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January 15th, 2022

Dear Investors,

During the fourth quarter of 2021, our portfolio was flat in Canadian dollars net of fees and +5.1% for the year ended December 31st, 2021. Our cash balance was 15.9% at quarter end. The broad European equity index was +5.0% and the Canadian index was +6.3%[1] in the quarter. From inception to December 31, 2021, our portfolio is up 33.2%, which is a 14.9% average annual return net of fees with 29% of the portfolio in cash on average over that time.

The table below gives you a summary of our performance and exposure by strategy bucket for the quarter and the relevant periods since inception.

		Exposures by Strategy Bucket			
Time Period	**Performance, Net of Fees**	**Total Equity**	**Core Value Equity**	**Special Situations Equity**	**Cash**
FY 2019 [1]	1.9%	41.0%	36.0%	5.0%	59.0%
FY 2020	24.2%	78.1%	70.6%	7.5%	21.9%
FY 2021	5.1%	84.1%	80.8%	3.3%	15.9%
4th Quarter, 2021	0.0%	84.1%	80.8%	3.3%	15.9%
Average, Since Inception [1]	14.9%	71.3%	64.8%	6.5%	28.7%
Total Return, Since Inception [1]	33.2%				

1. Inception on December 9, 2019

In my last few letters to you, I have attempted to expand on my investment process to give you the kind of transparency I would seek as an investor. In this letter, I propose to step back from the detail of my process to examine the core thesis behind Highwood Value Partners two years on from inception. I will also outline a new investment in a little more detail than usual (please bear with me, I believe it is worth it). I will then provide the usual update on the portfolio on an aggregate and position by position basis as well as a business update.

First, a comment about the performance in 2021 and current pricing of the portfolio. Over the long-term, the market prices of our securities are driven by the profits our companies generate. In the shorter term however, the prices can be affected by numerous other factors. Provided the companies we own continue to compound shareholder value at the rates I expect when underwriting the buy decision, I have the reasonable expectation that the performance of the portfolio will approximate that rate of compounding, but in any single year it can vary from that rate. This is what happened in 2021. The market price of our

[1] MSCI Europe (in CAD) and TSX respectively.

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portfolio was up 5.1% in the year, which I believe is considerably below the rate of intrinsic value compounding at the level of the companies we have partial ownership interests in. The good news from this is that the portfolio is now well positioned going into 2022. The best way of tracking this dynamic is to consider the Price / Value statistic I provide in the table on page 5. In aggregate, the portfolio is back to where it was on the Price / Value basis at the end of 2019 despite having delivered a 31% gain since that time[2]. It is also considerably more invested in assets at that discount to value: 84% of the portfolio is deployed now versus 41% as at December 2019. In short, you should expect the returns from a concentrated portfolio such as ours to be lumpier than an index or diversified active management.

The subject of traditional diversified active management is where I would like to start. I had a conversation recently with a new investor in Highwood, who started by saying that he is generally 'not a believer' in active portfolio management because 'the majority of investment managers do not beat the index' over a reasonable period of time. His assessment is entirely correct of course, which is not lost on me as an observer of this industry for over 20 years.

Highwood was set up to do a better job for a group of long-term investors than what is available from traditional active management and is my response to the rather uncomfortable fact of being part of an industry that has not provided value to its customers. In what follows, I intend to summarize a non-exhaustive (but material) analysis of the reasons why I believe traditional active management has failed its clients and my response to those issues in the way I have set up and continue to run the firm, which collectively could be called the core thesis behind Highwood.

<u>Traditional Active Management: Mis-Aligned Incentives</u>

Traditional active management suffers from a range of mis-aligned incentives which go a long way in explaining why it has not provided value to its clients. Firstly, the primary mission of a traditional asset manager is to gather assets (AUM). The larger the AUM, the more profitable is the business that charges a fee based on that AUM. Hence, traditional asset managers devote considerable resources to branding and marketing a product, which in my view is bought not sold. This focus on AUM growth is also antithetical to achieving great investment results as it limits the opportunity set to investments in larger companies that already have teams of analysts broadcasting the company's strengths to investors. Second, slightly further down the chain of command, traditional asset management tends to have mis-aligned incentives between the portfolio manager/investment team and the client best summarized as 'heads I win, tails you lose'. This is because the fortune of the portfolio manager (and investment team) is directly tied to the profitability of the firm, which is a function of AuM, not performance. This incentive structure would be more aligned if the investment team had substantial amounts of their own capital invested in the funds they manage[3], but this is rarely the case. Instead, the majority of the investment team's compensation comes from annual salary and bonus. This leads to the folly of short-termism. When compensation is structured this way, the behavioural incentive in that team is to pick stocks that they believe will outperform *this year*. Unfortunately, this leads the investment team down a path that has a low rate of success for both client and

[2] For reference, The MSCI Europe is up 19.2% over the same time.
[3] The exact proportion the investment team would need is 1/the return of the fund x their annual salary and bonus just to make the compensation from salary and bonus equal to the return on their own capital in the fund.

