



## RELEASE TO AUSTRALIAN SECURITIES EXCHANGE

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### INVESTMENT PORTFOLIO AT 30 SEPTEMBER 2018

#### Summary

- **During the September 2018 quarter:**
  - IMF added three unconditionally funded new investments to its investment portfolio;
  - Three investment completions, together with revenue earned from ongoing investments in the USA, delivered gross revenue of \$6.2 million; and
  - One completed investment funded by Fund 2 and Fund 3 (Rest of World Funds) resulted in a loss of approximately \$1 million including capitalised costs, and a provision for adverse costs.
- IMF's aggregate Investment Portfolio at 30 September 2018, which includes investments funded directly by IMF on its balance sheet and investments in Funds 1, 2 and 3, comprises 74 investments, with 31 investments outside the USA and 43 USA investments.
- The non-USA investments have a total EPV of over \$2.8 billion and the USA investments constitute over \$197 million in capital commitments. The aggregate EPV for all investments globally is approximately \$5.8 billion.
- Since the September quarter end:
  - One US Fund 1 investment has settled; and
  - Three further Rest of World Funds investments have been unconditionally funded, with an aggregate EPV of \$148 million.
- In addition, IMF has five conditionally funded investments at the present time, which could potentially result in an increase to EPV of up to approximately \$540 million.
- The EPV of unconditionally and conditionally funded investments is in aggregate approximately \$6.5 billion, which represents a growth of 12% since the 30 June 2018 investment portfolio announcement.

## **SPECIFIC CASE COMPLETIONS AND UPDATES**

### **ASAS Update**

This investment was referred to in IMF's announcement of 22 July 2009 and forms part of IMF's on-balance sheet portfolio. Following court-supervised mediation earlier this year, the plaintiffs and the insurer have conditionally agreed to settle the proceedings on confidential terms. If the settlement becomes unconditional IMF anticipates that it will recognise revenue of approximately \$1.175 million and profit after capitalised overheads but before tax in FY19 of approximately \$86,000.

This case has been removed from the investment portfolio at 30 September 2018.

### **USF Case 41 Settlement**

USF Case 41 was an investment in a breach of contract case in a US Federal Court, that was made on 2 April 2018 that has now settled. Once the settlement proceeds are received, IMF expects that Fund 1 will recognise revenue of approximately \$2.8 million and profit after capitalised overheads but before tax of approximately \$1.4 million. This outcome represents a return on invested capital (ROIC) for Fund 1 from this investment of 1x and an IRR of approximately 212%. IMF notes that its announcement dated 13 February 2017 contains details of the distribution rights of IMF's class B capital in Fund 1.

As this case settled post 30 September 2018, it is included in the investment portfolio at 30 September 2018.

### **US Case 24 / USF Case 26 Update**

US Case 24 / USF Case 26 involves the funding of a law firm across a portfolio of commercial claims that was referred to in the announcement dated 25 June 2015. Various ongoing payments have been received from this investment, with two recent payments of \$1.3 million bringing total gross income received from this investment to \$6.0 million to date. Some further payments are still expected. To date this investment has achieved a ROIC for Fund 1 of 0.7x and an internal rate of return of approximately 24%. IMF notes that its announcement dated 13 February 2017 contains details of the distribution rights of IMF's class B capital in Fund 1.

This is an ongoing investment and is included in the investment portfolio at 30 September 2018.

### **Canadian Funded Case Unsuccessful**

The Supreme Court of the British of Columbia recently handed down its decision in an investment in Canada funded by the Rest of World Funds which is managed by IMF. The plaintiff's case was unsuccessful resulting in a loss of approximately \$1 million including capitalised costs, and a provision for adverse costs.

This case has been removed from the investment portfolio at 30 September 2018.

