

For personal use only

ASX SPOTLIGHT CONFERENCE  
Hong Kong – 27 May 2014  
Singapore – 29 May 2014

**BENTHAM IMF**   
LIMITED

**Clive Bowman**  
Executive Director / Director of Operations

## CONTENTS

---

- What is Litigation Funding?
- Overview of Bentham IMF Limited
- HY2014 Highlights
- Balance Sheet
- Dividend History
- Investment Portfolio
- Investment Portfolio History
- Possible Completions in 2H14
- Track Record
- Wivenhoe Dam Claim
- Structured Finance Ratings Claims
- New Cases
- Future Outlook
- Key Risks



## WHAT IS LITIGATION FUNDING?

---

- As a “litigation funder” IMF provides funding on a contingency basis to businesses and individuals with claims for loss and damage.
- IMF provides funding for the client’s case or to the client and, in jurisdictions where adverse costs are relevant, agrees to pay any costs (incurred during the term of the funding agreement) awarded to the other side should the client’s case be unsuccessful.
- In return, IMF generally receives a right to be reimbursed all that it has paid out and receives an assignment of a share of the amount awarded to the client by way of judgment or paid to the client by way of settlement. IMF’s return in the US is more typically a multiple of the amount invested.
- As a litigation funder IMF does not provide legal advice and is not paid “on an hourly rate”.



# OVERVIEW OF BENTHAM IMF LIMITED

*IMF is the pre-eminent litigation funding company operating in Australia and has, by far, the major portion of the litigation funding business in that country.*

Item	Description
<b>Australia's leading litigation funder</b>	<ul style="list-style-type: none"> <li>Formed in 1999 and listed on ASX in 2001.</li> <li>Market cap of \$320m as at 21 May 2014.</li> <li>IMF has collected \$1.4bn for clients since its formation.</li> <li>MD Hugh McLernon has over 20 years experience in the industry. IMF's Investment Managers have over 100 years collective experience in the industry.</li> <li>IMF operates from offices in Sydney and Perth and smaller offices manned by an Investment Manager and a small group of staff in each of Melbourne, Brisbane and Adelaide.</li> <li>IMF also operates in the US through its subsidiary, with offices in New York and Los Angeles, each manned by an Investment Manager and a small group of support staff.</li> <li>IMF recently established a joint venture in Europe.</li> </ul>
<b>High margin and high ROC business</b>	<ul style="list-style-type: none"> <li>Historical average of 35% of case recoveries.</li> <li>Average life of each case is 2.3 years, and IMF has, over the past 13 years, averaged 185% gross return on funds invested in each case (including cases lost and withdrawn).</li> </ul>
<b>Competitive advantage</b>	<ul style="list-style-type: none"> <li>Superior risk mitigation process – case selection and case management expertise.</li> <li>Demonstrated by results – over 12 years only lost 4% of 155 cases (65% settled, 23% withdrew, 9% won in court - see slide 12).</li> </ul>
<b>Unique positioning</b>	<ul style="list-style-type: none"> <li>People with the training, knowledge and scepticism to be successful funders.</li> <li>Overall corporate experience with the risks and pitfalls in litigation funding.</li> <li>Necessary funding to enable a liquid and strong approach to aggressive defendants.</li> </ul>
<b>Barriers to entry</b>	<ul style="list-style-type: none"> <li>Size of costs and duration of large litigation matters, as well as potential for adverse costs (in Australia and the UK), preclude many plaintiffs from funding their own actions.</li> </ul>
<b>Australian market well established</b>	<ul style="list-style-type: none"> <li>Fourth or fifth largest common law litigation market in the world.</li> <li>IMF is the clear market leader in its home market.</li> </ul>



