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The Quiet Alpha Revolution - How Althera42's Tech Royalties Reshape Alternatives

Matthias Knab, Opalesque for [New Managers](#):

What if one of the most attractive sources of uncorrelated returns is not new at all - but simply being applied where no one has looked yet?

For decades, royalty investing has quietly generated billions in value across pharmaceuticals, mining, and music. Investors in these sectors

have benefited from long-duration, predictable cash flows linked to intellectual property - often insulated from market volatility, the credit cycle and largely independent of broader economic cycles.

Yet, despite the rapid expansion of Europe's technology sector, this model has never been meaningfully applied to one of the largest and fastest-growing pools of recurring revenue in the world.

That may be changing. Dr. Christian Czernich is now applying the same model to European technology and software IP - a sector representing over EUR 1 trillion in recurring revenues globally of which approx. 30% is attributable to the European market. This opens the possibility to deploy approx. EUR 500-600bn of royalty capital in tech, which is growing by over 10% per year.

Czernich is the founder of Althera42, a London-based alternative investment manager raising a debut EUR 300 million Royalty Tech Fund. He is not a newcomer to this space: he spent the previous eight years building Round2 Capital into Europe's leading revenue-based finance provider, executing 40 royalty-linked investments across 9 European countries, with 13 exits and an average realized IRR above 20%. Althera42 is the next step - moving from royalty-based lending to the true acquisition of revenue streams, creating a purer and more structurally protected royalty asset.

A New Asset Class - Not a New Version of Debt or Equity

The most important thing to understand about Althera42's strategy is what it is not. It is not private credit. It is not private equity. It is a third category that most institutional investors have not yet thought about. The strategy is acquiring long-duration claims on high-margin, recurring revenues generated by IP.

"When I talk to investors, they ask me: is this equity, or is it debt?" Czernich explained in a recent conversation with Opalesque. "And I say, no - it's neither. It is revenue participation and a separate asset class. Therefore this is a very big story. It is not just a small niche product, but a major new asset class that creates strong Alpha." He continues: "In an IP-based economy and the apparent confusion about the valuation of tech companies, revenue becomes the most reliable and economically meaningful anchor. Royalty investing reflects that."

At the moment, this opportunity remains largely untouched.

The reasons are structural. Banks are not equipped to underwrite royalty-based cash flows within their regulatory frameworks. Traditional credit investors often lack the specialized expertise required to analyze revenue cohorts or structure true-sale transactions. At the same time, many technology leaders are simply unfamiliar with royalty financing as an alternative to equity dilution or debt.

The result is a rare market inefficiency: a large, growing asset base with limited competition and high barriers to entry.

In Althera42's model, the fund acquires a 3-10% participation right in a mid-market technology company's recurring revenues via a true sale. The company receives a purchase price paid out at once or in tranches - growth capital it can deploy for expansion, M&A, investments in technology, or shareholder liquidity. In return, Althera42 receives an uncapped monthly royalty payment - its contractual share of revenues - for a period of up to 25 years, oriented to the typical lifespan of a patent. Early redemption options exist on both sides, meaning the effective investment duration is typically much shorter, often 5-7 years. The long duration of the investment gives business owners the flexibility to build enduring value for the long-term without refinancing or exit pressure, while also offering possibilities for early redemption.

Crucially, this structure does not appear as debt on the portfolio company's balance sheet. The company does not take on a fixed repayment obligation. There is no cash-flow mismatch of the kind that triggers most loan defaults. The royalty payment scales with revenues - so in a slow period, obligations shrink automatically yet with downside protection; in a growth period, both the company and the fund benefit together. This creates an asymmetric return structure which offers a highly favorable risk-return profile to investors: strong upside participation when companies scale rapidly and meaningful capital protection when companies underperform.

Why the Window Is Open - and Why It Will Not Stay Open

Royalty investing is well-established in metals and mining, the life sciences, and music and entertainment, with a combined annual investment volume of EUR 10-20 billion. The model works best where intellectual property generates long-duration recurring revenues with near-zero marginal cost - high gross margin, subscription-style cashflows.

Technology, B2B software, and tech-enabled services tick every one of those boxes. The sector represents over EUR 1 trillion in IP-based recurring revenues, in Europe growing at 12-15% per year. Yet institutional royalty capital has never been systematically deployed there.

"You get these royalties only from us," Czernich noted. "There are not 20 other funds doing exactly the same. It's a beautiful situation."

That window, however, is attracting institutional attention. Partners Group launched a multi-sector royalty strategy in 2025. KKR acquired Healthcare Capital Partners for an estimated \$300-400 million. Oaktree, Blackstone, BlackRock, and major university endowments are all building royalty allocations. Royalty Pharma, the global leader in healthcare royalties, has doubled its market cap to USD 26bn in the last 12 months. The technology sector will follow. Althera42's advantage is the eight-year head start.

Why Smart Business Leaders Choose Royalties Over Debt or Equity

Czernich describes an elegant dynamic that helps explain why deal sourcing in this strategy is structurally different from traditional private credit or equity: the instrument is self-selecting for quality.

"Venture debt and growth debt have an adverse selection problem," he explained. "A founder takes on debt if they have low expectations of their future - because all their cash flow will be bound to repaying the debt leaving very little possibilities for growth. For growth companies, debt puts short term pressure to refinance or exit. In royalties, it is the opposite: a royalty investment is long-term and linked to revenue and not to fixed amortization schedules. This leaves the companies enough breathing space for growth and for building enduring value. The higher the growth expectations of a company, the smarter it is to take a royalty investment. For successful companies we will always be cheaper than the equity dilution cost."