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manager. As Warren Buffett has said, 'in the short term, the stock market is a voting machine, in the long term it is a weighing machine' (where the weight is corporate profits). In this regard, the investment team becomes overly focused on which stocks will win the 'voting contest', which is more about judging investor psychology – what will be hot this year and/or trying to learn something new about the company that will come to light in the course of the next year, or worse, the next reporting season. This is evident in the ever shortening holding periods for stocks on the major exchanges, and it turns public market investing into something uncomfortably close to gambling on the price attached to a piece of paper. So, in aggregate after fees and expenses, it is no surprise that the majority of diversified active management underperforms the index, and likewise no surprise that active management so constructed is slowly losing share to passive management.

This industry might not have lasted so long if it were not for another fact, which is reduced accountability. Investment decisions by traditional asset managers are typically the output of a team or committee, which reduces accountability. Without clear accountability, it is difficult for clients to assess what is really going on and make decisions accordingly. Instead, clients end up being influenced more by brand image and marketing.

<u>The Core Thesis behind Highwood Value Partners</u>

Highwood was founded as something I can be proud of and as such, I have crafted it as best I can to avoid the shortcomings of traditional active management, and indeed exploit them. Highwood has a clear mission, which is to turn every dollar of invested capital into five dollars over ten years without taking undue risk. While it is important to have enough scale to access services from the best partners and pay a moderate salary, nowhere in the mission does AUM growth appear. Indeed, Highwood will have a cap on the assets it manages to enshrine this principle. In contrast to traditional asset management, I purposefully choose not to spend my time marketing the strategy as this would be resources taken away from the mission. Secondly, Highwood manages nearly all of my family's capital. It is because of this fact that I would rather manage a smaller amount of capital, flexible enough to attack an opportunity set that is overlooked by traditional asset management. As such, I expect the majority of the compensation that I receive from running Highwood to come from the compounding of my own capital over the time horizon defined by the firm's mission, rather than annual salary and bonus. This also serves to create direct, clear alignment of incentives between myself as the manager and you as a client. The mission and alignment of interests puts the analytical focus here at Highwood squarely on finding businesses that will compound shareholder value over a five to ten year period, which is an appropriate time horizon for the 'weighing' aspect of the equity market to dominate the 'voting' aspect. This is part of Highwood's advantage over traditional diversified active management – the weighted average of money in the equity market sets the current prices of our investments, and when that money prioritizes the short term, it cannot prioritize long term value. Finally, I would rather do all the investment work myself rather than farm out responsibility (and accountability), and as such I do not need a cost structure that would necessitate a large AUM that would put me at a disadvantage in executing the mission. This also means greater accountability for you. Any mistakes are my own. As such, this also creates a stronger learning environment for me as an investor, which I would argue puts me on a path to becoming better at my craft with every passing year. Alongside accountability, I aim for a high degree of transparency (achieved in part by detailed investor letters such as

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this one). In summary, the core thesis behind Highwood is that this structure is a better way of stewarding clients capital than traditional active management.

That the firm has some competitive advantages in its DNA does not negate the fact that Highwood also faces challenges. This is not a marketing document and my desire to be transparent urges me to be clear on what I believe those challenges are (not to mention, the clearer I am on those challenges, the better placed I am to address them). The main challenge at Highwood is that I have started out as a 'one man shop', which means I have a number of operational duties as well as the core investment function. A better structure would be one where my time is devoted 100% to the investment function. As such, I am focused on finding the right person to sit alongside me in an operational role. What remains is the diligent application of my approach to execute on the mission, which is what I turn to next.

Portfolio Activity in Q4

During the quarter, I added to our positions in Naked Wines, Alimak and Vestas and initiated a new position in Burford Capital, a UK domiciled mid-cap and the global market leader in litigation finance. The summary thesis behind this investment is below and continued in Appendix 1.