For personal use only

# OVERVIEW OF BENTHAM IMF LIMITED

*IMF has identified significant growth opportunities*

Item	Description
<b>Major growth opportunities onshore</b>	<ul style="list-style-type: none"> <li>IMF confirmed it would fund the Wivenhoe Dam case in Australia, which is expected to be its largest case funded to date.</li> <li>IMF also recently announced it would fund a shareholders class action against Treasury Wines and Forge.</li> <li>IMF is also investigating funding a case in connection with Brisconnections.</li> </ul>
<b>Major growth opportunities offshore</b>	<ul style="list-style-type: none"> <li>Focus on similar markets with strong rule of law, long established and respected court system, clear set of statutory laws, operating on the precedent system and with a strong legal fraternity.</li> <li>Recently entered into a joint venture arrangement to fund European litigation, with a focus on UK and Netherlands markets.</li> <li>Third party litigation funding has moved ahead quickly in both the US and the UK/Netherlands over the past five years and has been accepted as a funding alternative in these countries.</li> <li>IMF has a permanent presence in New York, Los Angeles and now also the UK.</li> </ul>
<b>Growth and diversification</b>	<ul style="list-style-type: none"> <li>Operations across these three major common law litigation centres will provide opportunities for growth (and thereby increased potential for income) and also diversification .</li> </ul>
<b>Limited global competitors</b>	<ul style="list-style-type: none"> <li>Only two other litigation funds vying for multi-national leadership being Burford, primarily in the US, and Harbour Litigation Funding, primarily in the UK.</li> </ul>



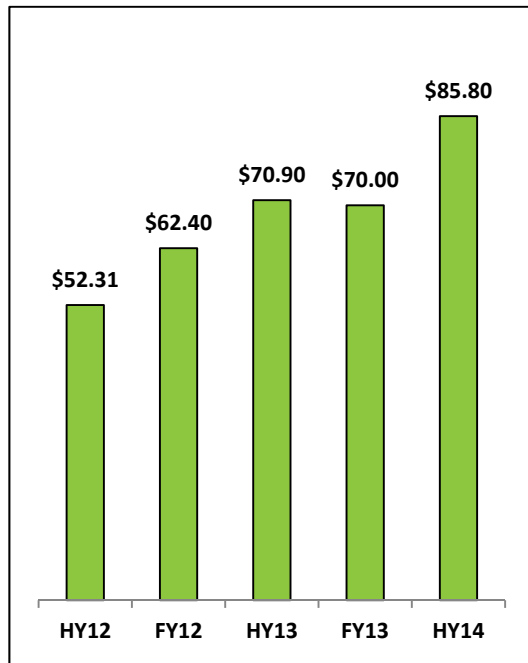
## HY2014 HIGHLIGHTS

	HY2013	HY2014	%
Gross Income (from cases)	\$20.6M	\$33.6M	▲ 63%
Net Income (from cases)	\$10.5M	\$16.9M	▲ 61%
NPBT	\$8.7M	\$13.6M	▲ 56%
NPAT	\$5.6M	\$9.1M	▲ 63%
Interim Dividend (cents per share)	Nil	5 cents	▲ 5 cents
EPS	4.55	6.70	▲ 47%
Net Asset Backing (cents per share)	95.20	119.81	▲ 26%
Case Investment (Intangibles)	\$74.2M	\$98.5M	▲ 33%
Value of Investment Portfolio	\$1.5BN	\$1.94BN	▲ 29%

