



## HY 2022 EARNINGS CALL TRANSCRIPT | AUGUST 12, 2022

**Christopher Bogart**, *Chief Executive Officer*:

Thanks very much. Hello, everybody. Thank you for taking some time in what is almost the middle of August to talk about Burford and our Interim Results. As usual, I am joined by Jon Molot, the Chief Investment Officer, and Ken Brause, the Chief Financial Officer. The three of us will take turns going through our slides with you. We promise to do that somewhat more briskly than we did in our annual results call, and then we will be happy to take any of your questions.

Before we jump into the meat of the slides, I am also happy to report in addition to our earnings on an announcement that we also made today about a new appointment to our Board. As all of you know, we have been engaged in an overall refresh of the Board. This is the last new appointment that we are making.

This will be the fifth new director that we have appointed in the last two years. This is a particularly exciting appointment. It is Dr. Rukia Baruti, who is an experienced arbitration practitioner and the Secretary General of the African Arbitration Association. So not only is Dr. Baruti a very experienced and knowledgeable lawyer and arbitration specialist. This represents not only another woman, but a racially diverse candidate to our Board.

And this is big news in the legal sector. For example, this is already the breaking news story, the top new story on Global Arbitration Review today, which is the leading arbitration publication out there. So in terms of Burford's corporate presence, she is a great addition to the Board as a Non-executive Director. And it is certainly also an appointment that has made some waves in the legal community that we serve.

So now moving to our results and turning to slide three. Fundamentally, we are going to talk about two key issues, as we always do:

- The new business that we create, which ultimately sets the business up for future profitability; and
- Then the progress of that business through the pipeline, through the investment process, and ultimately the creation of cash gains from it.

On the new business side of the ledger, we were very pleased with the first half. We actually struck a new record for commitments on a Burford-only basis. And as a reminder, Burford-

only commitments are the number that we watch the most closely because those are the commitments that will ultimately drive the largest volume of shareholder profit. We provide statistics for our overall level of activity, which includes the work that we do in some of our lower returning funds, for example, just as a measure of what the whole business is up to. But in terms of the things that are ultimately really going to drive future profit for shareholders, it's that Burford-only activity that is the most significant. And so hitting a new record in new business, even while the legal industry is still recovering from the pandemic and figuring out how to work in a new way made us very happy.

It was not just a first half record. It is also the fact that we have been able to keep up that new business at a strong pace throughout the pandemic, writing quite a lot of that new business. And part of the dynamic here, as some of you will recall, is that we tweaked our arrangement with our sovereign wealth fund partner, so that now the Burford balance sheet is taking 75% of new deals instead of the prior 50%. So that is driving as well the ability to retain more of those high potential profit deals for the balance sheet.

The other thing that we saw with great excitement, candidly, is that court activity really did start to resume during the period. Our consolidated income from doing litigation finance, our core business grew 31% period-over-period. That, of course, flowed all the way through the income statement. But what that really represents for us is a sign of life in courts that in many instances have been somewhat moribund and affected by their ability to hold especially in-person trials during the pandemic.

We are very pleased about that. We are not anywhere close to being all the way back. There are still meaningful backlogs in courts. They vary widely by geography. In the text of the interim report, we gave just one example of how great that variance can be, in the Eastern District of New York, which is the Federal Court District that serves Brooklyn and other parts of New York City, except Manhattan, you are still at about a 55 month wait to get a case from filing to trial, whereas in the Northern District of Florida, so the north part of Florida, that delay has really fallen sharply, you are down to not much more than a year.

So we look forward just to continuing to see some increased velocity in the portfolio as court activity does resume generally.

The other things I would note, just on the P&L side. In addition to the activity that we saw in the first half, we have also seen some post June 30<sup>th</sup> activity. One of our larger matters had a level of activity that was effectively a partial resolution of some of what we are invested in there. And even though none of this is in our June 30<sup>th</sup> numbers, we would expect all things remaining equal to generate more than \$50 million in consolidated profit during the second half from that portfolio activity.

And then we have a meaningful discussion in our interim report about, like many other companies, some non-cash items that affected our bottom-line profitability for us, a combination of non-cash charges and foreign exchange, some interest rate impact, again, non-cash and unrealized and some tax peculiarities. And those together reduced our bottom-line net income by about \$25 million or so.

The other thing is that we have this unusual split of foreign exchange, where we actually had negative foreign exchange activity in the top of the P&L, so above the net income line. And

then we had quite positive foreign exchange activity because of our sterling debt in the bottom part of the P&L, below net income, hitting just comprehensive income.

If that bottom line stuff had been above the line, that would have added another \$35 million or so to net income. So there was a fair bit of foreign exchange activity, again, all of which is non-cash.

