

Alternative Investing and Derivatives

Juridica hails arrival of new asset class

By Charlie Kirby - 19th January 2009

Litigation funding could prove to be a recession-proof asset class, according to US law firm Juridica.

By utilising a highly disciplined, financial and risk-based approach to investments in law markets, managing director Richard Fields believes that 2009 could put litigation funding as an asset class on the financial map.

Launching on the AIM market in December 2007, Juridica provides third party litigation funding to law firms seeking capital for expensive commercial litigation. This consists of all commercial claims except personal injury, including pension schemes embarking on class-action style cases. Claim financing, as it's also known, is a popular occurrence in Europe, with Allianz a recognised insurance partner for providing third party litigation funding.

Using a robust underwriting process to select only those claims which are statistically likely to be won, Juridica claims to provide investors with an almost guaranteed positive return. Historically, law firms tend to avoid litigation proceedings where the success of a case will generate less than 30% internal rate of return – similarly, Juridica will only provide funding for cases which have passed its 30-60 day due diligence process, which includes assessing the lawyers involved, their previous case histories, the current legal environment and the potential length of the claim in question.

“We are a cash-driven business,” said Fields. “We pay dividends in sterling and our investments are made in US dollars. We’ve benefited from a currency gain this year, but that’s likely to change in the future.”

Juridica recorded a 5% return, not including the currency gain. Typical claim sizes are \$25-\$100m (£15-£61m), with investment funding contributions ranging from \$3-\$10m (£1.8-£6m). To date, \$89.8m (£54m) has been invested in Juridica and the gross profit as of 14 November 2008, based on the two claims deemed worthy on investing in by the board, was \$5.19m (£3.18bn).

“The aim of Juridica from an investment perspective is to create a diversified portfolio of investments in claims,” Fields continued, adding that he believed that the asset class could be completely uncorrelated from anything else investors may have on their books.

The firms' board comprises of Fields, an experienced insurance and business dispute resolution lawyer in the US, Lord Brennan QC, a commercial law specialist named who was appointed a life peer by the Queen in 2000, Richard Battey, a former finance director of Schroders (Guernsey), John Birchfield, a New York corporate specialist and Timothy Scranton, general counsel and strategic consultant, formerly of Clifford Turner (now Clifford Chance).

Research from *The Lawyer* magazine showed that law firms aim to operate on net profit margins of 40% of billed hours and that 2007 litigation revenues, when applied to 2008 revenues, showed a total revenue in excess of US \$33bn (£20bn).

Pensions Week revealed on 12 January that professional indemnity litigation claims were likely to rise dramatically as the recession takes hold in 2009.