TO: Investment Partners
FROM: Emeth Value Capital | emethvaluecapital.com
DATE: 02/06/2022
RE: 2021 H2 Letter

Annualized Net Returns to December 31, 2021 *(unannualized if < 1 year, inception 12/31/2015)*			
	Emeth Value Capital	MSCI ACWI Index	Delta
6 Months	+5.16	+5.63	-0.47
1 Year	+35.91	+18.67	+17.24
3 Years	+40.39	+20.45	+19.94
5 Years	+26.20	+14.58	+11.62
Since Inception	+23.23	+13.53	+9.70

Calendar Year Net Returns to December 31, 2021			
	Emeth Value Capital	MSCI ACWI Index	Delta
2016	+9.41	+8.39	+1.02
2017	+39.89	+24.35	+15.54
2018	-17.29	-9.12	-8.17
2019	+88.21	+26.59	+61.62
2020	+8.18	+16.33	-8.15
2021	+35.91	+18.67	+17.24
Cumulative Since Inception	+250.26	+114.07	+136.19

Foreword

I intend to share the updated results at the outset of each letter. It is worth reiterating that I ascribe little significance to short term results. I look out many years when making investments for the partnership and believe our results are best weighed using a similar time horizon.

A Diversified Bet On Concentration (and Vice Versa)

> *At its best, diversification allows you to enhance the risk-adjusted returns of a pool of good assets. The problem is that diversification also looks like it works to improve the risk characteristics of bad assets, in short runs of data. Over the longer term, we tend to discover that bad assets are more correlated than one might have expected, because they share a common factor – they are all bad. (Paul Marshall)*

In many ways, platform hedge funds and institutional allocators are similar. Aside from the obvious differences in the use of leverage and inclination of the former toward market neutral strategies, both construct diversified portfolios through a decentralized structure of many smaller autonomous sub-groups. For institutional allocators, this takes the form of a few dozen external fund managers that are selected to manage a portion of the aggregate capital pool. For platform hedge funds, the total assets under management of the firm are allocated among dozens, sometimes hundreds, of investment "pods" which each have their own unique strategy. Both models are ultimately seeking to discover and empower the world's most talented investors. Even so, while the resulting portfolios are both highly diversified, often consisting of a thousand or more underlying securities, the track records are remarkably different. According to NACUBO, the average U.S. higher education endowment achieved an annualized net return of 7.5 percent over the last decade, or approximately two percent per annum lower than the MSCI All Country World Index. In contrast, platform hedge funds like Millennium, Citadel, and Marshall Wace have generated net returns that are several hundred basis points in excess of global benchmarks with arguably stricter risk parameters. Moreover, if one considers the top decile performers among U.S. endowments, the disparity in performance remains substantial. One possible explanation of this persistent return delta lies in portfolio construction, or more specifically, how diversification is achieved. In his recent book, *10 ½ Lessons From Experience*, Paul Marshall highlights how the best portfolio construction blends concentration with diversification. While Marshall Wace's funds can have thousands of underlying securities, the contributing fund managers are limited to running highly concentrated portfolios, often with ten or less investments. The result is a portfolio where clients benefit from maximum diversification, but they also receive all the benefits of concentration – namely the maximum conviction of every underlying contributor. On the other hand, consider the typical equity portfolio of an institutional allocator which might consist of twenty or so fund managers with an average of seventy-five positions each. In this case, it is common for fifty percent or more of total capital to be allocated to the underlying fund managers' twenty-sixth-or-worst best ideas. Put simply, how diversification is achieved matters. In another way, our partnership has performed the same trick of marrying the benefits of concentration with diversification, albeit in reverse. Through selective purchases of highly diversified enterprises at a discount, we benefit from maximum exposure to our highest conviction ideas, while also achieving an underlying portfolio with highly diversified economic interests. For example, consider the look-though exposure of a one thousand dollar investment in our partnership. This approximates our ownership of: (i) $428 in net cash and investments consisting of private equity, public equity, credit, real estate, and litigation assets diversified across six continents, (ii) $18 of annual profits earned through GP interests in the investment firms that oversee the above-mentioned investments, (iii) $25 of annual profits produced from oil and gas mineral rights owned across forty-one states, (iv) $20 of annual profits generated from natural gas wells producing across nine states, (v) $10 of annual profits earned from food retail sales, (vi) $5 of annual profits earned from quick service restaurant sales and franchise royalties, (vii) $5 in annual profits generated from online travel bookings, (viii) $3 of annual profits earned from appliances and electronics retail sales, (ix) $2 of annual profits earned from sporting goods retail sales, and (x) $35 of annual recurring revenue generated from an early stage enterprise software company. Below I highlight one of our portfolio companies that exemplifies one such concentrated bet on diversification, Burford Capital.

Burford Capital Limited

Overview

Burford Capital is the world's largest funder of litigation assets. The group has an unmatched team of internal lawyers and more than a decade long track record of partnering with ninety-two of the largest one hundred law firms globally. Burford was co-founded in 2009 by Chris Bogart and Jon Molot, who collectively own more than eight percent of the outstanding share capital. Since inception, Burford has deployed more than $3 billion in legal claims and has achieved a thirty percent IRR on realized investments.

A Brief History of Legal Finance

Historically, the development of litigation funding has been restricted by hostile legal policy informed by the ancient common law doctrines of maintenance and champerty. Maintenance is the practice of helping another to maintain a suit, generally by providing financial assistance, while the related concept of champerty is the practice of maintaining a suit in return for a financial interest in its outcome. While these doctrines have been completely abolished in many jurisdictions, and are of decreasing relevance in those where they still exist, a historical perspective may prove informative. The rules prohibiting maintenance and champerty were first introduced in medieval England. At the time, corrupt nobles would acquire doubtful or fraudulent legal claims with the intent of exercising their status to secure unmerited judgments, often weaponizing the legal system as a tool for oppression. Since the powers of the courts were then too weak to control such abuses, a blanket prohibition on all third party involvement in litigation was appropriate. However, the necessity of these protections passed with time. The criminal and tortious liability for maintenance and champerty were formally abolished in the United Kingdom in 1967, but an exception that preserved the right to strike down any arrangement that was deemed afoul of public policy led to decades of ambiguity for would-be litigation funders. In effect, any litigation funding contract was subject to the risk of being held unenforceable. Nearly thirty years would pass before the insolvency sector became the first widespread adopter of litigation finance in the 1990s, as new legislation explicitly permitted its use. The rationale for allowing litigation funding within insolvency proceedings is rather straightforward. Meritorious legal claims are often the only remaining asset in a bankruptcy which themselves become worthless without external capital available to pursue litigation. Around the same time, the United Kingdom established its initial framework for permitting success based fee arrangements. Of note, while the United States has long permitted the use of contingency fees to compensate lawyers, its use was considered champertous in the United Kingdom until the 1990s and remains so in many other jurisdictions like Australia, Hong Kong, and Singapore. Soon, questions arose as to whether lawyers were the only actors permitted to provide such contingent funding for legal expenses, and early litigation funders began testing the waters beyond the realm of the insolvency sector. By the mid-2000s, caselaw had broadly established that litigation funding was not fundamentally in conflict with public policy, and instead limitations on how financing was provided came into focus.