## INVESTMENT PORTFOLIO AT 30 SEPTEMBER 2018

A summary of the Investment Portfolio is below:

### 1. IMF Group (non-USA), Fund 2 and Fund 3 – Estimated Portfolio Value

	Number of investments	EPV \$m	Possible completion FY2019 \$m	Possible completion FY2020 \$m	Possible completion FY2021 and later \$m
IMF Group (non-USA)	21	1,527.0	1,015.2	273.8	238.0
Fund 2 and Fund 3	10	1,276.4	122.6	515.2	638.6
<b>Total Portfolio</b>	<b>31</b>	<b>2,803.4</b>	<b>1,137.8</b>	<b>789.0</b>	<b>876.6</b>

Movement from the previous quarter is reconciled as follows:

	Number of investments	EPV \$m
<b>30 June 2018 Portfolio</b>	33	2,832.3
Additions / Completions	2 / (4)	98.6
Updates		(127.5)
<b>30 September 2018 Portfolio</b>	<b>31</b>	<b>2,803.4</b>

Past performance indicates that IMF's litigation funding investments have generated average gross revenue of approximately 15% of the EPV of an investment at the time it is completed (**Long Term Conversion Rate**).

### Rest of World Funds – Commitments, deployed and capacity

The Rest of World Funds commenced in October 2017 and at 30 September 2018 these funds were committed to 69.0% of available capacity, including two investments approved by the Investment Committee but not yet unconditionally funded, as shown below. The total capital committed includes the cost of the After-the-Event insurance policy that will respond to claims for adverse costs within the funds. Other commitment amounts for the Rest of the World funded investments are based on investment budgets.



## 2. Bentham IMF (USA) and Fund 1 – Invested and Committed Capital

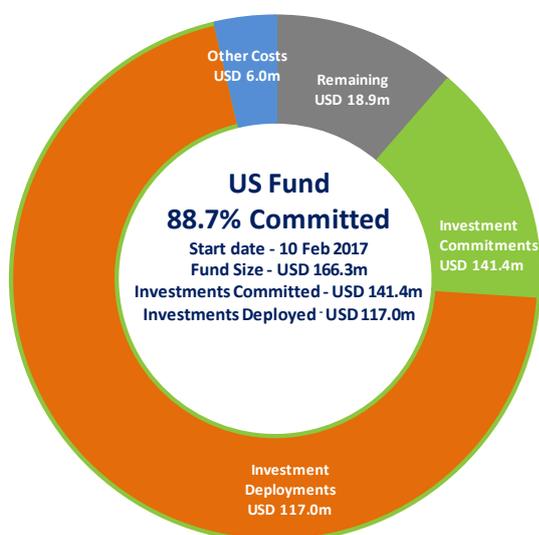
	Number of investments	Total (excluding capitalised overheads and interest) \$m	Possible completion FY2019 \$m	Possible completion FY2020 \$m	Possible completion FY2021 and later \$m
<b>Invested Capital</b>					
Bentham IMF (USA)	5	8.6	6.5	2.1	0.0
Fund 1	38	159.2	71.0	57.0	31.2
<b>Total</b>	<b>43</b>	<b>167.8</b>	<b>77.5</b>	<b>59.1</b>	<b>31.2</b>
<b>Remaining Commitment to be deployed</b>					
Bentham IMF (USA)	5	0.0	0.0	0.0	0.0
Fund 1	38	29.3	5.5	22.2	1.6
<b>Total</b>	<b>43</b>	<b>29.3</b>	<b>5.5</b>	<b>22.2</b>	<b>1.6</b>
<b>Total Bentham IMF (USA)</b>		8.6	6.5	2.1	0.0
<b>Total Fund 1</b>		188.5	76.5	79.2	32.8
<b>Total Commitments</b>		<b>197.1</b>	<b>83.0</b>	<b>81.3</b>	<b>32.8</b>

Movement from the previous quarter is reconciled as follows:

	Number of investments	Total Commitments \$m
<b>30 June 2018 Commitments</b>	<b>42</b>	<b>187.3</b>
Additions (1) / Updates	1	5.4
Foreign exchange adjustments		4.4
<b>30 September 2018 Commitments</b>	<b>43</b>	<b>197.1</b>

### US Fund 1 – Commitments, deployed and capacity

Following the sale of the majority of IMF's US portfolio to its US fund in February 2018, at 30 September 2018 the fund had committed 88.7% of available capacity as shown below.