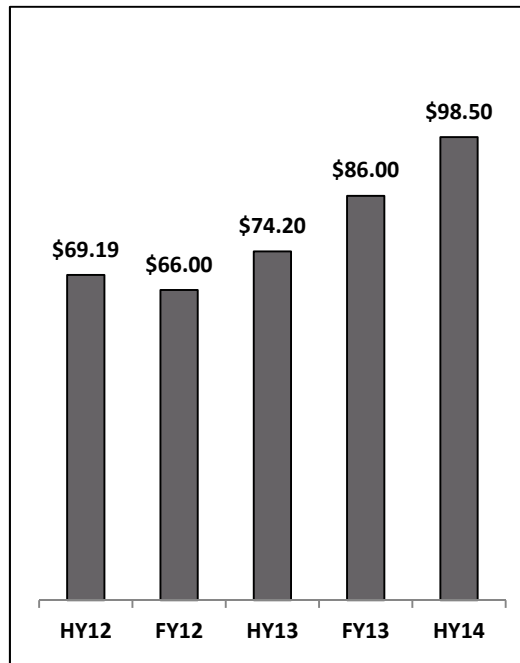


# BALANCE SHEET STRENGTH

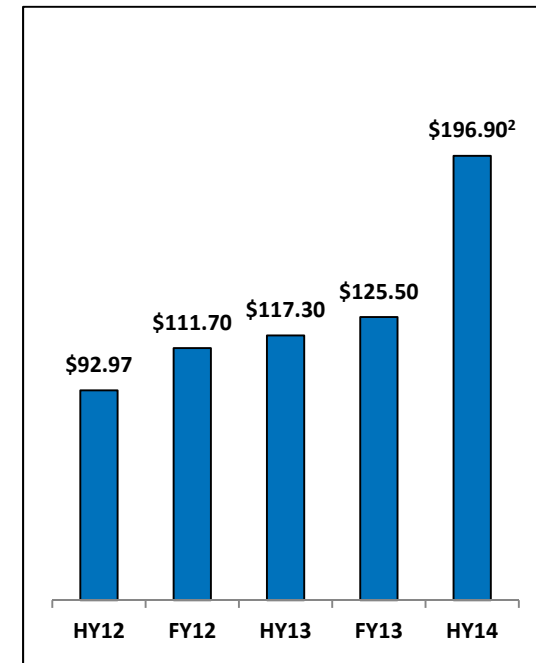
**Cash**  
\$M



**Investments<sup>1</sup>**  
\$M



**Net Assets**  
\$M



- 1 Investments includes capitalised overheads relating to the litigation.
- 2 IMF raised capital during the period totalling \$42,031,791. A further \$27,631,244 in equity was raised through convertible noteholders converting into shares, and convertible note redemptions totalled \$11,180,756 as a result of the early redemption of the convertible notes.
- 3 IMF recently raised \$50M of debt through a bond issue in April 2014.



## DIVIDEND HISTORY

*Average dividend paid to shareholders of 10 cents per share paid to shareholders over the last 5 years, all fully franked.*

Date	Cents per share	
FY2009	15	Fully franked
FY2010	5	Fully franked
FY2011	15	Fully franked
FY2012	10	Fully franked
FY2013	5	Fully franked
HY2014	5	Fully franked





# INVESTMENT PORTFOLIO

## Case Investment Portfolio as at 31 March 2014

Claim Value Range	Est. Claim Value <sup>2</sup>	No of Cases	% of Total Value	Possible Completion FY2014 <sup>3</sup>	Possible Completion FY2015 <sup>3</sup>	Possible Completion FY2016+ <sup>3</sup>
<\$10M	\$27M	5	1%	\$5M	\$22M	-
\$10M - \$50M	\$380M	14	20%	\$40M	\$255M	\$85M
>\$50M	\$1,845M	10	79%	\$80M	\$925M	\$840M
<b>Total Portfolio<sup>1</sup></b>	<b>\$2,252M</b>	<b>29</b>	<b>100%</b>	<b>\$125M</b>	<b>\$1,202M</b>	<b>\$925M</b>

