2018

ANNUAL REPORT

Burford

About Burford Capital

Burford Capital is the leading global finance and investment management firm focused on law. Its businesses include litigation finance and risk management, asset recovery and a wide range of legal finance and advisory activities. Burford is publicly traded on the London Stock Exchange, and it works with law firms and clients around the world from its principal offices in New York, London, Chicago, Washington, Singapore and Sydney.

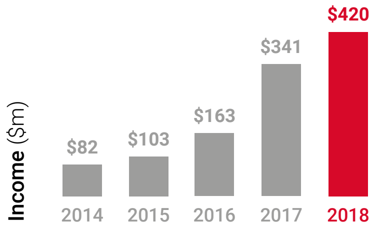
Contents

This report is for the use of Burford's public shareholders and does not constitute an offer of any Burford fund.

Full Year Highlights
2018

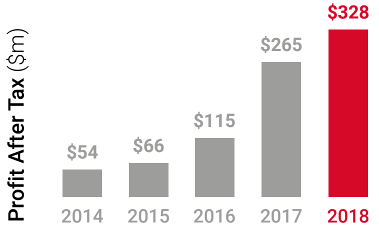
Income up 23% to

$420m



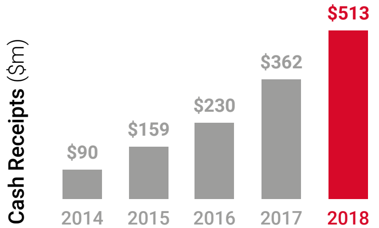
Profit after tax up 24% to

$328m



Cash generation up 42% to

$513m



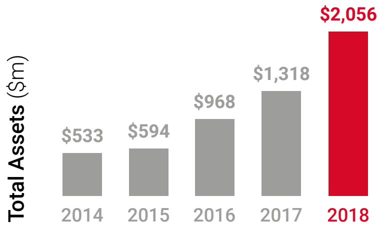
Return on Equity of

30%

52

Full year dividend up 14% to

12.50¢



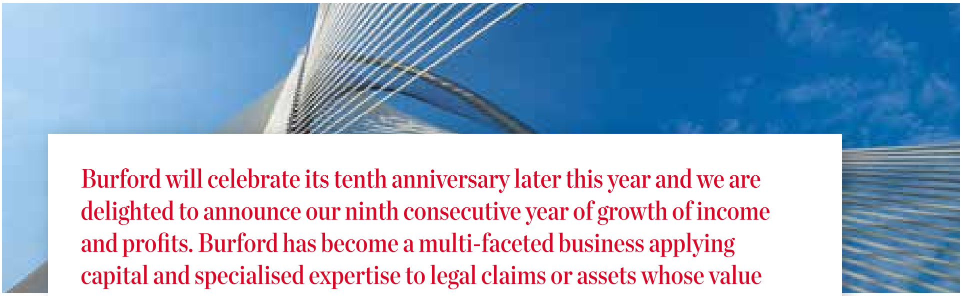
Note: As adjusted and defined in each annual report. Please refer to note on page 2 for further details on 2018 figures.

Full audited IFRS consolidated financial statements can be found in the following pages. Below is a summary of Burford's results without third-party interests in consolidated entities. The figures for operating profit, profit before tax and profit after tax also exclude the impact of amortisation of the intangible asset and non-recurring investment banking and brokerage fees and are shown to assist in understanding the underlying performance of the Company. Without those adjustments, reported profit after tax would have been $317.6 million, and the increase over 2017 would have been 27%.

Financial summary

US$'000	2018	2017	% Change
Investment income	$389,498	$318,234	+22%
Investment management income	$15,799	$15,626	
Insurance income	$10,406	$7,613	
New initiatives income	$9,529	$2,968	
Other	($4,858)	($3,199)	
Total income*	**$420,374**	**$341,242**	**+23%**
Operating expenses - investments	($38,543)	($33,540)	
Operating expenses - investment management	($12,175)	($7,159)	
Operating expenses - insurance	($1,992)	($2,001)	
Operating expenses - new initiatives	($4,365)	($2,271)	
Operating expenses - corporate	($9,253)	($7,298)	
Operating profit*	**$354,046**	**$288,973**	**+23%**
Finance costs	($38,538)	($24,251)	
Profit before tax*	**$315,508**	**$264,722**	**+19%**
Taxation	$12,463	$123	
Profit after tax*	**$327,971**	**$264,845**	**+24%**

*Income, operating profit, profit before tax and profit after tax exclude the impact of amortisation of the intangible asset, non-recurring investment banking and brokerage fees and third-party interests in consolidated entities. Refer to pages 51 and 52 for a reconciliation to the reported IFRS consolidated statement of comprehensive income.



Burford will celebrate its tenth anniversary later this year and we are delighted to announce our ninth consecutive year of growth of income and profits. Burford has become a multi-faceted business applying capital and specialised expertise to legal claims or assets whose value will be affected by legal or regulatory circumstances.

Highlights

- 23% increase in operating profit to $354 million (2017: $289 million) and 24% increase in profit after tax to $328 million (2017: $265 million); operating margin of 84%
- Income up 23% to $420 million (2017: $341 million), driven by 22% increase in income from investments to $389 million (2017: $318 million)
  - Unrealised gains remained generally consistent with prior year levels at 55% of income (2017: 53%; 2016: 54%)
  - 26 different investments contributed realised gains to 2018's performance (2017: 20)
- Robust cash generation up 41% to $513 million (2017: $362 million)
- Returns on the core litigation finance investment portfolio rose to an 85% return on invested capital, net of losses (2017: 76%), with consistent ~30% IRRs.
- 14% increase in annual dividend proposed, to total dividend of 12.5¢ per share (2017: 11.0¢); final dividend of 8.83¢ payable on 14 June 2019 with record date of 24 May 2019
- Consistently high demand for Burford's capital reflected in new investment commitments of $1.3 billion in 2018, showing that 2017's similar commitment level – which more than tripled the prior year's performance – was not a one-off event
- Assets under management in Burford's investment management business increased to $2.5 billion (2017: $1.7 billion), including through new investment fund and sovereign wealth fund strategic capital relationship providing the path for the next $1.6 billion of investment
- Return on equity of 30% (34% without 2018's new share issue, vs 37% in 2017), affected by a 71% increase in net assets to $1.4 billion (2017: $799 million)

We assess the performance of the Group using a variety of alternative performance measures, which are explained on page 53.

A. Introduction

As Burford looks forward to its tenth anniversary later this year, we are delighted to announce our ninth consecutive year of growth in income and profits. We posted more than $300 million in profit after tax for the first time in our history (2018: $328 million; 2017: $265 million; a 24% increase) and similarly broke records with more than $400 million in income (2018: $420 million; 2017: $341 million; a 23% increase). We remained cost-conscious and efficient, with an 84% operating margin. We are pleased to propose a 14% increase in the dividend, balancing our history of having increased our dividend every year with the strong demand for our capital.

Burford was also able to repeat the extraordinary feat of committing $1.3 billion to new investments in 2018, positioning the business for future profitability and suggesting that our 3.5x jump in 2017 commitments was not a one-time event. For context, that means we do more business in a single year than any other player in our industry has done in its entire history, and then some. A different perspective is that if we were committing all of our new business to a single law firm, we would be close to supplying the entire business of an average Magic Circle law firm for the whole year.

