COVID-19 and the ensuing economic lockdowns have wreaked havoc on many businesses. There are various levels of impact. There are first-order effects on industries that are directly impacted, such as travel, energy, and retail. And there are second- and third-order effects as the ripples (or, better yet, tsunami) spreads out to these companies' suppliers, business partners, employees, and the rest of the economy. In this update, we will provide our analysis of the effects on our portfolio companies.

Over the last few months, there has been lots of epidemiological and macroeconomic analysis written concerning COVID-19. We will *not* engage in this. We agree, of course, that COVID-19 is a macroeconomic phenomenon of the highest degree – there has probably never been a coordinated global lockdown to the degree seen now. But we are not investing in the economy, we are investing in specific companies in the economy. The difference is crucial. And while it is difficult to predict with any real accuracy the precise course of the disease and the precise extent and duration of the economic fallout, we *can* understand what the effects on specific companies are likely to be, and it is here where we focus our efforts. Counterintuitive as it may be, even for such a clear global macroeconomic phenomenon, the real value for an investor is in deeply analyzing specific companies in a bottom-up manner.

We believe that this environment is one where our trademark concentration and deep research can shine. Some investors appear to be like deer in headlights, frozen and panicked by the events. They do not know how to respond because they are spread too thin and do not understand the companies they are invested in well enough. They don't know which companies will suffer tremendously, which will carry on as normal, and which will even benefit. Which will crash, which will survive, and which will thrive. So they react by throwing out the good with the bad, selling indiscriminately, thereby offering tremendous opportunity for the discerning long-term investor. Focusing on only very few companies and knowing them inside out enables us to put new information in context and understand the ramifications better than many other investors. And indeed, we have seen many such situations in the present market, where the market is indiscriminately selling the good with the bad, offering us tremendous opportunity to profit over the long term.

Before beginning to discuss the specific positions of the Fund, I would like to quote something I have written previously about our investment philosophy and the type of businesses we seek to invest in.

> On the investment side, we seek to invest only in companies which are both Predictable and Resilient. … Resilient companies are companies that can survive and recover from an unexpected shock, be it a global macroeconomic slowdown, regional troubles, or an idiosyncratic company-specific issue. Not everything will always go as expected. Even though we as long-term investors are ready to ride out rough patches, this will not help us if the companies we invest in are not themselves equipped to ride out recessions, business cycles, or other issues. Hence the insistence on investing only in Resilient companies. In judging a company's resilience, there are a number of factors to consider. Resilient companies need strong balance sheets, with little or no debt. What debt they have must be spread out over time so as to lower the risk of needing to refinance during a credit freeze. Resilient companies need to have relatively little reliance on a single big customer or supplier, they need to have low risk of highly disruptive regulatory changes, and they need to have a flexible and secure business model. Resilient companies are generally profitable;

money-losing businesses are quite often only one misstep from disaster. Resilient companies need to be in control of their future, not at the mercy of circumstance.

These words are truer now than ever, and we believe this investing philosophy has served us well in selecting companies which can withstand the economic maelstrom we are currently experiencing. I do not claim to have predicted a pandemic in advance or even to have analyzed the effects of a hypothetical pandemic when originally selecting our portfolio investments. But by searching for and selecting highly resilient companies, we have selected companies that can survive, and indeed thrive, in all sorts of unexpected and harsh conditions, including our present situation. It is through the lens of resilience that we seek to analyze our portfolio now.

Viemed Healthcare (VMD:TO, VMD)

Viemed is a healthcare company operating in the US market. Viemed's main focus is ventilators, particularly non-invasive ventilators that are provided in the home for late-stage COPD patients. Viemed is clearly operating an essential, life-saving business, and Viemed continues to operate under even the most severe government-imposed lockdowns. The overall reaction of Viemed to the present crisis is to carry on business as usual, and they should continue their torrid growth throughout the year. That said, there are some minor effects, both negative and positive, with the positive effects far outweighing the negative effects, such that Viemed actually benefits from COVID-19. I would like to emphasize and re-emphasize that despite Viemed being resilient to and actually benefitting from the COVID-19 crisis, the stock still suffered a drop of more than 50% from the beginning of the year, far exceeding the overall market's decline, which only serves to illustrate the sort of opportunities available when indiscriminate selling is rampant.