- 1 The Case Investment Portfolio was in excess of \$2.2B at 31 March 2014. It is likely that the Company will co-fund the Wivenhoe Dam matter with its European joint venturer. Assuming this had occurred at 31 March 2014, the total claim value of the portfolio would have been \$1.95B.
- 2 This is IMF's current best estimate of the claims recoverable amount (or remaining recoverable amount if there has been a partial recovery). It considers, where appropriate, the perceived capacity of the defendant to pay the amount claimed. It is not necessarily the same as the amount being claimed by IMF's client/s in the matter. It is also not the estimated return to IMF from the matter if it is successful. No estimated claim value has been included for any contingently funded matters until all conditions are fulfilled.
- 3 Given the nature of litigation, allocation of the portfolio between years may change. The possible completion period is IMF's current best estimate of the period in which the case may be finalised. The case may finalise earlier or later than in this period. Completion means finalisation of the litigation by either settlement or judgment for or against the funded client. It may not follow that the financial result will be accounted for in the year of finalisation. Completion estimates are prepared and announced on a quarterly basis. If any matter proceeds to trial and is lost then IMF is likely to become liable to pay adverse costs to each successful defendant.



# INVESTMENT PORTFOLIO HISTORY

*IMF has exceeded its expectation of generating income of 15% of the claim value included in the investment portfolio.*

Matters Completed in the Financial year	FY2009	FY2010	FY2011	FY2012	FY2013
Claim value included in the investment portfolio	\$437M	\$247M	\$339M	\$564M	\$243M
Total gross income to IMF	\$63M	\$46M	\$58M	\$118M	\$44M
IMF's gross income as a % of claim value	<b>14%</b>	<b>19%</b>	<b>17%</b>	<b>21%</b>	<b>18%</b>



For personal use only

## POSSIBLE COMPLETIONS IN 2H14

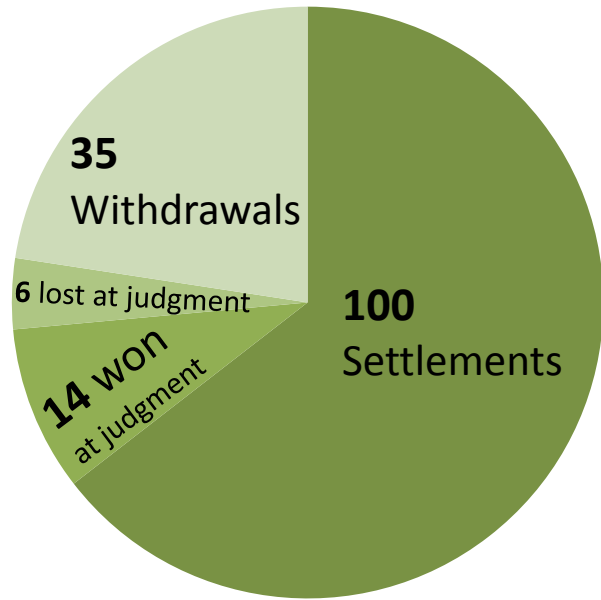
Given the nature of litigation, the expected completion allocation of the portfolio between years may change. This occurred in the September assessment as Court dates for two large cases moved into FY2015 and again in March when both the Lehman case and the Bank Fees case were moved into FY2015. Below is a list of matters that have completed or may possibly complete in 2H14. Other cases not mentioned below may also complete in 2H14.

Matter	Description
Downer	The settlement of this matter was announced on 2 April 2014.
Bank of Queensland	The case against the Bank of Queensland by franchisees in New South Wales for alleged misleading and deceptive conduct, was unsuccessful. IMF has written off its investment and made a provision for adverse costs in 2H14. On 12 May 2014 IMF announced it would fund an appeal of this case.
Air Cargo	A conditional settlement of the case funded on behalf of a number of entities who purchased international airfreight services was announced on 14 March 2014.
Hastings Capital	A settlement of this matter was announced on 10 April 2014.
Great Southern	A conditional settlement of the case funded on behalf of Great Southern unitholders was announced on 10 March 2014.
<b>Total</b>	<b>\$125M.</b>



# TRACK RECORD

*IMF's track record to 30 April 2014*



### Summary

- **155** cases commenced and completed since listing.
- Average investment period of 2.3 years.
- Generated revenue of \$1.4B:
  - \$919M to Clients (65%);
  - \$498M to IMF comprising:
    - \$175M reimbursement of costs (12%); and
    - \$323M net revenue to IMF (excluding overheads) (23%);
  - Gross ROI of 298%.
- Lost cases cost \$15.8M including adverse costs.
- Withdrawals cost \$4.1M.
- Losses and withdrawals cost 4% of IMF revenue.



