



**ANNUAL GENERAL MEETING**  
**14 November 2014**

# ANNUAL GENERAL MEETING

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## **Welcome to Bentham IMF Limited's Annual General Meeting**

**Rob Ferguson - Non-Executive Chairman**

# AGENDA

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- Introduction
- Overview of FY2014 – Hugh McLernon, Managing Director, Bentham IMF Limited
- USA business – Charlie Gollow, Managing Director of US business
- Resolutions
- Questions

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# INTRODUCTION

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- Welcome to Wendy McCarthy, Non-Executive Director, appointed to the Board on 11 December 2013.
- Welcome to Andrew Saker, new Managing Director from 5 January 2015.
- Capital raising during FY2014.
- USA Business Update.
- Joint Venture in UK.
- 2014 Remuneration Report.

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# FY2014 HIGHLIGHTS

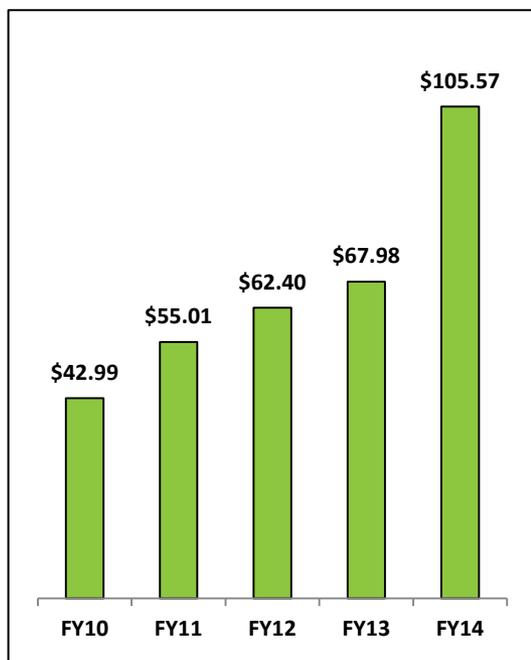
	FY2013	FY2014*	%
Gross Income (from cases)	\$43.9M	\$75.9M	▲ 73%
Net Income (from cases)	\$24.6M	\$25.3M*	▲ 3%
NPBT	\$20.1M	\$15.6M	▼ 23%
NPAT	\$13.8M	\$9.9M	▼ 29%
Dividends (cents per share)	5 cents	10 cents	▲ 5 cents
EPS	11.21	6.56	▼ 41%
Net Asset Backing	\$1.02	\$1.16	▲ 14%
Case Investment (Intangibles)	\$86.1M	\$98.6M	▲ 15%
Value of Investment Portfolio	\$1.6BN	\$2.07BN	▲ 26%

\* Includes loss from the Bank of Queensland case where \$15.4M was written-off. This case is being appealed.