First, the negative effects. Dealing with an elderly patient population with difficulty breathing, there was and is a risk that the pandemic will unfortunately infect and kill some percentage of Viemed's patients, reducing their revenue from these patients. We believe this risk is limited for a few reasons. One, the patients that Viemed treats are home-bound patients (not hospitalized or in nursing homes), so they are less likely to catch the disease from being out and about. In response to COVID-19, Viemed updated their protocols to avoid any unessential home visits (replacing standard home visits and checkups with tele-therapy) so as to avoid inadvertently exposing the patients to the virus through the respiratory therapist. Two, although Viemed operates in some urban areas as well, most of their patient population is concentrated in scattered rural areas, where the virus is slower to spread. Indeed, in Viemed's April 6th update (the second of three updates they have provided around the COVID-19 crisis), they announced that they have seen no uptick in patient attrition. Three, Viemed's patient population lives on average around 17 months before passing away. Any earlier deaths caused by the virus would reduce their patient base a little, but would in reality just reduce their torrid growth to merely rapid growth. All signs point to even that not occurring.

Another hypothetical negative effect would be their need for access to ventilators to grow their business. In the present environment, they may have trouble getting the machines they need. This effect would at most slow down their growth, as they would be able to use and re-use the ventilators they presently have as well as the approximately 10% of ventilators they keep in inventory. In truth, this

hypothetical negative effect did not materialize, and instead, Viemed benefited from serving as a middleman to supply new and used ventilators to hospitals which desperately needed them.

While COVID-19 did not have any actual negative effects on Viemed's business, there have been numerous positive effects on Viemed's business. First, there has been a push to discharge as many patients as possible to free up beds in hospitals, benefiting Viemed's home-care model. In particular, Viemed has been working to bring their service to the large number of COPD patients in the VA (Veterans Administration) healthcare system. Viemed started breaking through early this year with their signing a national (non-exclusive) contract with the VA, and the COVID-19 crisis appears to have further accelerated these plans to treat VA patients in their homes through Viemed.

Second, Viemed has used their relationship with suppliers to help source new ventilators for hospitals needing them, as well as selling older used ventilators from their inventory. This has brought in incremental revenue with good margins, causing them to revise first quarter guidance *upwards* significantly, while stating that the bulk of the benefit will show in second quarter results. All this without impacting their own supply of ventilators, which remains robust.

Third, due to the uncertainty surrounding ventilator supply and treatment, the CMS has postponed the addition of non-invasive ventilators to competitive bidding, which had been scheduled to begin January 2021. Since the 2021 bidding round lasts for three years, we expect that non-invasive ventilation will be safe from competitive bidding until at least 2024, possibly even permanently. Although we did not agree with the market's extreme negative reaction to the introduction of competitive bidding, the certainty the postponement provides for reimbursement rates should help calm the market's fears surrounding this perceived threat to Viemed's business.

Bottom line, Viemed's business is continuing to grow at their expected rapid rate and has, in fact, benefitted greatly from their ability to supply ventilators and other equipment and training to affected areas. First quarter results have not yet been announced, but we expect net income to be 50%+ higher due to the incremental revenues, with a larger boost expected for the second quarter. For the long-term, COVID-19 has accelerated the transitioning of COPD patients to home-care, especially in the VA. The market did not factor these short-term and long-term benefits in to the initial market crash, and even now, Viemed appears to be very well positioned for further stock growth.

Silicon Motion (SIMO)

Silicon Motion designs and sells controllers which manage the NAND flash memory ubiquitous in modern computing. Wherever there is NAND flash, there must be a controller, often one from Silicon Motion. Silicon Motion operates a number of distinct segments, and has significant exposure to both the Chinese market and the Chinese supply chain.

Silicon Motion is a textbook example of a Resilient company. They have no debt and a hefty buffer of cash (~$350 million, almost a quarter of their entire market cap), they have very good margins, and they have always been very profitable, even during the lows of their business cycle. Any negative effect on global supply or demand from COVID-19 would be temporary, and the product they provide is both necessary and ubiquitous. Perhaps more importantly, they, like Viemed, are set to grow at such a rapid pace, in a

secular growth market, that any temporary slowdown in demand would likely transition them from rapid growth to slower growth, but growth nonetheless.

In actual fact, it is not yet clear what the full impact of COVID-19 on their underlying business lines will be. Their SSD Solutions segment, much of which supplies complete NAND and controller solutions for online data centers and enterprise markets, can be expected to benefit from the surge in demand for online services during government-imposed lockdowns. Although the Client segment might have been expected to suffer from the economic slowdown, there are multiple indications that the PC market has actually experienced a surge in sales as workers need the ability to work productively from home. We expect that the eMMC+UFS segment, which mainly supplies the low and mid-end smartphone market, will have a reduction in revenue. And the Ferri segment (part of SSD Solutions), which supplies auto and industrial customers, will also certainly be affected negatively. However, these segments are smaller on a percentage basis than the positively affected segments, and lower margin as well.

