Overview

Burford Capital (London: BUR, NYSE: BUR) is headquartered in London, and is dual-listed, trading in London on the AIM exchange and in New York on the NYSE. 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.

Litigation Finance

Litigation finance is a relatively young field that has grown rapidly over the last few decades. Litigation finance can be described as providing clients with capital with expectation of receiving a return from successful litigation. In its most basic form, Burford provides a litigant with money to pursue meritorious claims which the company either cannot afford to or does not want to pay out of pocket to pursue. In exchange, Burford receives a portion of the award won at trial or settlement. Typically, the money is provided on a non-recourse basis, so if the claim ultimately fails, Burford loses their investment.

Historically, third-party funding for a lawsuit was prohibited under the common law doctrines of maintenance and champerty. (Maintenance is the act of assisting a party to maintain a lawsuit, generally through financial assistance. Champerty is the act of maintenance done for profit.) These medieval concepts were originally designed to prevent feudal lords from taking advantage of their vassals to expand their fiefdoms, and traditionally, maintenance and champerty were frowned upon as increasing lawsuits and general strife.

More recently, these restrictions have been loosened beginning with insolvency proceedings in Australia in the 1990s and spreading to other areas of law, as well as other countries such as the UK and the US. Indeed, with the increased expense and sophistication of modern commercial cases, litigation finance has been welcomed as promoting increased access to justice. Today, commercial litigation finance is legal and welcome as a fixture of modern law and finance in the majority of US states as well as most major jurisdictions globally, and the regulatory and legislative trend is to continue to remove obstacles from litigants who wish to finance their lawsuits. Precise parameters and regulations remain patchwork, differing from district to district and jurisdiction to jurisdiction. (As noted above, this discussion is specifically about commercial litigation finance. Consumer litigation finance, which Burford does *not* engage in, is entirely different.)

But litigation finance does not end with the basic form of financing litigants to enable them to pursue meritorious claims. As the field has grown, Burford has expanded to many varied uses of capital in support of litigation. For example, often a law firm uses an hourly fee model (standard among top commercial legal firms), but their client prefers a contingency fee arrangement. Burford can bridge this gap by providing financing to the law firm, enabling them to be paid on an hourly fee basis, while the client only pays on a contingency basis. In recent years, Burford has begun funding asset recovery and enforcement efforts in pursuit of unpaid court judgements. Burford is even willing to purchase assets whose main value is underlying litigation and pursue the litigation themselves as principal.

The problems that litigation finance solves for Burford's clients are as varied as the uses themselves. Some corporate clients are small and lack the money to fund litigation using their preferred law firms. Some clients are not willing to bear their (undiversified) risk of losing at trial. For public companies, there is often

an accounting advantage to using litigation finance. If they pay for the litigation themselves, the expense is a yearly drain on their financial statements as the litigation drags on. Even if they ultimately prevail, litigation wins are generally treated by investors as extraordinary one-time items. By financing the litigation through Burford, the company retains a portion of the upside while relieving themselves of the ongoing expenses and accompanying drain on their accounting. Indeed, corporate legal departments can transform their division from a cost center to a source of profit, a feat highly attractive to general counsels and CFOs. In many cases, the client has no issue funding the litigation themselves, but would like to monetize their litigation asset by receiving a portion of their future win right away, both accelerating and partially de-risking their payout. And at times, corporations even use litigation finance as another form of corporate finance, enabling them to get better terms or a cheaper interest rate by collateralizing their debt with legal assets through Burford.

Law firm clients gain in varied ways as well. Some jurisdictions prohibit law firms from working on a contingency basis. With a relationship with Burford, these law firms can offer clients a quasi-contingency arrangement via financing. Even where contingency fees are allowed, law firms generally operate on a cash basis, without balance sheets and built-up equity, and often require financing to be able to afford larger contingency books. And due to tax treatment of pass-through expenses, there are tax advantages to certain forms of legal financing as well.