The Basics of Litigation Finance

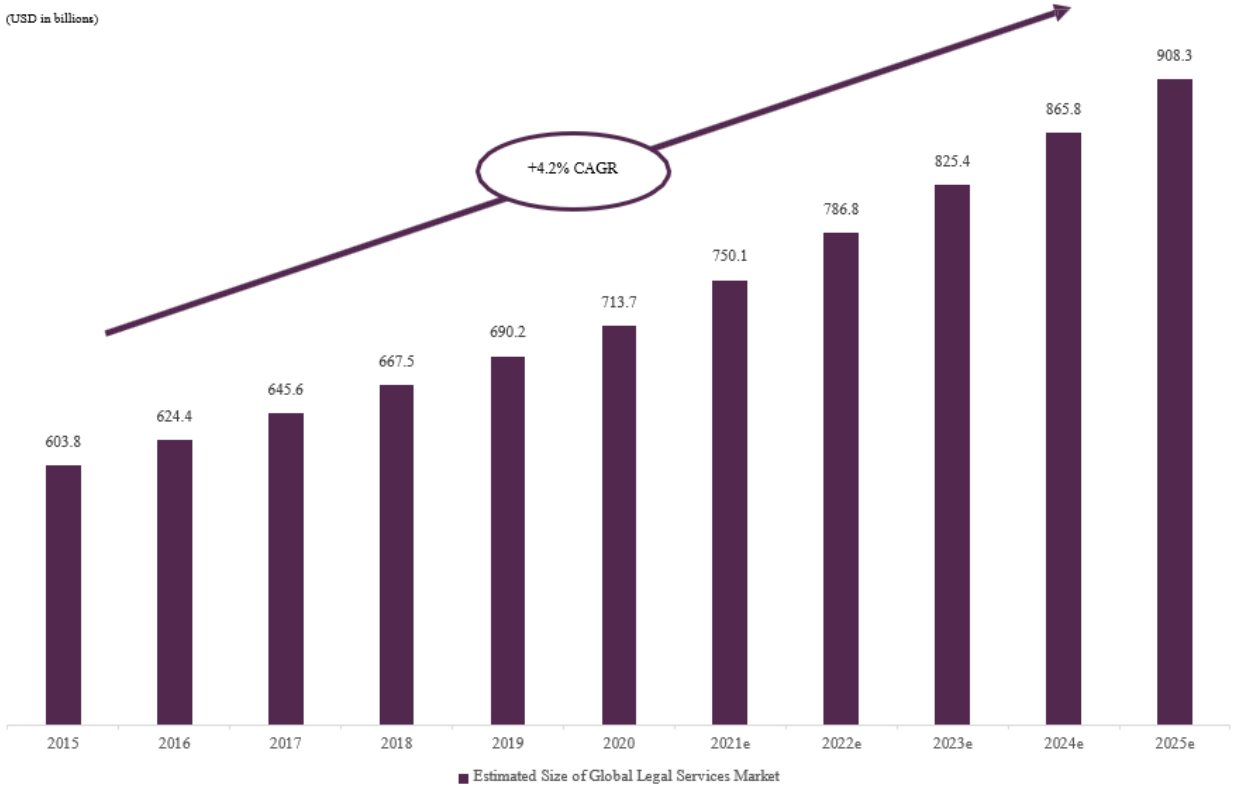
Litigation finance involves a third party investing in the asset value of commercial litigation or arbitration. While transaction structures are often bespoke, in its most common form litigation funding is provided to

cover the expenses of pursuing a claim in exchange for a share of the ultimate damages. The signature feature of this form of capital is that repayment of the financing is contingent upon a successful outcome of the underlying legal claim. This allows law firms that do not customarily take clients on contingency to offer flexible terms and allows contingent fee firms to leverage legal finance as a tool for risk management. For example, law firms often encounter clients that have a claim with strong legal merits but are opposed to a traditional bill by the hour fee arrangement. While some law firms would have the option to take this client on risk, the legal industry on the whole is ill suited for this. Recall that law firms are generally structured as partnerships where the most senior lawyers are entitled to a draw on the group's annual cash profits. Accordingly, cases taken on risk that necessarily reduce the immediate cash profits of the business also reduce the take home pay of the most senior partners. By engaging a litigation funder, a law firm can be paid its hourly rate by a funder who in turn assumes the case on risk, in essence producing a synthetic contingency. Notably, this both generates incremental new business for the law firm and allows the client to work with the firm of their choosing. Litigation finance offerings initially focused on single claim pre-litigation but have since evolved dramatically in scope. Today, Burford invests at every stage of the legal process, including asset recovery, and commits to both single claims as well as portfolios of claims that are cross-collateralized. In addition, while proceeds are still primarily used to fund the ongoing expenses of litigation, they are increasingly used to support other general business purposes, such as organic or inorganic growth. Finally, while law firms are still the primary channel for new business, several litigation funders have successfully progressed to working directly with corporate clients.

The Market for Litigation Funding

Although it is difficult to precisely measure the addressable market for litigation finance, we can show that any reasonable estimate of the legal services industry points towards an offering that is enormously underpenetrated. For instance, consider that different market research firms put annual global legal fee revenue in a range of $580 billion to more than $800 billion. While not all fees captured would be relevant, the low end of the range indicates a market size that is almost two hundred times larger than Burford's lifetime capital deployments. Moreover, aggregate global legal fees have shown a steady mid-single digit growth rate over the last several decades and are expected to continue increasing. In other words, a five percent growth rate would suggest $29 billion to $40 billion in incremental legal fees for a single year, or several times larger than the entire litigation finance industry. A second method of estimating the addressable market for litigation funding would be to examine the plausible asset value of all claims, settlements, judgments, and awards. Ultimately, legal fees are a being spent to create legal assets; measuring the former would be akin to evaluating the costs of an industry and not its revenue potential. Again, due to the private nature of litigation and arbitration, it is difficult to assess the quantum of legal assets with precision, but several data points exhibit the industry's immense scale. For example, according to the Global Arbitration Review, the total value of pending arbitration cases at the top thirty law firms is over two trillion dollars. Indeed, the International Chamber of Commerce, one of many international arbitration tribunals, cites an aggregate value of pending disputes of $258 billion. With respect to litigation, consider that The US Chamber of Commerce estimates that the annual tort system costs in the US exceeds two percent of GDP annually, or nearly half a trillion dollars. Not only does this figure omit all areas of litigation outside the tort

system, but it is solely domestic. Next, while it is an imperfect comparison, consider that Westfleet Advisors identifies a total of forty-six active commercial litigation funders in the United States - a figure which is likely not far from the global total. This compares to more than eight thousand private equity firms and nine thousand hedge funds globally. Finally, the early stage of the litigation funding market is evidenced in Burford's own investment process where less than five percent of funding inquiries convert to closed transactions.