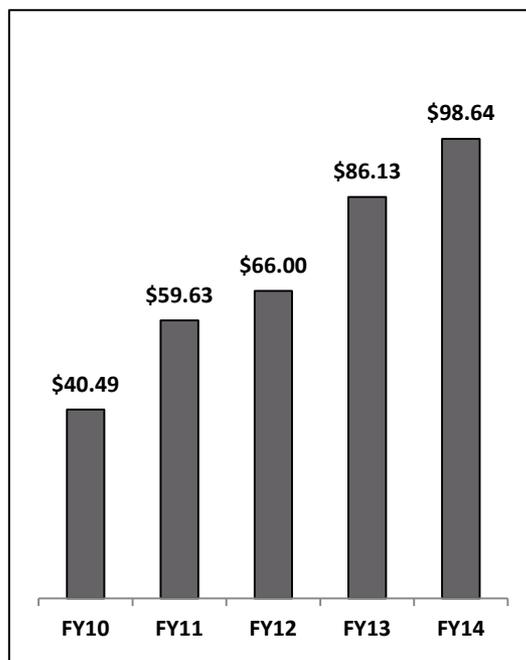
# BALANCE SHEET STRENGTH

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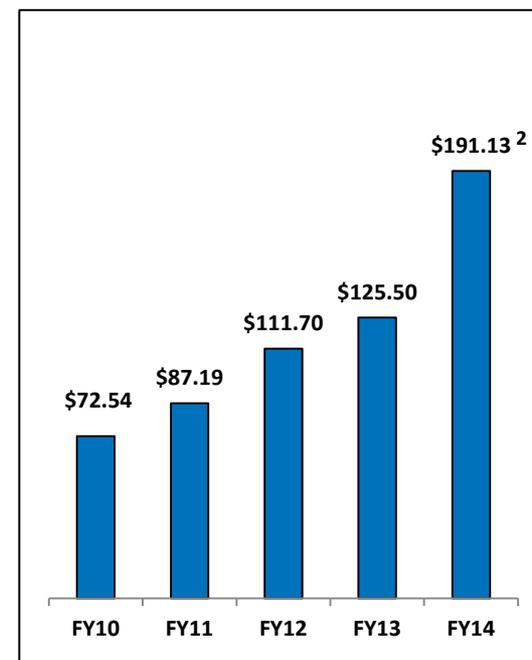
## Cash \$M



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



## Net Assets \$M



<sup>1</sup> Investments includes capitalised overheads relating to the litigation.

<sup>2</sup> IMF raised capital during the period totalling \$42,031,791 through its institutional placement and share placement plan. 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. In addition, \$1,673,477 was raised from shareholders participating in the dividend reinvestment plan. IMF raised \$50M in debt through the issuance of the Bentham IMF Bonds.

# DIVIDEND

## Dividend History

DATE	CENTS PER SHARE	
FY2010	5	Fully franked
FY2011	15	Fully franked
FY2012	10	Fully franked
FY2013	5	Fully franked
FY2014*	10	Fully franked

- \* A 5.0 cent dividend was announced on 21 August 2014
- Record Date: 19 September 2014
  - Payment Date: 3 October 2014

## Future Dividend Policy

- The Directors have determined they will consider, and where appropriate implement, a regular semi-annual dividend which reflects the cash position of the Company at the time of the dividend and the likely demand for cash over the ensuing twelve month period.

## Dividend Reinvestment Plan

- The Company has put in place a Dividend Reinvestment Plan and, on appropriate occasions, will arrange underwriting to reduce the impact a particular dividend might otherwise have on cash.