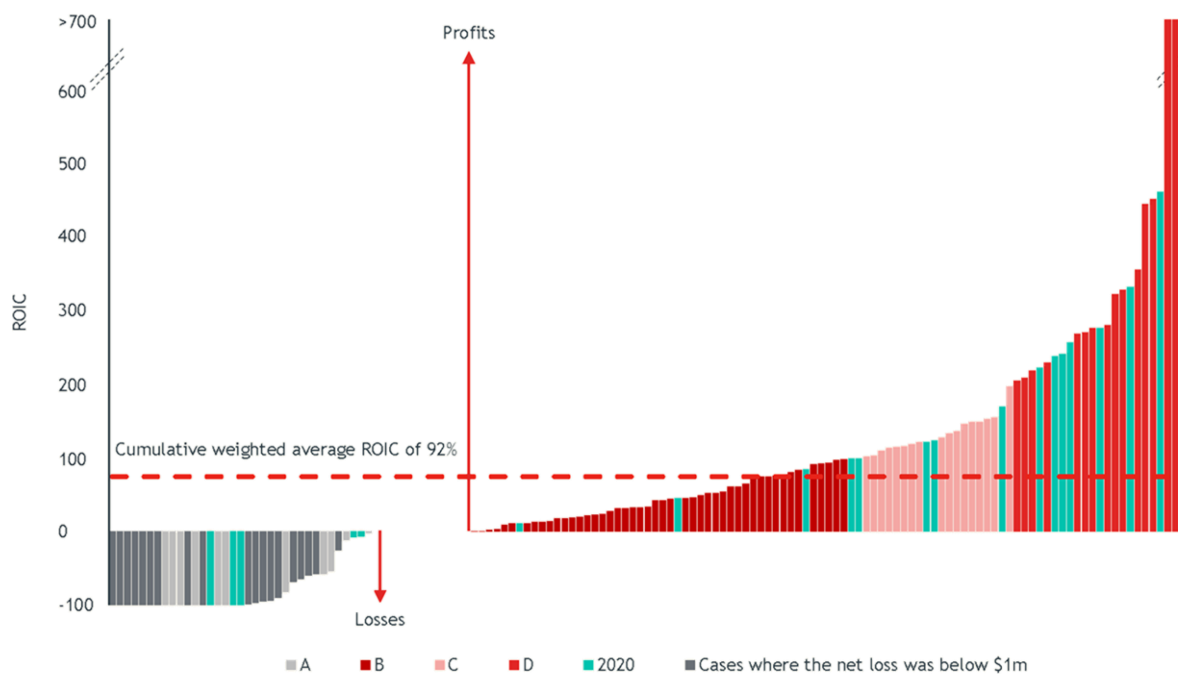
Burford has continued to innovate new forms and structures of litigation finance. One item I will highlight is the trend to fund portfolios of cases, a trend which Burford pioneered and which makes up ~70% of the business today. Portfolios, which combine multiple claims from one litigant or law firm into one financing, are advantageous for both Burford and their clients. Because portfolios of claims cross-collateralize from one claim to another, there are far fewer instances of total loss. This allows Burford to offer clients significantly better financing terms and yet still be more profitable overall for Burford. Portfolio financing also allows Burford to put greater amounts of capital to work at once, improving economies of scale. For law firms, going-forward portfolios have the additional advantage in that the law firm can go drum up new business for themselves with financing already pre-arranged.

Highly Attractive Business Model

Burford's underlying assets have a very attractive return profile, due to a combination of their process and their financing terms. The process begins with Burford selecting which litigation to finance, based on merits, potential award, cost of litigation, and other considerations. Burford is highly selective, investing in only about 5% of cases that they are approached with. From these cases, the majority (about 60%) end up settling, as is common in commercial litigation. The remainder go through the litigation process to trial or arbitration, where Burford's clients prevail about 70%-75% of the time. As the numbers clearly indicate, Burford's highly selective process is successful at picking winners.

It is difficult to give a typical example of financing terms. Because each case is unique, and the client's position and needs are different, terms tend to be bespoke, crafted for the specific situation. As a rule, the return is structured as either a multiple of capital provided, a percentage of the legal proceeds, or some combination thereof. The terms often increase over time the longer the litigation process takes, and there is typically a preferred return baseline for Burford. On average, Burford receives 30%+ of legal proceeds in exchange for financing if successful, and they target cases where compensatory damages are expected to be at least ten times the financing costs, but as before, all this varies greatly depending on the case.

Putting it all together, Burford has a very attractive business model, with returns that are highly asymmetric in favor of Burford. There are lots of steady wins, relatively fewer and smaller losses, and a few massive outsized wins. It may be helpful in ways to compare litigation finance to venture capital. A venture capital firm makes many diversified investments with the expectation of a few homeruns making up for the vast majority of losing bets. As a litigation finance firm, Burford also makes many diversified investments with the expectation of a few homeruns. But unlike venture capital, instead of the vast majority of investments ending in losses, in litigation finance there are relatively few losses, with the majority of investments being solid base hits.

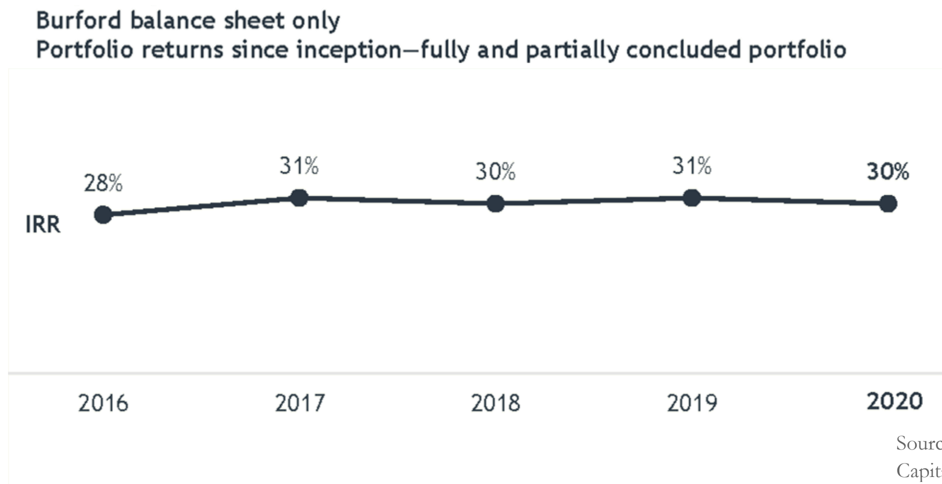


Source: Burford Capital presentation

The two metrics to focus on in assessing the return of the underlying litigation assets are ROIC and IRR. ROIC (Return on Invested Capital) measures the total return that Burford ultimately makes on its investments, without taking time into account. IRR (Internal Rate of Return) is expressed as an annual rate of return and factors into account the timing of the deployed capital (as many financing arrangements call for investment in tranches as the litigation proceeds) as well as how long it takes for the litigation to conclude and produce a return.