# WIVENHOE DAM CLAIM

---

- Feb 2012:
  - IMF announced an investigation into:
    - i. whether the Dam was negligently operated in January 2011 and, if so;
    - ii. whether funded parties suffered sufficient unnecessary loss to make proceedings against the State of Queensland viable.
  
- Jan 2013:
  - IMF confirmed investigation findings that:
    - i. the Dam was not operated to the standard expected of a reasonably competent dam operator in the circumstances; and
    - ii. material flooding down river would not have occurred had the Dam been operated during the flood event to the standard expected.
  
- Nov 2013:
  - IMF has now concluded that funded parties' unnecessary loss and damage is sufficient to make proceedings viable and, accordingly, its funding of the claim is unconditional and the class action will now proceed.
  
- Current:
  - IMF is now finalising the process to make flood victims in the area around the Brisbane River aware of their rights. Proceedings are likely to be filed by June 2014.



# STRUCTURED FINANCE RATINGS CLAIMS

Sep 2012	Judgment against distributor – Lehman Brothers Australia.
Nov 2012	Judgment against ratings agency S&P, ABN and Local Government Financial Services (LGFS).
Nov 2012	Filed further claim against S&P and ABN Amro in Australia.
Dec 2012	Created Dutch Foundation (Ratings Redress) to prosecute claims against S&P and ABN Amro.
Mar 2013	Orders against S&P, ABN Amro and LGFS. Judgment appealed.
Apr 2013	Filed further claim against S&P in respect of balance of Lehman CDO losses.
Dec 2013	Filed claim in the Netherlands against S&P in European CPDO. NB. first European claim against rating agency following the global financial crisis.
Dec 2013	Settlement approved – Lehman Brothers Australia.
Mar 2014	Appeal in LGFS heard. Decision reserved.
Present	Ongoing research into European claims against S&P and Moody's.
Present	Ongoing research into European CDOs and RMBS claims.



## NEW CASES

*The following matters have been funded since 1 January 2014:*

Matter	Description
Forge	IMF is funding claims against Forge and/or its directors for alleged breaches by Forge of its continuous disclosure obligations in connection with the West Angelas and Diamantina Power Station, projects of its wholly owned subsidiary Forge Group Power Pty Ltd (previously known as CTEC Pty Ltd).
Bentham US Matter	This matter involves the funding of a business dispute in a US State Court.
Hong Kong Matter	IMF has agreed to fund a liquidator's actions against an auditor.

Note: IMF has agreed to fund an appeal in the Bank Fees matter (ASX Announcement of 6 March 2014) and in the Bank of Queensland matter (ASX Announcement of 12 May 2014).



# FUTURE OUTLOOK

---

## **Australia**

- Building the investment portfolio >\$2B.
- Competition.
- Regulation.

## **Taking funding international**

- Expansion in the United States
  - Bentham US 9 funded cases to date.
- Expansion into the United Kingdom.
- Funding of international arbitration.
- CPDO/CDO cases.





# KEY RISKS

---

## Reliance on key management

- IMF depends substantially on its executive directors and senior management and key personnel to oversee the day-to-day operations and the strategic management of IMF. There can be no assurance given that there will be no detrimental impact on IMF if one or more of these directors or employees cease their employment.

## Government regulation

- The Commonwealth and State governments have not indicated any present intention to further regulate the litigation funding industry but no assurance can be given that regulation in Australia and overseas will not change in the future and adversely affect IMF's business and financial performance.

