



## RELEASE TO AUSTRALIAN SECURITIES EXCHANGE

TUESDAY, 30 JULY 2019

### INVESTMENT PORTFOLIO AT 30 JUNE 2019

#### HIGHLIGHTS

- In the quarter ended 30 June 2019, IMF enjoyed its strongest performance for FY19, both in terms of growth of its portfolio and generation of revenue.
- During the period IMF experienced net growth in funded and conditionally funded investments, resulting in a 25% increase in total EPV for the quarter, and 70% over the 2019 financial year. This was driven by IMF committing to new investments with an estimated capital commitment of \$95.0 million in the quarter, and \$169.3 million in aggregate for the year. This investment performance represents an increase in investment commitments of 25% for the year.
- In addition, consolidated gross income of \$18.7 million was recognised for the period, which exceeded the aggregate consolidated gross income of the previous three quarters. There is a further \$69.2 million expected to be recognised in FY20 from unconditional and conditional completion of investments in the period from mid-June to date; double the total consolidated gross income for FY19.
- During the period, IMF has increased its funds under management (**FUM**) with the launch of Fund 5, which has an investment capacity of US\$500 million. IMF's aggregate FUM is close to A\$2 billion, which exceeds its previously stated target for the end of FY19 by 30%. Both Fund 4 and Fund 5 provide investors with an option to increase the capital commitments by up to an aggregate additional US\$1 billion.

#### REPORTING FORMAT – Estimated Portfolio Value (EPV) FOR ALL JURISDICTIONS

Due to the variations in funding commission calculation methodology across IMF's global portfolio of investments, there is no one perfect reporting methodology. Consequently, IMF will continue to report all investments using only EPV in the quarterly investment reports. However, it should be noted that, where an IMF funding entity earns a funding commission based upon a multiple of capital invested, the EPV for that investment is, in line with past practice, calculated by taking IMF's estimate of the potential income return from the investment and grossing this up using IMF's Long-Term Conversion Rate.

In addition, IMF notes that the EPV for investments which are the subject of conditional settlements, has not been removed from the portfolio at 30 June 2019, and will remain within the portfolio until the settlements become unconditional.

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## OVERVIEW

### Portfolio:

Total EPV of all funded and Investment Committee (IC) approved investments increased 25% during the quarter from \$7.6 billion to \$9.5 billion.

Number	Balance Sheet	Fund 1	Funds 2/3	Fund 4	Total	EPV
	(RoW & USA)	(USA)	(RoW)	(USA)		
Funded investments (opening)	23	35	20	-	78	\$6.7 b
New investments	-	2	6	2	10	
Completed investments	(2)	(3)	-	-	(5)	
<b>Funded investments (closing)</b>	<b>21</b>	<b>34</b>	<b>26</b>	<b>2</b>	<b>83</b>	<b>\$8.0 b</b>
Conditionally funded investments	-	-	3	-	3	
IC approved investments	-	-	8	-	8	
<b>Total including all investments</b>	<b>21</b>	<b>34</b>	<b>37</b>	<b>2</b>	<b>94</b>	<b>\$9.5 b</b>

### Performance:

During the quarter gross income of \$18.7 million was recognised. In addition, there were unconditional and conditional settlements of investments in the quarter which IMF expects to result in further gross consolidated income of \$69.2 million in FY20.

\$m	Balance Sheet	Fund 1	Funds 2/3	Fund 4	Total
	(RoW & USA)	(USA)	(RoW)	(USA)	
<b>Recognised income</b>					
Completed investments	7.5	10.6	-	-	<b>18.1</b>
Ongoing investments	-	0.6	-	-	<b>0.6</b>
	<b>7.5</b>	<b>11.2</b>	<b>-</b>	<b>-</b>	<b>18.7</b>
<b>Income yet to be recognised</b>					
Binding conditional settlements	8.5	-	15.9	-	<b>24.4</b>
In-Principle settlement agreed	15.0	-	-	29.8	<b>44.8</b>
	<b>23.5</b>	<b>-</b>	<b>15.9</b>	<b>29.8</b>	<b>69.2</b>

### Funds:

During the quarter:

- Fund 1 increased its level of investment to 96.2% of the available capital (13% increase),
- Fund 2/3 increased its level of investment to 93.3% of the available capital (4% increase),
- Fund 4 made its first two investments and has committed 4.0% of its available capital,
- Fund 5 was launched with total investment capacity of US\$500 million, investments will commence in Fund 5 following the end of the Fund 2/3 investment period.