Litigation matters that proceed all the way through trial or arbitration typically take longer to resolve than matters that settle, but produce a higher total return (a higher ROIC). Settlements by their very nature

leave some money on the table, thus a lower ROIC, but resolve sooner and tend to produce a higher IRR overall. (It should be noted that Burford generally has no control over when or if to settle, a decision which is entirely up to the client.) Over the many years of Burford's history, Burford has consistently produced an overall blended IRR of 30% across their concluded portfolio. Needless to say, this is a very attractive return.



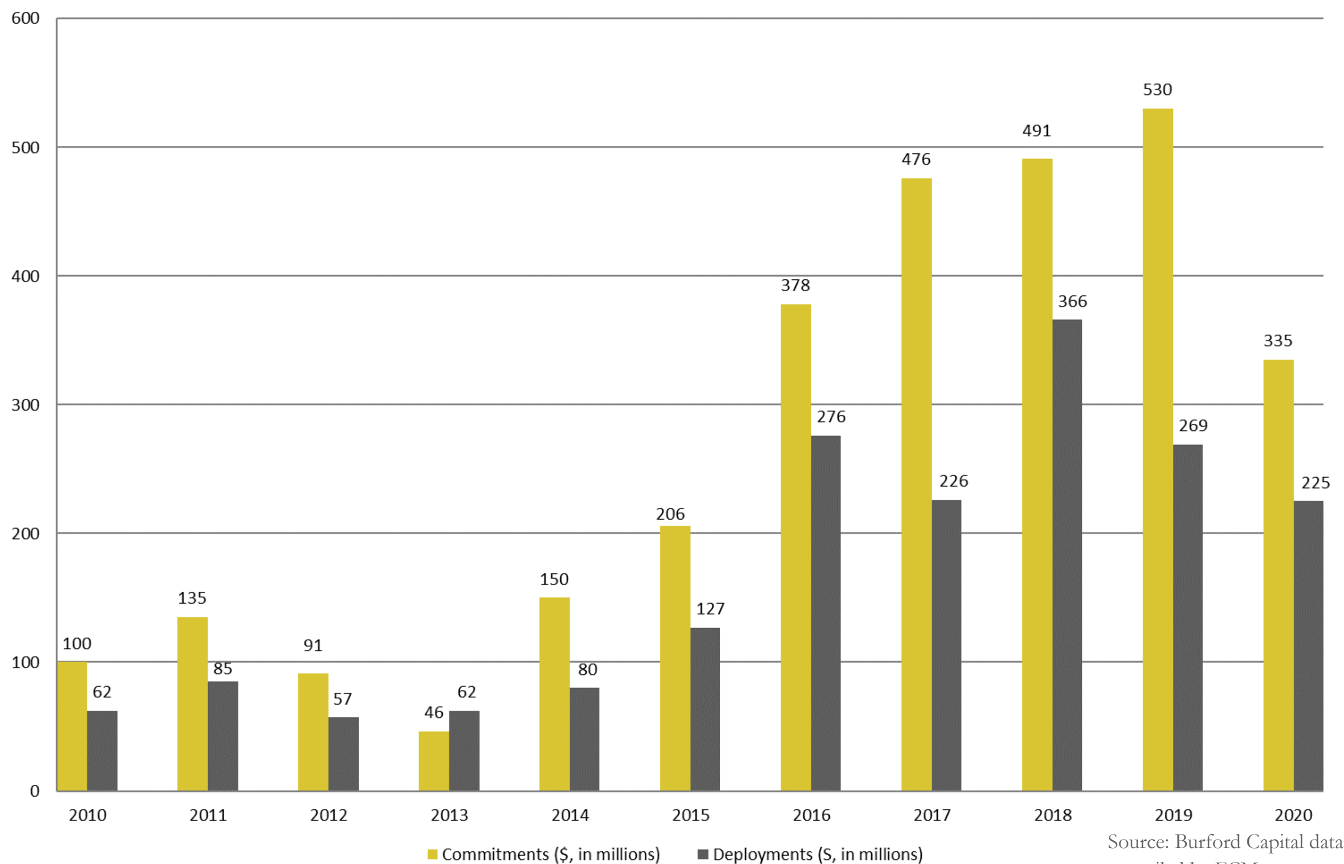
Source: Adapted from Burford Capital presentation

Of course, this is all gross investment returns. It does not take into account the time that Burford's capital is sitting idle before deployment and it does not take into account Burford's own operating expenses, both of which reduce Burford's overall return. Taking all this into account and adjusting for the recent growth of their portfolio (most of which is still years away from resolution), we conservatively calculate Burford's overall ROE (Return On Equity) to be approximately 20%, and we expect this to continue for years to come.

Growth — Past, Present, and Future

Burford launched in 2009 with a modest $130 million IPO. Over the years, they have grown to be the largest provider of litigation finance by far, with billions of dollars devoted to litigation finance, both internally and in investment funds that Burford manages for outside investors. Burford is many times larger than their closest competitors — Harbour Litigation Funding, Therium Capital Management (both of which are privately-held London-based companies), and Omni Bridgeway (a publicly-traded Australian company that is the product of a 2019 merger between two smaller litigation finance companies). This 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.

