

## Key Updates

### Legal Finance Fund III performance is in line with expectations

All of the investments in Legal Finance Fund III are performing in line with expectations. The focus of the cases within Legal Portfolio III (56.2% of outstandings) is on "book building" or signing up claimants to increase aggregate damages. There is a hearing scheduled for 2023 for a mass litigation similar to the largest case in the portfolio. The outcome of the hearing should provide a helpful roadmap for the portfolio case.

For Appraisal Litigation II, the defendant buying back all of the publicly-traded shares in late 2023 initiated the lawsuit. The next step is whether or not the defendant decides to return a portion of the Originator's investment. The decision is expected in the first quarter of 2023. If the defendant decides to return capital, the Legal Finance Fund III is expected to place that cash in reserves to fund capital calls of other cases within the Legal Finance Fund III rather than distribute it back to investors.

In late 2022, the US government decided to extend the sealing order for Qui Tam I to mid-2023, which is a positive indicator it is still reviewing the details of the case and increasing the likelihood of intervening or supporting the case. We are expecting either another extension or a decision to intervene, which increases settlement leverage against the defendant.

### Distributions are event-based following settlements

Legal Finance Fund III has three outstanding investments, as two new deals were added in late 2022. Legal Portfolio III comprises 56.2% of Legal Finance Fund III, with Appraisal Litigation II representing 38.3% and Qui Tam I representing 5.5%. Legal Portfolio III now has five cases, as a new case was added in late 2022, a consumer group action against a large automobile manufacturer.

INVESTMENT	STRATEGY	OUTSTANDING (%)	TARGET TERM
Legal Portfolio III	Case Funding	56.2%	2026
Appraisal Litigation II	Appraisal Litigation	38.3%	2025
Qui Tam I	Qui Tam	5.5%	2025
<b>TOTAL</b>		<b>100.0%</b>	

### Market Insights

Demand for legal finance continued to grow in 2022. According to a recent study, new commercial capital commitments to law firms (not inclusive of law firm loans) and their clients grew by over \$3Bn, or 16% in 2022, one of the largest increases on record. The average size of a single-case investment increased to \$4.3M in 2022 from \$3.5M in 2021 while the average portfolio size increased to \$10.5M from \$8.5M.

Mass tort litigation, by nature of the scale, represents the majority of collateral for law firm loans. In January 2023, a federal appellate court overturned the bankruptcy court decision permitting Johnson & Johnson's use of a bankruptcy filing in the talcum powder litigation. J&J faces tens of thousands of these lawsuits with billions in expected settlement value. In 2021, the defendant isolated these liabilities in a vehicle which filed for bankruptcy protection, potentially limiting J&J's liability. Approval of this tactic would have materially impacted mass tort settlements, so the recent ruling is viewed as a win for litigants, whose clients now have the chance for their day in court and increased recourse to J&J's assets. This ruling may have ramifications for other high-profile litigation, including 3M Military Earplugs, Boy Scouts Sexual Abuse, and others.

Source: The Westfleet Insider, 2022 Litigation Finance Market Report

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## At a Glance

### Legal Finance

Returns Source(s):

- Case settlements

### Investment Overview

Legal Finance Fund III invests in a diversified portfolio of legal finance transactions. The primary holding is a portfolio of five investments with returns tied to the outcome of individual lawsuits.

### Business Plan

Legal Finance Fund III seeks to generate returns through a variety of debt or equity-like investments with returns tied to the outcome of litigation.

### Target Net Return<sup>2</sup>

11% - 13%

Net annualized return when calculated at final realization.

### Payment Schedule

Event-Based

### Target Term<sup>1</sup>

2026

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