# INVESTMENT PORTFOLIO AT 30 SEPTEMBER 2014

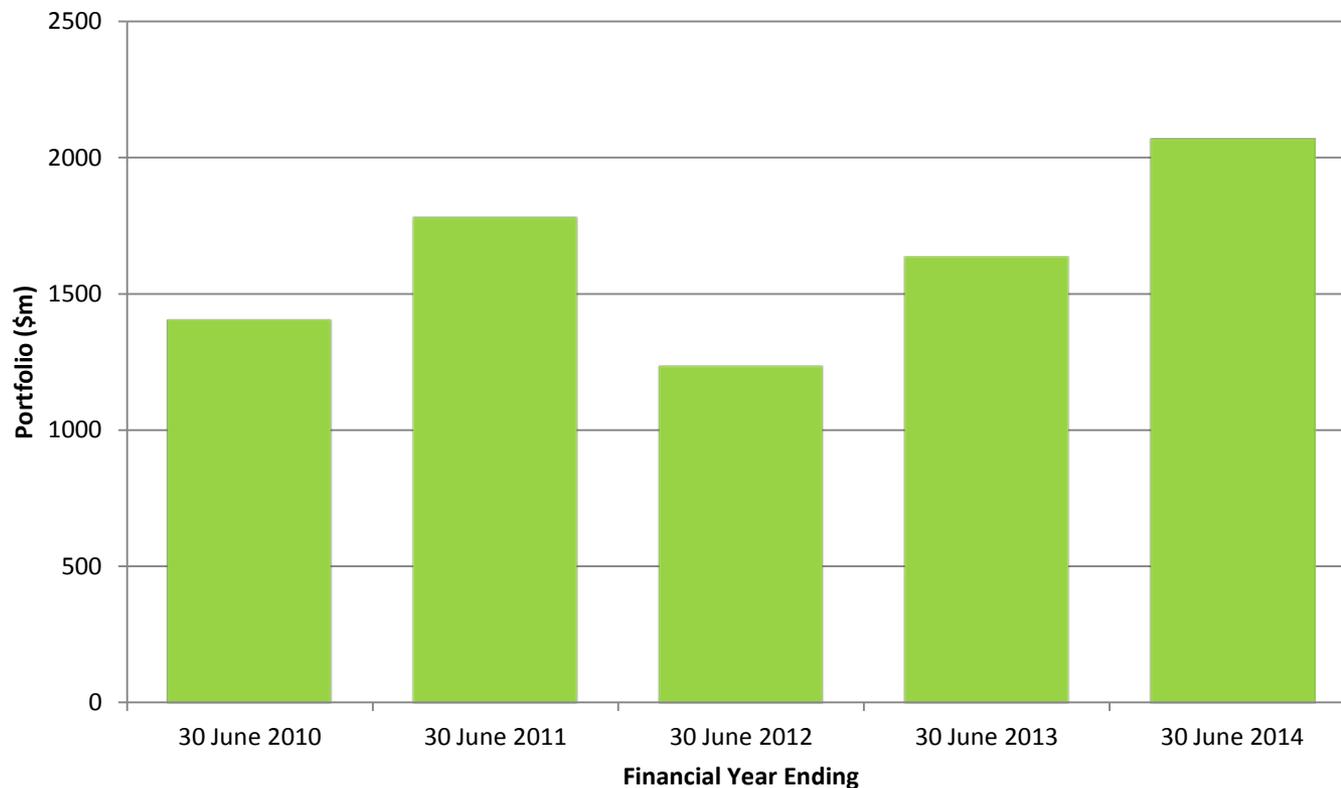
Claim Value Range	Est. Claim Value <sup>1</sup>	No of Cases	% of Total Value	Possible Completion FY2015 <sup>2</sup>	Possible Completion FY2016 <sup>2</sup>	Possible Completion FY2017 <sup>2</sup>
<\$10M	\$32M	6	2%	\$25M	\$7M	–
\$10M - \$50M	\$406M	14	21%	\$145M	\$51M	\$210M
>\$50M	\$1,440M	10	77%	\$375M	\$600M	\$465M
<b>Total Portfolio<sup>1</sup></b>	<b>\$1,878M</b>	<b>30</b>	<b>100%</b>	<b>\$545M</b>	<b>\$658M</b>	<b>\$675M</b>

- 1 This is the Company'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 the Company's client/s in the matter. It is also not the estimated return to the Company from the matter if it is successful. No estimated claim value has been included for any contingently funded matters until all conditions are fulfilled.
- 2 The possible completion period is the Company'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.
- 3 Cases which have settled subject to a condition or to Court approval remain in the portfolio at their original value until the condition is fulfilled or approval is given. This includes the Premium Income Fund matter.
- 4 The estimated claim value of the Wivenhoe Dam case has been adjusted as this matter is now co-funded.
- 5 The Portfolio as at 30 June 2014 included matters funded in the USA totalling \$322M (or 16% of the Portfolio at that time).

# INVESTMENT PORTFOLIO HISTORY

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## IMF Case Investment Portfolio



# POSSIBLE COMPLETIONS IN FY2015

Below is a list of matters that have completed or may complete in FY2015. Other matters may also complete in that period.