Those were not the only significant achievements during 2018:

- We deployed much more balance sheet capital than ever before in our history to core litigation finance investments – $637 million in 2018 vs. $422 million in 2017, a 51% increase. On a business-wide basis, we deployed more than a billion dollars to investments in 2018, the first time we have crossed that threshold. That level of deployment explains our need for incremental capital through our equity raise and our attractive new fund structures discussed further below.
  - We closed the year with $277 million of cash on the balance sheet, having raised $250 million of new equity shortly before year end; had we not done so, our cash position would have declined to a level where we would have had to reduce our year-end investing volume.
- We generated much more cash than ever before – more than $800 million business-wide and $513 million for Burford's balance sheet (2017: $362 million, a 42% increase). On a balance sheet basis, that provides 18x coverage of our dividends, 13x coverage of our debt service obligations and 7x coverage of our operating expenses.
- Our balance sheet assets grew substantially, to $2.1 billion, a 56% increase (2017: $1.3 billion), and if historical norms prevail, those incremental assets will produce desirable returns. Our total commitments to investments reached $2.9 billion.
- Our balance sheet core litigation finance investment returns increased during 2018, contradicting some misplaced market anxiety about compression of returns. On more than a billion dollars of actual core litigation finance investment recoveries, a threshold we crossed this year, we have generated an 85% return on invested capital, net of losses (2017: 76%), with consistent ~30% IRRs.
- In December, we announced the path to our next $1.6 billion of capital investment, including our latest private fund and a strategic capital relationship with a sovereign wealth fund,

Total shareholder return

	2018	5-year	Since Burford's 2009 inception
Burford	45%	1,394%	1,845%
FTSE All-Share Index	(10%)	22%	89%
FTSE AIM All-Share Index	(17%)	8%	41%

Source: Bloomberg

marking a major evolution in our capital structure. Scale matters in this business and having the most capital at the lowest cost along with the largest and highest quality team is expected to advantage our clients and our investors.

- We continued to expand our team, reaching more than 110 people at the end of the year, 55 of whom are experienced lawyers. We opened new offices in Sydney and Washington and we hired people capable of doing business in numerous other jurisdictions.

We held a well-attended Capital Markets Event in November, at which a number of Burford's senior team gave extensive presentations about the business. The video of that three-hour session remains available on our website, and although its financial information is no longer current, it remains an excellent way for investors to do a deep dive into our bench strength, what we do and how we do it at a level that simply can't be captured in an annual report.

We have also expanded this annual report to include a substantial discussion of how we approach environmental, social and governance ("ESG") issues, where Burford is a leader, as one might expect from a lawyer-run business with a strong social conscience and a keen focus on compliance and governance. That discussion begins on page 40.

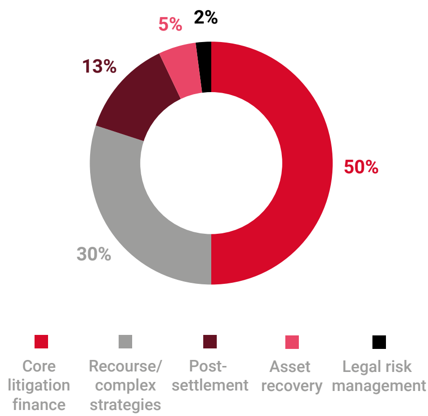
The decline this year in our return on equity ("ROE") to 30% (which is still more than three times that of the FTSE 250 average) needs a word of explanation. Our ROE is of course affected not only by earnings, which increased materially, but also by the rate of growth in our net assets. Thus, because we deployed a record-breaking amount of new investment capital in 2018, we pushed down our ROE for the year. We by definition depress our ROE in years of strong deployment growth, especially when we prudently finance that growth through recycling of investment profits and the issuance of new equity instead of entirely with debt. Our new sovereign wealth fund arrangement will also be beneficial to future ROE.

We are excited to discuss the current state of our business and the industry we lead, and we provide more detail and disclosure about our lines of business and our investments than ever before. We are grateful for the many compliments we receive on our annual report and, as always, we welcome shareholder feedback and respond to it directly as well as by implementing suggestions for changes in our reporting.

a. Burford's ongoing evolution

Burford is today a multi-faceted business, applying capital and specialised expertise to legal claims or assets whose value will be affected by legal or regulatory circumstances. We invest from our balance sheet, drawing on public equity, public debt and recycling our profits; we invest from the industry's largest collection of private funds; and we now invest from our new billion-dollar strategic capital relationship with a sovereign wealth fund. We apply that capital broadly across the legal industry, in traditional litigation finance but also in a variety of other ways ranging from principal investing to insurance to asset recovery to a full panoply of law firm capital structures. We have discussed in prior reports the evolution of Burford's business into much more than basic litigation funding, and we want to highlight just how far that evolution has progressed and that it is continuing, with half of our business-wide commitments in 2018 outside of core litigation finance.

New 2018 investment commitments



Note: Includes both balance sheet and funds commitments

To be sure, we continue to make hundreds of millions of dollars of litigation finance investments each year, where we provide financing to corporate clients and law firms based on the underlying value of their legal claim assets, but our clients have an ever-growing range of capital and risk management needs and we consider it important to meet those needs broadly. Investment banks have their franchises because they address client needs, and

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an investment bank that was only willing to do the most lucrative equity deals and refused to help its clients raise debt would struggle to lead the field and maintain relationships. Burford is essentially the legal industry's investment bank, and the same rationale applies to us. Burford has also increasingly developed its investment capacity for complex strategies, an adjunct to our client-financing business that uses all of our same legal and financial skills without necessarily financing a client.

We are addressing business evolution and expansion at the very beginning of this year's annual report because investors regularly ask, "If there are lots of good, high return litigation funding opportunities around, why don't you just invest your capital in those and ignore everything else"? Our answer is that we do not believe that is the path to creating the most valuable business we can over time; we also think it exposes Burford to too much risk and volatility. We discussed at our Capital Markets Event, and discuss further below, the economics around our different products, and demonstrated that an exclusive focus on long-duration, high-risk investments is not the only – or indeed the best – path to desirable results in this industry. For example, litigation portfolio financing generates lower gross returns but also lower loss rates, leading to attractive net returns; similarly, gross returns are generally lower in principal strategies investments but risk is lower, duration is shorter and the ability to keep a significant level of capital deployed is greater. At the end of the day, returns on capital vary widely in litigation investing, and they depend not only on client decisions and case outcomes but also on our deal structures, duration and the level of risk we assume in each individual investment.

This continuing evolution in Burford's business requires investors to think of us more broadly as a specialty finance company – an investment bank for law – and not just a litigation funder. Our evolving business sweeps in different risk and return profiles. But we are content with the risk-adjusted returns across all our strategies, even if the nominal returns vary greatly. We discuss this in greater depth below.

This ongoing evolution also introduces some complexity into our discussion of the business in this annual report, as we try to tailor the data we present to the particular discussion. For example, when discussing activity levels in the business, it is appropriate to include all our activities across both our balance sheet and funds to give a clear picture of business volume, but there are obviously other instances where more granular presentation of data is desirable. Unless modified in the particular usage, we use the following approach:

- When discussing financial statement measures or when we talk about "balance sheet" data, we are referring only to Burford's own figures, without including third-party investment fund activity (other than the management and performance fees Burford may earn from its funds); when we talk about "Group" data or when we describe things on a business-wide basis, we are also including activity in our investment funds
- When we discuss litigation finance or legal finance in general terms, we are including our entire business except for insurance and asset recovery; we endeavour to make clear whether we are including or excluding investment fund activity, usually by adding the modifier "balance sheet", and of course when we do not include investment fund activity, we are by definition not including post-settlement financing as that occurs only in its own specialised investment fund
- When we discuss "core litigation finance", we mean our pre-settlement, non-recourse business and we are excluding recourse, complex/principal strategies and post-settlement activity; again, we will endeavour to make clear whether we are including investment fund activity

b. Volatility

While we are pleased, once again, to be delivering these record-breaking results to shareholders, at the same time we have always spoken candidly and plainly in these reports, and we do so again now. We are enthusiastic about the long-term prospects for Burford. We believe that we have been a significant force in revolutionising the capital structure of the colossal global legal industry, with its more than half-a-trillion dollars in annual revenue. It would take effort today to find a lawyer in a major law firm unaware of the rise of legal finance: 96% of respondents to our 2018 litigation finance research study said they were familiar with the industry. Further, Burford is highly visible among lawyers aware of the category: 63% of lawyers interviewed say they associate us first or solely with litigation finance, with no other provider exceeding 3%.