Burford Capital – Core Value

Burford Capital is the global market leader in a very attractive industry with clear and growing competitive advantages, excellent returns on invested capital and a runway to continue to allocate in excess of 90% of the firm's excess free cash flow at 30%+ returns on capital. The management team is first class in the industry, well-invested alongside shareholders and has built a culture of ownership and alignment where every employee of the firm is a shareholder. In short, it is just the kind of business I look for and one which, if the stock exchange where it trades were to close permanently, I would be happy to own it as a private business. Equally important, we have bought our partial ownership interest at a price which, I believe, gives us a strong margin of safety if the trajectory of this business does not pan out as I expect and embeds a return well in excess of our hurdle rate if it does. We have acquired our shares at a discount to the value shareholders would receive if the company closed up shop tomorrow, liquidated its assets and returned the proceeds to investors – in effect its liquidation or run-off value. Please see Appendix 1 for the more detailed thesis behind this investment.

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Portfolio Updates

The combination of the trades described above and lower prices for some of our securities means our portfolio is well positioned going into 2022. In fact, as noted earlier, it is back to where it was on a price/value basis at the end of 2019 despite having delivered a 31% gain since that time and is now 84% invested (vs 41% as at December 2019). This is just the kind of situation I expect from a portfolio of high-quality businesses that are compounding shareholder value at attractive rates.

Highwood Value Partners Portfolio						
As of Date	% Invested	Median Price / Est. Intrinsic Value	Median Market Cap, in Mns of USD	Median Net Debt (Cash) / EBITDA	Median EV / Sales	Median P/E
31-Dec-19	41%	0.54x	550	-0.8x	1.6x	15.1x
31-Dec-20	78%	0.69x	713	-0.3x	2.2x	13.1x
31-Mar-21	75%	0.67x	863	-0.6x	2.0x	13.5x
30-Jun-21	76%	0.69x	807	-0.6x	2.0x	13.8x
30-Sep-21	78%	0.64x	820	-0.5x	1.9x	12.5x
31-Dec-21	**84%**	**0.52x**	**1387**	**-0.5x**	**2.0x**	**13.3x**

Below are the updates on our portfolio holdings in the quarter in alphabetical order, excluding Burford Capital.

Alimak – Core Value

Alimak is our mid-cap, Swedish industrial business which operates an attractive installed base business model. The shares were marked down 18% in the quarter with no material change in the outlook for the business or my estimate of fair value, and as such, we increased our position. The company reported another set of mixed results in the quarter, which showed continued progress on margins despite inflationary pressures on materials and transport costs on the one hand and slow progress on the recovery in revenue to pre-pandemic levels on the other. Revenue was down 5% in the quarter and remains 20% below pre-pandemic levels. Despite this, margins continue to improve. Gross margins were up 2.7% YoY and EBITDA margins up 5.6% in part driven by strong growth in the aftermarket service business which was +26% in the quarter. This is in line with management's business plan for the business, which calls for a clear focus on margins this year before shifting focus to profitable growth in 2022 and beyond. At our most recent purchase price, Alimak shares offer us a 10% free cash flow yield and a strong margin of safety versus fair value.

GetBusy PLC – Core Value

GetBusy is our small-cap, UK document management software business. The company continues to invest for growth by deploying the free cash flow from its more mature product, Virtual Cabinet, into new customer acquisitions at SmartVault, which are delivering 35%+ incremental returns. In addition, the

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company made two small bolt-on acquisitions in the quarter which will provide additional functionality for SmartVault users. Management have looked at over 100 potential acquisitions in the space and have pulled the trigger on just two, where both the quality of the business and valuation lined up such that it was a good deal for both customers and shareholders. In terms of operational progress, the company continues to have a very low gross churn rate consistent with the value of the product to the end customer and continues to grow revenue at a low teens rate at high incremental margins. In other words, the business is well on track to meet its own target of doubling revenue over the next 4-5 years, which will see substantial operating leverage. The shares continue to languish at a large discount to any realistic break up value today let alone what this company would be worth 5yrs out if continues to execute.