## PORTFOLIO AND FUNDS REVIEW

### Balance Sheet – Rest of World (RoW) & USA

Year of Investment	number	EPV \$m	Possible Completion EPV \$m		
			FY2020	FY2021	FY2022
FY 2014 and earlier	4	662.0	662.0	-	-
FY 2015	3	84.6	84.6	-	-
FY 2016	5	287.2	117.2	20.0	150.0
FY 2017	6	357.5	87.5	270.0	-
FY 2018	3	122.9	122.9	-	-
<b>Total</b>	<b>21</b>	<b>1,514.2</b>	<b>1,074.2</b>	<b>290.0</b>	<b>150.0</b>

Movement from the previous quarter is reconciled as follows:

	Balance Sheet		USA		Rest of World	
	number	EPV \$m	number	EPV \$m	number	EPV \$m
Opening	23	1,532.2	5	119.5	18	1,412.7
Additions	-	-	-	-	-	-
(Completions) / (Withdrawals)	(2)	(14.5)	(1)	-	(1)	(14.5)
Updates	n/a	(5.4)	n/a	(1.9)	n/a	(3.5)
FX adjustment	n/a	1.9	n/a	1.2	n/a	0.7
<b>Quarter end</b>	<b>21</b>	<b>1,514.2</b>	<b>4</b>	<b>118.8</b>	<b>17</b>	<b>1,395.4</b>

The possible completion dates for both the Wivenhoe and Westgem investments have been moved from FY19 to FY20. Both cases are awaiting judgment following the completion of trials in 2019.

Balance sheet investments are in run off, with no new investments being made on the balance sheet since the launch of Fund 2/3 in October 2017. IMF is entitled to 100% of future revenue from the balance sheet investments detailed above (for the small number of co-funded investments the stated EPV reflects IMF's portion of the investment only).

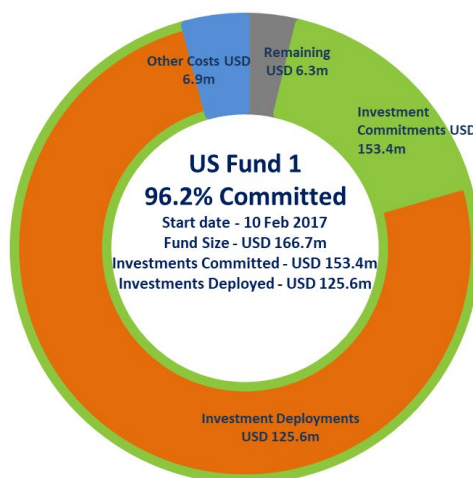
### Fund 1– USA

	Number	EPV \$m	Possible Completion EPV \$m			
			FY2020	FY2021	FY2022	FY2023 +
<b>Total</b>	<b>34</b>	<b>3,164.3</b>	1,470.8	1,201.1	255.9	236.5

Movement from the previous quarter is reconciled as follows:

	Number	EPV \$m
Opening	35	2,770.7
Additions	2	331.4
(Completions) / (Withdrawals)	(3)	(92.7)
Updates	-	125.5
FX adjustment	-	29.4
<b>Quarter end</b>	<b>34</b>	<b>3,164.3</b>

At 30 June 2019, Fund 1 had committed 96.2% of its available capacity to investments, after reflecting proceeds received on portfolio investments in progress prior to the sale of the US balance sheet investments into Fund 1.



There are no conditionally funded, or IC approved but not yet funded investments in Fund 1.

As announced on 17 April 2019, Fund 1's exclusive commitment period has now concluded. US investments will continue to be made from Fund 1 until the fund is fully committed to US investments, however US investments outside the Fund 1 mandate will be made by Fund 4. Once Fund 1 is fully committed, Fund 4 will make all future US investments.

Fund 1 comprises 75% external capital and 25% IMF capital and has a European waterfall distribution structure whereby the total investor capital and preferred return is distributed to the investor in priority to IMF's return of capital and management fee return. Thereafter, IMF receives 85% of the residual profits.

Capital Called USDm			Uncalled Capital USDm			Accumulated Preferred Return USDm	Accumulated Special Distribution USDm	Accumulated Management Fee Return USDm
Total	Investor	IMF	Total	Investor	IMF	Investor	Investor	IMF
166.7	125.0	41.7	-	-	-	19.0	1.8	2.5
Distributions	(16.1)	-	n/a	n/a	n/a	(8.3)	-	-
<b>TOTAL</b>	<b>108.9</b>	<b>41.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10.7</b>	<b>1.8</b>	<b>2.5</b>