Burford's balance sheet has grown rapidly to its present size of $1.8 billion in balance sheet assets (deployed capital at cost + cash on balance sheet), plus a further $2.4 billion in third-party assets under management (including capital on call). In recent years, they have been financing on the order of $500 million of new commitments annually from their balance sheet, with another $200-$400 million of new commitments from their third-party funds, investing in one year what other firms do in five. Because litigation assets take on average many years to resolve, this recent step-up of activity is only now beginning to impact their income statement. (In general, revenue and net income are lumpy, but are ultimately attributable to their investment level 3-5 years in the past.)



Source: Burford Capital data compiled by FCM

Burford's growth over the years has been funded in three ways. Firstly, Burford has raised a total of ~$400 million in equity (net of dividends returned to shareholders). Secondly, Burford has raised money in the bond markets totaling ~$1.1 billion, at interest rates between 5% and 6.5%, laddered conservatively to mature between 2022 and 2028. And finally, Burford acquired GKC (Gerchen Keller Capital) in December 2016, providing them with a platform of third-party litigation finance funds under which they presently manage ~$2.4 billion of capital in exchange for management and performance fees.

2020 featured a dip in new investments, as they temporarily paused in the first half of the year due to concerns of counterparty creditworthiness and court delays, and as clients and law firms adapted to the new work-from-home environment. In the second half, business rebounded to pre-pandemic levels, and medium-to-long term, we expect COVID-19 and the accompanying economic shocks to increase litigation and the need for Burford's services. Even during the pandemic, courts were and are open (with the notable exception of jury trials), and ongoing cases proceeded to resolve and produce returns. Indeed, 2020 was a record year for revenue and income for Burford, despite the slowdown in new investments during the first half.

Fund Management — A Hidden Gem

We believe that Burford's fund management business is a hidden gem vastly underappreciated by most investors. Most of their third-party funds feature a European waterfall structure, which means that even as

successful investments conclude and money is returned to third-party investors, Burford doesn't receive their performance fee until the third-party investors first receive their entire principal back. This means that Burford's performance fees are back-loaded to the ends of the funds' lives. Because of this, Burford has only very recently started to receive significant performance fees from their third-party funds, a trickle we expect to soon turn into a flood as more and larger funds begin to wind down.

Because the third-party funds mostly do not appear on the balance sheet, and the majority of income from them has yet to be recognized on the income statement, it is easy to overlook their fund management segment when analyzing the company. However, in our analysis, we believe that their fund segment will soon begin adding 50% to their present level of income. Over time as they grow the funds further, we expect the income from their fund management segment to equal the income from their own balance sheet investments. Fund management income is highly attractive, as Burford itself takes no risk but shares in the success, and it leverages the due diligence and other operating costs they expend for their own balance sheet investments, with relatively minimal additional expenditure.

Looking at Partners I, the first and smallest of their third-party funds, we see these dynamics in action. Partners I was launched in 2013 (by GKC, later purchased by Burford Capital) and raised $46 million in investor commitments, ultimately deploying $31 million in total. As cases successfully concluded over the years, it did not begin returning performance fees to Burford until 2017 and the fund finished winding down all cases by the end of 2020. Ultimately, on $31 million of third-party capital, Burford received ~$9 million of performance fees, in addition to the management fees this fund generated over its lifetime. (Investors in the fund did quite well for themselves as well, making a total return of 171%, with an IRR annualized return of 32%, net of all fees.)

To illustrate how lucrative the economics of third-party funds are for Burford, one need only look at Burford's arrangement with a sovereign wealth fund (SWF) in December 2018. Burford and the SWF joined forces on a $1 billion fund, with two thirds of the capital coming from the SWF and one third provided by Burford. Despite Burford only providing one third of the capital, Burford receives 60% of the profits. This equates to a 40% (!) performance fee on the outside capital, on top of an approximately 1% management fee to cover expenses.

Petersen and Eton Park

No discussion of Burford Capital can ignore the elephant in the room, namely the ongoing cases of Petersen and Eton Park against Argentina and YPF, the national oil company of Argentina. YPF sold shares to investors in 1993 and traded on the NYSE. Due to investor concerns over Argentina's potential conduct, the charter included provisions that if Argentina were to re-nationalize YPF or otherwise take control, that Argentina would need to tender for all shares on a formulaic basis laid out in the charter, as agreed to by YPF and Argentina. Investor fears were ultimately justified when Argentina re-nationalized YPF in 2012, but refused to pay minority investors. Petersen, a pair of Spanish companies whose main asset was a 25% stake in YPF shares, was pushed into bankruptcy. Petersen's trustees sued Argentina and YPF, as did Eton Park, a hedge fund with a 3% stake in YPF.

Burford has funded both cases, having deployed $48 million to date on the two cases combined. Over the years as the Petersen case progressed, Burford has re-sold some of their entitlement with an eye to de-risk their exposure as well as potentially develop a secondary market for litigation assets. To date, Burford has sold

~39% of their Petersen entitlement in multiple arms-length transactions with about 40 institutional investors, for total proceeds of $236 million. These sales, as well as other positive case developments triggered large unrealized fair value gains on the balance sheet to the point where these two cases are now valued at $773 million on Burford's balance sheet, prompting investor concerns.