Pricing & Structuring Legal Risk

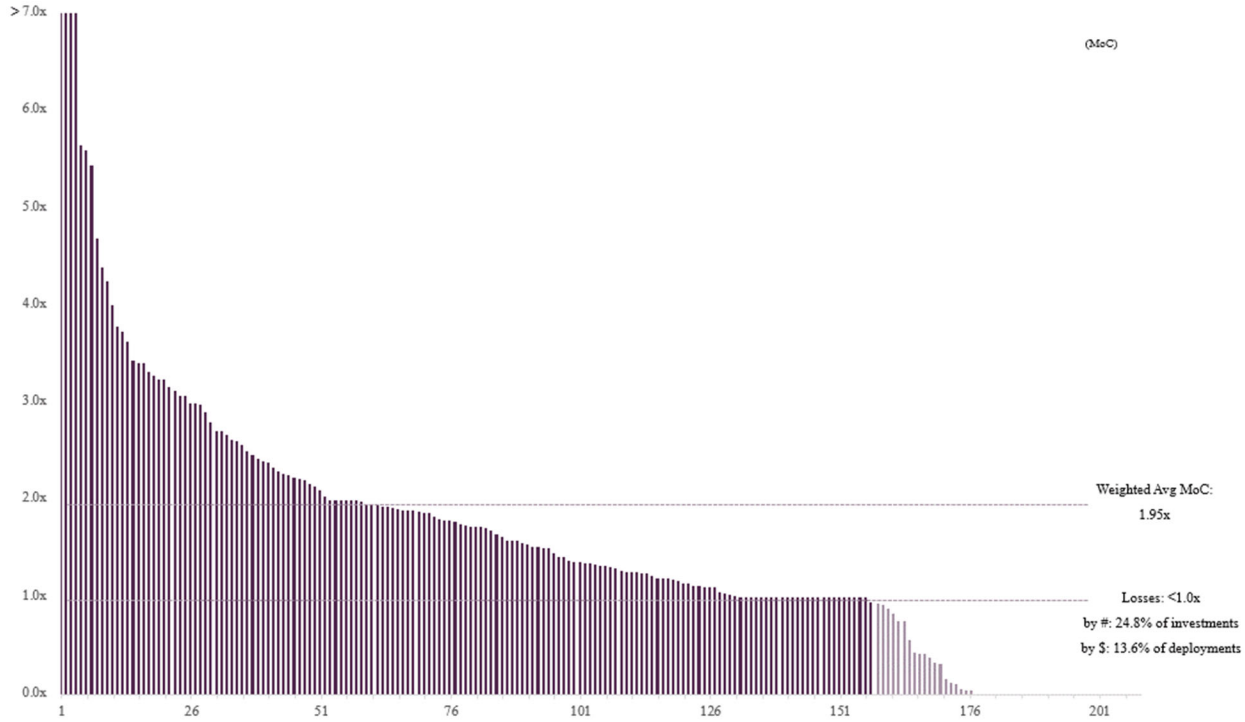
Burford is among the most sophisticated investors in litigation finance and as such makes use of a wide range of economic structures that are highly negotiated and client-specific. Any given transaction can contain several elements, including a preferred return of funded capital, a time-based return using an interest rate or multiple component, and a percentage of ultimate damages. For instance, in a single case funding transaction, the highest risk and thus most expensive structure, Burford might structure an investment so that upon conclusion of a successful claim they would receive back their initial investment plus two times cost plus twenty percent of net proceeds. Alternatively, the return could be structured such that Burford receives back their initial investment plus forty percent of net proceeds. Another alternate structure would be an entitlement that is based solely on the funded amount and not a percentage of the proceeds. For example, Burford may structure a return such that they earn two times their initial investment if the claim is resolved successfully in less than a year, three times their initial investment if the claim is resolved successfully in less than two years, and four times their initial investment if a claim is resolved successfully in two years or more. Clients may prefer such a fixed return structure if the expected recovery is especially large. With respect to pricing, Burford assumes an extraordinary degree of risk by making non-recourse (i.e., binary)

capital commitments and the cost of capital is commensurate. As can be noted in many of the above examples, required returns are often considered in terms of multiples on capital, not a simple percentage return customary in lower risk equity investments. For that reason, it is common for clients to construct a portfolio of cross-collateralized cases to reduce the cost of financing. This allows a law firm or corporate to somewhat reduce the investment risk by including several claims, often of different strengths and at various stages in the legal process, and allows Burford to offer more compelling terms. Over the last three years, sixty-five percent of Burford's capital commitments have been through portfolio deal structures. Finally, an assumption for all transaction structures is that the claimant should receive the bulk of the damages in the event of a successful resolution. This has important implications for underwriting as potential investments, irrespective of legal merits, must meet a threshold damages ratio. For example, a case that is expected to produce thirty million in damages and has a projected legal budget of ten million does not have sufficient damages to both meet Burford's cost of capital and return the bulk of the proceeds to the claimant. In general, Burford seeks a credible damages threshold that is approximately ten times larger than the projected legal budget of a case.

Burford By The Numbers

Burford provides an extraordinary level of transparency on its portfolio by way of an updated investment table, which offers line item level data on both existing and previous investments since inception. Of course, in order to protect privileged client material and sensitive work product, the specifics of the legal claims themselves are kept anonymous. However, this robust data set allows us to draw several conclusions about Burford's underwriting quality and the nature of a typical litigation finance investment. Since 2009, Burford has made 339 litigation finance investments that showcase a variety of deal structures, are broadly diversified by claim type, industry, and geography, and are supported by several thousand underlying legal claims. At a high level, more than two hundred of these investments have been fully or partially concluded, which generated a multiple on capital of 1.95x with an average investment duration of 2.3 years. At a more granular level, the portfolio win-loss metrics offer valuable insight. There are two primary methods of measuring win-loss ratio: by discrete investment and by dollar deployments. The data shows that measured by discrete investment, more than seventy-five percent of Burford's investments either return capital or produce a positive return, while the same is true for more than eighty-five percent of investments measured by dollar deployments. In addition, the same metrics can be calculated for investments that are fully concluded only. Because partially concluded investments heavily skew towards portfolio deal structures where only a fraction of the underlying claims have been resolved, some may argue that it is improper to include these data points. When considering fully concluded investments, sixty-eight percent of investments either return capital or produce a positive return when measured by discrete investment, and the same is true for eighty-four percent when measured by dollar deployments. Next, it is useful to view the outcomes of Burford's portfolio in the context of the legal process. At the outset of any given case there are broadly three possible outcomes: (i) a settlement, (ii) an adjudication loss, or (iii) an adjudication win. While every legal proceeding is unique, the following lifecycle of litigation is broadly applicable. Once a case is initiated, pre-trial activity begins. This includes procedures such as discovery and pre-trial motions. As the case develops through this phase, often one side or the other will determine that its position is not as strong as previously

thought, which can lead to settlement discussions. If a settlement is not reached, the case moves to trial, at which time settlement discussion may or may not still be ongoing. Ultimately, a judgement is delivered that can then set into motion an appeal process (during which time settlements can also occur) before the judgment becomes final. With this backdrop in mind, sixty percent of Burford's deployments have resulted in a settlement, which have produced a multiple on capital of 1.46x with an average investment duration of 1.6 years. Of the remaining forty percent of deployments that went to trial, three fourths resulted in an adjudication win that generated a multiple on capital of 3.48x with an average investment duration of 2.8 years. Finally, ten percent of deployments resulted in an adjudication loss and a near total loss of capital.