JZ Capital Partners – Special Situation

JZ Capital is our small cap, UK listed closed-end private equity fund in liquidation. JZ reported H1 results to the end of August in the quarter which showed continued progress toward its goal of liquidation and return of capital to shareholders. The company realized its investment in Salter Labs at a 9% premium to carrying value offset by mark-downs on two smaller portfolio positions resulting in a Net Asset Value of £3/share as at the end of November. I had a helpful call with the company in December which left me re-assured that the company has the flexibility to manage the liquidation in a manner which will maximize value from the portfolio of assets. We own this diversified portfolio of private equity interests at 40cents on the dollar of appraised value, which gives us a nice margin of safety and the potential for returns well in excess of our hurdle rate.

Naked Wines – Core Value

Naked wines is our UK listed online direct-to-consumer subscription wine business. The company reported H1 results to the end of September in the quarter. The results were mixed, but in my view clearly supportive of the long-term thesis that this business is on track to be significantly larger five years out. On the negative side, the company reported modestly lower returns on new customer investment, largely the result of the easing of lock-downs in the company's core markets and higher advertising costs across the major digital platforms it uses. The company's response to this was to slow down on new customer investment and continue to learn from the customer behaviour it is seeing, which I support and is exactly the kind of response I would expect from a management team that is focused on returns. While incremental returns on the most recent £20mn spent on customer acquisition in the half were modestly lower (but still attractive), the results showed that returns on the £150mn of capital spent to acquire the c.700,000 customers over the past 7 years continues to grow as these customers spend more on the platform and Naked reaps greater efficiencies. The customer value proposition is clearly getting stronger reflected in the increasing quality of the winemakers on the platform and Naked's market share gains. The shares tread water in the quarter and we modestly increased our position. For a more in-depth view of the thesis on this investment, please listen to the presentation I did to the CFA society of Toronto in June 2021. The password is HIGHWOOD.

Protector Forsikring – Core Value

Protector is our mid-cap, Norwegian P&C insurer with a large and growing float. The company reported another set of strong results in the quarter which demonstrated the power of the business model when it is

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firing on all cylinders. Q3 results showed net premium growth of 26% driven by 55% growth in the UK, which is now it's largest market from a standing start four years ago. What is more, this growth has been achieved without sacrificing returns. The combined ratio in the quarter was 83% and returns on equity are running at 44%. Both growth and margins are tracking ahead of the company's long-term expectation. The company has generated earnings of 12 NOK/share in the first nine months of the year and is on track to deliver c.14 NOK/share in earnings for the year as a whole. The strong results this year have also left the company in a very good capital position. While the shares have been the largest positive contributor in the year to date, up 87%, they have not kept pace with the company's results. The shares are trading at c.7x Earnings. On a Price / Book basis, which is more relevant, the shares are still undervalued versus a fair value for the kind of performance the business is likely to generate on a normalised basis even if 2021 was a 'stonker' of a year.

Ryanair – Core Value

Ryanair is Europe's largest short-haul airline and a fine example of the discount business model I so like. It is able to price its fares at a 30% discount to the costs of competing airlines and still be the most profitable major airline in the Europe. This customer proposition drives market share gains which drives greater economies of scale which allows the company to reduce prices relative to competitors further. This flywheel effect, will, I believe, generate significant shareholder value over the next few years. Ryanair reported Q2 results to the end of September in the quarter. The company returned to profit in Q2, but more importantly for our thesis, the results showed further evidence of a widening moat. Ryanair has used the Covid-19 pandemic to increase its cost gap with competition by acquiring more efficient aircraft and re-negotiating its deals with airports seeking the kind of passenger volume Ryanair can provide. In the last six months, Ryanair has established deals with 14 new airports across Europe and will expand its route network to include 560 new routes. This is direct market share gain from carriers who have had to reduce operations because of high costs, weak balance sheets and the Covid-19 pandemic. Italy is great example. Italy's flag carrier, Alitalia, was forced into restructuring during the pandemic and has re-formed with a new name, ITA, but with only 50% of its pre-Covid fleet. As a result, Ryanair has scooped up routes in and out of Rome, Milan, Naples and Bologna and signed lower cost deals with Venice and Torino airports. In total, Ryanair will base another 20 new aircraft in Italy next year on routes it can operate profitably and Alitalia/ITA simply cannot. This is clear market share gain and shows up as increased guidance for the number of passengers Ryanair expects to carry next year and out to 2026.