And then in other developments, we have raised more than \$1 billion of external capital this year between a combination of the new debt offering and two new funds that we closed. So both on the fund side, we have significant financial resources there. And on the balance sheet, we have meaningful liquidity available.

And finally, the simple and somewhat unfortunate reality perhaps for the world at large is that economic distress tends to yield a lot of litigation, insolvency, and other litigation, and we are going to, we believe, start to see the impacts of increased interest rates and the decline in government stimulus.

Then turning to slide four. This really just captures graphically the point that I was making earlier. But if you look on the left, this is the total portfolio that we have that has been growing even during a pandemic. We have got about a five-year 20% CAGR there. And the thing that I think is particularly notable is the graph on the right. So even though we have been able to grow the business significantly, more than doubling the portfolio in size from 2017, we have been able to do so while maintaining those consistent returns that we have been very proud to be able to deliver.

Turning to slide five. This again is just a graphic visualization of what I described earlier on the left with record new commitments for the Burford-only balance sheet. On the right, you see the cash deployments. And those are down a little bit, that shaded area is because we did a deal towards the end of June, a fairly large law firm deal that still has a couple of closing conditions left to satisfy before we actually put the cash out the door. But it will be that deployment, presuming that those closing conditions are satisfied soon.

And then finally, I often, as you know, talk to slide six and seven together. And I am not going to spend much time on them. We use these slides repeatedly to show what is going on in our business. I would just highlight for you that when we talk about the returns that we have been able to generate and we talk about our track record and our performance of generating high and asymmetric returns, we are now doing that off of almost \$2 billion of cash recoveries. This is pretty clear evidence that this is an ongoing and repeatable model and that we are now demonstrating a very significant and long-term track record.

And I would just emphasize that all of the numbers that we are providing here are cash-based numbers. There is no accounting for value in any of these. That is almost \$2 billion of cash that we have brought back in the door with the kinds of returns that you see there and that continuing asymmetric distribution in the portfolio that slide 7 indicates.

And with that, I will turn you over to Jon Molot and go to slide eight.

**Jonathan Molot, Chief Investment Officer:**

Thanks, Chris, and thanks to you all for spending time with us today. On slide eight, we talk about the timing and process in the YPF matters. I won't talk about substance, as is our practice. If you are a lawyer or you have lawyers working with you, I would encourage you to just read the briefs. The substance is pretty clear. If you can wade through all of them because the defendants threw in a lot, but I think it is clear.

So if you look at the timing, discovery is complete as of the end of March. That meant we went through:

- Fact discovery.
- Expert reports.
- Expert depositions.

Summary judgment motions were filed in April by both sides, that is:

- Defendants filed a motion asking the judge to enter judgment for the defendant without holding a trial.
- Plaintiffs filed a motion asking the judge to enter judgment for the plaintiffs without holding a trial.

Responses were filed to those motions in May, and then reply briefs were filed at the end of June. And that is complete now.

The timing of when the judge will resolve them is up to the judge. She has been attentive and responsible in managing the case, and she will schedule presumably oral argument. Basically she has the option. She could grant summary judgment in full. If she grants summary judgment in full for the plaintiffs, although there will be a right to appeal, the defendants, if they do not post a bond or obtain a stay of execution, will be subject to enforcement proceedings. Plaintiffs will be able to begin enforcement following the entry of a final judgment, absent one of those things.

If the judge enters summary judgment for the defendants, there will be a right to appeal and it is de novo review. That is the district court decides matters as a matter of law without considering facts or resolving factual disputes. And therefore, the Appeals Court reviews that de novo that is, again, without any deference to the lower court. The court could decide instead either to deny summary judgment in full and hold the trial or to resolve some issues at summary judgment and hold the trial on the remaining issues.

If there is a trial, the parties have stipulated that the trial shall happen 115 days after the issuance of the summary judgment decision. And that is pretty much the timing of the YPF matters.

Turning to slide nine to give a little more granularity on what Chris described before about the rest of our portfolio. You can see in those red bars what percentage of each vintage of our investments has resolved. And not surprisingly, the older earlier vintages have had a

much larger percentage resolve, and the younger vintages, the more recent ones have had a smaller percentage of their cases resolve.

If you look at the black bars, this echoes what Chris talked about, the explosive growth that we enjoyed some years ago and the pace we have been able to continue to put out capital. The more recent vintages that happened to have a smaller percentage resolved also are larger than the earlier vintages. So it stands to reason that in the coming years, we will expect resolutions from vintages that are larger and have more outstanding, the business has grown and the resolutions will grow as time goes on.

And the weighted average life of our concluded portfolio by realization at least, has remained relatively steady over the past few years; but we will talk a bit more about delay.