### 3. Past Performance

Past performance on completed investments to 30 June 2018<sup>1</sup>, excluding withdrawals and overheads, is summarised in the table below:

	Number of Investments	ROIC <sup>2</sup>	Average Investment Length
IMF Group - All completions since inception in 2001	175	1.5x	2.6 years
Bentham IMF (USA) and Fund 1 - Completions since inception in 2011	21	0.92x	1.6 years
IMF Bentham Ltd (Australia and RoW) - Completions since 1 July 2011	58	1.4x	3.0 years

<sup>1</sup> The completed investment data to 30 June 2018 has been reviewed by the auditor of IMF, EY.

<sup>2</sup> ROIC (return on invested capital) is calculated as gross income to IMF (litigation contracts – settlement and judgements) less all reimbursed costs, divided by total expenditure (excluding overheads but including any adverse costs on lost cases).

### 4. Pipeline of Investments

Since 30 September 2018, three further investments have been unconditionally funded through the Rest of World Funds, comprising a further EPV accretion of \$148 million. These investments will be included in the December 2018 quarter investment portfolio.

In addition, IMF has five further conditionally funded investments at the present time, comprising a further potential EPV accretion of approximately \$540 million.

**Jeremy Sambrook**  
Company Secretary

#### Notes:

##### Investments Included in Portfolio

The Investment Portfolio includes investments for which the IMF group or the Funds have entered into an unconditional commitment to fund and includes investments where a previously conditional funding agreement has become unconditional. Investments in Australian shareholder class actions included in the portfolio as unconditional may still be subject to a Court process, where there are competing class actions, to determine which case proceeds.

##### Past Performance

Past performance is not necessarily an indication of future performance. Both the Long Term Conversion Rate and IMF's ROIC may vary materially over time. By providing this information, IMF has not been and is not now in any way providing earnings guidance for future periods. IMF will update its Long Term Conversion Rate and ROIC figures semi-annually in its Investment Portfolio report following the EY review of completed investments.

## **EPV**

EPV is IMF's current best estimate (in Australian dollars) of a claim's recoverable amount, which takes into account the perceived capacity of the defendant to meet the claim. It is not necessarily the amount being claimed by the funded claimants in the investment and is not the estimated return to IMF from the investment if it is successful. An EPV is subject to change over time for a number of reasons, including changes in circumstances and knowledge relating to an investment, partial recovery and, where applicable, fluctuations in exchange rates between the applicable local currency and the Australian dollar.

## **Possible Completion Periods**

The possible completion period is IMF's current best estimate of the period in which an investment may be finalised. An investment may finalise earlier or later than the identified period for various reasons.

Completion for these purposes means finalisation of the litigation by either settlement, judgment or arbitrator determination, for or against the funded claimant, notwithstanding that such finalisation may be conditional upon certain matters such as court approval in the context of a class action. It may not follow that the financial result will be accounted for in the year of finalisation. Possible completion period estimates are reviewed and updated where necessary on a quarterly basis.

## **Invested and Committed Capital**

Invested and committed capital is equal to the total capital either invested or committed to investments, translated to Australian dollars at the foreign exchange spot rate prevailing on the reporting date.

## **Non-USA**

IMF's Non-USA classification includes all regions excluding the USA in which IMF has investments, currently being Australia, Canada and Asia.

## **Accounting Consolidation of IMF's Investment Vehicles**

IMF's USA Fund 1, Fund 2 and Fund 3 will be consolidated within the IMF group financial statements, with the respective investors' interests reflected as Non-Controlling interests. Therefore, the entire EPV for investments funded by Fund 2 and Fund 3, and the entire funding commitment for investments funded by the Fund 1, are included in the quarterly Investment Portfolio.

## **Split Reporting**

The different regional reporting formats within the Investment Portfolio reflect the predominant underlying earnings structure of the applicable region; a multiple of capital invested in the USA and a percentage of the resolution amount for the non-USA investments.