Muddy Waters Capital LLC
info@muddywatersresearch.com
Director of Research: Carson C. Block

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August 16, 2019

Behavioral Analysis of Burford's Response Indicates Significant Deception

Muddy Waters Capital LLC remains short Burford Capital Ltd.

Third party behavioral analysis strongly indicates that Burford's management was deceptive in their written and verbal responses to our initial report. Muddy Waters engaged Qverity to analyze management's statements in the August 8, 2019 response statement and ensuing call for deception. Qverity provides behavioral analysis, and is founded and staffed by former United States Central Intelligence Agency experts in detecting deception. Its principals authored the books "Spy the Lie" and "Get the Truth". We have attached the Qverity report. Note that the report was prepared prior to Burford's announcement about CFO and board changes.

ANALYSIS OF

BURFORD CAPITAL RESPONSE TO MUDDY WATERS REPORT

AUGUST 14, 2019

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BURFORD CAPITAL RESPONSE TO MUDDY WATERS REPORT

EXECUTIVE SUMMARY

In this report, QVerity conducted a comprehensive behavioral analysis of Burford's written response, as well as their commentary and responses to investor's questions about the Muddy Waters report. The responses from Burford management contain a significant volume and density of deceptive behavior across all of the issues identified in the Muddy Waters report. Perhaps the most inadvertently revealing statement in the response was John Lazar's comment that he read the report "knowing there was no smoking gun." He appears to be attempting to communicate that he read the report, knowing that none of it is accurate and they didn't do anything wrong. What he instead conveys with this unintended message is that he was told in advance there wasn't a "smoking gun," or in other words, concrete evidence of what they're doing. The deceptive behavior detailed in this report were identified in Burford's responses and fell primarily into three categories of deceptive behavior. These included, but were not limited to, evasion, aggression, and persuasion. Evasion behavior consists of linguistic acts of concealment. For example, failure to answer the question posed or actually deny an allegation of wrongdoing. Aggression behavior is typically used by a deceptive person to psychologically influence and pressure the questioner or source of an allegation to either back-off or rethink their strategy. Finally, persuasion behavior is defined as those types of statements used for the purpose of convincing someone of their truthfulness versus conveying the information requested.

DETAILED ANALYSIS

1. ***Manipulation of Performance Metrics: We show that BUR heavily manipulates these metrics, ROIC and IRR***

    a. Burford Management exhibits aggression, evasion and persuasion around this issue, indicating the claim has merit. Management introduces the "first and most prominent claim" as "Woodford, Invesco and Burford acted in concert to engage in a multi-year deception over a $7m investment." If this were not true, they would be motivated and able to articulate that they didn't do this. However, they don't say that. Instead, they attack the claim as, "simply false," a failure to deny. They also feel the need to accompany the false denial with the convincing statement, "and further, it makes no sense commercially," to bolster its credibility. Their reference to "trying to make some headlines in this overheated market" regarding the Napo/Jaguar case is an example of aggression. Although they dedicate many words to this case, they completely gloss over the interim reporting of IRR and ROIC prior to the mark downs. Most notably, to explain the "figure shown in Burford's 2013 reporting," management says vaguely, "a litigation matter other than the Salix matter resolved first, and resulted in an entitlement for Burford." This blatantly omits any detail about what this "matter"

was. They also rely on convincing statements about their "hard work" and "good negotiating" to mask how they enabled themselves to avoid a total loss. In the call they refused to provide insight into their average collection periods in terms of IRR and refuse to provide any insight into their expected returns. That response suggests they likely expect lower returns on average going forward.

2. ***BUR then actively misleads investors about how its accounting for realized gains works.***

   a. Management exhibits aggression, evasion and persuasion on this issue as well, suggesting they likely are aggressively making their cases. Their statement, "this issue from our perspective is an attempt to sow confusion where none exists" is an example of aggression. Despite the focus on realized gains / net realized gains in the report, management fails to even bring up net realized gains in the written response, let alone provide clarity into the issue. During the call, they fail to do so when asked about it specifically. They also fail to provide transparency into what's behind the current fair value markup, including how much is from Peterson, they fail to provide any detail into how many instances they've marked up a case and then it's actually settled for less, and they fail to deny that they've been aggressive with marking up cases. In a different exchange, they invoke their auditors and qualify, "so *we don't believe* that these [are] aggressive marks." This is a significant and inappropriate qualification that betrays their lack of conviction in the claim. They also issue the false denial, "So I think that the suggestion in the report that there's anything untoward or mysterious there is not a well-founded." This falls far short of denying that there's something "untoward" here.

3. ***Accounting Methods***

   a. Management employs evasion and persuasion behavior regarding the soundness of their accounting practices. In their written response, they fail to make any assertions that their methods are in accordance with the relevant accounting standards (e.g., IFRS). Instead, they invoke their auditors, reminding investors they've had "clean audit opinions" since 2010. This is the behavioral equivalent of saying they haven't been caught. At one point in the conference call they passively state, "we provide IFRS compliant financials," but feel the need to wrap this claim in more convincing behavior, such as the invoking the auditors again.

   b. In the written response they state, "Burford's accounting and financial reporting is transparent, appropriate and has been consistent *for many years."* Similarly, in

the call they state, *"*And so we provide these two ways of looking at investment performance and both of them have been consistent *for years* in policies that we apply." The phrases, "for many years" and "for years," in lieu of something like, "since inception," reveals that they likely have not been consistent in their application of policies. This finding is supported behaviorally by the textbook convincing statement made in the call, "if there was some aberration in the way that we apply those rules, it would by now have become clear."

