of special provisions unique to this asset class, including royalty rates that may vary by year, by exceeding or missing revenue projections, or reaching investment return benchmarks; redemption provisions; combination with debt; assurance provisions, and structuring of revenue trustee relationships

with banks. These provisions have been well researched by Arthur Lipper and Pacific Royalties, and are understood by Seaside. Some are protected by issued and pending U.S. patents which are licensed to Seaside.

Benchmarks of Success

The benchmark of success for a PIPE partnership -- performance against a broad industry benchmark such as the S&P -- does not directly apply to royalties investments. A different benchmark is used foer royalties, because the price of a company's stock is not relevant to the royalty investor; it's the rate of increase of a company's gross revenues, which drives the current income investors receive.

A key objective of a royalties partnership is to achieve 20% annualized Internal Rate of Return, assuming that quarterly income distributions are taken by investors and not reinvested. Over the past ten-year period (1995 through 2015) this level of total return, if achieved, would significantly outperform the S&P (7.6%),[1] which provides no similar continuing income advantage.



[1] Robert Shiller; http://dqydj.net/sp-500-return-calculator/

Summary:

The royalty portfolio manager’s job is both easier and simpler than the equity portfolio manager’s job -- especially for those who have already demonstrated success in management of equities.

Key complex decision-making elements are removed, including a company’s current and potential future valuation, along with both buy and sell market timing. These are replaced with more fundamental concerns: the need to be comfortable with the company’s sustainability, and the likely growth of revenues.

A successful equities manager is well-positioned for success as a royalties manager.

References detailing the above notes may be found at http://www.pacificroyalties.com, and at http://www.royalties.website

By Michael North, Pacific Royalties

A summary of this document is available at: http://j.mp/portfolio-summary

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