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PE, Tribal Nations Set To Join Hands;

Native Americans launch private-equity ventures to tap Indian country resources, but will the opportunities prove fruitful?

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America's tribal nations have relied on casinos or royalties from energy companies for years to generate income. But, the future earnings of Native American tribes may well rest in one of Wall Street's more lucrative businesses: private equity.

The chance to generate income through more direct ownership of natural resources on their own sovereign lands is piquing the interest of Native Americans. Conversely, the natural resources located in Indian country haven't gone unnoticed by U.S. investment groups.

Enter John Jurrius, a Texas financier well acquainted with Indian country who made the Southern Ute tribe in Colorado one of the nation's wealthiest Indian bands, Houston private-equity firm Quantum Energy Partners and Calgary's IBC EnergyInc. The trio sits at the nexus of the opportunity.

NARP, a portfolio company of Quantum, has received \$100 million in funding from the Texas energy-focused private-equity group to invest in Western Canada's Indian lands through a partnership with Calgary's IBC EnergyInc.

IBC announced the venture in mid-August, which could finance deals with Indian tribes valued at \$25 million or more per transaction.

"Quantum put us on a platform where we can play a larger field," says Jurrius, chief executive of NARP. "Most tribal nations are on a flight to self determination ... In the long term, I think it's going to make more First Nations aware that you don't just need to go to a bank for financing," he adds.

Quantum has experience with Native American tribes, having invested in Utah's Ute Energy LLC company formed by the Ute Indian tribe.

Rob Rollingson, general manager of IBC Energy, admits the venture might not drum up tribal interest right off the bat. "This model isn't going to fit every First Nation. [But] I believe that once we're successful in negotiating a deal or two, the other nations will be very interested in finding out what it is all about. The majority of nations are looking for ways to generate income and relatively few First Nations in Alberta have their own oil and gas companies up and running."

The new partnership has already yielded a memorandum of understanding in the Saskatchewan province with an eight-nation band, according to Jurrius.

Whereas NARP and IBC Energy are focused on tapping into tribal lands, some domestic tribes are looking beyond the reservation for private-equity investments.

California's Colusa Indian Tribe and the Rincon Band of Lusieno Indians, which owns the Harrah's Resort and Casino near San Diego, set up a \$25 million fund named First Nations Capital Partners LLC with the assistance of Wells Fargo Community Development Corp. last year.

Each tribe and Wells served as anchor investors in the fund, which also drew \$250,000 commitments from individual investors.

First Nations of San Diego is focused on deploying capital in 11 Western states. It executed its first deal in February with the purchase of a controlling stake in Duarte, Calif.'s identification card maker Able Card Co. (Colusa Indian Community, which operates the Colusa Casino Resort near Sacramento, is a customer of Able Card).

Although financial terms weren't disclosed, the deal was in line with the fund's parameters of investing in businesses that generate less than \$50 million in annual revenues.

"We have the majority percentage, enough to call it a tribally controlled enterprise," said John Upshur, who serves as managing member of the fund's San Diego management company, Admiral Capital Management.

Upshur says targeting investments in companies outside of Indian country differentiates First Nations from other Native American funds as few tribes "have gone off reservation and made what you can call a private-equity investment."

He adds that the joint fund with the Colusa and Rincon band is also unique because few tribes have pursued intertribal ventures on their own.

It isn't, however, the first tribe to invest outside reservation lands.

GF Private Equity Group LLC, a Durango, Colo., private-equity arm of the Southern Ute Indian Tribe Growth Fund, invests across a broad geography and range of industries including defense, financial services, life sciences, media, medical devices, natural resources, software, and technology.

Like the Colusa and Rincon investment venture, GF was established to broaden the Southern Ute's existing source of income.

"The firm came into existence as a method of diversifying assets away from the operating businesses of the tribe that have to do with resource extraction," says James Thompson, vice president of GF Private Equity Group.

The Southern Ute, which have made a fortune in energy and real estate and occupy land atop rich natural gas beds, invest in the U.S., internationally and on their own land. Another investment arm of the tribe backed a \$16.8 million venture capital investment in June in Fort Collins, Colo.'s Solix Biofuels, which is involved in biofuel development on the Southern Ute reservation.

Despite the success of the Southern Utes, the promise in Indian country hasn't always drawn institutional capital.

Just ask Walter Hillabrant, managing director of Native American Capital LLC, a Silver Spring, Md., merchant bank and private-equity firm. Executives of NAC traveled to New York about a year and a half ago to meet with Lehman Brothers bankers to discuss raising capital for a \$50 million to \$100 million fund that would invest in Indian country.

As Hillabrant talked about tribal sovereignty and other Native American issues, he recalls that the Lehman bankers' "eyes glazed over." NAC, he says, didn't receive capital from Lehman. "It's ironic because they did some wildly speculative investments," he adds with a laugh.

Hillabrant blames part of the difficulty in attracting institutional capital on the lack of "Dun & Bradstreet SDR data about Indian country. "That's part of the problem in trying to attract money outside of Indian country," he says.

Native Americans also face another hurdle when it comes to participating as investors in buyout funds: regulations.

As a Perkins Coie LLP article on the law firm's web site points out, Indian tribes aren't qualified as "accredited investors" under Section 501(a) of Regulation D under the Securities Act. It's an exclusion that restricts the ability of tribal nations to invest in private funds that court accredited investors which, in turn, limits a potential source of capital for private-equity funds.

By granting accredited investor status to tribal nations, regulators would open up a plentiful source of capital to the private fund community, Perkins Coie notes.

Securing capital from well-heeled Indian communities, however, is equally challenging, acknowledges Hillabrant, who is a member of the Citizen Potawatomi Nation of Oklahoma and co-founder of NAC. "Tribes tend to have a very conservative stance on their money to invest."

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