Matter	Description
Premium Income Fund	A class action by unitholders and an action by the Responsible Entity against auditors of the Premium Income Fund ("PIF"). A Settlement Deed was entered into on 19 August 2014. The settlement terms are confidential and the settlement remains subject to a number of conditions including Court approval of the settlement of the class action. IMF estimates income of approximately \$18.4M and a profit after capitalised overheads (but before tax) of about \$8.7M from this matter.
ABC Learning Centres Group of Companies	An action by the liquidator of ZYX Learning (formerly ABC Learning) claiming that the floating charges granted to various banks are void and for recovery of certain amounts received by the Banks under them. The case has settled and revenue will be recorded in 1H15. IMF estimates income of approximately \$17M and a profit after capitalised overheads (but before tax) of about \$5M from the ABC cases (this case and the claims by shareholders against ABC Learning).
Retail Adventures	IMF successfully funded a number of unsecured creditors to set aside the Deed of Company Arrangement ("DOCA") and Retail Adventures went into liquidation. The liquidators then settled claims for insolvent trading and unsecured creditors are expected to receive total dividends of about four times greater than what they would have received had the DOCA not been overturned. IMF will receive a return from dividends paid to the unsecured creditors it funded.
USA Case	IMF successfully funded a business dispute in the USA. The settlement of this matter, within 4 months after funding, resulted in income of approximately \$16M and a profit after capitalised overheads (but before tax) of about \$7.6M in FY2015. Potential subsequent payments flowing from the settlement may result in further additional revenue generated from this matter.
Confidential Australian matter	IMF successfully funded a confidential matter which resulted in a settlement in September 2014. This matter generated income of approximately \$2.5M and a profit after capitalised overheads (but before tax) of about \$1.7M in FY2015.

# POSSIBLE COMPLETIONS IN FY2015

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Matter	Description
Bank Fees	<ul style="list-style-type: none"> <li>▪ On 4 February 2014 Justice Gordon delivered judgment in the Bank Fees matter.</li> <li>▪ The findings in favour of IMF's clients were that late payment fees were penalties at law and that certain inter account exception fees had been charged by the Bank in breach of contract.</li> <li>▪ Late payment fees are subject to an expanded limitation period which commenced in 2010.</li> <li>▪ The clients were not successful in relation to their claims concerning honour fees, dishonour fees and over limit fees charged by the Bank.</li> <li>▪ It is currently estimated that the successful part of the action against ANZ represents about 25% of the total claims being made in that action.</li> <li>▪ Both ANZ and the clients' representatives are appealing. The appeal was heard in August 2014 with judgment reserved.</li> <li>▪ Open class actions have been instituted against the major banks in relation to late fees and a common fund application will be made in relation to these (unless the Banks win their appeal in relation to late fees).</li> <li>▪ IMF is presently not able to reliably measure the impact, if any, of the above on its revenue or profit for the year ending 30 June 2015.</li> <li>▪ NAB has recently announced that it is keen to settle the claims made against the bank.</li> </ul>
Desalination Technology	<p>This is the first case in which IMF funded a taxpayer in relation to a dispute with the ATO. IMF estimates income of approximately \$2.3M and a profit after capitalised overheads (but before tax) of about \$1.5M. The ATO have lodged an appeal which is being funded by IMF.</p>
USA Case	<p>A confidential binding interim settlement agreement was reached in one of a series of patent infringement cases in the USA. Final documentation is expected to be signed in November 2014 whereupon IMF will be entitled to receive income of approximately \$17M and a profit after capitalised overheads (but before tax) of about \$11M in FY2015.</p>
US cases	<p>A number of US funded cases could complete in FY2015. IMF has taken the policy position not to disclose specific details about the US investments other than to describe them in a general manner until after the resolution of each case.</p>
Others	<p>A number of other matters could complete.</p>
<b>Total</b>	<b>\$700M (claim value in portfolio as at 30 June 2014)</b>

# NEW CASES

8 new cases were funded in FY2014 (with a claim size in the portfolio of \$765M).