We agree with investors that given the inherent uncertainty of all litigation and collection, it is unwise to count your chickens before they hatch. Which is why all our analysis of Burford is solely based on realized gains, completely ignoring all fair value adjustments. And that really is the entirety of the matter. Although accounting rules call for Burford to adjust their investments to fair value when significant fair value events occur (pre-trial motion judgements, trial judgements or arbitration awards pending appeal, third-party resales of an investment, etc.), Burford is highly transparent about the process. Burford provides all the information needed to adjust for their fair value gains and calculate their success on a pure cash basis, a process which they themselves have urged and demonstrated in many of their annual reports.

That said, Petersen and Eton Park definitely have the potential to bring Burford massive outsized gains on top of their regular course of business, and it behooves us to speak a moment on valuation. Argentina reached a settlement with Repsol, paying them $5 billion for their 50% stake. A settlement at the same level would equate to $2.8 billion for Petersen and Eton Park combined, of which $1.1 billion would be Burford's remaining entitlement, net of expected legal fees and net of their third-party sales. If one were to follow the formulas prescribed in YPF's charter, depending on precise inputs, the range would be from $5.6 billion to $11.2 billion, or $2.25 billion to $4.5 billion for Burford's remaining entitlement, net of expected legal fees. In addition, the New York statutory pre-judgement interest rate of 9% would more than *double* the amount due Burford. Clearly, Petersen and Eton Park represent a massive potential win for Burford.

Potential Outcomes of YPF Litigation

($, in millions)

	Equivalent to Repsol Settlement		Midpoint of by-laws formula	
Hypothetical value of total Petersen claim	2,500	5,000	7,500	10,000
Burford remaining net entitlement from Petersen	900	1,800	2,700	3,600
Burford net entitlement from Eton Park	200	450	650	900
Total YPF-related net entitelement to Burford	1,100	2,250	3,350	4,500

+ Statutory pre-judgment interest rate (more than doubles above figures)

Source: Burford Capital data compiled by FCM

In our valuation of Burford, we do not account for any value for Petersen and Eton Park. Although we judge Burford and their clients to be more likely to prevail than not, litigation is inherently unpredictable, and we prefer to consider Petersen and Eton Park as a massive cherry on top of an already undervalued business. In truth, whichever way Petersen ultimately resolves, it has already undeniably been a massive success for Burford, because of the secondary market sales. Over the years, Burford has brought in $236 million on the back of $48 million invested. That money is Burford's to keep no matter who ultimately prevails in the

case. If Petersen and Eton Park prevail, Burford stands to gain a *further* massive sum of money, as detailed above. As an investor, I am very happy with Burford's performance here, no matter what occurs in the future.

Valuation

We calculate Burford's valuation from two different directions — asset-based and income-based. Starting with the asset-based approach, Burford has $1 billion of litigation assets on their balance sheet (counting only deployed capital at cost, without any fair value gains). With an average investment age of about three years and assuming an IRR of 20% (below their long-term average return of 30%), that equals a present valuation of $1.75 billion. Add in ~$750 million of cash and the like, subtract ~$1.1 billion of debt, and we reach a net asset value of $1.4 billion in equity.

During the March lows, when Burford shares were available for under $5 a share (USD-equivalent), a market cap of ~$1.1 billion, we were able to purchase Burford for the value of their net assets alone! This gives zero value to their rapid growth and high ROE, and it ignores the entire fund management segment business (which does not appear on the balance sheet, as they are third-party assets). For a brief moment in time, Burford was available for 0.7x net asset value!

In short, we believe we got an incredible deal on Burford in March. Even now, with the most recent close (Friday, April 23) of $11.46, a market cap of ~$2.6 billion or 1.9x net asset value, we continue to believe that Burford is severely undervalued when you take into account their growth and profitability. On top of which, we receive their lucrative fund management segment, which should add about double the value over time.

Burford Capital Income Statement 2010-2020

($, all numbers in thousands)