Silicon Motion updated guidance mid-quarter as well as providing preliminary results in early April, as they generally do. They revised guidance for revenue to fall within their original range, but in the lower half of the range, while revising expected gross margins significantly higher from a range of 44.0%-46.0% to a range of 47.5%-48.5%. Overall, the net effect on their business is a small positive from their original expectations, which were already guiding for growth above 25% for the first quarter and beyond.

Once again, the resiliency of the underlying business and the positive effects that COVID-19 has had for their business did not save their stock from dropping along with the market, with their stock price dropping as low as 40% from the beginning of the year. At the time of this writing, Silicon Motion's stock has still under-performed the market for the year. We believe that the market is viewing Silicon Motion as vulnerable to recessions and the Chinese market, without regard for the true details of their business. They remain extremely cheap, and have become even cheaper, despite their business remaining strong and growing. Once again, we see an opportunity to profit going forward.

Lindblad Expeditions (LIND)

Lindblad is a small-ship cruise company focused on the expedition market. Lindblad primarily offers nature-oriented cruises to exotic locales such as Antarctica, the Arctic, the Galápagos Islands, and similar regions. These cruises are more expensive and profitable than the standard fare offered by mainline cruise companies.

Needless to say, Lindblad's business is highly affected by the global COVID-19 lockdown, with all their cruises cancelled from mid-March through at least the end of May and possibly further. The stock has plummeted, together with many cruise lines, airlines, and other travel-related industries, dropping as low as 80% from its price at the beginning of the year.

Lindblad is a good example of a stock where really understanding the nuances of the business can make a big difference. Although we agree, of course, that their business has been tremendously affected by COVID-19, we believe that the market pessimism is overdone, as the market is pricing in long-term issues or bankruptcy, while we see the company as far more Resilient than it is being given credit for. At these prices, we believe that the crucial question at hand in analyzing Lindblad is understanding their balance sheet well and assessing their ability to survive through a protracted cessation of business.

Over the long term, if Lindblad is able to pull through this period, then their business (much of which is already booked long in advance) is extremely likely to recover to prior levels over time. Although we are now in the middle of the COVID-19 panic, and it may be difficult to imagine people going cruising at the moment, ultimately as COVID-19 becomes a thing of the past and recedes into memory, people will resume their usual patterns. We have seen such reactions from terrorism and other global issues, and they pass. It helps that Lindblad's cruises are smaller, more intimate affairs, with 50-150 guests on board, instead of being the multi-thousand person breeding grounds for viruses that mainstream cruise ships are.

With the crucial issue being Lindblad's balance sheet and its ability to survive for the long term, we have spent careful time re-analyzing the balance sheet and speaking with management. Their debt is not unreasonably large, with monthly debt service of about $2.6 million and no debt due until 2023, and they are not in any danger of breaking debt covenants, even in a protracted lockdown. Their burn rate is surprisingly low when idling their ships, only about $10 million a month, and they have levers to bring that down even more if necessary. As of the end of 2019, they had about $110 million cash on hand plus an additional $45 million revolving credit facility, which they have since drawn down to increase liquidity. As for the unearned revenue from customers who booked cruises that have now been cancelled, they have offered the affected customers a choice of credit for future travel (with some sweeteners thrown in) and over half chose the travel credit, rather than an outright refund.

In addition, Lindblad has the potential to benefit from some of the stimulus money provided by the government. Unlike the major cruise lines, which are not U.S. registered companies and overwhelmingly employ non-U.S citizens (and were thus specifically excluded from Congress's aid package), Lindblad is registered in the U.S., four of its ships are U.S. flagged ships pursuant to the Jones Act, and a significant number of its employees are U.S. citizens.

Having spoken with management, Lindblad expects to have enough liquidity even if they needed to cancel all cruises for the remainder of the year, which we do not consider to be a likely scenario. Indeed, management indicated that if the lockdown was lifted and business was fully underway by July, they would still expect to turn a profit for the year, despite almost four months of zero revenue.

All in all, they appear to be in a strong position to weather this hurricane and come out the other side intact, at which point we would expect the stock to recover over time to its former levels, a substantial increase from their present levels. Although the stock has recovered more than 50% from its COVID-19 low, it is still down ~70% for the year, and we believe there is much upside remaining. We consider the risk of long-term damage to their franchise muted and their ability to survive a protracted lockdown good, as compared to mainstream cruise lines.