Matter	Description
Wivenhoe	<ul style="list-style-type: none"><li>▪ Long investigation phase and proceedings were filed on 8 July 2014.</li><li>▪ Class action alleging the Dam was negligently operated and that material flooding would not have occurred had the Dam been operated to the standard expected.</li><li>▪ Participation agreement with interests associated with European joint venturer.</li></ul>
Treasury Wine Estates	<ul style="list-style-type: none"><li>▪ Shareholder class action alleging Treasury Wine Estates Limited breached its disclosure obligation by failing to inform the market of material information, and made misleading representations in relation to the performance of its United States operations and its expected financial performance for the 2013 financial year. Proceedings have been filed.</li></ul>
Hong Kong case	<ul style="list-style-type: none"><li>▪ A claim by a Hong Kong based insolvency practitioner against an auditor.</li></ul>
Forge	<ul style="list-style-type: none"><li>▪ The claims include a proposed shareholder class action relating to issues with the two key power stations of CTEC, one of the wholly owned subsidiaries of Forge.</li></ul>
Bradken Resources	<ul style="list-style-type: none"><li>▪ Claim that wholly owned subsidiaries of Bradken Limited and Fortesque Metals Group Limited infringed a patent concerning bulk material transport containers used in rail wagons.</li></ul>
Commissioner of Taxation (Desalination Technology)	<ul style="list-style-type: none"><li>▪ Funding the defence of an appeal to the Federal Court by the ATO (now heard) concerning the eligibility of tax offsets for research and development expenditure.</li></ul>
2x US cases	<ul style="list-style-type: none"><li>▪ Funding a business dispute in a US State Court and funding a case involving a claim for multiple breaches of a state False Claims Act, a state Insurance Fraud Prevention Act and other related claims.</li></ul>