All of this – the growth in visibility and awareness of litigation finance, and of Burford as the clear category leader – suggests a fundamental and irreversible change along with many opportunities for us to meet the growing and evolving financial needs of the legal industry and its clients. Just as Burford looks very different today than it did five years ago, we expect the Burford of the future to look very different than it does today. Innovation is one of our hallmarks.

63%

of lawyers interviewed named Burford first or solely in answer to the question "What providers of ligation finance are you most familiar with?"

Source: Burford 2018 Litigation Finance Survey

However, the path from here to there remains uncertain and continues to carry real risk of earnings volatility. We have said this before, but when our caveat has been accompanied – as it has been – with steadily rising earnings, we fear that shareholders may have become complacent and expect nothing other than persistent and unbroken growth. If anything, the risk of volatility is greater now than it has ever been. We have written considerable amounts of new business in the past two years – well more than in the entire preceding seven years altogether – and it will take time for that new business to turn into income. At the same time, we are investing in growth and expanding our offerings. And, at bottom, we remain unable to control the duration and resolution of most of our investments.

We are not pessimistic; far from it. But we have a long-term view, and we believe Burford continues to be an investment better suited to patient long-term investors than for shareholders who will be disturbed by potential fluctuations in short-term results. We are joining you in that journey: 9% of Burford's equity is owned by its employees, and in a remarkable show of confidence, 41 employees invested in our latest fund, committing $6 million of their own personal capital to the new investments they are underwriting and bringing total employee investment in our funds to more than $10 million when considering prior funds.

B. Burford's Legal Finance Business

a. A new paradigm of scale and reach

- New 2018 business volumes show that 2017's explosive growth was not a one-off
- Burford crosses the billion-dollar mark in investment recoveries in 2018
- Record deployments of capital to new and ongoing investments
- Continued expansion and diversification of investment types
- Ongoing enthusiasm for litigation finance in the legal industry

The big question for 2018 was whether 2017 had been an anomaly. The answer turned out to be a resounding "no".

In 2017, we achieved remarkable growth in business volumes from 2016 – a true step-change in the business. We more than trebled our business-wide new commitments, from $378 million in 2016 to $1.3 billion in 2017. Even more striking, that represented 30x growth from 2013, a mere four years earlier. However, many of our new investments did not immediately require significant capital deployments. We also did two unusually large portfolio deals, totalling $350 million of commitments. In short, while 2017 was a great year, we wondered if it could be repeated in 2018, and we wondered how deployments would shape up.

In the end, not only did 2018 repeat 2017, but it did so with considerably more robust deployments and without the two large portfolio deals that boosted 2017's numbers. In other words, while 2017 was good, 2018 was even better.

In 2018, we once again committed $1.3 billion to new investments, and we did so without jumbo portfolio deals (our largest new investment was an $86.5 million portfolio). In aggregate, new commitments in 2017 and 2018 were more than twice the amount of cumulative commitments made in Burford's entire lifetime from its inception in 2009 until the end of 2016. We believe that is a striking indicator of the significant evolution of our business.

Moreover, we saw a considerable (51%) increase in balance sheet deployments to $637 million (2017: $422 million) – and business-wide deployments crossed a billion dollars for the first time.

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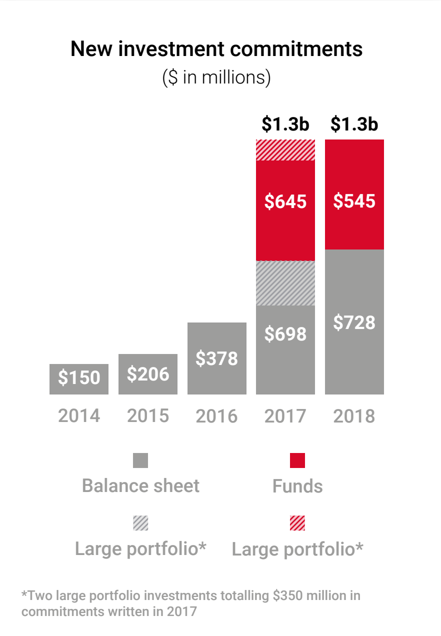
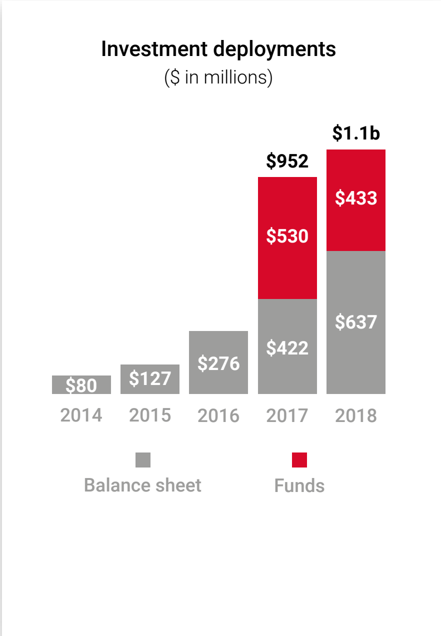




Key metrics for our balance sheet litigation finance business include:

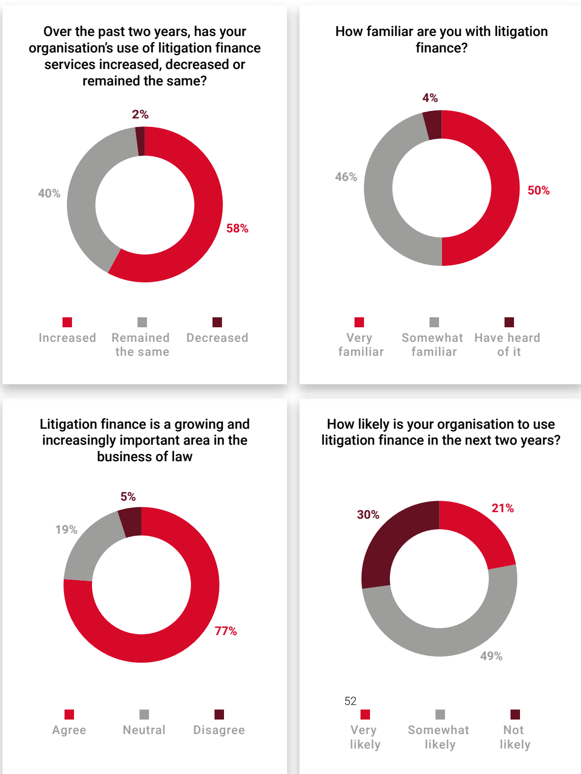
- Portfolio investment returns (net of losses but before operating expenses) of 85% ROIC and 30% IRR on $1.0 billion of core litigation finance investment recoveries to date (2017: 76% ROIC and 31% IRR) [1]
- Current investment portfolio of $2.1 billion, comprised of $1.5 billion in balance sheet assets plus a further $659 million in undrawn commitments (2017: $1.6 billion total; $982 million in assets and $564 million in undrawn commitments)
  - Including our investment funds, our current investment portfolio is $3.2 billion
- Widely diversified portfolio with 108 separate investments and 1,118 underlying claims (2017: 82 separate investments and 877 underlying claims, respectively)
- Cash receipts from investment recoveries of $486 million in 2018 (2017: $336 million)

1 We compute IRRs by treating our entire investment portfolio (or, when noted, a subset thereof) as one undifferentiated pool of capital and measuring inflows and outflows from that pool. IRRs are computed only as to concluded investments and do not include unrealised gains. The alternative approach to computing IRRs that is also used in our industry is to compute IRRs on individual investment outcomes and then to express portfolio-wide IRRs on a weighted average (or even a simple average) basis. Were we to use this alternative method our IRRs would be considerably higher than reported here (by orders of magnitude) as the impact of some very high IRR resolutions due to their short durations would have a greater impact. For example, we have one investment where the IRR was 1,497,414%, which alone would skew our returns on that alternative calculation basis. Investors comparing Burford's performance to its competitors should ensure that they are comparing returns on an apples-to-apples basis.

