



TFA

Monthly Newsletter

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IN THE NEWS

Passive Investing – why would a tribe be interested?

By Kristi Jackson

Active vs Passive – the terms are used frequently when it comes to investing – but what does this mean? Why would a Tribe be interested in being a passive investor?

In our work with Tribes and their economic development strategies – we see a disproportionate effort placed on making active investments. The desire to own, control and actively manage companies is widely embraced across Indian Country. A significant percentage of many Tribes' economic diversification investment funding goes to private investments.

As it relates to private investing - taking a position in a private company – this can be done either directly (via buying some or all of the equity outright) or indirectly (via a partnership or a private equity fund). If the in-

vestment is direct, should it be actively managed, or, will the ownership by the Tribe be passive?

While an active investment style in private markets can refer to a growth fund, or a manager of a fund that trades positions frequently, here we are referring to a Tribe buying a controlling interest in or developing an operating business directly. Active investing involves unique risk and requires significant due diligence and management depth and expertise. While the reward of outsized gains can be realized when the business grows or a successful repositioning or turnaround occurs, this success requires discipline and management talent. Too often, we see a Tribal investor misjudge the amount of ongoing capital needed to grow a direct investment, or, underestimate the

Raving NEXT: Continued success of tribal operators depends on long-range vision

2/9/2024 – cdcgaming.com

Indian Gaming Association trade show returns to Anaheim April 8-11

2/15/2024 – indiangamingtradeshow.com

Feds deny permits for hydroelectric projects on Navajo land

2/22/2024 – ictnews.org

California: "The Humidor" bourbon and cigar lounge opens at Sky River Casino

2/25/2024 – indiangaming.com

Joe Biden taps millions to fund clean energy for tribes

2/27/2024 – ictnews.org

House Passes Bipartisan Legislation to Boost Support for Indigenous Entrepreneurs

2/29/2024 – nativenewsonline.net

Wisconsin: Potawatomi Casino Hotel to open new poker room, sportsbook

2/29/2024 – cdcgaming.com

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amount of management time required.

Passive investing, on the other hand, generally relates to a buy-and-hold strategy for a longer term, and in the context of private investments, can mean buying into a partnership or fund that is managed by a third party. This alone may be a significant benefit. There are other potential benefits to consider:

Reduces required bandwidth - We have recently met with several Tribal economic development entities that have staffs of fewer than 10 people. The bandwidth required to actively develop a new or existing wholly-owned company can be enormous. If staff dedicates time to just one portfolio company, this disproportionately affects how the other portfolio companies can access those resources. If one of the portfolio companies requires a turnaround, the demands for management resources increase exponentially.

On the other hand, if the team spent time doing diligence on a fund – making an investment, and placing trust, in the management of

that fund or venture, this effectively frees up the Tribal investor staff to tend to its other investments.

Portfolio Diversification – Almost by definition, investing in a fund offers exposure to many different investments within that fund. As Tribes seek to diversify their economic bases, passively investing in a fund may offer increased diversification by leveraging the resources of professionals to source, diligence and execute a broader array of investments that would otherwise be burdensome to process “in house”.

Subject Matter Expertise – Clearly with proper diligence, finding an opportunity to invest alongside a certain management company or in a specialized fund can provide ben-

efit if that partner or sponsor makes that industry/specialty their “day job”. Leveraging the experience of a talented partner and their knowledge of a particular industry can work to de-risk an opportunity versus trying to figure things out on your own.

While passive investments involve risk and may not fit the profile of many Tribes, nor may they fit the goals or objectives of others, we think the benefits of dedicating a portion of an overall portfolio to passive investments may offer significant advantages to consider. We are always available to discuss with you and look forward the learning more about your Tribe’s diversification efforts.



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