Third Party Asset Management

In addition to investing its own capital, Burford is the largest asset manager in the litigation finance industry with $2.6 billion in client AUM across seven funds. Allocators such as pension funds, endowments, and sovereign wealth funds invest in a broad spectrum of asset classes, and litigation finance offers an exposure that increases diversification and provides an attractive return profile. Of equal significance, an investment with Burford provides access to the most respected team in legal finance and the industry's undisputed leading brand. Burford has four core litigation finance funds, two funds dedicated to post-settlement investments, and one fund dedicated to legal-related assets, such as appraisal rights. In general, Burford invests its own capital alongside the core litigation finance funds, whereas the lower risk strategies, like post-settlement, are predominantly third party capital. Limited partners are charged a one to two percent management fee and a ten to twenty percent performance fee with one notable exception. The Burford Opportunity Fund C (BOF-C) is structured as a $1 billion joint venture with a single sovereign wealth fund client, in which Burford contributes one third of the capital and is entitled to sixty percent of the aggregate profits. In other words, $667 million of AUM carries an effective forty percent performance fee. This fund

vehicle is still in the investment period and is expected to be fully committed in 2022. In addition, a common feature across the current funds, excluding BOF-C, is the use of a European waterfall structure. Under this structure, the investment manager does not begin collecting performance fees until limited partners have had their entire capital investment repaid. For instance, suppose a hypothetical fund makes five $10 million investments that are realized one per year over the next five years, and each result in a doubling of capital. Under a European waterfall structure, this fund would generate eighty percent of its performance fees in years four and five, even while producing consistent positive performance throughout the life of the fund. For this reason, Burford has received negligible performance fees from its existing capital base, which is set to change materially in the coming years. Finally, it is worth highlighting that the role of third party asset management is necessarily somewhat different for Burford as compared to other alternative investment firms. A private equity firm can scale from managing $500 million to $5 billion with few additional resources simply by writing larger check sizes. The same is not true in litigation finance. Increasing deployments generally means underwriting a larger volume of litigation matters, which is time intensive and requires an expensive team of internal lawyers. Today, Burford's average commitment size is approximately $20 million, which has more than doubled over the last five years with the increased use of portfolio deal structures and monetizations that provide upfront capital in excess of budgeted legal fees. However, the opportunity to continue increasing commitment size is finite. Therefore, when raising third party funds Burford must weigh the economics it receives from limited partners against leveraging its platform capacity with other sources of capital, such as debt financing.

BURFORD CAPITAL
Fund Data - 6.31.21

Fund	Fund Size	Realized Commitment ($)	Realized Deployment ($)	Realized Recovery ($)	MoC	Outstanding Commitment ($)	Outstanding Deployment ($)	*Performance Fees ($m)* Bear	Base	Bull
Partners Fund I	46.0	42.2	30.9	86.6	2.8x					
Partners Fund II	260.0	173.3	127.5	162.2	1.3x	79.7	53.5	18.4	25.7	31.5
Partners Fund III	412.0	139.2	112.4	229.7	2.0x	305.0	185.2	42.0	62.5	77.1
Burford Opportunities Fund	300.0	52.9	51.5	135.0	2.6x	330.3	180.7	34.8	59.0	74.8
Burford Soverign Wealth	665.0	18.7	18.3	33.3	1.8x	504.9	211.9	105.8	165.6	240.1
Burford Balance Sheet	-	1011.7	892.0	1735.6	1.9x	2158.3	1096.0			
Total	-	1438.0	1232.6	2382.4	1.9x	3378.2	2789.6	200.9	312.8	423.5

YPF Claims

Burford has a substantial investment in two claims relating to the renationalization of YPF, Argentina's largest integrated oil and gas company. In 1993, Argentina decided to privatize YPF, a then state-owned entity, through an initial public offering that included Class D shares and related ADRs registered with the SEC and listed on the New York Stock Exchange. In order to assure investors, Argentina and YPF promised that any subsequent acquisition of a controlling stake in the company, explicitly including any reacquisition of control by Argentina itself, would be conditioned on the acquirer making a tender offer for all Class D shares at a predetermined price. Those promises were made in YPF's bylaws, which constitute a binding contract enforceable against Argentina and YPF. However, in 2012 Argentina expropriated a controlling fifty-one percent stake in the company from then owner Repsol and wholly disregarded the tender offer

requirement. Burford has since invested $45 million in claims brought by Petersen Energia, a holding company formed by the Eskenazi family, and Eton Park, a major US hedge fund, who were previously the second and third largest shareholders of YPF, respectively. Today, Burford has sold one third of its aggregate entitlement for $236 million in cash proceeds and holds the remaining investments on its balance sheet at $775 million. The formula for calculating the price that Argentina should have paid for shares of YPF relies on objective inputs (corporate earnings, historical trading prices, etc.), and the midpoint indicates a net remaining entitlement to Burford of $3.35 billion. In other words, Burford holds the YPF claims on its balance sheet with an embedded twenty-four percent probability of success. Although these claims have been slow to progress through the legal system, important victories have been won to date, including establishing New York as the proper jurisdiction, a critical risk factor at the outset of the dispute. Fact discovery formally concluded in August 2021, and the claims are now expected to go to trial by mid-2022.

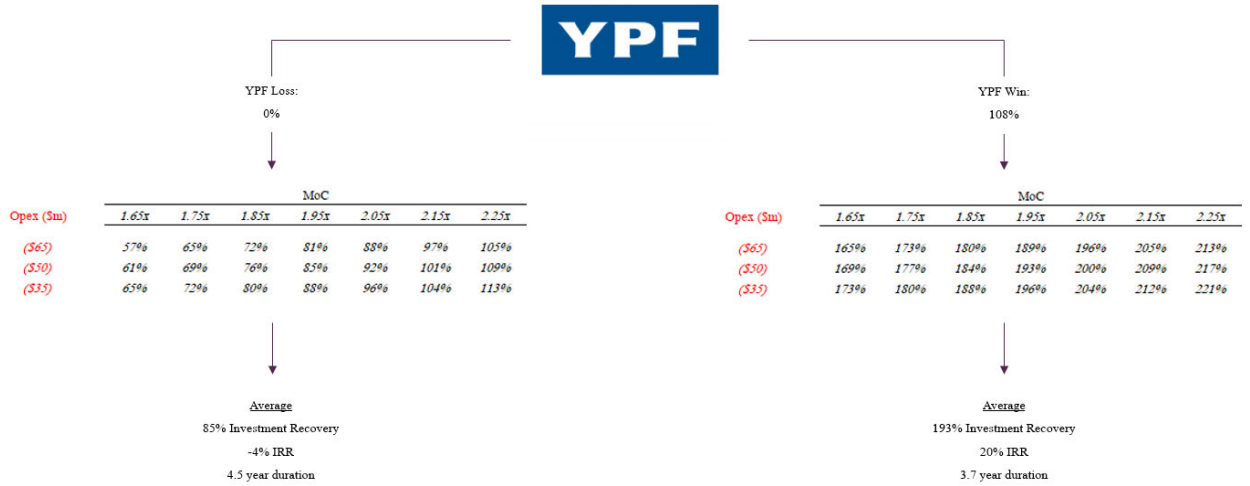
An Overview of Burford's Fair Value Reporting