Since 2012 we have commissioned third-party research into the industry (available on our website). That research confirms our hypothesis that we remain at a relatively early but transitory stage of market adoption in which we find ourselves leaving the pioneering early adopter stage and entering the early majority stage.

- The number of lawyers who said their firms or companies have used litigation finance has grown dramatically since Burford first conducted its survey – from under 10% of respondents in 2012 to 32% of lawyers who participated in 1:1 interviews with our research firm and 70%[2] of those who completed an online survey in 2018
- A clear majority – 77% of respondents – agree that litigation finance is a growing and increasingly important area in the business of law
- Of those who have not yet used litigation finance, 70% expect to use it in the next two years
- Further growth is suggested given that legal finance directly addresses the number one challenge identified both by in-house lawyers ("managing legal risk and uncertainty") and law firm lawyers ("pressure to be more competitive in bringing in new business")

Market research: 77% of 2018 survey respondents perceive litigation finance as growing



Source: Burford 2018 Litigation Finance Survey

2 As noted in the 2018 Litigation Finance Survey: "This astounding and indeed unbelievable number must be characterised as an example of social desirability bias in action: People responding to surveys tend to answer questions in a manner that will be viewed favourably by others, and thus if people think they should exercise daily, they will tend to tell researchers that they exercise daily, true or not. Similarly, if lawyers perceive litigation finance as something that innovative companies and law firms should use, they will naturally tend to over-report its use. Thus, while and our research partner stand confidently behind the implications of our online survey findings, we do feel compelled to note that the nature of the online survey medium allows for this kind of overstatement."

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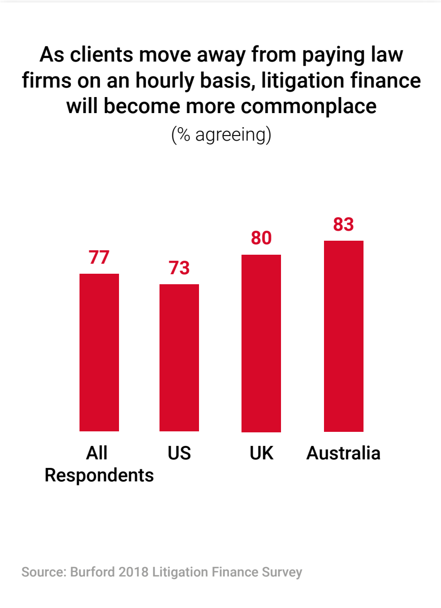
In addition to showing that Burford is the dominant brand and that litigation finance is growing, our market research revealed some other insights:

- More than two-thirds of companies (70%) said that they had chosen to forgo the pursuit of meaningful, meritorious claims because of the impact of legal expenses on the bottom line, with similar proportions believing litigation finance will become more commonplace
- A considerable majority (59%) reported having uncollected litigation judgments or awards valued at more than $10 million

We provide an extensive financial review of the business in this section, but first we start by presenting the business at a macro level, including comments on the market, competition and global growth. We will then turn to specifics about Burford's performance and existing portfolio.



b. Key elements of the legal finance business

i. The addressable market

- Our "market" is really three areas of legal activity, each of significant size
- Each area dwarfs the supply of capital available
- We believe we are at an early stage of total market penetration

We do not have any good sense of what the addressable market for our activities is – and the size of the three areas of activity relevant to our business is so large that we do not worry much about being able to define it. Nevertheless, as we are regularly asked this question, we will provide some context about those areas of activity.

First, some portion of the amount paid each year to law firms around the world is addressable for litigation finance. Obviously, not all the fees paid would fall into our addressable market; some fees are for legal services unrelated to what we do, and some clients are unlikely to seek financing for their expenditures. However, showing the sheer size of the legal industry does shed some light on our lack of concern for market saturation anytime soon. The following data points illustrate this:

- Different market research firms put annual global legal fee revenue in a range from $580 billion[3] to more than $800 billion[4]
- Thomson Reuters estimated that the US alone was a $276 billion annual legal fee market in 2016, with another $160 billion spent in the US each year on in-house legal functions[5]
- The largest 200 (out of more than 40,000) law firms in the US are estimated to have total annual revenue of approximately $110 billion[6]

3 The Business Research Company, *Legal Services Global Market Report 2018*
4 TheCityUK, *Legal Excellence, Internationally Renowned – UK Legal Services 2017*
5 Thomson Reuters Legal Executive Institute, *The Size of the US Legal Market*
6 The American Lawyer, *AmLaw 200 rankings 2018*

Second, legal fees are just part of the story, because we are ultimately financing – monetising – the underlying asset value of claims, settlements, judgments and awards, and not just the legal fees being spent to create those assets. There are no good data about the global size of that asset base save an anecdotal sense that it is enormous. Again, here are some data points that may help frame the scale involved:

- The US Chamber of Commerce estimates annual US tort costs (ignoring all other kinds of litigation, which are plentiful) of $429 billion[7]
- Towers Watson has a comparable estimate – that US tort actions consume 1.5-2.0% of GDP annually[8]
- A single law firm, Quinn Emanuel, an ongoing Burford relationship, has won more than $60 billion for its clients[9]
- The largest 100 verdicts in the US in 2016 totalled more than $16 billion[10]

Third, especially as we extend our reach into recourse and complex strategies investing, the value of assets affected by legal and regulatory processes comes into play as well – another very large and difficult-to-quantify area of activity. Some anecdotal data points:

- The value of US public company assets that are subject to bankruptcy filings exceeds $100 billion per year[11]
- Most (84%) of US M&A deals over $100 million involved litigation, with an average of 4.2 lawsuits per deal; the US antitrust agencies are regular litigants, challenging around 40 large mergers each year[12]
- There is substantial value in contention around intellectual property; for example, Forbes estimated that more than $20 billion was spent on smartphone IP disputes in a mere two-year period[13]

ii. Competition and barriers to entry

- Burford leads what has always been a competitive market
- Burford dwarfs its competitors
- Burford has numerous unique advantages or "moats"

Another common question we are asked by investors is about competition: Won't your success attract competition, and won't that competition inevitably impact profitability?

In fact, we operate in what has always been a competitive marketplace. Burford has grown by outperforming its competition, and we have generated our historical returns in the face of persistent competition. We believe we lose more deals to clients ultimately electing to self-finance than we do to industry competitors. Indeed, we have just posted the highest returns in our history.

However, Burford's size and scale really set it apart and have enabled it to develop some unique advantages. Before discussing them, it is worth putting the competitive landscape in context, given requests for us to do so, although we emphasise that the competitors discussed here have experienced and effective teams; they simply lack our scale.

- *Listed players:* Burford has a market capitalisation of approximately $5 billion and net assets of $1.5 billion. There is an enormous gulf between Burford and the next-largest listed player, IMF Bentham, which has a market capitalisation of approximately $450 million (less than 10% our size), and total net assets of $182 million. The few other listed players are even smaller than IMF Bentham by a very considerable margin and are not generally in our competitive universe.