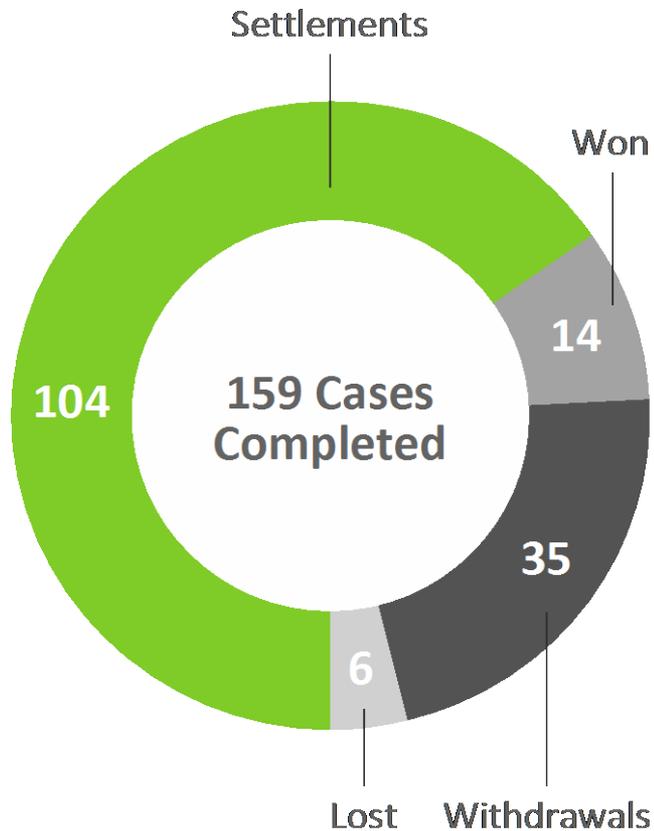
# SELECT CASE UPDATES

Matter	Update
Rivercity	<ul style="list-style-type: none"> <li>▪ Class action by persons who purchased units under the product disclosure statement alleging that the traffic forecasts in the PDS were misleading and deceptive and omitted information.</li> <li>▪ Multiple interlocutory disputes. Expert evidence being served.</li> <li>▪ Trial date of 7 September 2015.</li> </ul>
Westgem	<ul style="list-style-type: none"> <li>▪ Claim against Bankwest (CBA) for damages flowing from alleged conduct of the bank including in claiming penalty interest and in seizing control of the secured asset (Raine Square in Perth).</li> <li>▪ No defence has yet been filed.</li> <li>▪ CBA has unsuccessfully applied for an injunction to prevent Westgem’s solicitors from continuing to act in the case and has also unsuccessfully applied for the appointment of a special purpose liquidator. The bank’s application to strike out large portions of the statement of claim were completely unsuccessful.</li> </ul>
Structured Finance Ratings Claims	<ul style="list-style-type: none"> <li>▪ Appeal by S&amp;P, ABN Amro and LGFS has been determined against these entities. This case is now complete and a smaller case is currently under review.</li> <li>▪ Lehman cases               <ul style="list-style-type: none"> <li>➢ Proof process is continuing in Lehman Australia in respect of claims against it.</li> <li>➢ Claim against S&amp;P by persons who bought CDO’s from Lehman Australia and others has been filed.</li> </ul> </li> <li>▪ Claim against ABN Amro and S&amp;P in the Netherlands               <ul style="list-style-type: none"> <li>➢ Claim filed in the Netherlands but S&amp;P had earlier filed in the UK seeking negative declarations.</li> <li>➢ Jurisdictional issues are being determined.</li> </ul> </li> </ul>

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# TRACK RECORD

## IMF's track record to 30 June 2014



### Summary

- **159** cases commenced and completed since listing.
- Average investment period of 2.3 years.
- Generated revenue of \$1.47B:
  - \$957M to Clients (65%);
  - \$514M to IMF comprising:
    - \$189M reimbursement of costs (13%); and
    - \$325M net revenue to IMF (excluding overheads) (22%);
  - Gross ROI of 273%.
- Lost cases cost \$16M including adverse costs.
- Withdrawals cost \$4.9M.
- Losses and withdrawals cost 4% of IMF revenue.

# USA BUSINESS - BACKGROUND

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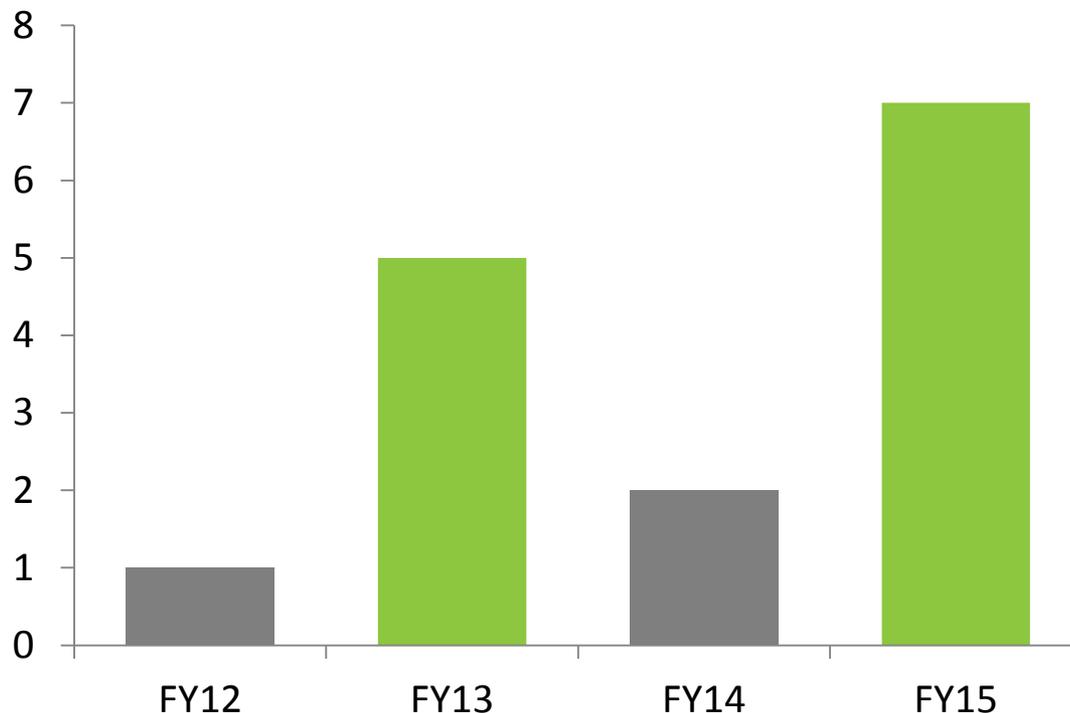
- US law concerning whether funders' communications are protected by privilege inhibit IMF's usual transparency about its business.
- IMF established a US subsidiary in August 2011 and opened its first office in New York.
- Following growth, our Los Angeles office was opened in September 2013.
- USA business now has 8 staff including 4 investment managers and 2 legal counsel.
- Investment managers are all former senior litigation attorneys, each of between 15 – 25 years legal experience .
- The New York and Los Angeles offices enable both East and West coast coverage.
- Cases have been funded in New York, California, Texas, Indiana, Nebraska, Virginia and North Carolina.