Three themes drive company interest in Althera42's instrument today:

The first is the valuation impasse. With AI creating a bifurcated market - astronomical multiples for AI-native companies, compressed valuations for established tech - the bid-ask spread between sellers and buyers has widened dramatically. Many deals simply do not get done. Royalties sidestep this impasse entirely: Althera42 buys a share of revenues, not a share of the company, so the valuation debate becomes irrelevant.

The second is ownership preservation. Business leaders and existing equity investors with high conviction in future growth will do everything to avoid dilution. A royalty investment delivers the capital needed for expansion, M&A, or liquidity for legacy investors without surrendering a single share. "They can preserve their ownership stake without dilution," Czernich summarized.

The third is governance. Every new equity or debt investor brings potential governance disruption - board seats, shareholder agreement renegotiation, new covenants. Althera42 is explicitly non-intrusive on governance. The fund takes observer rights and monthly revenue reporting tied directly to billing systems, but does not seek to redirect management or reshape board dynamics.

What Can Go Wrong - and What Cannot

Czernich is direct about the risk profile. The primary risk is revenue underperformance: if portfolio companies do not grow as expected, returns remain anchored in the private credit range, supported by ongoing contractual participation in revenues.

In downside scenarios, Althera42 benefits from a priority claim on cash flows and structured downside protection through IP-linked rights and, where applicable, additional collateral - positioning the fund structurally ahead of equity and subordinated capital, with priority access to cash flows.

What the strategy structurally eliminates is a long list of risks that preoccupy other alternative credit and equity managers: exit risk (no need for a liquidity event), valuation risk (no entry or exit multiples), refinancing risk (royalties can run 20 years with no rollover), inflation risk (revenues rise with prices, lifting the royalty automatically), and interest rate sensitivity (the royalty is linked to business revenues, not a base rate).

"We do not take exit risk, we do not take valuation risk, we do not take refinancing risk," Czernich summarized. "Whether interest rates go up or down has no influence on our returns."

On the private credit market more broadly, Czernich expressed a view that is worth noting in the current environment: "We might be at the beginning of problems in the private credit market. Many emerging growth companies have taken on enormous risk - they know they cannot repay the loan from cash flow, so they're betting on a refinance or exit. If the exit window closes or there's a market crisis and refinancing is not possible, those companies will face serious problems. Royalties is a safer alternative to finance growth."

AI-Resilient by Design

Althera42 invests in the infrastructure of the IP-based economy - data, software and transaction infrastructure, as well as tech-enabled services and hardware-integrated business models that are deeply embedded in workflows. These assets combine recurring or usage-linked revenues with high gross profit margins, high switching costs and long-term structural durability.

Czernich applies a nuanced framework to the AI disruption debate. Shallow SaaS products with limited workflow integration are at risk of being replaced by AI agents - and he acknowledges that many will be. But the fund deliberately avoids that segment, focusing instead on digital infrastructure: companies deeply embedded in client workflows, with proprietary data and high switching costs, where replacement by AI is not technically or operationally feasible in any near-term timeframe. Hardware-software combinations - industrial automation, IoT, energy systems - represent another large segment where AI enhances but cannot disrupt.

"AI will make the strong players stronger. And the weak players will disappear. But we are not investing in weak players - we are investing in those who are already strong, and where we can understand how AI makes them stronger, not weaker."

The fund's pipeline illustrates the breadth of this thesis. Current deals under evaluation include one of Europe's larger private university operators, with a digital content catalog that can be analyzed as a royalty asset in the same way a music catalog would be; a European geospatial data platform providing location analytics to retail, real estate, and EV charging network operators - deeply embedded in client capital allocation workflows; a vending machine company that has built and now licenses an operating system for the entire vending machine industry; and a merger between two providers of AI-driven heating optimization systems for commercial buildings, combining IoT hardware and software to reduce energy consumption and operating costs.

An Emerging Allocation? The Fund and the Track Record

For investors, the key question is how quickly technology royalties can mature into a distinct institutional allocation category.

The appeal is clear. Returns are driven by operating performance rather than market sentiment. Correlation to traditional asset classes is low. Cash flows are visible and recurring, yet still offer participation in growth. And perhaps most importantly, the strategy addresses a segment of the market that has so far remained largely untapped.

The EUR 300 million debut fund is designed around a portfolio of 12-15 investments at an average ticket size of approximately EUR 20 million, targeting European and opportunistically US mid-market B2B technology companies with EUR 10-150 million in revenues, gross margins above 50%, churn below 10%, and consistent growth above 10%. Indicative target net returns are above 15%, with a 1.75-2x MOIC target and quarterly cash distributions to investors - an income profile that is genuinely rare in the alternatives universe.

The founding team's 8-year track record at Round2 Capital comprises 40 investments across 9 European countries, with 13 realized exits and an average realized exit IRR above 20%. That experience base - in sourcing, structuring, pricing, and ultimately exiting royalty-linked transactions - is the single most important competitive differentiator in a strategy where underwriting skill is the primary barrier to entry.

Czernich has set a EUR 1 billion AUM target within three to five years. Given the scale of the addressable market - Althera42 estimates EUR 500-600 billion in investable pool from the EUR 1 trillion+ tech IP universe - and the structural absence of institutional competition, the ambition appears well-grounded.

Join the Webinar

Dr. Christian Czernich, Founder of Althera42, will present the Royalty Tech Fund strategy and take questions from institutional investors at an upcoming episode of Opalesque's Small Managers - BIG ALPHA webinar series on April 21, 11 am ET. Register now to reserve your place and submit questions in advance: <https://www.opalesque.com/webinar/>. A replay will be provided.

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