On August 7th, 2019, a short attack on Burford was released by Muddy Waters. Among other things, the report criticized Burford's use of fair value accounting, invoking the idea that its application in litigation finance was in some way inherently nefarious. Aside from the fact that Burford has always provided cash-based investment reporting alongside its IFRS results, an assessment of Burford's history of fair value marks provides sharply differing evidence. Burford's valuation policy looks to objective events in the underlying litigation to serve as catalysts for changes in fair value. Most litigation matters (approximately two thirds) conclude without ever having an intermediate objective event sufficient to warrant a valuation change. However, of resolved claims that had an unrealized gain component, only twenty two percent of the ultimate gains were reported before final conclusion, with the vast majority of write ups occurring in the last year before resolution. With respect to losses, fifty-eight percent of ultimate realized losses in resolved claims were reported as unrealized losses before final conclusion. Finally, since inception almost two times as many fair value write downs have been reversed as fair value write ups. Burford has invested substantial resources in its probabilistic modeling capability and has among the world's largest proprietary legal datasets. The group has extensively modeled and tracked several hundred legal outcomes, which provides the foundation for conservative and accurate prediction of actual recoveries.

Valuation

As of mid-2021, Burford had $1.05 billion of capital at cost invested across 167 legal assets (excl. YPF) in addition to $1.02 billion of unfunded commitments. Assuming eighty-five percent of commitments are ultimately deployed, this would result in an estimated $1.92 billion of deployed cost within the existing portfolio. Let's assume that Burford wanted to run this book of investments into liquidation. It could do so at a fraction of the current operating cost, given that litigation funders are by nature passive owners and because all investments have been previously originated and structured. It would be akin to a private equity fund-of-funds liquidating its business; the primary operating activity of the company, sourcing new investments, would cease and distributions would be managed to fund remaining capital calls before all balances are ultimately returned. Since becoming a publicly traded company, Burford's annual operating costs have ranged from $9 million to $91 million. For the sake of conservativism, let's assume that Burford would require $50 million per year over a seven year liquidation period. We can then estimate a range of

recoveries based on future portfolio performance. Note that Burford's own internal modeling, which has been accurate within ten percentage points of actual recoveries historically, currently projects an aggregate multiple on capital of 2.4x for the existing portfolio of claims (excl. YPF). Nevertheless, if we use Burford's historical investment multiple of 1.95x as a midpoint, we arrive at an average expected recovery of eighty-five percent based on the year end share price of $10.56. In other words, an investor can expect to recoup the large majority of their investment, even if zero value is ascribed to the ongoing operations of the company. Furthermore, an investor would have a second layer of recovery in liquidation driven by the YPF claims, which if successful are likely to return more than Burford's entire market capitalization. All else being equal, a successful resolution to the YPF claims would result in an average 1.93x return and twenty percent IRR in liquidation. If we believe the YPF claims have a fifty percent probability of success, analogous to a coin toss, then we would expect to recover our full investment in sixty-two percent of modeled scenarios with no greater than a twenty percent loss in eighty percent of modeled scenarios.



While the thought exercise above is helpful to form a concrete assessment of impairment risk, Burford today has a thriving operating business. Litigation finance is a rapidly growing industry characterized by large and uncorrelated returns, and Burford is the largest and most respected competitor. The group has grown its book value per share at twenty-five percent per annum over the last four years and has a clear roadmap for long-term sustainable growth. Specifically, Burford continues to deepen its penetration at existing client firms, innovate on product offerings that expand the addressable market opportunity, and capitalize on early stage markets where the adoption of legal finance is inflecting. Moreover, barriers to entry are high in legal finance. Burford has built deep relationships with the world's most prestigious law firms over the last twelve years and is entrusted with highly sensitive client material and work product. For this reason, there are often only a handful of litigation funders involved in a given due diligence process, and many times Burford is the only call. Finally, in the same way that talented investors can drive relative outperformance in asset classes such as private equity and public equity, so too can investors in legal finance. Burford's prominent founders, early success, and scale has enabled the company to build a team of A+ players over the last twelve years that is paired with an energizing and highly collaborative culture. To borrow a phrase from Jeffrey Ubben of ValueAct Capital, Burford has built a "competitively advantaged human-capital franchise." This franchise is worth far more than liquidation value.

BASE CASE					
	FOR THE YEAR ENDED				
	Year +1	Year +2	Year +3	Year +4	Year +5
	$ '000	$ '000	$ '000	$ '000	$ '000
Beg. Unfunded Commitments	1,062,000	1,264,000	1,498,000	1,673,500	1,860,125
deployment %	*25%*	*25%*	*25%*	*25%*	*25%*
Originations	850,000	1,000,000	1,000,000	1,100,000	1,100,000
deployment %	*45%*	*45%*	*45%*	*45%*	*45%*
Beg. Deployed Cost	1,096,000	1,382,320	1,692,155	1,958,244	2,225,399
realized %	*33%*	*33%*	*33%*	*33%*	*33%*
Realized Cost	(361,680)	(456,166)	(558,411)	(646,221)	(734,382)
Deployments	648,000	766,000	824,500	913,375	960,031
End Deployed Cost	1,382,320	1,692,155	1,958,244	2,225,399	2,451,049
Normalized Gains	266,766	336,456	411,869	476,635	541,660
ROIC %	*20%*	*20%*	*20%*	*20%*	*20%*
Management Fees	12,000	12,000	12,000	12,000	12,000
Normalized Performance Fees	50,000	50,000	50,000	50,000	50,000
Revenues	328,766	398,456	473,869	538,635	603,660
Operating Expenses	(90,000)	(106,200)	(125,316)	(147,873)	(174,490)
Interest Expense	(52,652)	(52,469)	(62,803)	(66,917)	(69,758)
Operating Cash Profit	186,114	239,787	285,750	323,845	359,412
Tax expense	(31,639)	(40,764)	(48,578)	(55,054)	(61,100)
After-Tax Earnings	154,474	199,023	237,173	268,792	298,312
Beg Gross Debt	*(1,025,000)*	*(1,049,246)*	*(1,241,957)*	*(1,332,298)*	*(1,395,980)*
Beg. Gross Cash	*550,000*	*442,400*	*524,300*	*585,725*	*651,044*
Est. Cash Recipts	*628,446*	*792,621*	*970,280*	*1,122,856*	*1,276,042*
MoC	*1.74x*	*1.74x*	*1.74x*	*1.74x*	*1.74x*
Est. Cash Outflows	*(760,291)*	*(903,433)*	*(999,196)*	*(1,121,219)*	*(1,203,379)*
Required Cash Balance	*442,400*	*524,300*	*585,725*	*651,044*	*700,033*
% Unfunded	*35%*	*35%*	*35%*	*35%*	*35%*
End Gross Debt	*(1,049,246)*	*(1,241,957)*	*(1,332,298)*	*(1,395,980)*	*(1,372,306)*
cost %	*6%*	*6%*	*6%*	*6%*	*6%*