Source: Burford Capital data, compiled and adjusted by FCM

	2010*	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Investment realizations	$ 16,215	$ 40,001	$ 41,596	$ 37,472	$ 55,925	$ 134,233	$ 176,499	$ 290,939	$ 425,539	$ 462,602	$ 526,302
Cost	$ (11,077)	$ (27,741)	$ (29,840)	$ (26,794)	$ (42,874)	$ (74,145)	$ (121,511)	$ (168,279)	$ (346,731)	$ (246,981)	$ (344,703)
Net realizations	**$ 5,138**	**$ 12,260**	**$ 11,756**	**$ 10,678**	**$ 13,051**	**$ 60,088**	**$ 54,988**	**$ 122,660**	**$ 78,808**	**$ 215,621**	**$ 181,599**
ROIC	**46%**	**44%**	**39%**	**40%**	**30%**	**81%**	**45%**	**73%**	**23%**	**87%**	**53%**
Fair value gains	$ 3,757	$ 4,340	$ 9,517	$ 23,583	$ 18,400	$ 22,828	$ 86,708	$ 182,318	$ 318,519	$ 99,079	$ 137,128
Total revenue from investments	**$ 8,895**	**$ 16,600**	**$ 21,273**	**$ 34,261**	**$ 31,451**	**$ 82,916**	**$ 141,696**	**$ 304,978**	**$ 397,327**	**$ 314,700**	**$ 318,727**
Interest and other income	$ -	$ 1,757	$ 11,184	$ 7,253	$ 16,618	$ 5,520	$ 4,895	$ 1,341	$ 674	$ (4,367)	$ (4,697)
Insurance income	$ -	$ -	$ 16,152	$ 20,910	$ 24,338	$ 12,763	$ 12,923	$ 7,613	$ 10,406	$ 3,545	$ 1,781
Asset recovery fee-for-service	$ -	$ -	$ -	$ -	$ -	$ 1,951	$ 2,445	$ 1,872	$ 1,650	$ 2,133	$ 804
Fund management	$ -	$ -	$ -	$ -	$ -	$ -	$ 647	$ 15,626	$ 15,799	$ 26,130	$ 24,484
Cash management	$ 2,240	$ 8,286	$ 5,628	$ 903	$ 1,093	$ (143)	$ 797	$ 3,754	$ (6)	$ 8,122	$ 11,958
Total revenue	**$ 11,135**	**$ 26,643**	**$ 54,237**	**$ 63,327**	**$ 73,500**	**$ 103,007**	**$ 163,403**	**$ 335,184**	**$ 425,850**	**$ 350,263**	**$ 353,057**
Operating expenses	$ (5,528)	$ (9,077)	$ (20,139)	$ (19,317)	$ (21,323)	$ (25,840)	$ (39,026)	$ (56,107)	$ (67,228)	$ (82,069)	
Operating profit	**$ 5,607**	**$ 17,566**	**$ 34,098**	**$ 44,010**	**$ 52,177**	**$ 77,167**	**$ 124,377**	**$ 279,077**	**$ 358,622**	**$ 268,194**	**$ 353,057**
Firstassist amortization	$ -	$ -	$ (3,158)	$ (3,789)	$ (3,789)	$ (3,789)	$ (3,789)	$ (632)	$ -	$ -	
Finance costs	$ -	$ -	$ -	$ (89)	$ (4,852)	$ (10,490)	$ (14,708)	$ (24,251)	$ (38,538)	$ (39,622)	$ (40,298)
Taxation	$ (357)	$ -	$ (2,556)	$ (2,276)	$ (2,906)	$ (2,204)	$ 4,817	$ 123	$ 12,463	$ (13,417)	$ (36,937)
Net income	**$ 5,250**	**$ 17,566**	**$ 28,385**	**$ 37,856**	**$ 40,630**	**$ 60,684**	**$ 110,697**	**$ 254,318**	**$ 332,547**	**$ 215,155**	**$ 275,822**
Net income without FV gains	**$ 1,493**	**$ 13,226**	**$ 18,868**	**$ 14,273**	**$ 22,230**	**$ 37,856**	**$ 23,989**	**$ 72,000**	**$ 14,028**	**$ 116,076**	**$ 138,694**
FX gains/(losses) on consolidation			$ 127	$ 212	$ 8,519	$ 2,542	$ 34,921	$ (28,206)	$ 24,701	$ (17,525)	$ (10,206)
Number of shares (Adjusted)	204,545,455	204,545,455	204,545,455	204,545,455	204,545,455	204,545,455	204,545,455	211,206,298	214,098,025	222,459,085	224,170,559
EPS (in cents)	2.6	8.6	13.9	18.5	19.9	29.7	54.1	121.8	156.7	99.3	126.0
EPS without FV gains (in cents)	0.7	6.5	9.2	7.0	10.9	18.5	11.7	35.5	7.9	54.8	64.8

For an income-based valuation, we direct your attention to the simplified income statement above, which we've adjusted to standardize the accounting across years and to deduct various non-cash non-

economic expenses. We've also adjusted the accounting to back out all fair value adjustments, as we believe valuation should be more conservatively based on realized gains alone. As can be seen by examining the figures, Burford has averaged over the last few years ~$100 million of net income from their balance sheet assets. We expect an additional $50 million net income from their fund management business in the short-to-medium term. Together, this equates to a P/E of about 17, low for a rapidly growing and highly profitable compounder. At the March lows, Burford was trading for an effective P/E of just 5-7!

We believe that time will show these figures to be conservative as Burford continues to scale both their balance sheet and their fund management business. In addition, investors receive the Petersen and Eton Park cases for free, as a massive cherry on the top. A successful resolution in those cases could easily return an amount greater than their entire present market cap! Although all litigation is uncertain and we caution against buying Burford solely based on the YPF litigation, it is certainly a very attractive bonus.

Risk Factors

This section is longer than usual for us, not because we think Burford is riskier than usual (we don't), but because we believe that there are more misunderstandings surrounding Burford than usual. The accounting is complex, the business model somewhat obscure, and the specific legal cases often shrouded in secrecy. We put in enormous effort to educate ourselves about the industry, the regulatory environment, and Burford's specific accounting and results. We will use this section to address common concerns potential investors have about Burford and to discuss what is and what isn't truly a risk.

Muddy Waters

Muddy Waters is not really a risk factor per se, but is the proximate cause of Burford's present undervaluation and deserves to be addressed head on. Muddy Waters, a well-known and successful research outfit and investment firm specializing in shorting stocks, published a scathing report on Burford in August 2019. In the report, Muddy Waters alleged fraud, accounting inconsistencies, poor investment performance, corporate governance issues, and called Burford "arguably insolvent". The market reaction was swift and harsh, with Burford's stock plummeting over 60% in a matter of days. Although the stock recovered from its absolute low, it has yet to recover to its pre-Muddy Waters highs.