If you turn to slide 10, Chris did talk about. We are very pleased that the pace of case progress is starting to increase. The courts are working very hard to catch up. There still is the issue of criminal trials have to come first and there are backlogs from before. And remember, whereas the rest of the world always wants to move forward and not have the legacy of COVID hold them back, defendants always have an incentive to delay matters. And therefore, to the extent that they can use backlogs or COVID or something as an excuse, they will use it, but courts have been much better about moving things along.

Remember that none of these delays have impacted the merits. None of our cases have lost because of it. No plaintiff has given up a case. They have just affected the duration. And we also have mentioned in the past, sometimes the extension of timing can actually enhance our returns that our deals may be structured to increase our percentage or our multiple as time goes on.

Meanwhile, the fact that there are economic challenges and disruptions that Christ alluded to, that were associated either with COVID or with the withdrawal of government subsidies in the aftermath of COVID, that does potentially lead to opportunity for us that we see because people do not sue each other when things are stable and going well and growing and deals succeed. They sue each other when something goes badly. And so a combination of insolvencies or disappointed expectations in deals or bad corporate conduct leads to litigation. And that litigation often needs financing, particularly in times of hardship. So, we are poised right now with, as I mentioned, a very large portfolio of recent vintages that we have been able to continue to put out, right, other than that blip in the first half of 2020 when the world shut down and we slowed down, we have continued to commit and deploy capital throughout the period. We have these vintages and they are poised to move forward as the courts have continued to reopen and move along. And we see plenty of opportunity to put out new capital. We have worked on geographic expansion and expanding our product offering. So it is a very good time at Burford would be my feeling.

And with that qualitative discussion of the business, I will then turn it over to Ken to go over the numbers.

**Ken Brause, Chief Financial Officer:**

Thanks, Jon. And yes, I will now walk through our first half financial results. Good morning, and good afternoon to everybody. Just before I get started, I just want to make it clear that all of the figures I am going to discuss are on a Burford-only basis unless I state otherwise.

So I am on slide 11, where we have some key financial metrics. Starting with the income statement. Revenue was strong. Capital provision income rose 11%. That was primarily driven by growth in net unrealized gains, which represented 71% of total capital provision income and is indicative of the increase in court activity. And asset management income rose. I am going to provide more detail on that topic shortly.

Operating expenses declined from the first half of last year, which, as you may recall, included \$34 million, primarily related to the conclusion of an asset recovery matter. And these all contributed to a meaningful improvement in operating income, which was \$27 million compared to a small loss in the first half of last year. Despite that strong revenue and expense performance, we had a few other items that went the other way.

For one, finance costs increased, primarily as a result of having a full reporting period with the debt that was issued in April of last year, as well as running with temporarily higher debt balances this half, given the timing between our new issue in April of this year and the repayment of the debt that was due this month that we repaid in May.

And in what may seem like a bit of an anomaly, although we reported a pre-tax loss for the period, we reported income tax expense of \$8 million as we maintain a full valuation allowance on the deferred tax asset that is related to disallowed interest expense for US tax purposes. Our cash taxes paid in the period though were less than \$1 million.

And we are a global business, and while we do our best to minimize the economic impact of currency fluctuations, the strengthening US dollar did have a negative impact on our bottom line, as it did for many other global companies, but had a benefit in comprehensive income. So, our pre-tax income included non-cash foreign exchange costs of \$10 million: \$7 million that was within capital provision income that generally reflects investments in currencies other than the US dollar or Sterling; and the rest was in other expense, which represents cross-currency transactional items.

Those above the line costs, however, were more than offset by a \$35 million benefit from foreign exchange translation and other comprehensive income, OCI, largely related to our sterling-denominated debt. And also the rise in interest rates that resulted in unrealized losses on our portfolio of marketable securities through which we manage our excess liquidity.

So putting it all together, we reported a first half net loss attributable to Burford Capital Limited shareholders of \$21.5 million or \$0.10 per diluted share, both of which improved from last year.

The balance sheet remains strong with an increase in capital provision assets and ample liquidity to support future growth. And despite the reported loss, tangible book value per share rose slightly from year-end to \$6.48.

Moving to asset management, which is on slide 12. We continue to have success as an asset manager, both in terms of capital raising and income. We closed two funds in the first half, the \$360 million Burford Advantage Fund, which focuses on pre-settlement matters and the \$350 million Burford Alternative Income Fund II, or BAIF II as we refer to it, which is the successor to our previous post-settlement funds.

And as Christopher mentioned, we also extended to the end of next year, the investment period for BOF-C, our pre-settlement strategy arrangement with our sovereign wealth fund partner. That agreement also shifted the asset allocation from an even split to one in which we now allocate 75% to our balance sheet, thereby increasing our portion of these highest returning assets.

Asset management income for the period increased by 45% to \$17 million, up from \$12 million in the first half of last year. This increase was primarily driven by growth in income from BOF-C as the core litigation finance assets in that fund continue to season. Management fees declined slightly from the prior year period. We continue to earn these fees from BAIF and BOF. But since BOF is now past its investment period, our management fee rate on that fund has declined, and we recognized performance fee income of \$2 million from BAIF, of which we had none in the first half of 2021.