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# USA BUSINESS - FUNDING

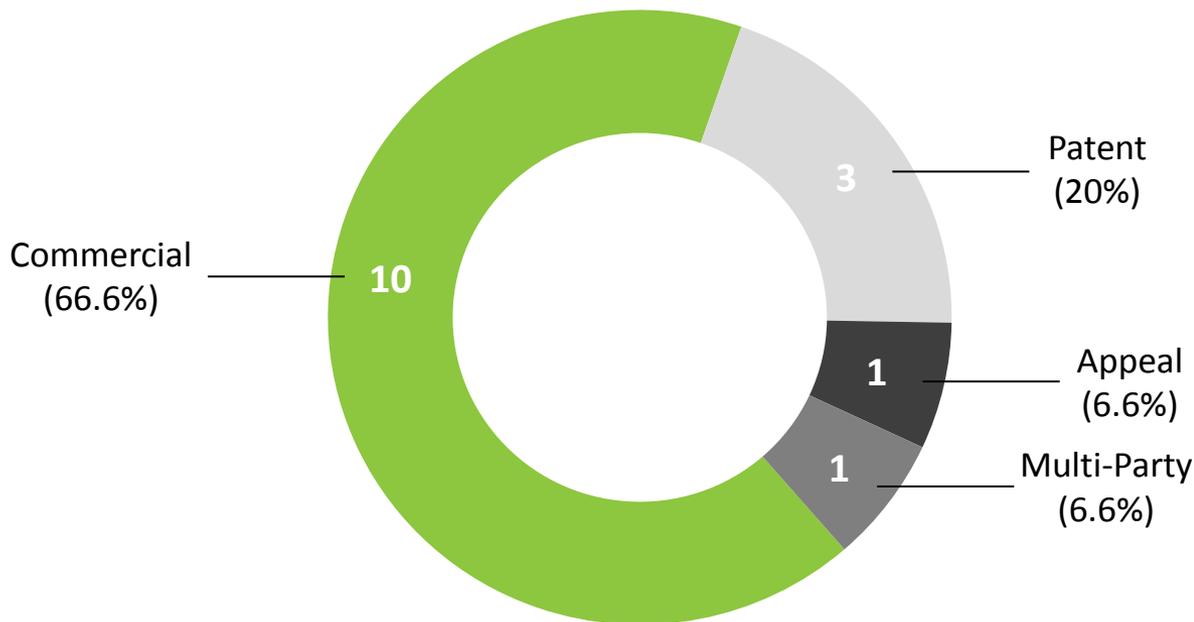
- USA business has now considered 370 funding opportunities.
- 15 matters have been funded, with 5 successfully completed or partially completed.