Some may wonder why we do not sell Lindblad here and re-purchase as the crisis begins to resolve and things turn the corner. But that is not our way. You can never predict short-term price movements as they react to random newsflow and market psychology. Trying to time the market around when to get in is a fool's game and not one we are willing to indulge in. As long-term investors, if the company we are invested in has good long-term prospects and the Resilience to last through a crisis, we will ignore temporary short-term volatility and stick with it for the long haul. We are considering, however, adding to our position in Lindblad, as we consider these prices to be very attractive.

Lending Club (LC)

Lending Club is a marketplace lending platform, connecting people seeking to borrow money with investors seeking to lend money. Lending Club qualifies the borrower, sets the interest rate, and funds and services the loan, which is then sold to various investors. Lending Club's main focus at present is unsecured personal consumer debt, and they are the leader in marketplace lending for this space.

Although as previously discussed Lending Club has admirably weathered their own internal crisis, this has left them in a weakened position to confront what may well be the deepest recession this generation has seen. We believe that the other shoe has yet to drop, and that the market does not fully anticipate the extent of second- and third-order effects yet to come from the government-imposed lockdowns, the shuttering of businesses, and the rise in unemployment. With Lending Club having yet to turn a profit, although we previously considered them resilient in face of trouble, we believe that the coming maelstrom may overpower this still-too-fragile company. As a platform lending marketplace focused on connecting investors making loans with consumers seeking loans, they are highly tied to the health of the consumer and the availability of credit, both of which are highly endangered in the present environment.

Lending Club does, indeed, have a relatively strong balance sheet, with a lot of cash. And as a lending marketplace, they are not directly at risk if the credit they extend on behalf of investors is defaulted upon. Nevertheless, they do have a top-heavy income statement, with a large organization built up to make and service loans, with large overhead and slim margins, and they have yet to transition to profitability. Given the risk of an extended and deep recession and the concomitant drying up of credit being extended by their investors, we believe that Lending Club may suffer an extended period of cash drain from operating expenses. One of the hallmarks of a Resilient business is being highly profitable, which gives leeway during times of crisis to survive. Lending Club does not have this leeway. In their weakened state, we are not certain that they will survive, nor do we see substantial enough upside to justify the apparent risk.

In evidence of this, on April 20th, Lending Club announced they are laying off 460 employees, 30% of their workforce, "to better reflect current loan volume and better position the Company for profitability to achieve its strategic goals when the economy and business stabilizes". We see this attempt at right-sizing the company to be too late to ultimately be enough. They may survive the crisis, and they may not, and that is not a risk we are willing to endure in a concentrated portfolio.

Due to the above analysis, Focus Capital Management has recently sold its entire stake in Lending Club, at a loss.

Burford Capital (BUR:LON)

As we mentioned in our quarterly Manager Letter, Focus Capital Management has taken advantage of the volatility in the markets to add a position in Burford Capital to the Fund. Burford Capital is a company that we have been following and researching for more than a year, and although we purchased a small stake (sub-size for the Fund) in September, we have now more than quintupled our position to bring it to a full-sized position for the Fund. We are very excited about the opportunity that Burford presents, and we hope to talk about it at length in a future letter, but for now we will present some basic highlights of the company.

Burford Capital is headquartered in London, and trades on the AIM exchange. Burford is a litigation finance company, which in essence means that they fund lawsuits in exchange for a portion of the proceeds recovered. They exclusively finance high-end commercial disputes, whose legal fees often reach many millions of dollars, and they operate in a distinctly different segment from personal injury lawsuit or other consumer lawsuit financing, which have an entirely different market dynamic and regulatory environment.

Traditionally, providing money to help litigate a lawsuit in exchange for a cut of the proceeds was prohibited under the common law doctrines of maintenance and champerty. However, starting in the 1990s, these restrictions have been loosened in many jurisdictions around the world to a greater or lesser degree, launching the field of litigation finance. The regulatory and legislative trend is to continue to remove obstacles from litigants who wish to finance their lawsuits.

Burford was launched in 2009 and has grown to be by far the largest provider of litigation finance, with billions of dollars, both internally and in investment funds that Burford manages for outside investors. Their scale gives them a significant advantage, both in law firm relationships and deal flow and in the ability to take on larger cases or portfolios of cases while still being sufficiently diversified.