Valuation	
Terminal Multiple	18.0x
Discount Rate	8%
NPV Terminal Value	3,654,473
YPF Claims	
NPV/Share	16.68
Upside to IV	*57.9%*

The base case scenario modeled above factors in a compression of future returns from thirty percent to twenty percent, a lengthening of average case duration from 2.3 years to three years, a modest level of management and performance fees, and it ascribes zero value to the YPF claims. In addition, the base case scenario assumes only a modest level of growth in new investment originations and an eighteen percent annual growth rate in operating expenses driven by both an increase in headcount and employee carry. Finally, a terminal multiple of 18x is applied (less than a market multiple) even though Burford would expect to exit the forecast period growing at double digit rates. The analysis indicates a share price of $16.68, or 57.9 percent upside to intrinsic value. We can repeat the exercise and assess for a more optimistic outcome. Recall that the midpoint of the YPF bylaws formula range suggests a net entitlement to Burford of $3.35 billion with a potential net entitlement as high as $5.6 billion. The bull case assumes the YPF claims result in an after tax net entitlement of $2.5 billion and that investment returns persist near levels achieved historically. In addition, a moderately higher level of performance fees and originations are expected, as well as a twenty-five percent annual growth rate in operating expenses. Lastly, a terminal multiple of 20x is applied, as Burford would expect to exit the forecast period growing in the high teens. The result is a share price of $41.56, or 293.6 percent upside to intrinsic value.

BULL CASE					
	FOR THE YEAR ENDED				
	Year +1	Year +2	Year +3	Year +4	Year +5
	$ '000	$ '000	$ '000	$ '000	$ '000
Beg. Unfunded Commitments	1,062,000	1,264,000	1,498,000	1,783,500	2,107,625
deployment %	*25%*	*25%*	*25%*	*25%*	*25%*
Originations	850,000	1,000,000	1,200,000	1,400,000	1,400,000
deployment %	*45%*	*45%*	*45%*	*45%*	*45%*
Beg. Deployed Cost	1,096,000	1,382,320	1,692,155	2,048,244	2,448,199
realized %	*33%*	*33%*	*33%*	*33%*	*33%*
Realized Cost	(361,680)	(456,166)	(558,411)	(675,921)	(807,906)
Deployments	648,000	766,000	914,500	1,075,875	1,156,906
End Deployed Cost	1,382,320	1,692,155	2,048,244	2,448,199	2,797,200
Normalized Gains	349,519	440,828	539,635	653,194	780,741
ROIC %	*25%*	*25%*	*25%*	*25%*	*25%*
Management Fees	12,000	12,000	12,000	12,000	12,000
Normalized Performance Fees	70,000	70,000	70,000	70,000	70,000
Revenues	431,519	522,828	621,635	735,194	862,741
Operating Expenses	(90,000)	(112,500)	(140,625)	(175,781)	(219,727)
Interest Expense	(52,652)	(47,352)	(50,781)	(54,447)	(58,402)
Operating Cash Profit	288,867	362,976	430,230	504,965	584,612
Tax expense	(49,107)	(61,706)	(73,139)	(85,844)	(99,384)
After-Tax Earnings	239,760	301,270	357,090	419,121	485,228
Beg Gross Debt	*(1,025,000)*	*(963,960)*	*(1,054,424)*	*(1,153,348)*	*(1,247,625)*
Beg. Gross Cash	*550,000*	*442,400*	*524,300*	*624,225*	*737,669*
Est. Cash Recipts	*711,199*	*896,994*	*1,098,047*	*1,329,114*	*1,588,647*
MoC	*1.97x*	*1.97x*	*1.97x*	*1.97x*	*1.97x*
Est. Cash Outflows	*(757,759)*	*(905,558)*	*(1,097,045)*	*(1,309,948)*	*(1,452,419)*
Required Cash Balance	*442,400*	*524,300*	*624,225*	*737,669*	*822,752*
% Unfunded	*35%*	*35%*	*35%*	*35%*	*35%*
End Gross Debt	*(963,960)*	*(1,054,424)*	*(1,153,348)*	*(1,247,625)*	*(1,196,480)*
cost %	*6%*	*6%*	*6%*	*6%*	*6%*

Valuation	
Terminal Multiple	20.0x
Discount Rate	8%
NPV Terminal Value	6,604,761
YPF Claims	2,500,000
NPV/Share	41.56
Upside to IV	*293.6%*

Finally, one might argue that even the evaluation above is conservative. With a historical rate of return in excess of twenty-five percent per annum, a dollar in Burford's hands is worth far more than face value. Consider that the net present value of a dollar compounded at twenty-five percent per annum for a decade with an eight percent discount rate is more than four dollars. Likewise, upon being invested the $2.5 billion in YPF proceeds would be expected to have an annual pre-tax earnings power of $625 million before overhead costs. Therefore, if the YPF claims resolve successfully and Burford can fully deploy the proceeds, then the earnings power of the business will almost double. The result is a share price in excess of seventy dollars, or more than 550 percent upside to intrinsic value.

Risks – Customers or Competitors?