Performance fees are somewhat variable period-to-period and reflect both the specific fee arrangement as well as the stage of the fund.

So going forward:

- We continue to be in a position to earn management fees from BOF, BAIF II and the strategic value fund.
- Performance fees from Partner Funds II and III, BOF and BAIF I and II; and
- Additional asset management income from BOF-C and the Burford Advantage Fund.

And as we mentioned on our call in March, our models at year-end 2021 indicated that performance fees could be as much as \$400 million on the Burford-only basis.

Moving to slide 13 to discuss expenses. Total operating expenses in the first half declined from the prior year period, primarily due to the large asset recovery charge last year. Most other operating expense categories were straightforward and largely unchanged, with the only notable increase, which was a modest one at that, in case-related expenditures that were ineligible for inclusion in asset costs. And these costs are the ones that represent case expenses that are outside of our entitlement.

We continue to see improvement from an operating efficiency perspective. Operating expenses as a percent of Group-wide portfolio continued to decrease and are now less than 2% on an annualized basis.

Slide 14 presents some information about our debt. We continue to actively manage our liabilities, and we maintain our long-held view that while our business should have some leverage, given the variability of our cash flows, it is prudent to maintain it at a relatively low level.

I would also mention that all of our debt is fixed rate and that our maturities are well laddered with our next debt maturity not until October of 2024. We issued \$360 million of senior notes that had an eight-year maturity and a coupon of 6.875% in April, just before the fixed income markets became particularly challenging.

We were pleased to have an oversubscribed deal, which enabled us to both upsize it and to price it at a spread meaningfully tighter than the debt we issued last year. We used a portion of those proceeds to take the positive economic action of redeeming the remaining £62 million or about US\$80 million of bonds that were maturing this month.

We reduced interest costs and negative carry, but did report a small loss on debt extinguishment, reflecting the modest premium paid for the redemption. All in all, that 2020 bond proved to be a very attractive one for us with an effective cost of less than 3%.

We now have just under \$1.3 billion in debt outstanding with a weighted average coupon of 6.2% and a weighted average life of 5.4 years. Our net debt to tangible asset ratio of 21% remains well below the 50% covenant level in our UK bonds. And for our US bond covenant, which is total debt to tangible equity, we are currently at 0.9 times, also well below the incurrence test levels of between 1.5 and 2 times depending upon the type of incurrence.

So wrapping up on slide 15 with liquidity. Our liquidity position increased to \$430 million at June 30<sup>th</sup>, up from \$315 million at year-end and consists of just over \$300 million of cash and equivalents with the remainder in marketable securities. The increase in liquidity was predominantly due to net proceeds from the debt transactions I just mentioned, offset by deployments that were in excess of realizations in the half.

And we are positioned well to continue to deploy against new opportunities, including for the large commitment we made right at the end of the period that Chris addressed. And the yield on the marketable securities portfolio is now about 3.7%, which puts us in a position to earn attractive returns on this excess liquidity.

With that, I will turn it back to Chris for some concluding remarks.

**Christopher Bogart:**

Great. Thanks very much, Ken. Turning to Slide 16. This really just sums up the points that we have made. We are very pleased with our new business activity continuing during the pandemic. And as Jon and I have both said, we are excited to see the forward progress happening in the courts as they work to clear their pandemic backlogs and get things back to working as normal. And we are excited about what lies ahead.

**Q&A**

**Christopher Bogart:**

So with that, we are happy to take your questions, which can happen both verbally on the phone lines and also by submitting them through the chat function in the webcast. While we wait for the operator to organize the phone lines, I will then take a couple of questions that have already arrived from the webcast.

To begin, this is from Trevor Griffiths, who asks the court systems you use must have a huge backlog of cases and there must be some pressure to deal with these. Are there ways of speeding up the courts handling of cases and would such measures impact either positively or negatively on your in-force portfolio?

Before I turn it to Jon for his thoughts on that, I would just say that what we are seeing is a real diversity of approaches to deal with these issues that are really all over the map. And you saw an example of this in a case that we talked about at the end of last year, where we had a case that still would have needed to wait for a long time to get a trial date. But the judge was sensitive to the fact the case was already old and had been running for a long time. And so he put quite a lot of pressure on the parties to go into mediation, which ultimately produced a settlement in the case long before it would have been up for its trial slot. And so, I do think you see judges paying attention to their dockets like that.

Jon, anything?

**Jonathan Molot:**

Yes. The only thing I would say is there are judges who do not want to tolerate a defendant using an excuse of something COVID-related in order to slow things down. I think on our end, the main thing is to make sure that our counterparty clients and law firms have a plaintiffs' mindset where they are the claimant, meaning that when defendants asked for extensions and delays and postponements, you just have to very rigorously oppose those and keep things moving.