4. ***BUR has been highly reliant on only four cases for its monetizations, showing that its broader portfolio has lacked strength.***

   a. Management exhibits aggression, evasion and persuasion on this issue, indicating that there's merit to the claim. Their taking "umbrage" at the suggestion that people should look at their returns without Peterson and reference to "foolishness" at looking at their returns without the largest cases are examples of the aggression. They also display a reluctance to answer if there will be another case in their future that produces comparable returns like Peterson before saying, "we certainly hope so." This significant qualifier conveys more desire than expectation. Collectively, the behavior suggests they have very little confidence that a similar case will come their way in the foreseeable future and a recognition of the weakness in their broader portfolio.

5. ***BUR's liquidity is risky, and it is arguably insolvent.***

   a. Management exhibits aggression, persuasion and evasion behavior around this issue, suggesting liquidity is a bigger concern than they want to admit. For example, their references to claims of insolvency as "an entire red herring" and "patently ridiculous" are examples of aggression behavior designed to impeach the credibility of Muddy Waters, and not an adequate explanation to allay fears or concerns regarding the issue of potential insolvency. Although they claim they generate "strong cash flow," they display a reluctance (and fail) to provide transparency into their expectation of when cash will come off their investments going forward and avoid addressing their expected cash outflows in the second half of 2020. They're also vague about where the $100m of additional cash came from and failed to address if the $400m includes disbursements that are due from it. This suggests it likely does. This is supported by the temporal qualifiers that consistently surround the number, indicative of its transience. Similarly, they refuse to answer what the surplus cash is above their commitments that could be used for buybacks.

b. Management's evasion and persuasion behavior in response to other questions about buybacks also suggests that they're highly unlikely. For example, they consistently refuse to answer what the likelihood or potential amount could be and make statements to justify not repurchasing shares.

c. They exhibit evasion behavior on their leverage appetite and make the highly qualified statement, "you would be very unlikely to see us overnight, going and exploding the leverage profile of this business." This spontaneous and extreme negation suggests they may increase it more rapidly than they presently want to reveal.

d. Furthermore, they qualify that they have no "current" intention of raising capital and "no plan to become *a serial equity issuer*." The temporal qualifier and extreme negation suggests that raising equity again in the near future is a real possibility.

e. Finally, their evasion behavior around their sovereign wealth fund communications opens the possibility that this relationship has become strained. After avoiding the question once and being prompted to address it, the CEO tries to give the impression that no one has spoken to them by saying "I think we have you know, at least I have largely been focused on public investors and on rebutting the various," but never denies that a conversation has taken place.

6. ***Governance and transparency.***

a. Management relies on convincing statements to give the impression that they have "high standards and principals" around governance and transparency, such as "We are, after all, a firm run by lawyers." Yet, their behavior appears to demonstrate the opposite.

b. They claim their governance is "robust," but their statements about "Board succession and structure" being "an active topic of discussion" tacitly acknowledges that there's a need for improvement. However, their statement that they "expect to refresh the board in the relatively near team" is extremely vague and qualified. When asked for specifics in the call, their language is even more qualified when they acknowledge, "The line in our report today was more about the prospect that, you know, in the in the relatively near term, we suspect, well, we believe that one of our existing directors is likely to retire from the board and be replaced." This is clearly less of a "refresh" than they were hoping investors

would take away from that line and the qualified language reflects a lack of conviction in the probability and/or timing of even the retirement.

c. Management goes to great lengths to convince investors that they're transparent and respond to investor feedback on more disclosure. However, their statements about being "open to the conversation" seem hallow and their attempts to justify failing to do so ("candidly, I'm not quite sure how much more detail we could provide") suggests they're unlikely to increase transparency meaningfully. They also failed to provide any reconciliation between the $255m recovered from core investments and $520m of realizations last year when asked, and in essence acknowledge how opaque their cash flow statements are.

d. Management tries to give the appearance that they're considering a move to the main market with the very non-committal statement, "it's absolutely something that we'll continue to talk to investors about." Although they acknowledge the benefit "possibly at a time like this," they work hard to give the impression that they're "not entirely clear" of any other benefits. It seems very clear they have no intention of moving to the main market, but what they do not make clear is why. The real reason appears to be contained in the non-specific characterization that it would be "burdensome in terms of some of the non-financial aspects of it."

e. Instead of articulating an expectation of a second listing in the US on a market "like" the Nasdaq or the NYSE, they rely on the convincing statements, "actively exploring" and "serious consideration." This suggests that the likelihood may be lower than they want people to expect.

f. It's significant that they fail to address the financial leadership changes in the written response (evasion), providing only the convincing statements about the CFO, that her "relationship" with the CEO is "longstanding, disclosed and well-known." None of this addresses the clear potential conflict or refutes that she's the only one that they can rely on to approve the accounts. Management's response to the question about this situation in the call offers no reassuring substance. Also, the statement, "now in response to criticism like this, it seems to be making people less happy because of her long relationship with me" is an example of aggression behavior, another indication that there's highly likely more to the story behind Elizabeth's being CFO.

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