We had analyzed Burford Capital and their interesting business model a while before this, but had decided against investing in Burford due to valuation concerns. (We had originally been introduced to Burford Capital through a presentation by Artem Fokin of Caro-Kann Capital in January 2019, at which point Burford was trading at approximately $22 USD-equivalent.) The steep drop in Burford's share price re-kindled our interest in Burford as a potential investment, predicated, of course, on Muddy Waters' allegations being thoroughly investigated and found to be false. We spent a huge amount of time sifting through and analyzing the back-and-forth between Muddy Waters and Burford, and we are firmly convinced that Muddy Waters' accusations have no substantial merit. We do not have the space here to make a point-by-point rebuttal to Muddy Waters' screed, but we suffice by saying that Muddy Waters' allegations have been proven false, mistaken, or misleading, and some of the allegations appear to not have been made in good faith. We encourage anyone who would like to delve further to read Muddy Waters' reports and Burford's responses to judge for themselves.

From our perspective (not having been prior shareholders of Burford Capital), we believe that we benefitted from Muddy Waters' short attack in two major ways. First and most obviously, their short attack provided a much more attractive entry point into Burford, which we took of advantage of in September 2019 to open a small position (sub-size for the Fund). When COVID-19 precipitated a widespread drop in the market in March 2020, leaving Burford even lower than directly after the Muddy Waters attack, we piled into Burford in a major way, more than quintupling our stake in the company at prices under $5 a share (USD-equivalent).

The second major benefit was increased data. The Muddy Waters short attack pushed Burford to respond by releasing a lot more data and analysis on the specifics of their investments, both immediately in response to the attack and over time in their financial reports. This made it much easier to confidently reach a firm and complete picture of Burford's investments and business.

Additionally, corporate governance (the one area in which Muddy Waters arguably had a point) was improved in response to the Muddy Waters attack. New independent directors have been brought to the Board, the senior management bench was expanded, and Burford initiated and completed a dual-listing on the NYSE, in addition to their previous London AIM listing. We believe all these steps will open up the stock to a broader investment base over time.

Fair Value Adjustments

A common criticism of Burford's accounting surrounds the accounting for their litigation investments, namely the fair value adjustments that appear on the income statement and balance sheet. To this, we respond in four ways. One, accounting standards do call for this treatment and Burford is simply following these standards correctly. Two, Burford has released tons of data showing that they adjust fair values conservatively. As a rule, for most litigation matters, the overwhelming majority of fair value adjustments are in the year before conclusion of the investment and only a fraction of the ultimately realized gain, they adjust fair value downwards more aggressively than they do upwards, and they have almost never had to reverse a fair value gain due to subsequent loss. Three, the vast majority of the fair value adjustments are due to Petersen and Eton Park. Since they sold ~39% of their entitlement in Petersen to sophisticated third parties in arms-length transactions, Burford has adjusted their carrying value to match the sales price, which is basic standard accounting. This carrying value is obviously lower than the third parties expect to ultimately receive. Hardly a company run amok making up valuations from thin air. Fourth, and most importantly, fair value adjustments are and have always been fully transparent, and anyone who wishes can reverse the fair value adjustments for their own analysis. Indeed, all our analysis throughout has been done based solely on realized gains, without counting any fair value adjustments, and we encourage other investors to do so as well. The whole issue of fair value adjustments is at its core a red herring.

Ongoing Cases

Another potential concern investors and analysts raise is concluded vs. ongoing investments. The tremendous investment returns and IRR that Burford has demonstrated in the past is necessarily based on their concluded investments. (Ongoing investments, being ongoing, are presently unknowable as to their future returns.) But many investments, even some from earlier years, are still ongoing. Perhaps ongoing investments will differ greatly from concluded investments and returns will suffer? Can we rely on analysis of

investment returns from past concluded investments to predict the returns from their ongoing and future investments?

The simple answer is that yes, the majority of cases are yet to conclude, simply due to torrid growth. Litigation takes time to work its way to conclusion, be it settlement or trial, and with Burford having massively grown the investments they have committed and deployed in recent years, there is a large number of ongoing cases, as would be expected. We are comfortable with this for two reasons. One, this same concern could have been raised a few years ago and a few years before that. At any point in the past, one could have questioned whether Burford's reported returns from concluded investments were artificially high because of ongoing investments that were not being included. But as the years have gone on and those previously ongoing investments have themselves come to conclusion, we can see that Burford has continued to have high returns of around 30% IRR. Ongoing investments have shown themselves to be cut from the same cloth as concluded investments. We reach the same results when we examine the different vintages by year and follow each vintage as it proceeds from new to partially concluded to mostly concluded to entirely concluded.

Two, in addition to the historical record of previously ongoing investments concluding successfully and older vintages concluding almost entirely, we can also analyze the most recent vintages and compare them to older vintages. Doing so, we see that the recent vintages at this relatively early stage of their lifecycle are performing substantially the same as older vintages at the same point in their lifecycle. In fact, some recent vintages are monetizing even faster.

Petersen

There are two contradictory concerns that are raised in regards to the Petersen litigation. The first concern is that perhaps Burford will ultimately lose the Petersen case and have to write off their $773 million carrying value. Relatedly, even if they win, people raise concerns whether Burford will be able to successfully collect from Argentina, a country with a poor reputation for paying its debts.

