



THE LONG ARM OF THE LAW

Nicolas Angio, Group CFO of Centaur Asset Management

Legal financing is a little-understood asset class, but one which can yield double-digit returns for investors. Nicolas Angio explains how investing in the legal process can pay off

Mena FM (MFM): What exactly is a legal financing fund, and what type of legal cases can it invest in?

Nicolas Angio (NA): Generally, a legal financing fund finances the legal costs for a legal case on behalf of one of the parties who is part of a dispute. The fund acts as a third-party funder of the legal fees in exchange for a portion of the legal claim value if the funded case is won.

Various legal financing funds will have different criteria determining what type of legal cases can be invested in. The Phoenix Legal Financing Fund I, for which Centaur Asset Management Ltd acts as the investment advisor, invests primarily in the UK legal financing market and can only invest in cases for which an insurance policy can be taken to mitigate the downside risk in case a funded case is lost.

As of now, there are only a handful of legal financing funds on the market, the majority of which are moderate in size.

MFM: What type of investor might benefit from allocating to this asset class?

NA: Most investors, from high-net-worth individuals to institutional investors, will benefit from the diversification that comes from investing into the legal financing asset class. The outcome of a legal case is generally uncorrelated with the direction of the stock market, movements in the real estate market and with interest rates. It is a unique hedge for most investors' portfolios while providing a healthy return.

MFM: Centaur's Phoenix Legal Financing Fund I has been running for 18 months. How is it faring and what are its prospects?

NA: The Phoenix Legal Financing Fund I has

returned just over 22% in its first 18 months. This is consistent with the expected returns we had forecast for the strategy. The fund had initially been run solely on seed capital for the first 12 months of operations. It was recently opened up for external investors and the AUM has grown to USD15m. We expect the AUM to grow significantly over the next 12 months as institutional investors finalise their due diligence process on the fund which is currently underway. Centaur also manages dedicated managed accounts for institutional investors who wish to get exposure to a tailored strategy in the legal financing market.

MFM: What risks should investors be aware of before venturing into the asset class?

NA: Centaur aims to mitigate the primary risk related to the strategy by obtaining insurance to cover potential losses from funding a case which does not win. Obtaining such insurance is a prerequisite for any investment in the fund. Bespoke insurance policies are negotiated and tailored with well-established insurance companies to protect the interests of the fund's shareholders.

MFM: Is the asset class Shariah compliant – and if not, is there scope for developing a Shariah version?

NA: The legal financing asset class itself is Shariah compliant subject to a number of requirements. Of course, the funding documents must be structured in a Shariah compliant way and the parties that are funded cannot be involved in any activities that are not Shariah compliant. Centaur is currently structuring a Shariah compliant version of the fund. ■