And most of our team and the lawyers we work with understand that and that is how we push it along. And it is case-by-case rather than a macro level through our very active team.

**Christopher Bogart:**

Well, Mark Lauber asks, so far as you are able, would you comment on the fact that both sides and Petersen have requested summary judgment? Are you seeing any signs of a rush to enforcement by US beneficiaries of other judgments against Argentina in advance of a ruling in Petersen, which might reduce the ability to collect in the Petersen case?

The answer to the second question is no, we are not seeing that at all. As to the first question, and Jon Molot can certainly comment on Petersen as well. But there is nothing really to comment on with respect to both sides seeking summary judgment. Petersen, these cases are not jury cases. And so, the distinction between what the judge does and what the jury does is, it does not exist here. And therefore, the distinction between summary judgment and trial is considerably less significant.

And so, what summary judgment is for, whether you are a plaintiff or a defendant is to resolve as many issues as you can as a matter of law before you need to go to trial. And so, it

is not surprising at all, and this has always been expected that both sides would see summary judgment. Jon, anything?

**Jonathan Molot:**

Yeah, I would only add to that that the facts of this case are not in dispute or complicated, right? Everybody knows what the operative document said. Everybody knows what the conduct was. It is just the legal consequences that people are fighting over. And so, it makes sense that the battle over that would be fought before the judge as a matter of law rather than having a trial on the facts.

We'll see. The judge may decide that a trial is needed, but it is not a surprise at all. As Chris said, that both sides move for summary judgment.

**David Chiaverini (Wedbush Securities):**

Hi. Thanks for taking the question. The first one relates to the new commitments. It was great to see the record new commitment level. Would you say that the top of the funnel is expanding in this environment and could lead to more profitable matters, given your ability to be more selective?

**Christopher Bogart:**

We have talked a lot over the years about what we call the funnel. And in fact, our desire to have it change its shape a little bit, because what we have right now is a lot of stuff that comes in the top and a pretty small amount that ends up coming out the bottom.

While on the one hand, that might seem lovely because it means that we are oh so very selective and so on. The reality is that it causes two challenges. One is that it obviously takes quite a lot of effort, and therefore cost to winnow through that large volume of stuff that comes in the top of the funnel. And the other is that it means that we are saying no an awful lot to people that we want ongoing longstanding client relationships with. So even though it sounds possibly counterintuitive, we actually spent quite a lot of time trying to narrow the funnel. And the way that we do that is we try to educate the market about what is a viable litigation finance matter because a lot of the reason that we do not end up doing matters is not necessarily connected to their quality or their merits. It is connected to their economics.

What we perceive of as the likely economic outcome of the case, the settlement value of the case or the realistic amount that the court is going to award in a judgment that we are going to be able to collect. We find that number often to be significantly lower than what the parties start off believing and would like to have. And there is just not enough room for a combination of the legal fees to take the matter forward and our returns while leaving the client with a desirable outcome.

And we are trying to go for quality and size more than we are trying to go for volume there.

**Jonathan Molot:**

And I would just add one positive thing, which is, I do think the quality of our counterparty is very important. And I think that probably is a positive development, meaning, today, there are companies and law firms that some years ago would have seemed like they were not going to look for our financing or need our financing that now are calling us for financing.

And that is the most significant expansion of the top of the funnel despite I completely agree with everything Christopher said. But that is the one dynamic that is a positive one that I think addresses your question.

**David Chiaverini:**

Then a question on the agreement with the sovereign wealth fund, how Burford is now retaining 75% versus the 50% previously. Just curious as to what the motivation was? Was it the sovereign wealth fund that wanted Burford to take on more risk? Or did Burford see these opportunities as being very highly profitable opportunities that you guys wanted to share more of the economics with yourselves with? Curious on the background there.

**Christopher Bogart:**

Yeah, it is the latter, really. It was a Burford-initiated change to the arrangement. And what motivated us, as you say, was with the incremental balance sheet capital that we have been able to access, it was a desire to maximize the returns on that capital for equity shareholders.

The other dynamic at play with the sovereign wealth fund is that even though that is quite a large pool of capital, it was significantly committed at this point, but because of the COVID slowdown, there is a gap between commitments and deployments and therefore recoveries in that fund.

And so, by reducing the sharing mechanism to 25%, we basically got some more diversity into what is left of that portfolio and also extended its life a little bit. So that was the thinking behind that.

**David Chiaverini:**

And then last one for me. Jon, you mentioned about the weighted average life remaining steady. Can you remind us what your expectation is for weighted average life on the portfolio going forward? Is it three to four years? Just update us on that.

**Jonathan Molot:**

I do not think we have projected how changes in weighted average life will change. I do not think that is something we have put out.