7 US Chamber of Commerce, *ILR Costs and Compensation of the US Tort System*
8 Towers Watson, *US Tort Cost Trends*
9 www.quinnemanuel.com
10 ALM VerdictSearch, *The Top 100 Verdicts of 2016*
11 Seeking Alpha, *2017 Bankruptcy Review and 2018 Distressed Debt Forecast*
12 Cornerstone Research, *Shareholder Litigation Involving Acquisitions of Public Companies, 2015-1H 2016*
13 Forbes, *More than $20 Billion spent on Patent Litigation in Two Years*

Continued

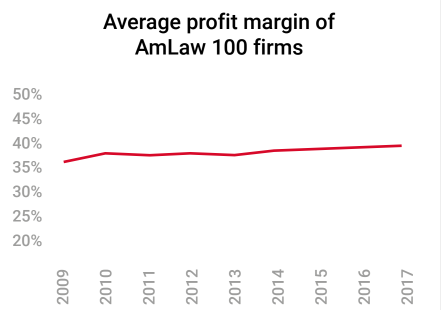
- *Private players:* The other visible market participants are private, but the occasional public filing does shed some light on their size and activities, as do their websites, showing that they are individually and collectively at a different level of scale:
  - Harbour, generally regarded as the second-largest firm in the market after Burford, shows ten lawyers on its website compared to Burford's 55, and is presently investing a £350 million fund raised last year
  - Longford shows six lawyers and is presently investing a $500 million fund raised in 2017
  - Therium, with 16 lawyers, is presently investing a fund targeted at £300 million with a first close of £200 million last year
  - Vannin published a variety of data in connection with its unsuccessful IPO revealing that in its most recently reported fiscal year it made approximately $55 million in new commitments, less than 5% of Burford's new business volume in a roughly similar period, and total net assets of $136 million
  - Woodsford is a family-owned business that recently announced a further commitment from the family of $100 million

This roundup of market participants makes two fundamental points. *First*, Burford has a very significant scale advantage over the other players in the market. *Second*, all these players are at least six years old, and many have been in operation for a decade or more – so it is rather late now to believe that the market will turn into a "race to the bottom" on pricing. Just as Burford believes in pricing for risk and delivering appropriate risk-adjusted returns to shareholders, these competitors are similarly sensitive about preserving investor returns and pricing appropriately.

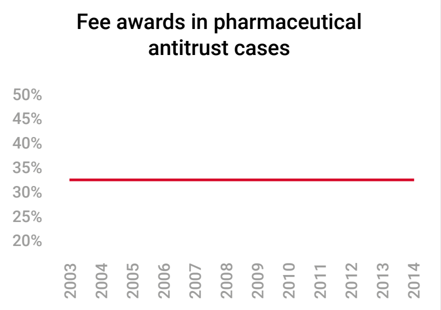
To be sure, Burford and these six other firms are not the only investors in litigation matters. There is a slew of smaller players as well as some investment activity by multi-strategy asset managers. However, those players tend to have a variety of challenges including lack of many important attributes – scale, reliable and rapid access to capital, in-house investment diligence capability, proprietary data and relationships. The risk profile of litigation assets and their lack of liquidity also act as barriers to the participation of many asset managers in the market.

As a result, while these other players should not be discounted as a competitive factor in the aggregate, the reality is that it is unusual for us to lose desirable deals to them. Capital is not a commodity in litigation finance and sophisticated clients tend to be wary of players that are small, new or inexperienced, even if they might offer slightly better terms, given the multi-year relationship that follows an investment.

It is also significant to note the relative lack of historical variability of returns in law, due in part to law's "closed shop" structure. There is little variation in law firm margins over time, and even less in traditional fee arrangements in at-risk matters. The charts below show a decade of US law firm margins and also the unmoving level of fee awards in at-risk litigation.



Source: AmLaw100



Source: Published recovery and fee award data in pharmaceutical antitrust cases 2003-2014

There are considerable barriers to entry in this industry and Burford has developed strong "moats" against competition and price commoditisation.

- *Significant scale and capital:* By being so far out in front of any other player in terms of business scale, capital and resources, Burford has an inherent advantage in a business that depends on such factors. We have more people on the street and more experienced lawyers ready to work on investments and make decisions. We have immediate access to substantial capital. We have institutional-quality systems which open up capital sources to us that other players cannot access, such as the $1 billion fund we created in December 2018 with a sovereign wealth fund. We are simply the most recognisable and most respected player in the market.
- *Relationships matter:* Relationships can be sticky in this business, and Burford has established strong relationships over its long history. For example, we have now worked with 90% of the AmLaw 100 (the 100 largest law firms in the US by revenue). Our investment bank approach discussed above offers one-stop shopping that augments our value to our clients and stands in contrast with many competitors.
- *Portfolio diversification lowers investment risk:* Litigation finance carries real risk. Being able to diversify that risk across a large portfolio is a key attribute that smaller and newer players simply don't have. Law firms would be imprudent to take on their own risk as they tend to invest in only a few cases at a time on risk as opposed to our hundreds of cases. Small entrants face a real challenge obtaining sufficient capital to enable sufficient diversification, the lack of which creates substantial business risk.
- *Large, expensive teams and strong support:* This is not a business for dabblers; successful financiers need significant teams of experienced and expensive people to make high quality investment decisions. Burford's investment committee has more than 250 years of collective litigation experience. Assembling such a team is a challenging and expensive undertaking when combined with the difficulty of raising a significant pool of capital for a first-time venture, and it gives us an enormous advantage when compared to a small firm that is outsourcing much of its investment diligence to law firms. It is also not as easy as just hiring a bunch of smart lawyers; it is the ability to turn them into lawyer-investors. We also have the resources to invest in collateral areas, such as marketing and systems.
- *Proprietary data and systems:* Burford has been in this business for almost a decade and has reviewed many thousands of potential investments. We have what we believe is an unmatched and substantial proprietary dataset that we use to assist in our investment decisions. We also have developed bespoke risk assessment and risk management systems that use our data and our experience in our underwriting and investment management process.

Despite those daunting barriers to entry, our view remains that the potential market for litigation finance remains thinly penetrated at present, and that the addition of competitors and their incremental marketing and visibility serve to expand the active market more than to introduce competition for existing market opportunities.

Continued

iii. Geographic activity

- US remains our largest market and US dollars the largest exposure
- Global expansion ongoing with Burford active all over the world

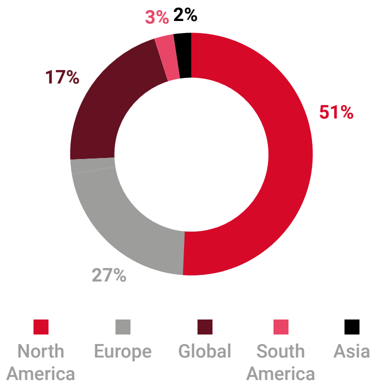
Burford's business has become increasingly global, in two different ways. *First*, we are present in more places and with greater experience. In 2018, we opened new offices in Sydney and Washington and we expanded our team in London to serve Europe and Asia. Thus, we now have full-time people on the ground in a number of US cities (New York, Chicago, Washington, Los Angeles, Wilmington and San Diego) and in London, Singapore and Sydney, along with further part-time presence in numerous other locations. Moreover, we have a diverse group of American, English, Australian, German, Swiss, Hong Kong and Israeli lawyers on staff along with specialists with deep knowledge of arbitration and intellectual property. *Second*, we are prepared to do business in more parts of the world – both in terms of local litigation and arbitration (witness, for example, our headline-grabbing entry into the Australian market this year to compete for the largest case in the country, which thoroughly disrupted that market) and to assist local businesses in bringing matters in foreign jurisdictions. For example, our Asian presence has not only permitted us to be one of the pioneers in opening up Asia to litigation finance, which we believe will be a slow but ultimately important area of growth, but also to expand our activity in financing Asian clients to bring litigation matters elsewhere, such as in the US. We do considerably more Asian business today by financing Asian clients bringing US litigation than we do in Asian litigation and arbitration.

We are often asked for a geographic breakdown of the current portfolio. This is a hard question to answer, for three reasons: (1) portfolio investments often involve multiple jurisdictions; (2) international arbitration often lacks a nexus to any particular geography; and (3) even individual matters can implicate multiple jurisdictions, and the choice of one can sometimes not present the multinational nature of a proceeding properly.