## Judicial decisions

- To date, the Courts have generally found in favour of litigation funding arrangements in Australia but the Courts, in Australia or overseas, will continue to oversee the development of the litigation funding industry and adverse decisions may impact on the business of IMF.

## Multiple Defendants

- In some cases defendants may add third parties to the funded litigation or more defendants may be joined, potentially increasing adverse costs if the litigation is unsuccessful.

## Technology

- IMF is dependent on technological services for its Case Management System. These systems may fail or may not operate properly. IMF may fail to keep its technology up to date with the resultant loss of business opportunities.

## Competition

- IMF currently has a handful of competitors in the Australian litigation funding market, including overseas based competitors. There are also two other litigation funders vying for a multinational litigation funding business. As time passes and litigation funding becomes more widespread, competition will develop, and such competition may impact on the performance of IMF.



# KEY RISKS

## Growth

- IMF is currently pursuing a strategy of international expansion, having recently opened an office in Los Angeles and entered into a joint venture to fund cases in Europe. There are always risks attendant upon growth strategies. There is a risk, for instance, that IMF may mismanage its growth strategy.

## Poor case selection

- The central task in IMF's business is to choose successful cases. If poor case selection occurs then this will cause loss to IMF through payment of the client's legal expenses and payment of the successful defendant's costs (in jurisdictions where this is relevant).

## Remaining in unsuccessful cases

- It is sometimes the position that cases turn out to be less prospective as the litigation proceeds after the initial assessment. While IMF has a right of termination under its funding agreements, if IMF fails to terminate such funding then loss will occur to IMF.

## Time and expense

- If IMF fails to control expenditure on individual cases beyond the proposed budget or such cases take materially longer than originally indicated, then loss may be caused to IMF.

## Inability of defendants to pay judgments

- Part of the case selection process involves an assessment by IMF of the ability of the defendant to pay a judgment if the case is successful (in jurisdictions where this is relevant). If IMF fails to properly carry out its assessment of the defendant's ability to pay, or that ability deteriorates after funding is in place, then this will cause loss to IMF even if the cases is successful.

## Lost cases

- If selected cases are unsuccessful then this will result in the loss of funds paid on behalf of clients and will also result in costs being paid to the successful defendant. The ratio of unsuccessful to successful cases depends upon the initial case selection and the oversight of the cases after that selection.



# KEY RISKS

---

## Changes in the law

- It is possible that statute law or the interpretation of the common law may change in a way which is adverse to the interests of IMF. There are now numerous Court decisions in Australia and the UK (both single Judge and Courts of Appeal ) supporting the business model of IMF, but it is possible that higher courts may disagree with existing authorities and such decisions may impact adversely on IMF's business model.

## Offshore investment

- The Company has invested in litigation funding agreements in countries other than Australia. The Company has agreed to fund cases in the US and the UK and may agree to fund other cases in these and other jurisdictions such as Singapore, Hong Kong, New Zealand, the Netherlands and Canada in the future. The management of such cases can be more difficult than the management of Australian cases and any mismanagement may cause loss to IMF .

## Share market risks

- There are general risks associated with any investment and the share market. The price of IMF's shares may rise and fall depending on a range of factors beyond IMF's control and which are unrelated to IMF's financial performance. These factors may include movements on international stock markets, interest rates and exchange rates, together with domestic and international economic conditions, inflation rates, investor perceptions, changes in government policy, commodity supply and demand, government taxation and royalties, war, global hostilities and acts of terrorism.

## General economic risks

- General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse affect on IMF's activities, as well as on its ability to fund those activities.

## Liquidity

- When the Company invests in litigation funding agreements IMF obtains budgets from the lawyers who are prosecuting the case. However, these budgets may or may not be accurate. Further, it is not possible to predict with accuracy when a case will settle or when a judgment will be delivered. IMF manages its liquidity by maintaining a cash buffer of \$70M. However, there may be times in the future when access to additional capital is required .