Sto SE – Core Value

Sto is our German listed, family run international manufacturer of building coatings with a dominant market position in external wall insulation (EWIS) in Europe. The company was a new addition to the portfolio in Q3 and was discussed in that letter. The broad thesis on this investment is that the business is increasingly benefiting from structural tail winds as demand for its products is driven by increased regulation intended to drive energy efficient renovation on one hand and higher energy prices on the other, which increases the propensity of building owners to upgrade the energy efficiency of their buildings. Sto is well placed to benefit from this over the next five years, and their results in the quarter bear this out. Management increased their guidance for the full year on December 20th, citing stronger than expected

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demand in their core markets. They now expect to report revenue growth of 11% and EBIT margins of between 7% and 8% for the full year, which implies an upgrade to their profit expectations of 13%.

Vestas – Core Value

Vestas is the Danish listed, global market leader in wind turbine manufacture and service. The company has an attractive installed base business model with a highly profitable and competitively advantaged service business and a net cash balance sheet. Vestas is a clear beneficiary of the energy transition, which requires wind capacity 11x the current installed base over the next 30 years to reach net-zero emissions. Despite this, the company has suffered this year from its complex supply chain and challenging global logistics. Vestas reported Q3 results in the quarter. Revenues were +16% while operating profits were down 21% reflecting the ongoing challenges of cost inflation on raw materials and components (eg Steel prices are up 166% year over year in 2021), which had a negative impact on gross margins. The company is raising prices on new turbines, but the challenge remains the backlog which is being executed in a higher cost environment compared with when those contracts were signed. In the medium term, costs get passed on and this is helped by the oligopolistic market structure in the wind turbine industry (the top 3 players, Vestas, Siemens Gamesa and GE control over 80% of the market, all of which have the same challenges). In the meantime, the price of the shares broadly track the shorter-term issues and as a result were down 32% in the year, with most of that decline in Q4. We have taken advantage of this by increasing our position in Vestas at prices that embed higher prospective returns.

Business Update

Highwood is two years on from inception. The firm continues to grow and take on new mandates and I am pleased with its progress. As mentioned earlier in the letter, I continue to look for an operations analyst who can take on a number of the non-investment tasks at Highwood which will permit me more time to focus on finding great investments for our capital.

As always, I value your support and welcome your questions and comments.

Sincerely,

Desmond Kingsford

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Appendices

Appendix 1: Burford Capital Investment Thesis

Litigation Finance 101

Burford is the global market leader in litigation finance. In its most basic form, litigation finance is provided to a corporation on a single case basis to pay the legal fees and costs associated with a commercial litigation or arbitration in exchange for a share of the ultimate award or settlement. Where litigation finance is most often used is in situations where a claimant has a good case but does not have the ability or willingness to fund the case – it is often funding an undercapitalized David against a well funded Goliath. This is an attractive customer proposition as it creates an asset (a legal claim) for the company that has had its rights violated, at no cost or risk to them. Burford makes money in two ways. It originates, researches and invests its own balance sheet in select litigation claims, and secondly it has a substantial asset management business which invests third party capital into litigation claims, for which it receives management and performance fees. The company is a capital provision business, like the listed private equity sponsors such as Blackstone and KKR, just focused on a different, unique and very attractive asset class.

The attractions of litigation finance as an asset class are substantial. The asset class has continued to deliver very attractive un-levered returns on capital and those returns are highly uncorrelated and feature a series of natural catalysts.

1. For every dollar that Burford has invested in legal claims since its inception in 2009, it has returned an average of 2x money including lost cases over an average of 2.1 years per case, or an unlevered 30% IRR on invested capital. This is well over double the returns of private equity for example without the use of leverage. The returns in litigation finance are highly asymmetric. In each case, the maximum loss to the litigation funder is fees and expenses to take the claim through the court system and the potential recovery if the claim wins in court is typically many multiples of these costs.
2. Secondly, litigation finance offers a highly uncorrelated return profile. The timing of litigation cash flows is dependent on judicial decisions, which means Burford's cash flows are generally uncorrelated to the broader business and investment cycle. If anything, the propensity for corporates or law firms seeking funding for claims increases in times of lower corporate profits as it is a way to monetize a hidden asset on the corporate balance sheet.
3. Finally, unlike private equity or venture capital, there is a 'natural exit' for litigation investments: either a case is adjudicated (and wins or loses) or the case is settled before trial. The existence of this 'natural catalyst' creates shorter investment cycles than traditional private equity or indeed venture capital.

