Juridica attracts investment as the first specialist litigation fund to float in UK

What do Coventry FC and a litigation funder have in common? Not much, other than they are both benefiting from the largesse of a hedge fund with an eye for canny investments, Sisu Capital.

Sisu was just one investor clamouring to get its hands on shares of Juridica, the first specialist litigation fund to float in the UK. Third-party litigation funders are a burgeoning class. There are plenty in operation that have chosen not to go public.

So what is the advantage in floating? The obvious answer is ready money. Juridica's IPO on AIM at the end of 2007 raised £80m, which will be invested in claims.

Going public also lends credibility to Juridica - particularly when its chairman is to be none other than Matrix Chambers' Lord Brennan QC.

But being listed on AIM has obvious downsides for a litigation funder, most notably regarding disclosure.

Juridica will target commercial litigations and international arbitrations for investment. But international arbitration is notoriously secretive: how to square that with AIM's disclosure rules? For that reason Travers Smith head of corporate finance Spencer Summerfield, who led the advice to the company on its float, admitted that Juridica's "was the hardest IPO I've ever had to do".

Reams of opinions were sought over the five months it took to prepare the flotation. The result is that Juridica will disclose cases referred to by a letter rather than by name.

Richard Fields, company co-founder and co-principle of Juridica's investment management arm, explained: "Disclosure is a complex question for us, also because of attorney-client privilege. We'll disclose the sectors and subject matter we're investing in as well as the generic major events in the life of a case we're funding. But we won't be identifying parties' names or the relevant court."

Another reason for keeping details confidential is to avoid those involved in funded cases playing the system with insider information.

Fields, together with Timothy Scrantom, also owns Washington DC-based firm Fields & Scrantom, one of a selection of firms to which Juridica will supply indirect investment in cases where plaintiffs either cannot have, or do not want, direct investment. Around £40m has been earmarked for this.

The pair are also principals in Juridica's investment arm. This will vet cases with the help of external counsel. Fields is keeping these details a trade secret for the time being.

Of course, if all goes to plan Scrantom and Fields will be paid handsomely. They have negotiated a deal similar to the 'two and 20' remuneration packages seen at hedge funds: they will get paid management fees of 2.5 per cent of the net asset value of the company, plus performance fees of 20 per cent of the annualised increase in the company's value. This then ratchets up to 50 per cent if the company does very well.

To be fair, there is a hurdle before these fees kick in: the first 8 per cent of the increase goes directly to shareholders. "And I think, if we're doing well enough to get the other fees, then our shareholders won't mind too much," said Fields.

Juridica will initially focus on cases in the US, although the plan is to expand its remit to other jurisdictions with relaxed rules on champerty and maintenance - laws preventing third parties from benefiting from the outcome of litigations.

London's junior market was chosen simply because it was easier to raise money here. The litigation funding market is more advanced in the UK and investors are more at ease with the concept.

Given that shares will be traded in sterling, and yet the investments will predominantly be made in US dollars, there is some currency risk. "But primarily we'll be keeping it simple," said Fields. "There won't be any complex investments - we think the litigation model is complex enough."

It seems law is now established as an asset class. More than $180bn (£91.91bn) was spent on legal services in the US in 2005. What is more, commercial litigation is poised to take off if the economy takes a nosedive. As Fields said: "Our business model is fairly recession-proof."

You can understand why Sisu and others were intrigued.

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