A case like Petersen is a good example; Petersen is currently pending in federal court in New York but could also end up in international arbitration before the World Bank, the plaintiff is Spanish and the defendants are Argentinian.

Nevertheless, we have attempted to answer this question in the graph below for Burford's balance sheet investments. Our approach has been to classify cases by the jurisdiction in which they are pending (or, for arbitration, seated[14]) regardless of the nationality of the parties (so Petersen would be classified in North America today), and in the case of multinational matters to classify them based on their predominant connection, if one can be discerned. When we have investments that simply defy such categorisation, we have classified them as "global". Although imperfect, we hope this incremental disclosure is helpful to investors.

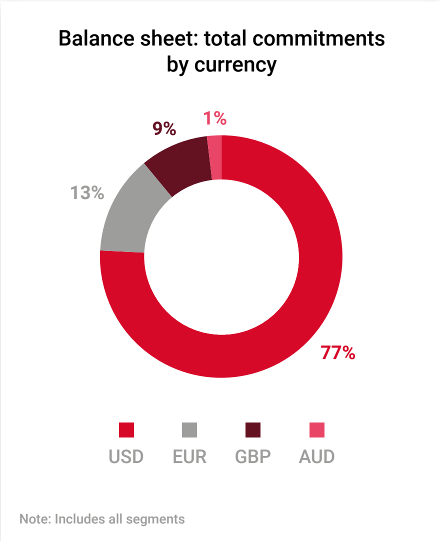
Balance sheet: total commitments by geography



Note: Includes all segments

14 Arbitrations are "seated" in a jurisdiction which establishes the court regime that supervises the underlying arbitration. Arbitral seats are chosen by contract and may have nothing to do with the underlying nationality of any part of the case. For example, England and France are common arbitral seats because of their well-developed body of arbitration-related law.

Looking to currency, although our clients are from all over the world, litigation is often denominated in US dollars and thus the business remains heavily US dollar-weighted between US litigation and transnational matters denominated in US dollars.[15]



iv. Marketing and business development

- Burford is making a meaningful investment in an industry-leading marketing and business development function
- We believe doing so will continue to differentiate us and help the business to its next level
- We are also making our investment process more efficient leading to better resource utilisation

We have said before that we believe litigation finance is leaving its early adopter phase and entering the mainstream of the legal industry. The market research we have presented earlier and the volume and type of new business we see support that view. But with that evolution comes a change in market dynamics. No longer are we dealing largely with early adopters – lawyers sufficiently curious or sufficiently motivated to seek us out and put in the time and effort needed to understand and use this new phenomenon of capital in the legal industry. Instead, like any other business, we need a strong marketing and business development function to manage the (much larger) mainstream with its different levels of motivation and experience. Burford has always led the way on the marketing front. We produce a significant volume of acclaimed collateral, including our flagship *Burford Quarterly*, a journal of legal finance that is circulated to thousands of lawyers and available on our website, the content of which is repurposed for tens of thousands more touches.

However, while we have also built strong law firm relationships (and many Burford people have personal legal networks), we have not historically had a significant dedicated function for business development. Instead, we relied on our marketing and our relationships to bring business in the door, and we organised ourselves to respond to that business when it appeared.

15 This chart does not capture all of the currency risk to which the business is subject and is not intended to do so; it merely shows the currency in which our investment contracts are written. While generally our returns are computed based on that contractual currency, so that if we advance US dollars we are entitled to be repaid in US dollars, the underlying litigation may expose us to currency risk. For example, if we finance an arbitration claim in which the underlying damages will be assessed by the tribunal in local currency and if that currency devalues against the US dollar during the course of our investment, our share of the underlying recovery would be worth less in US dollars (and we do not generally hedge that risk because of the uncertainty both of outcome and timing of the underlying adjudication). However, we are often entitled to recover our principal in the contractual currency regardless of underlying currency movements, so while the currency movement could reduce (or increase) our profits, it would be less likely to affect the recovery of our US dollar principal.

Continued

While successful in getting the business to its current position, that approach has two notable disadvantages. *First*, it produces a large number of unsolicited inbound inquiries, many of which are unsuitable for investment, and dealing with those inquiries absorbs a significant amount of high-value underwriting time. *Second*, it does not reach out directly to the mainstream lawyer who is a candidate for the use of capital but who is not taking the initiative to reach out to us – that is, the lawyers who may not yet have realised that Burford can help build their book of business and help solve pervasive problems relating to litigation budgeting and expense. To continue the investment banking analogy we have used elsewhere, it is a bit like having an investment bank without coverage bankers.

So, we have decided to build those bankers, both to establish relationships with those mainstream lawyers as well as to act as a buffer between inbound inquiries and our underwriting staff. To do so we have appointed David Perla, the former President of Bloomberg Law and previously a successful entrepreneur in the legal industry, to run this function, and David is building a strong team of law-focused business development professionals to grow, and capitalise on, Burford's brand and reputation in the market. We now have 15 people dedicated to business development supported by a marketing team of another seven located in various US centres, London, Singapore and Sydney.

The sales cycle in our business is long but early results of this initiative are encouraging. When we generate a new lead through business development activity, that lead has a 3.5x greater likelihood of progressing through our initial intake process and onto our pipeline (where we consider matters in greater depth) than a lead that comes in the door unsolicited. That is not to say that we do not value both kinds of leads, but the sheer level of effort involved in managing our deal flow certainly causes us to be enthusiastic about better-qualified leads.

We also expect this evolution to assist our efforts to improve continuously our entire investment process. Last year for the first time, we provided our "funnel", showing the progress of inquiries to closed investments through our process. In 2017, we closed 59 of the 1,561 potential investments (3.8%) that we considered. That caused some commentators to wax happily about our extreme selectivity. But that was not our message. We do not want to be that selective, because doing work on investments only to turn them away is expensive and also presents client relationship challenges. Rather, we want the inbound opportunities to be of a quality that makes them much more likely to close, so that we are spending less time on matters that will ultimately fall away.

We are providing the business-wide funnel data for 2018 on the next page and what readers will immediately notice is that we looked at somewhat fewer opportunities (1,470 instead of 1,561) but we closed more of them (87 instead of 59, 5.9% instead of 3.8%). That is good news from our perspective, and means our process is becoming more efficient at both ends: We are doing a better job of educating the market about what kind of investments will work and the 1,470 potential investments we saw were of considerably better overall quality, because we were able to close 55% more of them. We will endeavour to continue to improve these metrics, consistent with the maintenance of our quality and pricing standards. There will inevitably be commentators who will now fret, "Oh no, their volume of inbound inquires shrunk, which is bad in what is supposed to be a growing market, and they were less selective, so they must be desperate". That misapprehends our business and is simply not the case. What we have done, in fact, is meaningfully increase the number of potential investments we most want, at the expense of the investments we would have declined anyway, but which would have occupied our time reviewing.