**Christopher Bogart:**

Yes, that is right. And it is hard because the dynamics go in both directions. On the one hand, you would expect to see a lengthening in weighted average lives from their current level because of the pandemic. But on the other hand, we keep having big things resolved

fairly quickly. So, for example, the partial resolution that I have already described in one of our large matters that happened last month, that all happened pretty quickly.

And so the combination of speed and size there will probably drive down the weighted average life a little bit. So it is a mixed bag at the moment. And as Jon said, we do not have a forward-looking projection for it.

**Julian Roberts (Jefferies):**

I have two if that is okay. The first one is, are you allowed to tell us what the total number of individual matters in the Burford-only capital provision direct portfolio is?

And then the second one is, are you able to tell us any of the characteristics of the 20 cases that saw fair value gains in the period?

**Christopher Bogart:**

The total number of individual matters, I am not sure if we have published that statistic or not. We do publish the number of individual matters with respect to our large positions. I know that. But I do not think that we go and top them up all the way through the portfolio.

But if you look at that, if you take the large matters as potentially illustrative, there is obviously a multiple of individual matters compared to what we call assets. But I do not know off the top of my head out of the, let us call it, 200 assets that we have in the Burford-only portfolio, I do not know how many individual claims they amount to. But there will be hundreds and hundreds in there.

As to the characteristics of the cases that did have some fair value change, and just for everyone's benefit, what Julian was referring to there is the fact that we had in the six month period, 20 matters pass through a milestone that under our valuation policy triggers a change in their carrying value based on the court's activity. And that is an entirely formulaic approach. It is not sentiment or judgment, but it is a data-driven formula that we use. It is going to be all over the map is the short answer. The things that trigger a change, there has to be a court action in most cases. So the thing that is going to trigger a change is a case going, for example, going past summary judgment would be one meaningful change in the life of the case. So the parties filed summary judgement motions just has occurred in Petersen. The court decides them, and that decision almost always has a meaningful impact in the party's assessment of where the case is going and the party's willingness to settle and so on. So that would be an example of one of them. We actually in a footnote to the financials have a table that shows the individual points in cases that cause valuation changes, and we show what percentage of the fair value changes are represented by each of those stages. So you can look at that table and get a sense of what has been going on.

**Andrew Shepherd-Barron (Peel Hunt):**

A couple of questions, maybe three. The first one, if I may, is on the Petersen case and the oral arguments. That seems to have been a recent addition to the timeline to the pack. I am just wondering; can you say more about what is the norm? And I mean, surely, if the

defendant is trying to postpone everything shortly, they are going to appeal to oral arguments. So then how long might they take? Can you just talk a little bit more about that?

**Jonathan Molot:**

Yes, sure. I think different courts will have different approaches to when they will schedule oral argument. There are some who will say, once I have the briefs and I have read them, I would like to hear from the parties, and I will hold oral argument before I start writing my opinion. Other times, the court will say I want to get fairly far along with my opinion to realize where I have questions and where I have made up my mind and do not need more information, so I know that I can make the oral argument useful.

So it just depends. And it maybe that it is not just different from court to court. It could be the same judge in two different cases, may do it differently depending on the matter. So I do not think you can read anything into that, and the timing of the oral argument does not necessarily reflect the pace of work by the court. You cannot appeal the oral argument. The only thing that is appealable is the final judgment of the court that the court issues. So a defendant could try to postpone scheduling and say I have a conflict that day, can we postpone it by a few days. But if a court says, I would like you to show up in my court room on this date and the parties are working together and they find a date fairly close to that, the court might say, okay, but I do not think you can say no when the court says I want you to show up in my court and argue.

**Andrew Shepherd-Barron:**

How much notice would a defendant or plaintiff be given by the judge?

**Jonathan Molot:**

Well, I mean, we have had circumstances with very minor motions in this case where there is very little notice, a few days. I think for briefing this long and dense, I think that the court would want to give the parties several weeks would be my expectation. But that is just the guess.

**Andrew Shepherd-Barron:**

Second, so relating to the court delay question from me. You said in the presentation that you have seen the rate of cases picking up now. Rate of court activity, I should say, picking up. Is there any industry statistics that demonstrate the case conclusions are accelerating? And in which case, is there any reason why you should not be in line with industry norms?

**Christopher Bogart:**

There is quite a lot of statistical data out there about activity levels in the US federal courts. And that was the source of the timing that I was quoting earlier for time to trial in New York and in Florida. So you can tell how many cases are being filed, which is actually at a comparatively low level right now. You can tell how long each court is taking to resolve those cases, and you can compare the rate of activity through the system.