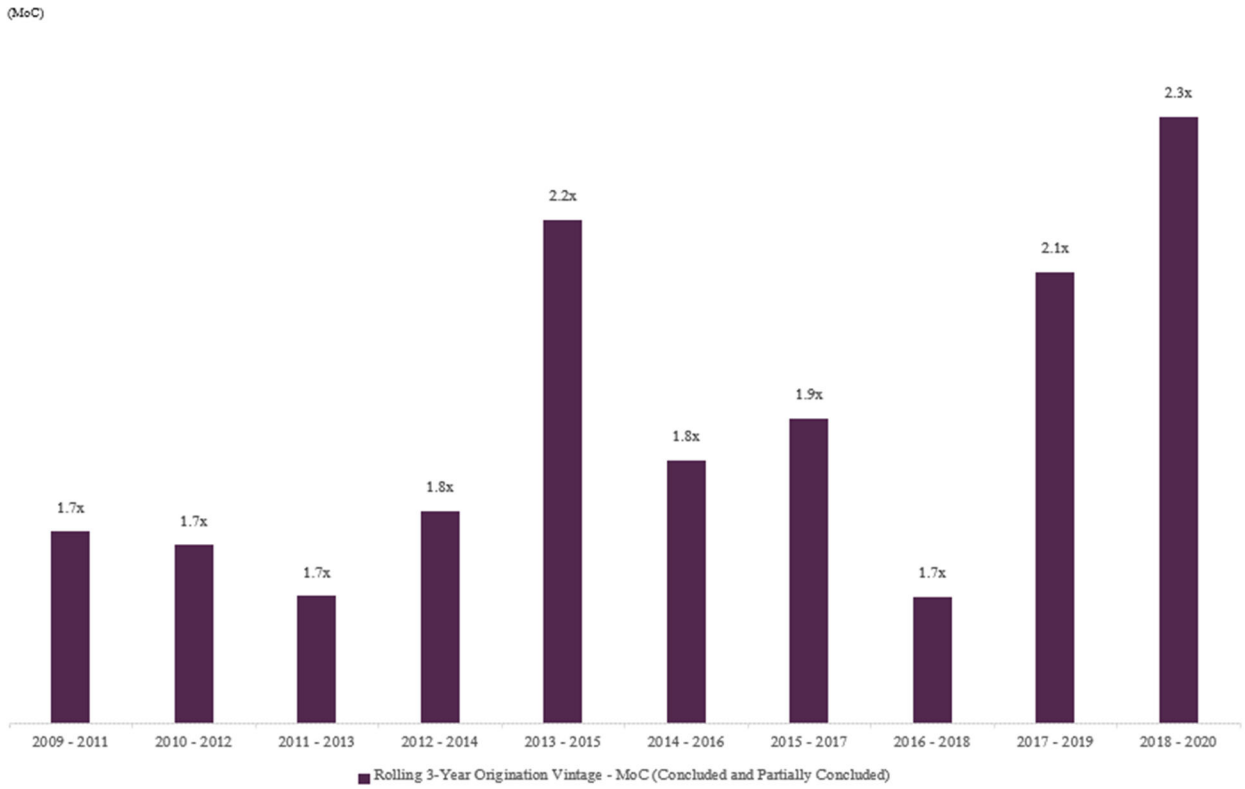
As some critics accurately observe, the customers in litigation funding are themselves natural competitors. Law firms globally are becoming more entrepreneurial, and the perceived risk is that if law firms increase their appetite to accept cases on contingency, then it could negatively impact litigation funders. There are several reasons why this is not a legitimate concern. The average law firm in the AmLaw 100 has a forty percent profit margin. Thus, when a law firm partner is deciding whether or not to take a case on risk, the assessment is not one between a higher payout or zero profits, but rather, a higher payout or negative profits. The associates and junior partners still need to be paid, and fixed costs do not decrease with the loss of revenue. For example, consider a law firm that has capacity for ten cases with $1 million in gross billings each. If all clients are on a billable hour model, then the law firm partners would expect to receive a predictable $4 million in profits. Assume now that the law firm has the option to take one of the cases on risk that compensates the law firm with a three times return if the claim resolves successfully. By accepting ten percent of billings on risk, the law firm partners would be wagering twenty-five percent of aggregate profits for the prospect of a fifty percent increase in profits. For many in the legal industry, a twenty-five percent loss in earnings is simply not an acceptable level of risk. Furthermore, consider that ABA model

rules of professional conduct prohibit law firms from structuring agreements that prevent lawyers from moving freely between firms. BigLaw partners are highly status-driven and sensitive to profits per partner. If it becomes clear that a firm is going to experience a loss in profits due to a failed case taken on risk, then this leaves the firm vulnerable to losing standout partners to competing firms. Soon, what began as a minor drop in profits leads to a full blown spiral of partner exits. As Yale Law professor John Morley documents in *Why Law Firms Collapse*, law firms don't just go bankrupt – they collapse. Firms like Dewey & LeBoeuf, Heller Ehrman, and Bingham McCutchen turned from apparent health to liquidation in a matter of months or days, driven by similar circumstances. Law firms are simply not structured to take risk. In addition, substantially increasing work completed on contingency would require a complete upheaval in BigLaw culture. While the contingency fee model rewards efficiency, the less time spent on a case the more profit to the firm, the opposite is true in the billable hour model. Under the billable hour model, more is more. Indeed, practically every white shoe law firm manages its lawyers through a demanding billable hour quota, and advancing through the ranks is often predicated on - you guessed it - billing more hours. Finally, as mentioned previously, many litigation funders have successfully transitioned to working directly with corporate clients in addition to law firms. Though potential transactions are often referred through a law firm, today over half of Burford's investment commitments are directly with corporate clients.

Risks – Return Compression

Another concern that is regularly expressed about Burford is its ability to maintain the high rates of return achieved over previous years. On this topic, a review of the elements used to price a single case transaction are instructive. Mathematically, the breakeven pricing in a game of binary outcomes is one divided by the probability of success. For example, if a coin has a fifty percent probability of showing either heads or tails, and a participant loses their entire investment if the coin shows tails, then the return required to breakeven over the long run when the coin shows heads is a doubling of the investment (1/50% = 2). Of course, to stay in business a litigation funder would also require a profit margin. Consider a fairly standard investment where a funder is entitled to receive a three times payout upon the successful resolution of a claim. If the case is assumed to have a fifty percent probability of success, the funder would expect to earn a 0.5x profit on average per claim. However, legal funders typically require a higher odds of success. If this hypothetical case instead has a sixty-five percent probability of success, the litigation funder would expect an average payout of 1.95x, or 0.95x profit per claim. Assuming an average investment duration of three years, this would generate a twenty-five percent rate of return. Next, consider that litigation funders commonly have cost structures ranging from twenty to thirty percent of gross profits. Taking this into account, the average profit per claim drops to 0.72x, or a twenty percent rate of return. Now consider that in a typical funding transaction commitments are drawn down over several years, requiring a litigation funder to either be partially invested or hold debt against a book of unfunded commitments. If a litigation funder expects that it will have to hold a dollar of unfunded commitments for every dollar of deployments and that it must retain a minimum liquidity of thirty-five percent of unfunded commitments, then this would add further operating expenses of five percent of gross profits. This would result in an adjusted average expected payout of 1.67x, or 0.67x per claim, and an eighteen percent pre-tax rate of return. Thus, on an after tax basis this litigation funder would be looking at less than a fifteen percent rate of return, even without accounting for the risk of

contingent adverse cost liability in several jurisdictions. Moreover, consider that not only has Burford's portfolio not shown signs of return compression, but returns achieved in recent vintages are actually higher than those of the past. The graphic below highlights the realized multiple on capital for Burford's partially and fully concluded cases organized by origination vintage. Litigation finance detractors suggest that capital inflows should drive down excess returns, but over an eleven year period when the overall legal finance market has grown rapidly, the opposite is true. Recent vintages show a multiple on capital of 2.3x, or nearly double the profit margin of the earlier vintages at 1.7x. This is before accounting for the fact that investment multiples tend to be higher on mature matters, none of which are included definitionally in recent vintages. Finally, it is worth noting that neither the older nor recent vintages are impacted by the YPF claims.



