



**Thoughts on  
Litigation Finance:  
A Non-Correlated  
Source of Return for  
Pension Allocators**

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## EXECUTIVE SUMMARY:

Litigation finance was a niche legal strategy but is now gaining meaningful attention from institutional investors, particularly pension plans seeking non-correlated, asymmetric return sources. By providing capital to fund legal claims in exchange for a portion of potential settlements or judgments, litigation finance offers access to returns unlinked to market cycles, interest rates, or traditional risk factors. This report explores litigation finance as an institutional-grade asset class, its evolving structures, risk-return profile, manager landscape, and suitability within a modern pension portfolio. We find that while litigation finance presents binary outcome risks and legal complexity, it can also deliver attractive gross IRRs (20–30% on a case basis; 10–15% net at the portfolio level), uncorrelated exposure, and growing institutionalization. It may merit a modest allocation, particularly through diversified portfolio strategies or hybrid capital structures within the broader alternative sleeve.

## INTRODUCTION:

Litigation finance is rapidly transitioning from a boutique legal tool into a professionalized asset class backed by institutional capital. Over the past decade, litigation finance has evolved from an opportunistic funding mechanism for individual plaintiffs into a diversified, professionalized asset class backed by endowments, sovereign wealth funds, and pensions. Funds like Burford Capital and Omni Bridgeway have demonstrated the scalability of the model, while managers increasingly offer portfolio-based, institutionally structured vehicles.

Pension funds, traditionally cautious on binary or high-variance strategies, are now revisiting litigation finance for its:

- Non-correlation to equities and credit
- Potential to outperform in recessionary or stressed environments
- Strong risk premia based on legal complexity and time-to-resolution

## STRUCTURES AND INVESTMENT MODELS:

Litigation finance exposure can be accessed through several investment structures, each with a distinct risk/return profile and suitability for institutional allocators.

Structure	Description	Pension Suitability
Single-Case Financing	High-risk capital to a single plaintiff or firm	Low
Portfolio Financing	Capital to law firms or corporates to fund a pool of claims	High
Defense Financing	Capital to help defendants recover costs or negotiate outcomes	Moderate
Monetization	Pre-settlement or judgment acceleration (lower risk)	High
Law Firm Lending	Working capital loans secured by future receivables	High (debt-like returns)

Logically, pension plans should tend to favor portfolio-based vehicles, where capital is deployed across dozens or hundreds of cases, smoothing return distributions and mitigating loss risk.

## RETURN PROFILE AND RISK ANALYSIS:

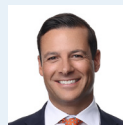
Litigation finance offers compelling return potential, but it is also characterized by binary risk, valuation challenges, and long durations. IRR expectations range from 10%-30%+ depending on holding structures:

- Returns: Single-Case IRRs: Often 20–30%+ (if successful), with diversified fund net returns of 10–15%. Durations of 2–5 years (can extend longer depending on jurisdiction) with capital loss risk of 10–30% of portfolio if not well structured due to binary outcomes with no recovery if case is lost.



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- **Correlation Risk:** Empirical studies indicate that litigation finance returns exhibit low correlation with traditional asset classes. For example, Burford Capital and Moody's Analytics reveal correlations typically ranging between 0.0 and 0.2 with equities, fixed income, and commodities. Explicit correlation coefficients, such as 0.15 with equities, 0.1 with fixed income, and near zero with commodities, demonstrate litigation finance's diversification potential.
- **Liquidity Risk:** Secondary market liquidity in litigation finance remains limited, but recent institutional engagement is slowly enhancing market depth.
- **Drawdown Risk:** Litigation finance has demonstrated resilience during economic downturns due to its non-correlation with macroeconomic cycles. For example, Burford Capital's showed continued profitability and positive case outcomes during the COVID-19 period, while industry-wide capital deployment remained steady through the 2008–09 global financial crisis. Legal claims often increase during economic stress, offering a counter-cyclical boost.
- **Underwriting Complexity:** Legal claims require deep and sophisticated underwriting. Valuation is difficult and assets are challenging to mark to market; realized P&L dominates.

### MANAGER LANDSCAPE:

The litigation finance industry has matured, with several institutional-grade managers offering fund structures appropriate for pension investors.

Manager	Structure	Institutional Notes
Burford Capital	Public & private vehicles	Largest global player; NYSE listed
Omni Bridgeway	ASX-listed + private funds	Active in Asia, Europe, US
Therium Capital	Private funds	UK-based, diversified
Longford Capital	Private institutional fund	Strong US commercial litigation
Parabellum Capital	Co-investment focus	Custom strategies for pensions

### PORTFOLIO ROLE AND STRATEGIC FIT:

Litigation finance can serve as a return-enhancing diversifier in a pension's alternatives allocation, particularly within opportunistic or uncorrelated asset sleeves. Why allocate:

- Diversifies equity/credit-heavy portfolios
- Harvests legal risk premia
- May perform well in downturns or stressed markets

Potential Allocations Structures:

- 0.25% – 1.0% of AUM as a niche diversifier
- Inside opportunistic alternatives or credit sleeves
- Paired with other uncorrelated private assets (e.g., reinsurance, royalties)

### IMPLEMENTATION CONSIDERATIONS FOR PENSION BOARDS:

Effective deployment of litigation finance capital requires careful governance, manager selection, and understanding of legal complexity and liquidity constraints.

- **Governance Readiness:** Boards must understand legal and jurisdictional risks
- **Manager Due Diligence:** Emphasis on underwriting process, track record, case selection
- **Liquidity Planning:** Long-dated commitments, no interim liquidity
- **Regulatory Monitoring:** Disclosure rules may change in US, UK, and EU

**CONCLUSION:**

Litigation finance represents a promising but complex frontier in alternative investing. For pension plans seeking uncorrelated return streams with asymmetric upside and strong idiosyncratic alpha, litigation finance if accessed through diversified and professionally managed portfolios can serve as a high-conviction satellite allocation. As legal finance continues to institutionalize, we expect broader adoption across pensions seeking alternatives that do not depend on beta, credit spreads, or macro cycles.

**REFERENCES AND SOURCES:**

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2. Omni Bridgeway Annual Reports
3. Therium Capital Management – Institutional Brochures
4. Longford Capital White Papers and Case Studies
5. ILFA – International Legal Finance Association Reports
6. Pernas Research – The Litigation Finance Industry, February 2022



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