The challenge with that data, while it is instructive on one level, the challenge with those data are that they are not specific to the kinds of large dollar complex commercial litigation that we finance. They will include all of the activities of those courts. And because the volume of that other activity is larger, in other words, courts do more small matters than they do large matters. It is not necessarily instructive, but it is a useful data point. That kind of data does not exist as easily, if at all, in US state courts or in the courts of most other countries, and nor does it existing arbitration proceedings.

And so, since we finance things all over the world in a variety of fora, there is not an easy statistical thing to look at and say, "Look, we are seeing doubling of the throughput in 2022 compared to 2020." Anecdotally, though, we obviously know that jury trials have resumed in courts, and we know that jury trials were not happening previously. And so, that in of itself is a significant factor.

**Andrew Shepherd-Barron:**

And third question if I may. Can you make any comment at all, I mean, focusing on cash proceeds and cash wins and realizations and such like? Clearly, it has been pretty slow in the first half. I hear what you say about post subsequent events. But could you give any ideas just from the existing portfolio, what do you think would be a normalized rate of cash proceeds that you could expect?

**Christopher Bogart:**

I think the simple answer to that is no. And we have talked extensively about that in the past. We showed, and Jon, at our Investor Day, made a long presentation and unveiled the internal projection activity that we do, the internal modelling that we do. And one of the things we said then and have been clear about is while we have a pretty good track record in being able to model outcomes, we don't have that same ability to model and project duration.

There are too many idiosyncratic variables in the mix beyond just understanding generally how long it takes for cases to get through courts. And so, it is not something that we believe that we can do with the kind of accuracy and reliability that we would be comfortable doing publicly.

I would say, would that we could. But on the other hand, if this business were entirely predictable as to both duration and outcome, then we would not be able to generate the returns that we can, I think, is the countervailing factor.

**James Hamilton (Numis):**

The matter that you expect to deliver a \$50 million profit in the second half, I am just wondering, obviously, reasonable size. And obviously you plan [inaudible] \$2.2 billion of expected realizations. How does the \$50 million fit in relation to its presence in the \$2.2 billion? Is the first one.

**Christopher Bogart:**

I am not sure, James, that I am entirely following your question other than to say that it is a part of it, but I suspect you are asking something more thoughtful than that.

**James Hamilton:**

What I am asking you is, is it greater or lesser than the expected value of that case in the expected realizations number that you have provided?

**Christopher Bogart:**

Yeah, I understand the question now. So we have not gone and sliced and diced that modelling work publicly by individual cases. But I think it is fair to say that we are pleasantly surprised by the combination of speed and size.

**James Hamilton:**

And secondly, and equally dull I am afraid. Of the 20 matters valued up, is there any difference in that portfolio relative to [inaudible] valued up? And I am specifically interested in two areas here. Firstly, is there any likely difference between the conclusion value and the valuation uplift compared to what we have seen before based on your modelling of these 20 cases? I appreciate timeline, you cannot really forecast, but is it likely, given that there has already been a case decision that the timing gap between when the valuation uplift happens and when the case concludes will be any difference to the history? I am not asking for actual numbers on each. I am just saying do these cases look just like the concluded ones?

**Christopher Bogart:**

Jon can comment. But I think the answer is generally yes. And we have regularly published, and we have it in the addendum to these slides in fact. We regularly publish data that shows the average time to conclusion after there have been for value changes and nothing has happened. I do not believe it caused us to think that that is going to change dramatically. Jonathan, anything?

**Jonathan Molot:**

Yeah, I think the way I would sort of characterize it is, some years ago, I think we did start providing disclosure on as all the matters have gone through the process and led to a realization, where in the process fair value changes happened and then what was left for realization at the conclusion.

And as Chris said, we found that much more of the fair value adjustments happened because there were more significant events later in the lifecycle closer to the end, but not all of it. And actually, that was so much the case that, as Chris said, we have tried to take out as much discretion as possible and just make it pretty rote that you get by a motion dismiss. This is what happens. You get by summary judgment. This is what happens. You win a trial. This is what happens. You lose a trial. This is what happens. It is all fairly routine.

And that is because in keeping with our past experience when we had used numbers roughly like the ones that are now the formulaic ones, we found that things did move through the process and lead to some fair value gains along the way and left some realizations for the end that were not captured in those fair value gains on a fairly predictable basis.

We cannot predict for any one matter, as Chris said. But over the portfolio, I have no reason to think those 20 matters are different from the many more that have resolved before that.

**Christopher Bogart:**

So we will turn back to the webcast now in the few minutes that we have left. And Marcel Schober asks, what is your asset management strategy going forward? What are the challenges and bottlenecks in growing the private funds business?

So our asset management strategy is to use our third-party funds business as a way of, generally speaking, having line extensions of our core business. And we have now got a world, where we have a complete offering across the risk and return spectrum of legal finance. So we have different funds that target different levels of risk and return, and those are appealing generally to different kinds of investors as well.

