



RELEASE TO AUSTRALIAN SECURITIES EXCHANGE

MONDAY, 5 FEBRUARY 2018

Sale of US Portfolio to IMF Bentham Fund 1

Summary

- **IMF completes another step in executing its strategy for funding and managing investments by selling the majority of its US investment portfolio to IMF's Fund 1**
- **IMF will realise net cash of approximately US\$47.8 million, while also retaining a material interest in the sale portfolio upside through its participation in Fund 1**
- **Simultaneously, the parties have agreed to upsize the capacity of Fund 1 from US\$133 million to US\$166.3 million**

Sale of US Investment Portfolio

IMF Bentham Limited (ASX: **IMF**, the **Company**) announces that its wholly owned subsidiary, Bentham Capital LLC (**Bentham**), has agreed to transfer all its rights in relation to the majority of its investments in its US investment portfolio (**Sale Investments**) to Bentham IMF Fund 1 LLC (**Fund 1**). The sale will be at book value being the total capital deployed by Bentham in the Sale Investments plus associated investment expenses less capital previously returned (**Transaction**).

IMF will receive gross consideration of US\$57.4 million (**Closing Consideration Amount**), of which IMF will have invested US\$9.6 million¹ as its pro rata contribution to the funding of Fund 1. In addition, IMF will be entitled to 85% of any profits on the Sale Investments realised by Fund 1 after payment of preferred dividends and other expenses of the fund.

Bentham has chosen to retain ownership of five investments in the US investment portfolio. These investments were excluded from the disposal to Fund 1 for various case specific reasons. The aggregate capital invested in the retained investments amounts to US\$6.3 million. No further deployments of capital are expected with respect to these investments.

Upsizing of Fund 1

Fund 1 was structured with an initial fund size of US\$133 million with the option for IMF and an affiliate of Fortress Investment Group LLC (**Fortress**) to agree to increase their aggregate capital commitments up to US\$200 million.

Following completion of this Transaction the aggregate of the committed and deployed capital by Fund 1 will be US\$117million and US\$95 million, respectively. As part of the Transaction, it has been agreed to upsize Fund 1 to US\$166.3 million (without limiting the parties right to agree to a future further upsizing). The increase in the size of Fund 1 provides additional capital for US investments without creating significant adverse deployment pressure. The additional capital of US\$33.3 million will be funded 25% by IMF and 75% by Fortress.

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For further details on the structure of Fund 1 and the rights of IMF and Fortress see IMF's announcement dated 13 February 2017.

Rationale for Transaction

IMF determined that the Transaction was in the best interests of the Company as it allows IMF to monetise a substantial intangible asset while also retaining a significant interest in any upside returns from the Sale Investments and materially reduce the downside risk.

IMF notes that:

- IMF will recover the full book value of its investments from Fund 1. As there is limited adverse cost exposure risk in the US, IMF's primary risk was the loss of its investment. Through the Transaction, IMF has largely mitigated this risk.
- IMF will convert an intangible asset to net cash of US\$47.8 million which can be redeployed to satisfy capital commitments to current or future funds or utilised for other purposes.
- IMF retains a material interest in any profits realised on the Sale Investments. However, recognition of any associated income will be subject to the application of the Fund 1 distribution waterfall. Under the waterfall, Fortress will receive (in priority to IMF) its return of capital, its preferred return and, after IMF's return of capital and management fee, 15% of the residual profit. As a result, recognition by IMF of income relating to the Sale Investments is likely to be realised later and in a lesser amount than if the Sale Investments were retained on IMF's balance sheet directly.
- The realisation profile of Fund 1's investments is likely to be brought forward as a result of purchasing the Sale Investments which are generally further advanced towards realisation than any new litigation funding investments Fund 1 might make. The earlier Fund 1 receives revenue, the earlier the fund can return capital which reduces the aggregate preferred return and results in earlier receipt by IMF of its capital repayment and its profit share from an enlarged profit pool due to the reduced priority return drag.
- IMF's exposure to funding the remaining costs of the Sale Investments is reduced as the costs are shared with Fortress in Fund 1.

IMF does not anticipate that the Transaction, which occurs wholly within the IMF Group, will have any impact on the consolidated financial statements of IMF.

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Company Secretary

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Notes

¹ If Fund 1 becomes fully funded up to its maximum size in accordance with the governing agreement, the ratio of contributed capital between IMF and Fortress will be 25:75, however the capital commitments are not linear. The first US\$33.3 million was funded equally by IMF and Fortress with the next US\$100 million to be funded 1/6 by IMF and 5/6 by Fortress and hence why IMF's contribution to the Closing Consideration amount is 1/6.

IMF Background

IMF is one of the leading global litigation funders, headquartered in Australia and with offices in the US, Singapore, Canada, Hong Kong and the UK. IMF has built its reputation as a trusted provider of innovative litigation funding solutions and has established an increasingly diverse portfolio of litigation funding assets.

IMF has a highly experienced litigation funding team overseeing its investments, delivering, as at 30 June 2017, a 90% success rate across 162 completed investments.

For further information regarding IMF and its activities, please visit IMF's website at www.imf.com.au.

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