It is no surprise that Burford's asset management business is able to charge performance fees of 20-42% of profits and is growing at 20% per annum. As equity owners in Burford, we are owners of the equivalent of the General Partner and so receive a share of these fees. This is a much more attractive way to have exposure to litigation finance than, for example, being an investor in one of their funds which would entail paying away a large proportion of the upside in the form of performance fees.

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The case for Burford: Competitive Advantages, Capital Allocation and Management

What matters is whether the returns Burford generates are sustainable. My thesis is that they are, owing to substantial barriers to entry in the industry and Burford's own competitive advantages. Typically outsized returns attract new capital eager to achieve the same outcomes which dilutes the returns for existing operators. Litigation finance is a highly specialised niche, which takes the combination of deep understanding of individual legal matters, the litigation process as well as traditional investment underwriting expertise. Despite the very attractive returns in this niche, there have been no new entrants to the space since 2015 and this, I believe, is because of a number of factors that remain the case. The largest of which is that for anyone but a pure play litigation finance player, there are natural conflicts of interest in having litigation finance alongside a traditional multi-strategy investment or financial services business. The likes of Blackstone or Goldman Sachs are highly dis-incentivized from suing corporations they may have business relationships with now or in the future. The remaining potential entrants who do not have this conflict face substantial barriers to entry in the form of capital, brand and expertise. Traditional law firms are structured as risk-averse partnerships, where partners are paid by the hour. While some law firms offer their services on a contingency fee basis, few if any are willing to take the risk funding a claim that will cost $20mn and take years to move through the legal system. Rather, such a law firm is incentivized to refer a client with such a claim to a litigation finance firm as it means they can be hired and paid on an hourly basis for their work. Burford is well placed to take these risks as they have a diversified portfolio of such claims, where the maximum loss on any individual claim is less than 5% of the firm's capital. Burford and its peer IMF Bentham were the first to institutionalize the litigation finance business and capitalize it well – they are the pioneers in the industry. As such, Burford has about a decade head start on competition as the entrenched brand in the industry. They have the deepest relationships and widest network for originating attractive litigation assets and an impressive database of proprietary information from having seen thousands of legal matters. They put that data to use in their investment process which is neither publicly available, nor easily replicated. Indeed, the evidence is that Burford's returns on invested capital are going up, not down as they get better at originating and underwriting attractive claims.

Furthermore, Burford has a substantial runway to continue to deploy large amounts of capital at these attractive returns. The addressable market is difficult to size exactly, partly because many claims do not see the light of day because of a lack of capital. As litigation finance becomes more mainstream, the addressable market grows. However, a conservative estimate based on existing litigation in the verticals where Burford has a strong presence (Antitrust, IP, Securities, Arbitration etc), Burford has less than 5% market share.

The company has a strong ownership culture, which is helpful in aligning incentives with us as owners. Every employee of the company is a shareholder and Management own 8% of the equity in the business. The firm is able to attract and retain the top talent in the legal industry, partly because compensation is more attractive than at the world's top law firms. The co-founder and CEO of the company, Chris Bogart, was a partner at Cravath at age 27 and went on from there to be general counsel for Time Warner before founding Burford in 2009. The other co-founder, Jonathan Molot, who is the firm's Chief Investment Officer

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is equally impressive. The management is clearly passionate about the business, are good stewards of capital and their incentives are well aligned with ours as shareholders.

Disputing the case against Burford

If it is such a great business, why are the shares cheap? While I tend not to look for answers that can't be verified, in this case I believe there are some more obvious answers. In August 2019, Burford was the subject of a well-articulated short thesis alleging that management consistently and purposefully overstated its profitability – which called into question the ethics of the management team and the true underlying economics of the business. The value of most individual legal claims in process are not readily observable, and as such Burford uses 'Level 3' accounting to mark its book of claims to market. Level 3 accounting is nothing new: it is the same methodology used to value private equity and venture capital funds. What matters for the short seller's claim is whether those valuation marks were consistently aggressive or not.