And so, what you see there is a conscious decision on our part about proper allocation and the use of our balance of capital where we favor higher return activities for the balance sheet capital, and we use the funds to augment that. We have been successful in growing the private funds business. We launched successfully two new funds, closed two new funds this half period.

I would say that one of the challenges in the private funds business to be perfectly candid is our greed. There is an institutional sense in the private funds business that even if you can generate high returns, you should not be paying more than a traditional two-and-twenty style set of economics and we just do not think that set of economics is very desirable in some elements in this asset class.

And so, we look for alternative structures that enable us to generate more return for shareholders. And you have seen us do that with the sovereign wealth fund arrangement. You have seen us do that more recently with the Advantage Fund, where instead of a traditional management and performance fee arrangement, we will do better than two-and-twenty economics if we can generate a return more than 12% or 13%.

So that is really the strategy there. And we value the private funds business and intend to continue using it.

Also from the webcast, Andrey Omelchak asks, can you please elaborate on the expected ROIC differential between larger cases and smaller ones? Can you also comment on changes in competitive dynamics within smaller and larger cases? Jon, do you want to take a whack at that?

**Jonathan Molot:**

Sure. I think what we have found is larger cases have performed well over a certain threshold, in part just because they are being litigated by higher quality lawyers and often involve higher quality counterparties of our ilk. And so that is not only more efficient to put out more capital in one chunk with underwriting, but it also has just tended to result in better outcomes.

And in terms of the question about the competitive dynamics in smaller versus larger, we have found that when there have been new entrants over the years, and I have not really noticed an influx recently, they have started at the smaller end of the market, and they have not been institutions of Burford's caliber and have had a harder time providing a full service solution to the large companies and leading law firms that are our lifeblood.

On the other hand, the people who would target larger outlays, a hedge fund model, are more likely to be looking at lower risk, lower return portfolios. Equity investors generally do not have the risk orientation we do where we are willing to take binary risk because we put it in a portfolio to mitigate that risk and we generate higher returns as a result. It is just not necessarily the mindset of somebody who comes at it from the hedge fund side where they are looking for a more muted risk.

So I am very happy with where we are in terms of competitive dynamics right now. As I said earlier, we have expanded geographically. We have expanded our range of offerings and the counterparties who are interested in our capital have expanded as well. But that is a good question about small versus large. It is something we pay close attention to.

**Christopher Bogart:**

So I am conscious that it is on the hour, and that we are not unfortunately going to be able to make it to every webcast question. But I will squeeze one last one in. So Emmanuel de Figueiredo asks, given the worsening economic situation in Argentina, are you worried about actually collecting YPF in the advent of a positive ruling for Burford?

So I suppose I would say a couple of things in response to that. One is, and this is really quite important, and we get this question a lot. There is a distinction between sovereign debt and the enforcement of defaulted sovereign debt on the one hand and stand-alone court or arbitral tribunal decisions on the other. When you are a sovereign debt holder, you are subject to not only the whole set of terms, which usually include enforcement related terms in the documents that you have agreed to as part of the loan, but you are also not, generally speaking, an independent actor.

The sovereign debt holders are acting as a group of creditors. That just is not the same dynamic when you have a court judgment. If you are an independent actor, you have an immediate set of remedies available to you, and you are free to go and begin using those remedies as soon as you have an enforceable judgment. And there is not the opportunity for the judgment debtor to basically use a collection of sovereign debt style roadblocks to block that.

That does not mean to say that enforcement against recalcitrant sovereigns is easy. But it is something that we do and that we have significant experience in doing. And it is also obviously a key part of our underwriting ability when we take on these cases. It is notable

that Argentina has, in the past, consistently paid arbitration and judicial awards, consistently meaning ever since Argentina rejoined the capital markets. And so we are not going to comment publicly on the specific dynamics of how to enforce against Argentina or what our strategy would be. But we are not subject to the same macro forces that you might see in play with sovereign debt.

Jon, anything to add to that before we close?

**Jonathan Molot:**

No. Just when you have to, we worry about it, it is, of course, something we pay attention to. But as Chris said, we understand the difference between having a court judgment and being a sovereign debt holder.

**Christopher Bogart:**

And we are excited about bringing this long-running case finally to an end. We became involved in this matter in 2015. That is the year that we filed this case in federal court in the US. So after a seven-year slog, it is really quite exciting to be coming close to the finish line, the finish line being in sight now, and we will see what happens next in that case. So after a long wait, hopefully, there will be some news in that case before too long.

With that, thank you all very much for your time and attention. We really appreciate it. And obviously we are always happy to have offline questions about any aspect of Burford's business. But thank you for your support and patience while we have, in turn, endured court delays in the pandemic, and we are excited that there is light at the end of the tunnel, both in YPF and in the courts in general.

So thanks all, and enjoy the rest of August.

**Jonathan Molot:**

Thank you.

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