They have a number of different segments, all revolving around the basic idea of providing money for litigants who are unable or unwilling to finance their lawsuit themselves. Sometimes, the litigant is a smaller company that cannot afford to litigate their case to the full extent and would otherwise be under pressure to settle. Sometimes, the litigant is a public company that doesn't want to suffer the accounting hit of paying for lawsuits as an operating expense (and if they win, the proceeds will be viewed as only a one-time gain). Sometimes, the litigant is a client who is not willing to bear their (undiversified) risk of losing at trial. Sometimes, a law firm prefers to bill hourly (as is the norm for these types of lawsuits), but the client prefers a contingency-style model. Whatever the reason, Burford Capital provides the funding to pay the lawyers or for financial needs the litigant has, and receives the right to a portion of the proceeds, typically around 30%.

Burford is extremely discerning in choosing cases, selecting to invest in about 5% of the cases that are brought to them, and the cases they invest in resolve favorably around 70%+ of the time. Some cases end up settling, which typically makes Burford a lower multiple on their capital but occurs relatively quickly, while some cases end up going to trial, which typically takes much longer but the proceeds are more lucrative. Whether through settlement or trial, Burford typically makes an IRR (Internal Rate of Return) of ~30%. The IRR is calculated from when they provide money to when the cases resolve, so it does not take into account time that Burford's money is sitting idle and it does not take into account Burford's operating expenses, both of which reduce Burford's overall return. As part of their capital structure is made up of debt (with the first debt due in 2022 and laddered very conservatively thereafter), their ROE (Return on Equity) is also in the 30% range, after taking into account operating expenses and the like. (ROE is an accounting figure and is not directly comparable to the IRR, which is based on cash flows.) Needless to say, this is extremely good. And since Focus Capital Management snapped up Burford at a 30% discount to book value, we are set up to compound our investment even faster than this 30% rate over the long term, an extremely rare situation.

We originally investigated Burford Capital in the beginning of 2019, and although we liked the business model and were impressed by what we saw, we did not feel that the stock was priced sufficiently low at the time to be considered deeply undervalued. The main catalyst that provided us with this gem of an

opportunity was the short thesis published by Muddy Waters in August 2019. The stock fell by over 60% in just a few days, and although it recovered slightly afterwards, it mostly meandered at greatly reduced prices. We immediately started researching in earnest, and after voluminous research we have concluded that Muddy Waters' allegations of fraud and business issues have no merit whatsoever; indeed, many of the allegations were clearly debunked by Burford themselves, with Muddy Waters' silent acquiescence in their replies speaking volumes.

Burford is precisely the sort of situation where deep research and a long-term outlook is really important. Having spoken with some investors and seeing what others have written, we believe that many investors feel it is simply too difficult and risky to involve themselves in. They just dump it in the avoid box. The accounting is complicated, the business model somewhat obscure, and the specific legal cases are often shrouded in secrecy. We put in enormous effort to educate ourselves about the industry, the regulatory environment, Burford's specific accounting and results, and Muddy Waters' allegations and the veracity and relevance or lack thereof. We believe this immense months-long research has paid off with a position that will profit our investors handsomely over the coming years.

Moving on to the effect of COVID-19 on Burford's stock price and business. Since the beginning of the year, the stock dropped more than 50%, significantly more than the market. This is despite COVID-19 having no real effect on the underlying business. Burford operates a truly global business, with many jurisdictions continuing to try cases and receive briefings, albeit in some places by video-conference. Legal work is especially suited for remote working, and Burford continues to win cases and to invest in new cases during the COVID-19 lockdowns. And where there are delays, Burford often benefits, as the contract is commonly written to provide Burford a greater return the longer the case takes to resolve. Long term, COVID-19 and the ensuing economic shock is likely to provide fertile ground for lawsuits (e.g. breach of contract, bankruptcy, etc.) as well as increase the number of litigants seeking to conserve cash with litigation finance. Indeed, Burford and others have reported seeing a noticeable uptick in incoming requests for financing both new and old cases.

We are extremely excited about Burford Capital and expect to see great returns from our investment in them. We look forward to sharing more of our analysis of Burford in coming letters.

Conclusion

COVID-19 has greatly disrupted the economy and has punished most stocks across the spectrum. Yet, not all businesses are made from the same cloth and many of the stocks that have dropped precipitously are presenting bargains for the discerning investor who understands the underlying business well. In particular, out of the various stocks in our portfolio, all of them have seen massive declines in stock prices, yet three of them (Viemed, Silicon Motion, and Burford) are actually poised to benefit from the crisis. COVID-19 is temporary and will pass. The economy will eventually return to normal. The bargain prices being presented in the stock market will pass as well, and investors who take advantage of the short-term price volatility to buy excellent companies at sharply depressed prices will do extremely well over the long term. We, at Focus Capital Management, intend to place ourselves into that category of investor and we encourage anyone reading this to do so as well.