The short report on Burford was at a point in time when the valuation of the company was 5x book value, which was the wrong price for the business at least in the short term, and so in that regard it hit the mark. The shares fell 60% and the short seller made a profit. But that was then. More than two years have passed since the report. This passage of time gives us valuable information on whether the short seller's allegations were correct or not. The valuation is also much lower now: the business has continued to compound away while the shares have remained 'in the penalty box' – Burford is now 1.5x book, or c.30% of what it was prior to the report. Also, many things have happened that in my opinion would not have happened if management were fraudulent:

1. The company has substantially increased disclosure (the opposite of what you would expect if management were dishonest) and that increased disclosure shows very clearly that management's valuation of individual claims has consistently been conservative, not aggressive. The actual cash value of Burford's claims at the point of adjudication or settlement have consistently exceeded the value those claims were marked at on the company's books.
2. They have hired a new CFO and added three new highly-credible, independent people to its board (who bear greater career risk to joining a so-called fraud then an analyst recommending its stock, with greater access to inside information and more industry knowledge), and
3. The company has achieved a secondary listing on the NYSE, which makes its directors accountable under the Sarbanes-Oxley act and criminally liable if the firm was knowingly mis-representing its profitability. For a firm comprised of well trained lawyers and a board having significant reputations, this is not the sort of development you would expect if the allegations in the short report were true.

Nonetheless, investing in Burford comes with a kind of optical risk that most investors are unwilling to take. For, if it were in the fullness of time proven to be a fraud, it would be easy for the higher ups in any investment organisation to say 'told you so', with potential career or reputational risks for an analyst recommending the stock. Furthermore, the existence of the short report creates a kind of 'burden of proof' that is for most investors, unattainable because each claim has to be verifiably false, when in fact, this is

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almost never possible. For most analysts at traditional asset managers this makes it an easy 'pass' for what I would call non-economic reasons owing, in part to their career incentives.

Valuation: discount to liquidation value

Today, the market cap of Burford is £1.6bn, or $2.2bn USD for which we get four main assets. The first is the book of on balance sheet investments in litigation claims, the second is a large and growing asset management business and the third is a large single claim against YPF, the Argentinian energy company, stemming from it's re-nationalization in 2012.

1. The book of on balance sheet assets – litigation assets that the firm has acquired or funded—is carried on the balance sheet at c.$1bn at historic cost (ie no mark ups). Historically, Burford has generated 2x money on deployed cost. As noted earlier, Burford's returns have been increasing from the historic 2x multiple on invested capital. If we apply a more conservative multiple of 2x return, this book of assets is worth $2bn in cash proceeds. On-top of this, Burford has the right to deploy an additional $400mn into existing cases, which at the same return would be worth $800mn, for total value of $2.8bn. This is the value of this book of assets if Burford were to stop new business today and put the business into run-off.
2. The second major source of value is Burford's third party asset management business which generates management fees and performance fees. If this business were to stop taking any new outside capital and run-off its portfolio in tandem with the on-balance sheet assets, Burford would receive management fees of c.$12mn per year and performance fees of c.$300mn, so an aggregate value of $350mn.

Together with the on-balance sheet litigation assets, this is total value of $3.15bn, from which bondholders, including interest over a 4yr run-off period, operating expenses, tax and unfunded commitments would eat up c.$1.05bn, which leaves $2.1bn for shareholders, or 95% of the current market cap.

3. The third piece of value is Burford's interest in the claims against YPF and the Argentinian Government. This is a piece of litigation that that could generate cash flows of between zero and $5bn to Burford, or 2.3x the current market cap. Burford sold a portion of its YPF claims to institutional investors and at that valuation, Burford's remaining claim is worth $750mn.

All three assets together comprise $2.85bn USD in value or £9.80 per share vs the current share price of £7.50. In short, I believe our downside is well protected.

4. The fourth asset of course is Burford's intellectual property, including the 'database' of legal matters the firm has reviewed over its 12 year history, the relationships it has with law firms and corporates for origination, its people and its market position which set the firm up well to continue to allocate capital at high rates of return going forward. This is Burford's largest and most valuable asset, and at current prices, the market ascribes no value to it.

In short, I believe we own a very attractive business here with clear competitive advantages protecting the attractive unit economics, a clear runway to allocate large portions of its excess free cash flow at high incremental returns, a first class management team whose incentives are aligned with shareholders and

