

## Rich pickings from legal cases

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Despite recent grumblings about the levels of legal fees in the City of London, commercial and corporate law is still big business. Now investors are getting in on the legal act, looking for a slice of the pie.

“Cases are expensive to fund; there should be room for private capital,” says Neil Woodford, head of investment for Invesco Perpetual UK, who has taken a 29.5 per cent stake in Juridica, a closed ended fund investing in litigation.

Third party litigation funding is big business – potentially huge business. According to Richard Fields, [Juridica](#)'s chief executive, the US litigation market is currently about \$33bn (£24bn, €26bn), but just \$4bn is invested in it.

“It’s an unsophisticated and relatively naïve market, so there should be a chance for some good returns,” says Mr Woodford. Juridica plans to invest the £74.4m net it raised through its Guernsey listing last year in cases where the litigant is making a claim of \$25m to \$100m. In return for its investments, likely to be between \$3m and \$10m, it will demand a share in any eventual award or settlement, a process known as champerty.

In isolated cases, Mr Fields says, Juridica may structure its investment in other ways, but this will be the principal approach.

Third party litigation funding is relatively established in several markets, such as the US, Germany and Australia. In the UK, where it has only recently become a possibility due to changes in legislation, it took a knock last year when the litigants in a very large case funded by a third party lost their case.

This highlights an important aspect of investing in third party litigation funding: the returns are highly dependent on the skill of the fund manager in choosing the right cases.

“You’ve got to be comfortable with the personalities involved,” agreed Mr Woodford. Juridica’s chief executive is an experienced litigator, formerly partner at several major US law firms. His insight that litigation could be approached from an economic perspective inspired the establishment of the fund. Juridica looks at each case in terms of its expected return on investment, with due diligence on each one taking up to three months, as his team investigates not just the size of the claim but also the likelihood of settlement, the record of the lead lawyers, and the behaviour and interests of all parties to the case.

As a tightly held closed ended fund, Juridica is not immediately available as an investment opportunity, but Mr Fields hinted at another round of fund-raising in the future.

Nor is Juridica the only opportunity available. Earlier this month, commercial litigation insurance broker ILF and hedge fund consultancy IGS Group said they would raise funds to take advantage of a wave of corporate litigation cases expected to arise from the credit crunch.

Leslie Bland, a banker at [Close Brothers](#) until his retirement in 2007, will be chairman of the limited liability partnership.

ILF is expected to launch its first fund in the next few weeks, despite the difficulties of raising capital in the current environment.

Juridica's pitch attempts to distance it from ambulance chasers, personal injury lawyers who encourage accident victims to sue anyone who might be held responsible. Only corporate law cases will be funded, with Mr Fields going so far as to say he would refuse to get involved in any case where he felt the litigant had a personal animus.

He also rebuts concerns it could fuel a growing litigation culture, claiming private funding could make the litigation process less costly and inefficient, since an investor would only fund cases with a prospect of an economic return.

Mr Fields's high expectations of returns are indicated in the fee schedule. Investors pay an annual management charge of 2.5 per cent and a performance fee of 20 per cent if the return is more than 8 per cent and less than 20 per cent.

After that, the performance fee rises in stages until it reaches 50 per cent for returns over 50 per cent.

This fee is paid half in cash and half in trust, so that it can be returned if the fund subsequently underperforms.

Although a 50 per cent performance fee is swingeing, even by the standards of notoriously high-charging hedge funds, it would leave investors with a return of 22.5 per cent in a year where the fund achieved a 50 per cent return.

Mr Woodford is not fazed by the high fees, which he sees as worth the access to a small pool of talent. "This is an area of very narrow expertise. You can't just capitalise on the investment idea without engaging expensive lawyers who are then engaging expensive lawyers."