### Funds 2 & 3 – Rest of World (RoW)

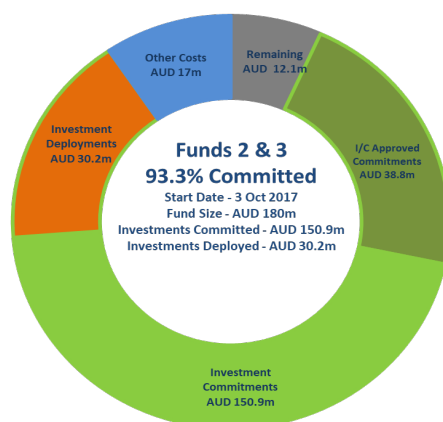
	Number	EPV \$m	Possible Completion EPV \$m			
			FY2020	FY2021	FY2022	FY2023 +
<b>Total</b>	<b>26</b>	<b>2,709.1</b>	261.2	1,251.6	851.5	344.8

Movement from the previous quarter is reconciled as follows:

	Number	EPV \$m
Opening	20	2,386.2
Additions	6	244.5
(Completions) / (Withdrawals)	-	-
Updates	-	78.4
FX adjustment	-	-
<b>Quarter end</b>	<b>26</b>	<b>2,709.1</b>

Fund 2 and Fund 3 commenced in October 2017 with total committed capital of \$150.0 million. On 31 January 2019 investor commitments were increased to \$180.0 million.

At 30 June 2019 these Funds were committed to 93.3% of available capacity.



If the conditionally funded or IC approved investments do not proceed, the related budgeted amounts will revert to the available capacity pool to finance further investments. In this regard there is \$13.3 million committed to three conditionally funded investments; and \$38.8 million committed to eight IC approved but not yet funded investments.

All RoW investments will continue to be made from Funds 2 and 3 until the Funds are fully committed. Once they are fully committed, as announced on 20 June 2019, future RoW investments will be made by Fund 5.

Fund 2/3 comprises 80% external capital and 20% IMF capital and has a European waterfall distribution structure whereby the total investor capital and preferred return is distributed to the investor in priority to IMF's return of capital and management fee return. Thereafter, IMF receives 80% of the residual profits.

Capital Called \$m			Uncalled Capital \$m			Accumulated Preferred Return \$m	Accumulated Special Distribution \$m	Accumulated Management Fee Return \$m
Total	Investors	IMF	Total	Investors	IMF	Investors	Investors	IMF
80.9	64.7	16.2	99.1	79.3	19.8	7.6	2.4	0.4
Distributions	(4.0)	-	n/a	n/a	n/a	-	-	-
<b>TOTAL</b>	<b>60.7</b>	<b>16.2</b>	<b>99.1</b>	<b>79.3</b>	<b>19.8</b>	<b>7.6</b>	<b>2.4</b>	<b>0.4</b>

#### Fund 4 – USA

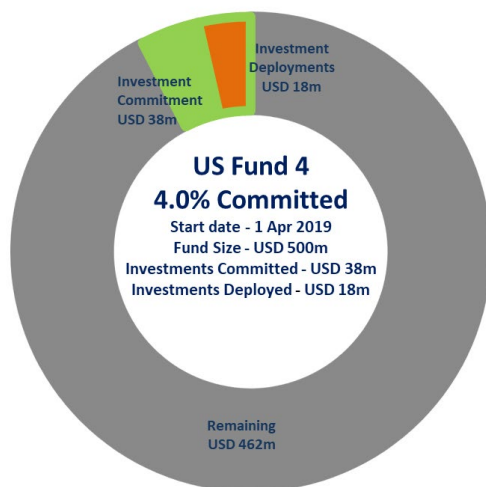
	Number	EPV \$m	Possible Completion EPV \$m			
			FY2020	FY2021	FY2022	FY2023 +
<b>Total</b>	<b>2</b>	<b>569.1</b>	198.7	-	-	370.4

Movement from the previous quarter is reconciled as follows:

	Number	EPV \$m
Opening	-	-
Additions	2	569.1
(Completions) / (Withdrawals)	-	-
Updates	-	-
<b>Quarter end</b>	<b>2</b>	<b>569.1</b>

Fund 4 commenced in April 2019 with total committed capital of US\$500 million (series I).

At 30 June 2019 the Fund was committed to 4.0% of available capacity.



The Fund 4 structure comprises a series of managed accounts which in aggregate contribute 80% of investment capital, with IMF providing the remaining 20%. The distribution structure reflects an American waterfall, whereby IMF and the external investors receive pro rata equity returns, IMF is entitled to a performance fee of up to 30% of the profits on each investment subject to achieving the requisite hurdle return.

Called Capital US\$m			Un-called Capital US\$m		
Total	Investors	IMF	Total	Investors	IMF
23.0	18.4	4.6	477.0	381.6	95.4

### Fund 5 – ROW

In June 2019 IMF launched its fifth Fund; Fund 5.