### Matters Funded



# USA BUSINESS - PORTFOLIO

- At 30 June 2014 the USA Portfolio equated to \$322M and accounted for 16% of the Portfolio at that time.
- Gross revenue from completed cases to date of \$40M. Net profit of \$21.7M. (from inception of US business and including YTD FY2015).
- Portfolio spread across a variety of case types.



# USA BUSINESS - FUNDING

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- Different funding products to Australia: client funding using hybrid fee arrangements, funding client operational costs, funding to law firms across a portfolio of cases.
- Growing competition in the US market, but market knowledge of litigation funding remains at a relatively early stage.
- Third office likely to be opened in 2015.
- Growth likely to require further funding sources in the US.

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# FUTURE OUTLOOK

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- Further development of international funding platform:
  - Expansion in the US (new staff, more cases).
  - Expansion in the UK and Europe (joint venture).
  - Funding in Hong Kong (focus on insolvency cases).
- Building the investment portfolio above \$2B claim size.
- New managing director (Andrew Saker) as from January 2015. Hugh McLernon to remain in the company with a focus on major cases and special projects.
- In Australia, renewed focus on opportunities for funding in insolvency situations.
- More competition in Australia and internationally, reflecting a maturing industry.
- Potentially more regulation in Australia (Productivity Commission's report has been released to the Government but not yet publicly).

# KEY RISKS

Item	Description
<b>Choosing, and remaining in, a funded case that is ultimately lost</b>	<ul style="list-style-type: none"> <li>If a funded case is lost IMF will lose not only its investment but may also have to pay the defendant's costs.</li> </ul>
<b>Reliance on key management</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Government regulation</b>	<ul style="list-style-type: none"> <li>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. However, there is presently no legislation proposed in the markets in which IMF operates of which it is aware.</li> </ul>
<b>Judicial decisions</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Multiple defendants</b>	<ul style="list-style-type: none"> <li>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 (in certain markets).</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Competition</b>	<ul style="list-style-type: none"> <li>IMF currently has a handful of competitors in the Australian litigation funding market, including overseas based competitors, who are becoming more active. 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.</li> </ul>

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# REMUNERATION REPORT

This year two corporate governance advisors recommended that shareholders vote against the remuneration report while 2 others recommended a vote in favour of the report. The advice to vote against the report was based upon two factors:

- A. That a bonus of \$3M had been paid to staff; and
- B. That the salary of the Manager Director was too high.

It does not appear that the advisors took into account the information disclosed in the following tables.

	2010	2011	2012	2013	2014	Total
<b>Net Profit after Tax</b>	\$11,906,342	\$22,860,150	\$42,965,792	\$13,814,067	\$9,868,350	\$101,414,701
<b>Dividend</b>	\$6,102,000	\$18,480,256	\$12,320,766	\$6,160,470	\$16,487,518	\$59,551,010
<b>Bonus</b>	NIL	\$4,813,500	\$6,877,300	NIL	\$3,000,500	\$14,691,300

	2010	2011	2012	2013	2014
<b>H McLernon Salary</b>	\$864,462	\$865,192	\$1,000,000	\$1,000,000	\$1,040,000

# RESOLUTION 1

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**"That the Remuneration Report be adopted by the Shareholders on the terms and conditions in the Explanatory Memorandum."**

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## RESOLUTION 2

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**"That Mr Clive Bowman, who retires in accordance with clause 6.3 of the Constitution and, being eligible, offers himself for re-election, be re-elected as a Director."**

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## RESOLUTION 3

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**"That Mr Michael Bowen, who retires in accordance with clause 6.3 of the Constitution and, being eligible, offers himself for re-election, be re-elected as a Director."**

## RESOLUTION 4

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**"That Ms Wendy McCarthy, who retires in accordance with clause 6.3 of the Constitution and, being eligible, offers herself for re-election, be re-elected as a Director."**

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## RESOLUTION 5

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**“That, with effect from the date that ASIC alters the details of the Company’s registration and pursuant to and in accordance with section 157 of the Corporations Act, the name of the Company be changed to “IMF Bentham Limited”.”**

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## Questions