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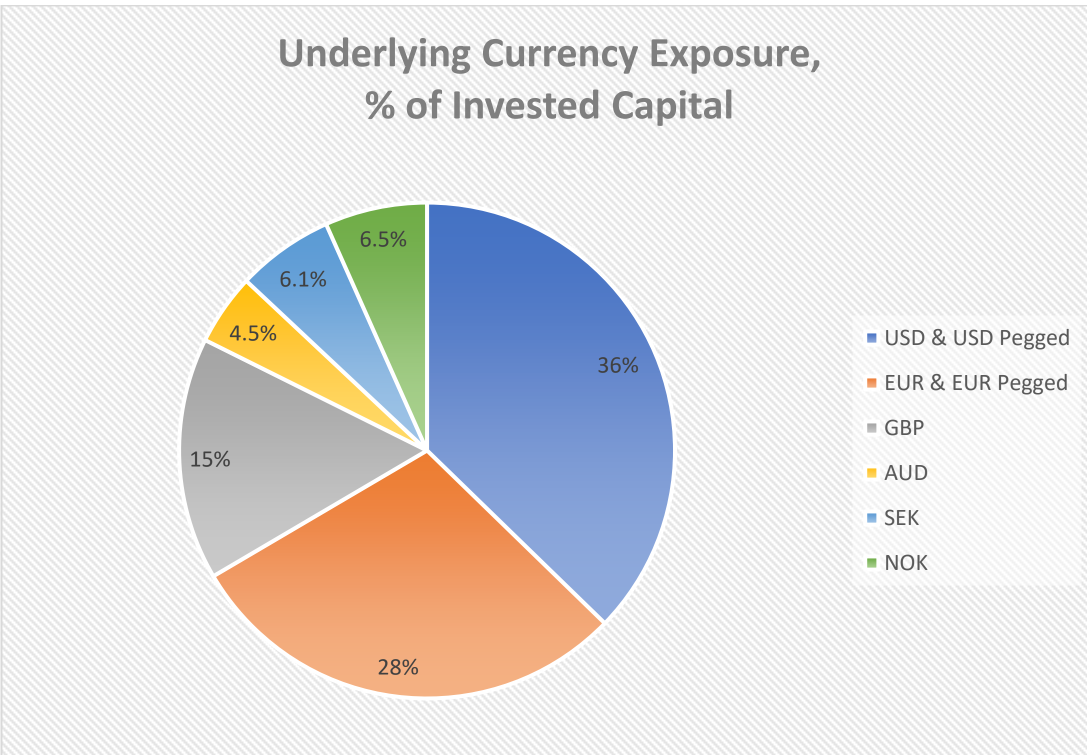
purchased with a significant margin of safety. I look forward to being on the Burford journey as a long-term shareholder.

Appendix 2: Underlying Currency Exposure Split

This is not a breakdown of the listing currency of our holdings. It is the split of the currencies our portfolio companies earn their revenues in. As such, it is the underlying exposure to currencies you have through your partial ownership of these businesses. As investors can choose whether to have their account in USD or CAD and hence their cash balance may be in either USD or CAD, I have expressed the currency exposure as a percent of invested capital.



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Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible", and similar expressions, or statements that events, conditions, or results "will", "may", "could", or "should" occur or be achieved. Forward-looking statements in this Letter include, among other things, statements relating to: the desire to generate outstanding investment results with low risk; the proposed timeline for the Firm's investment horizon and Mr. Kingsford's career; the benefits of operating the Firm out of Whistler, British Columbia as opposed to a more traditional investment market; Mr. Kingsford's beliefs regarding the necessary components to investment success; the future operating or financial performance of the Firm and the assets managed by the Firm; the intention to prioritize long-term investment return over short-term results; the intention to take on more capital only where the Firm believes it will not dilute investor returns; the intention to maintain a fee structure that incentivizes manager performance over asset gathering; the intention to maintain the Firm's current strategy and vision as it grows; the potential to provide a fund structure in addition to the SMA approach in the future; the Firm's mission to compound each dollar of invested capital into five dollars over a ten-year period without taking undue risk; the belief that a short term quarterly or annual results focus is harmful to long-term returns; the Firm's beliefs with respect to how risk is properly defined and mitigated; the Firm's beliefs as to how returns may actualize; the beliefs of the Firm and Mr. Kingsford regarding the prospective results of specific investments of the Firm; the theories and beliefs disclosed regarding what makes an investment strategy successful; and the expectation and plans for growth . Actual future results may differ materially. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements reflect the beliefs, opinions and projections on the date of this Letter and are based upon a number of assumptions and estimates that, while considered reasonable by the Firm and Mr. Kingsford, are inherently subject to significant business, economic, competitive, political and social uncertainties, many of which are beyond the control of management. Many factors, both known and unknown, could cause actual results, performance or achievements to be materially different from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements and management of the Firm have made assumptions and estimates based on or related to many of these factors. Readers should not place undue reliance on the forward-looking statements and information contained in this Letter concerning these assumptions.

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