Risk – Muddy Waters Allegations

In the days immediately following the publication of the Muddy Waters short report, Burford's share price fell by more than fifty percent. Soon thereafter, with the onset of the covid pandemic, Burford's share price experienced a further sixty percent decline, dropping to more than eighty percent below all time highs. Today, negative sentiments linger, and Burford's shares have yet to fully recover, even though the allegations have been demonstrably false. The report contained seven primary accusations. The first and most potentially threatening claim was that Burford and its two largest shareholders at the time, Woodford and Invesco, acted in concert to inflate the value of a case relating to Napo Pharmaceuticals. The claim was proven meritless and Burford, going far in excess of its reporting obligations, laid out the chronology of its investment in Napo Pharmaceuticals in a seven page press release dated September 2, 2019. The second claim from Muddy Waters called into question Burford's reporting for cases in which a consideration other

than cash is received as payment. Again, this claim fell flat. Ironically, the short report cited one of Burford's most successful claims, *Desert Ridge Community Association v. City of Phoenix*, as an example of foul play. In this particular case, Burford's client received a substantial damages award in 2010 that was settled post-trail via the transfer of a significant land interest. At that point, Burford could have elected to force the sale of the land, which would have been the fastest path to cash recovery but would have been sub-optimal for both Burford and the client, given the then recent effects of the global financial crisis. Instead, the investment was restructured to allow the real estate to be monetized over time, which resulted in a multiple on capital of 5.5x. Nonetheless, Burford clarified that less than four percent of claims since inception have resulted in compensation in the form of a non-cash asset with an even smaller subset of those experiencing any level of impairment. The third claim by Muddy Waters asserted that Burford intentionally mislead investors by failing to make purchase price allocations to investments obtained through acquisition. The report then went on to highlight two acquisitions where no actual balance sheet investments were acquired. This can only be summed up as an embarrassing display of due diligence, or perhaps, more likely, slander. The fourth claim related to Burford's accounting for partially concluded matters. The report held the opinion that litigation funders should not allocate costs against partial recoveries. This is analogous to claiming that an investor who buys one hundred shares of a company and sells twenty of those shares should account for the return against the costs basis of the full one hundred shares and not the twenty that were sold. This report then highlighted the Akhmedov divorce case as an example of Burford selectively misreporting returns. Notably, the Akhmedov case fully concluded in 2021 and resulted in a 3.3x multiple on investment. The fifth, sixth, and seventh claims related primarily to Burford's fair value accounting practices, which were discussed earlier in this paper. Finally, a secondary assertion raised in the seventh claim is that Burford is overly dependent on a small number of outlier cases, such as YPF. It is simple to illustrate that Burford produces desirable returns regardless. If one removes all gains associated with the YPF claims, then the realized portfolio exhibits an average multiple on capital of 1.74x, a higher return than modeled in our base case scenario.

Conclusion

I am confident that our partnership owns a collection of businesses that, relative to the price paid, will produce a substantial amount of free cash flow over the coming years. The fundamental drivers across our portfolio are diverse, and in several instances, as is the case in litigation finance, the industries our companies operate in are entirely uncorrelated to economic growth, interest rates, inflation, or any other macroeconomic factor that may be the topic du jour. As always, I am happy to speak with you at length about any of our companies, and I remain grateful for your trust and partnership.

Appendix A: Realized Investments

Ticker	Company	IRR*	MSCI ACWI	Delta
FIG	Fortress Investment Group	94.69%	17.29%	77.39%
CMG	Chipotle Mexican Grill	3.19%	13.84%	-10.65%
FCPT	Four Corners Property Trust	46.07%	14.10%	31.96%
WFM	Whole Foods	37.70%	17.21%	20.49%
VPK:NA	Koninklijke Vopak N.V.	3.29%	8.86%	-5.57%
WMT	Walmart	28.08%	14.16%	13.92%
KKR 1.18.19 Call @ 25	KKR & Co.	10.00%	2.09%	7.91%
GOOG	Alphabet Inc	38.91%	21.19%	17.72%
BRK.B	Berkshire Hathaway	20.01%	14.81%	5.20%
EBAY	eBay Inc	27.84%	17.45%	10.40%
MMI	Marcus & Millichap Inc	29.94%	14.95%	14.99%
ARR:LN	Aurora Investment Trust Plc	18.71%	16.74%	1.97%
NVO	Novo Nordisk A/S	37.17%	15.28%	21.89%
DKS	Dick's Sporting Goods	42.56%	-2.85%	45.41%
RHP:AU	Rhipe Ltd	93.23%	3.95%	89.28%
BDEV:LN	Barratt Developments Plc	25.79%	5.39%	20.40%
CRAYN:NO	Crayon Group Holding ASA	152.89%	8.50%	144.39%
DKS	Dick's Sporting Goods	30.52%	6.80%	23.72%
YTRA 12.16.21 Warrant @ 11.5	Yatra Online	-45.74%	6.17%	-51.91%
YTRA	Yatra Online	-27.90%	8.14%	-36.04%
FRAS:LN	Frasers Group Plc	52.40%	12.64%	39.75%
COG	Cabot Oil & Gas	1.79%	-9.64%	11.43%
COG Put Option (Various)	Cabot Oil & Gas	-27.62%	0.00%	-27.62%
DKS Put Option (Various)	Dick's Sporting Goods	-47.93%	0.00%	-47.93%
DKS	Dick's Sporting Goods	-23.85%	-5.67%	-18.18%
KKR 1.15.21 Call @ 20	KKR & Co.	7.17%	-6.36%	13.53%
LOOP:LN	LoopUp Group Plc	-14.32%	27.25%	-41.58%
RHP:AU	Rhipe Ltd	67.27%	33.60%	33.67%
MANO:LN	Manolete Partners Plc	43.42%	9.53%	33.89%
	Average	25.01%	9.84%	15.17%

**Table above reflects the IRR of realized portfolio investments (unannualized if < 1 Year), and the equivalent IRR that would have been achieved had each invested dollar been allocated to MSCI ACWI. COG Put Option represents a short sale. DKS Put Option represents a short sale.*

Appendix B: Unrealized Investments

Ticker	Company	IRR*	MSCI ACWI	Delta
BSM	Black Stone Minerals LP	32.73%	17.45%	15.28%
BUR	Burford Capital Limited	64.44%	27.07%	37.37%
DESP	Despegar.com	13.63%	7.74%	5.89%
DEC:LN	Diversified Energy Plc	11.36%	-1.47%	12.84%
DPEU:LN	DP Eurasia NV	62.13%	19.54%	42.59%
		-4.39%	-1.95%	-2.44%
KKR	KKR & Co	48.62%	14.36%	34.26%
LVT:AU	Livetiles Ltd	-66.09%	7.03%	-73.12%
NOAH	Noah Holdings Ltd	5.72%	14.20%	-8.47%
SON:PL	Sonae SGPS SA	30.37%	1.86%	28.51%

**Table above reflects the IRR of unrealized portfolio investments (unannualized if < 1 Year), and the equivalent IRR that would have been achieved to date had each invested dollar been allocated to MSCI ACWI. As of 2/4/2022.*

Disclosures

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