Fund 5 has US\$500 million of investor capital commitments (including US\$100 million from IMF) and is focussed on non-USA litigation finance investments.

No calls or investments have been made in this new Fund yet, as there is capacity still remaining in Funds 2 & 3.

### PERFORMANCE REVIEW

Past performance on completed investments to 30 June 2019, excluding withdrawals and overheads:

	Number	ROIC	IRR	Average Investment Length
USA completions – since 2011 (includes Balance sheet and Fund 1)	32	47%	78%	1.9 years
Rest of World completions – since 2011 (includes Balance sheet and Funds 2 & 3)	65	133%	88%	3.0 years
<b>All completions since 2011</b>	<b>97</b>	<b>113%</b>	<b>88%</b>	<b>2.6 years</b>
<b>All completions since inception in 2001</b>	<b>192</b>	<b>134%</b>		<b>2.6 years</b>

The reduction in the USA ROIC from 84% as at 31 December 2018 to 47% at 30 June 2019, predominantly reflects the loss of USF Case 31 that was detailed in IMF's ASX announcement dated 25 March 2019. Whilst it is not possible to forecast, we would expect the long-term ROIC for US investments to track closer to that experienced prior to this loss. Excluding this loss, the USA ROIC would be 71%.

### **CASH REPORTING**

	\$m	
<b>CASH HELD</b>		
IMF Balance Sheet (excluding Funds)	132.4	
Funds (1, 2&3, 4, 5)	93.6	
<b>Consolidated Total</b>	<b>226.0</b>	
<b>IMF Investment Requirements</b>		
To Balance Sheet investments (unspent)	22.8	Estimated to be deployed over next 2 years
To Fund 1 (un-called commitment)	-	Fully called
To Fund 2 /3 (un-called commitment)	19.8	Estimated to be called over next 1 1/2 years
Fund 4 (un-called commitment)	136.3	Estimated to be called over next 4 years
Fund 5 (un-called commitment)	142.8	Estimated to be called over next 4-8 years
<b>Total</b>	<b>321.7</b>	

**Stuart Mitchell**  
**Chief Financial Officer**

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## **NOTES:**

**This announcement is for the use of IMF's public shareholders and is not an offering of any private fund.**

### **Investments Included in Portfolio**

The Investment Portfolio includes investments for which the IMF Group have entered into an unconditional commitment to fund and includes investments where a previously conditional funding agreement has become unconditional. It includes investments that have settled until they have finally complete and the associated income can be recognised. 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 claims, to determine which case proceeds.

### **Past Performance**

Past performance is not necessarily an indication of future performance. Past performance indicates that IMF's litigation funding investments have generated average gross income of approximately 15% of the EPV of an investment at the time it is completed (**Long Term Conversion Rate**). 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's ROIC figures in its Investment Portfolio are reviewed by EY in its semi-annual review of completed investments.

The completed investment data has been reviewed by the auditor of IMF, EY, to 31 December 2018 and updated to 30 June 2019 by management and will be reviewed by EY as part of the year end audit.

ROIC (return on invested capital) is calculated as gross income to the Group less all reimbursed costs, divided by total expenditure (excluding overheads but including any adverse costs on lost cases).

IRR is calculated on underlying flows for completed cases including losses but excluding withdrawals, excluding overheads but including any adverse costs on lost cases.

### **EPV**

EPV for an investment where the IMF funding entity earns a percentage of the resolution proceeds as a funding commission, is IMF's current estimate of the claim's recoverable amount after considering the perceived capacity of the defendant to meet the claim. It is not necessarily the amount being claimed by the claimants, nor is it an estimate of the return to IMF if the investment is successful. EPV for an investment where the IMF funding entity earns a funding commission calculated as a multiple of capital invested shall be calculated using by taking IMF's estimate of the potential income return from the investment and grossing this up to an EPV using IMF's Long-Term Conversion Rate. An EPV is subject to change over time for a number of reasons, including, but not limited to, 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 estimate of the period in which an investment may be finalised. It is not a projection or forecast. 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.

### **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.

### **Rest of the World/Non-USA**

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

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

Funds 1, 2 & 3, and 4's balance sheets are consolidated within the IMF group financial statements, with the respective external investors' interests reflected as Non-Controlling interests. The entire EPV and gross income for investments including external investors proportionate share therein are included in this quarterly investment portfolio announcement.

### **Investment Commitments**

- (i) Fund 1 & 4 are the amounts committed to conditionally & unconditionally funded investments and are generally fixed;
- (ii) Fund 2/3 are the investment budget amounts of conditionally & unconditionally funded investments.

### **Other Costs**

Includes unrecoverable due diligence costs; and for Funds 2 & 3 it additionally includes the cost of the After-the-Event insurance policy premium.