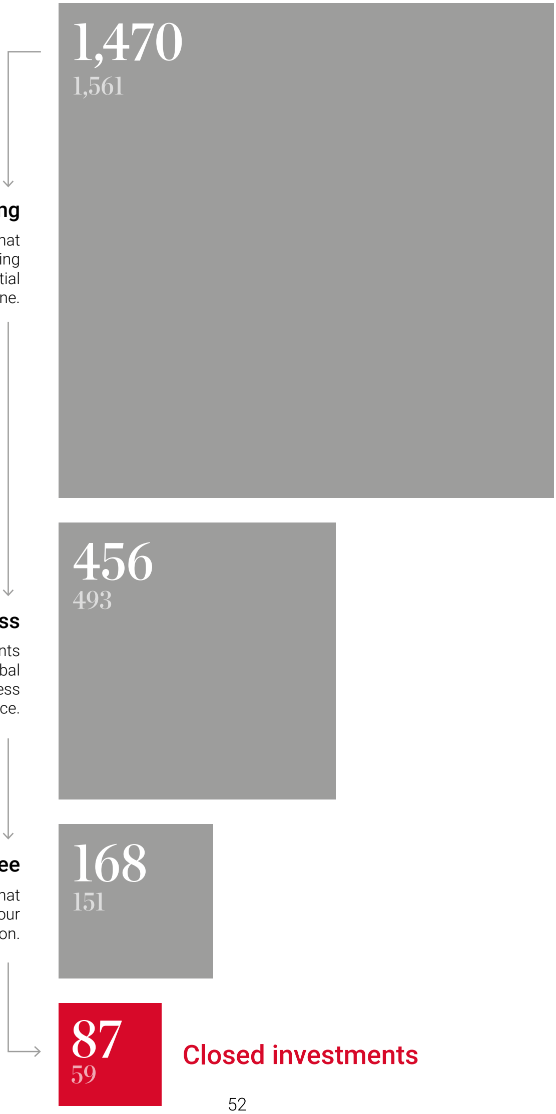
c. Portfolio performance and composition

As we have historically, we highlight three fundamental data points for Burford's core litigation finance business:

- Burford's performance across investments that have concluded
- Burford's outstanding investment portfolio
- Burford's commitments to new investments

We examine each in turn.

Burford's investment process



Inbound inquiries: screening

Number of inquiries received that run through our initial screening process, filtering potential investments into our pipeline.

Pipeline process

Number of potential investments discussed among the global investment team and that progress into more significant diligence.

Investment Committee

Number of potential investments that ultimately were presented to our Investment Committee for consideration.

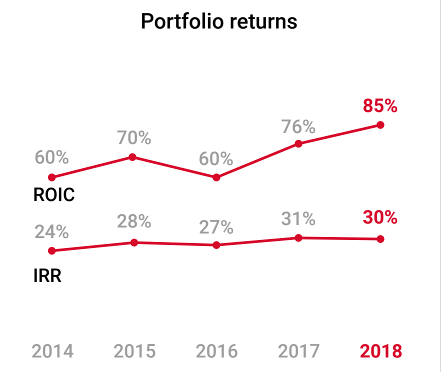
Note: Investment process figures are from 2018. Smaller numbers are from 2017.

Continued

This section of our reporting is on an actual return basis, without reference to IFRS or fair value accounting. In other words, this is an independent way of looking at our business; it does not build on our IFRS reporting but stands entirely separate from it unless we explicitly refer to balance sheet data. We do not take the view that one approach is better than another, but rather want to give investors the opportunity to see our business through two different lenses – IFRS and a more cash-based approach.

i. Performance of concluded core balance sheet litigation finance investments

- $1.03 billion of recoveries on investments have now produced 85% ROIC and 30% IRR
- Weighted average duration of the portfolio remains below two years – 1.8 years currently
- We continued to deploy the vast majority of our commitments – 84% of commitments ultimately deployed



Note: Core balance sheet litigation finance concluded investments

Burford has demonstrated consistently strong historical investment performance and enjoys a robust and substantial track record. IRR and ROIC performance (net of losses but before operating expenses) are shown in the graph on this page. Those performance figures have been generated from what is now more than $1 billion in investment recoveries across 92 core balance sheet litigation finance investments over nine years of performance.

While we publish this return information for the information of investors, in running the business we are more focused on overall business performance and value. We de-emphasise individual investment returns given their variability and our inability to keep all of our capital deployed at these return levels consistently.

We do not mean to argue against the benefits of the high returns available in litigation finance; quite the contrary. However, we do want to place those returns in context so investors understand why we do not slavishly pursue only the highest-returning litigation finance investments and instead view the sector broadly.

When we make a new litigation finance investment in a typical single case matter, we are agreeing to provide a certain amount of capital to the case over its life in exchange for a return if the case is successful. One possible scenario is that the case draws down all of our committed capital, proceeds for quite a long time, succeeds, and we recover a high return because of our entitlement to a time-based return on the capital deployed and a share of the ultimate success. However, that is often not the result, and instead, the case draws down only some of our capital and settles, in which case we might earn a very desirable return on the capital actually deployed but we will have been somewhat constrained in our ability to use the undrawn capital elsewhere while the case is proceeding. Moreover, we also have no certainty on when or how the case will resolve and thus we do not necessarily have an investment ready to receive the freed-up capital the day the case concludes favourably. Thus, looking at returns on deployed capital is only part of the story, which is why we find different investments with different risk and nominal return characteristics attractive depending on other factors such as duration and deployment predictability.

Varying risk, return and duration across investments can generate comparable returns

Example #1

Litigation finance investments with staged deployments
- Commitment of $100 deployed over 3-year investment life
- Reinvest recoveries

Year	0	1	2	3	4	5	6	Profit	ROIC	IRR
Investment #1	-35.0	-35.0	-30.0	160.0				60.0	0.60x	24.8%
Investment #2				-56.0	-56.0	-48.0	256.0	96.0	0.60x	24.8%
Gross cashflows	**-35.0**	**-35.0**	**-30.0**	**104.0**	**-56.0**	**-48.0**	**256.0**	**156.0**	**1.56x**	**24.8%**

Example #2

Litigation finance investments with short durations
- Principal investments with short durations and advantageous risk management
- Initial investment of $100 with 1-year duration
- Reinvest recoveries

Year	0	1	2	3	4	5	6	Profit	ROIC	IRR
Investment #1	-100.0	122.5						22.5	0.23x	22.5%
Investment #2		-122.5	150.1					27.6	0.23x	22.5%
Investment #3			-150.1	183.8				33.8	0.23x	22.5%
Investment #4				-183.8	225.2			41.4	0.23x	22.5%
Investment #5					-225.2	275.9		50.7	0.23x	22.5%
Investment #6						-275.9	337.9	62.1	0.23x	22.5%
Gross cashflows	**-100.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**337.9**	**237.9**	**2.38x**	**22.5%**

The examples above illustrate this point numerically and demonstrate that the same level of profit can be generated in quite different ways – and that the business should not focus only on individually high-returning investments.

We realise that investors would like as much visibility as possible into investment returns so they can form their own views about the portfolio and our future prospects. In the past, we have historically published a chart of individual core balance sheet litigation finance investment returns available on our website in the Investor Information section.

This year, we have expanded that chart to include not only concluded investments but also to provide individual investment detail about ongoing investments, organised by vintage and, within vintages, by type of investment. We hope this significant expansion in our disclosure, created in response to investor feedback, is helpful to shareholders, and in that spirit we will now update this chart semi-annually and not just annually. The newly expanded chart is available on our website in the Investor Information section.

While the entire chart will not fit in this annual report we provide, on the next page, a summary by vintage. We repeat our caution about reading anything into the early returns in recent vintages; our investments take time to mature.

There has been a suggestion that the lack of resolution of our remaining older investments is troubling. We have a couple of reactions to that.