To these concerns, we respond in two ways. One, although we do expect it to be more likely than not that Burford will ultimately prevail, we do not need to ascribe any value to Petersen in our valuation of Burford. As we have mentioned before, we value Burford without taking any fair value adjustments into account. If Burford's share price was flying high due to expectations from Petersen, the risk of losing Petersen would indeed be a concern. But with Burford's share price as low as it is now, the market is essentially valuing Petersen and Eton Park as zero. We are able to purchase Burford's business at a discounted value and we receive the Petersen and Eton Park cases for free, which we view as a potentially massive cherry on the top.

Two, even if Burford does not receive another penny from these cases, it has already been a massive success. Burford has invested to date $48 million and has received in cold, hard cash $236 million. No matter what happens going forward, there is no way to paint it other than as a massive success. It is difficult to understand what investors have to complain about.

The second, somewhat contradictory, concern that is raised in regards to the Petersen litigation is that all of Burford's success is really just from Petersen and we should calculate their past investment returns without including Petersen.

To this concern, we also respond in two ways. One, large wins are part and parcel of Burford's business model. One can and should expect many wins, relatively few losses, and a few massive outsized wins. Highly

asymmetric returns are an essential part of what makes Burford's business model so appealing. To arbitrarily count all of Burford's losses but to discount their biggest wins is not a sensible way to analyze their business.

Two, notwithstanding the above point, if we were to back out any and all realized gains Burford has received from Petersen, Burford would still exhibit an overall IRR of 24%. This is lower than their headline figure of 30%, but still very high, belying the contention that their returns are entirely or even substantially due to the Petersen case.

Commoditization

Another common concern raised is that of potential commoditization. With more funds raised to pursue litigation financing, the high returns found in the past will dissipate and future returns will be mediocre. In this view, litigation finance is essentially a commodity, provided by the cheapest bidder.

We believe that this view misunderstands the litigation finance market. Litigation finance is a difficult market to enter and is far from being a simple commodity for a number of reasons. One, it is difficult to simply enter the market and set up shop due to the size of the necessary investments. Litigation is expensive and even financing a single claim can demand a large amount of capital. Portfolio financings can be in excess of $100 million. Due to the binary risk of litigation, it is absolutely essential for a fund to have adequate diversification. Between the large size of claims and the need for extensive diversification, a new fund would need to be very large to be viable. This can be very difficult to launch without a prior successful track record at a smaller scale.

Two, litigation finance requires specialized firms to provide financing. Traditional finance firms have unique difficulty in entering litigation finance. Banks, the obvious choice to be providers of capital, suffer reputational risk from funding litigation. In every litigation there are necessarily two sides, and banks do not want to needlessly antagonize potential future banking clients by funding litigation against them. Hedge funds, which lack these relationship constraints, are generally not structured properly to offer litigation finance. Even if they have the large amounts of capital necessary and are structured to lock up said capital for the multi-year cycle that litigation requires, hedge funds (and private equity firms) typically lack the required legal expertise to judge and value claims. And as in all investing, attempting to outsource the key investment analysis does not work well. Law firms, which, of course, are brimming with legal expertise, are generally both lacking the necessary balance sheet and are unwilling to antagonize potential clients, besides for the inherent difficulty a law firm would face in funding a competitor's cases. Litigation finance requires a unique blend of serious investing expertise, serious legal expertise, and serious capital. For all these reasons, litigation finance tends to attract pure-play specialists, of which there are only a few. It is telling that most of the major players in litigation finance have been founded years ago, in the industry's infancy and early years.

Three, although finance is often purely a commodity, litigation finance has always been more sensitive to reputation and relationships. Financing, although committed up front, is often deployed over the many years of the litigation process, and clients need to be able to trust that their chosen financing firm will be there for the long haul. Due to confidentiality and concerns over waiver, clients seeking financing generally do not shop around for the best deal in a quasi-auction. In addition, there is a lot of unpaid work the client, its law firm, and the financing firm have to undergo in the due diligence phase, and no one involved wishes to do this multiple times. Typically, clients seeking financing approach one or perhaps two firms. These dynamics obviously favor the largest, most established players with diversified portfolios, large amounts of capital, stellar

reputations, economies of scale, and in-house legal teams with the ability to move quickly. In other words, these dynamics favor Burford, which is by far the largest, most experienced provider of litigation finance.

Although we do agree that potential commoditization is an area that investors need to keep an eye on, present metrics show no sign for concern yet. Burford (and others in the field) are still highly selective in choosing cases to fund, with Burford financing about 5% of cases brought to them. Early returns on recent vintages show returns in-line, indeed even better, than historical returns. We believe that this state of affairs will last for a number of years at the very least.

Summary

Burford Capital presents us with a rare situation where a top-quality compounder is selling at a steep discount to intrinsic value. A top-quality compounder is a company which combines significant room to grow with high returns on capital, giving it the ability to grow rapidly and profitably. By investing in such a company at a discount, we benefit not only from the original discount, but from the company's continued growth as it compounds capital at highly attractive rates of return. You will be hard-pressed to find another company in the market that can reinvest its capital at 30% annualized returns, is growing rapidly, and is still undervalued to the degree we find with Burford.

Burford is precisely the sort of situation where deep research and a long-term outlook is really important. We believe that many investors feel it is simply too difficult to understand and too risky to involve themselves in, and they just dump it in the avoid box. We put in immense time and effort to research and fully understand Burford, and we believe that this immense months-long research has paid off with a position that will profit our investors handsomely over the coming years. We are extremely excited about Burford Capital, and although we have already almost doubled our investment in them, we continue to expect great returns from them in the coming years.