Continued

Investment performance

Core balance sheet litigation finance investments

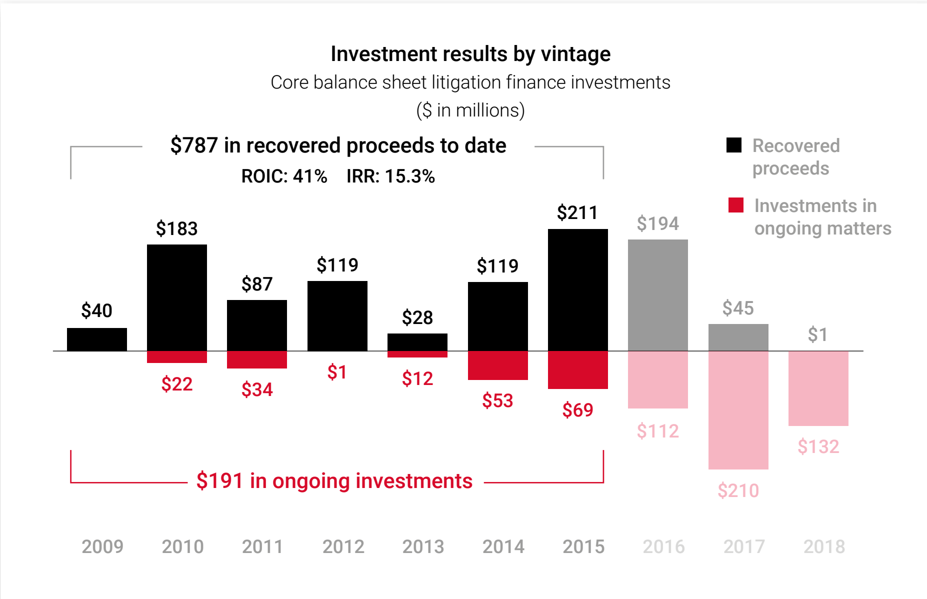
$ in millions	# of investments	Total commitments	Total invested	Total recovered	ROIC	IRR
Concluded	3	$11.5	$11.5	$40.1	**251%**	**32%**
Partial realisation	–	–	–	–		
Ongoing	–	–	–	–		
2009 vintage total	**3**	**$11.5**	**$11.5**	**$40.1**		
Concluded	13	$81.8	$68.3	$75.6	**125%**	**21%**
Partial realisation	1	$13.0	$13.0	$107.0		
Ongoing	2	$22.3	$22.3	–		
2010 vintage total	**16**	**$117.1**	**$103.6**	**$182.6**		
Concluded	10	$86.9	$59.7	$85.3	**42%**	**13%**
Partial realisation	1	$15.6	$15.6	$1.4		
Ongoing	3	$20.1	$20.1	–		
2011 vintage total	**14**	**$122.6**	**$95.4**	**$86.7**		
Concluded	8	$61.5	$56.7	$119.4	**110%**	**42%**
Partial realisation	–	–	–	–		
Ongoing	1	$2.0	$0.5	–		
2012 vintage total	**9**	**$63.5**	**$57.2**	**$119.4**		
Concluded	8	$20.8	$19.7	$25.0	**30%**	**22%**
Partial realisation	2	$3.5	$3.5	$3.0		
Ongoing	2	$13.6	$10.2	–		
2013 vintage total	**12**	**$37.9**	**$33.4**	**$28.0**		
Concluded	14	$75.3	$55.1	$95.5	**78%**	**43%**
Partial realisation	4	$48.0	$35.8	$23.9		
Ongoing	5	$40.0	$28.7	–		
2014 vintage total	**23**	**$163.3**	**$119.6**	**$119.4**		
Concluded	9	$70.5	$60.0	$71.3	**216%**	**182%**
Partial realisation	3	$46.0	$21.3	$140.2		
Ongoing	5	$76.0	$54.5	–		
2015 vintage total	**17**	**$192.5**	**$135.8**	**$211.5**		
Concluded	5	$39.6	$37.4	$46.7	**27%**	**18%**
Partial realisation	5	$163.3	$139.7	$147.1		
Ongoing	10	$205.2	$87.0	–		
2016 vintage total	**20**	**$408.1**	**$264.1**	**$193.8**		
Concluded	2	$21.0	$18.6	$24.5	**26%**	**25%**
Partial realisation	1	$127.0	$127.0	$20.5		
Ongoing	22	$372.6	$100.5	–		
2017 vintage total*	**25**	**$520.6**	**$246.1**	**$45.0**		
Concluded	–	–	–	–	**0%**	**0%**
Partial realisation	3	$15.1	$14.8	$0.8		
Ongoing	30	$288.7	$118.1	–		
2018 vintage total	**33**	**$303.8**	**$132.9**	**$0.8**		
Total investment recoveries to date	**72**	**$642.2**	**$555.0**	**$1,027.3**	**85%**	**30%**
Total ongoing investments	**100**	**$1,298.7**	**$644.6**	**–**		

* Principal strategies investments of $226.8 million originally included in 2017 have been excluded from this table and are discussed separately

First, litigation adjudications can take a long time but can also produce terrific results. Teinver was a 2010 vintage investment. We invested $13 million over the years, and we sold our interest in 2018 for $107 million. The previously lacklustre 2010 vintage now reports a ROIC of 125%. That is not to say that every old investment will be a great success; some will be losses. But it is worth waiting to see what happens. To provide a bit more colour about the oldest vintages:

- One of the ongoing investments in 2010 has in fact reached a settlement after significant appellate activity but the matter is complex and thus the settlement approval and distribution of proceeds is a multi-year process (which is why we also offer post-settlement capital to law firms) so it will still be some further time before we know our entitlement. The other ongoing matter is a portfolio of complex high-value transnational matters that continue to wend their way through various judicial proceedings and likely still have some years ahead of them, but we remain optimistic about its ultimate outcome. The partially realised investment in 2010 is Teinver, which remains an outstanding matter because of the put option we sold the buyers (see note 7 in our 2018 accounts).
- Two of the three ongoing investments in 2011 are being actively litigated. One is an arbitration matter in which briefing is now concluded and the matter awaits a final hearing this month, and one is a matter we won but its final resolution has been delayed due to collateral litigation. The third ongoing matter relates to a slow-moving regulatory process. The partially realised investment in 2011 might produce some more returns over time, but we reduced its carrying value to zero some time ago.
- The sole remaining investment in 2012 is a small matter in which we invested $500,000 and have paused waiting for future developments in the underlying market. It is possible that the case will never move forward, and we reduced its carrying value to zero some time ago.
- Looking at these three vintages (2010, 2011 and 2012) collectively and excluding Teinver, we would also note that we have adjusted carrying values where appropriate: the ongoing and partially realised matters across the three vintages have a total of $57.2 million in invested cost but we are carrying the matters at only $43.9 million in total.

Second, even if we were to lose every outstanding investment made prior to 2016 and experience a full loss of capital, we would still deliver a 41% ROIC and 15% IRR for the period. This should dispel any anxiety that we are carrying old investments for the sake of not writing them off.



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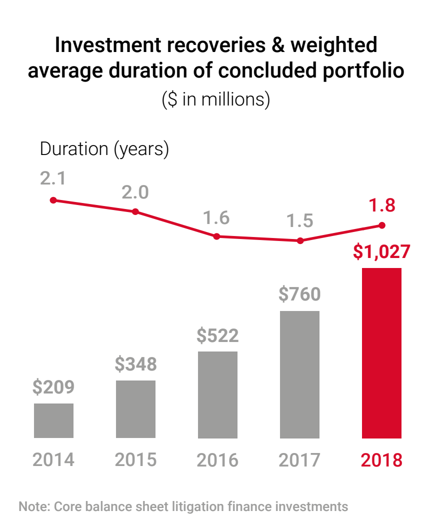
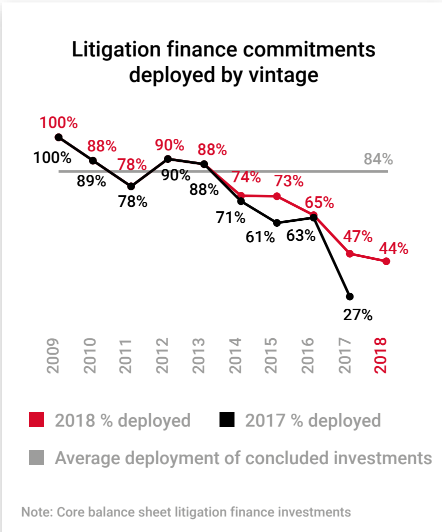
We think of the weighted average duration of the core balance sheet litigation finance concluded portfolio as being around two years, which is consistent with our view of the average length of a litigation matter when settlement is taken into account. We said last year that the weighted average duration then of 1.5 years felt too low, and this year that number edged up to 1.8 years.



We have commented before on the manner in which our capital flows to investments. When we enter into an investment transaction, we set out the maximum amount of capital we will provide in connection with that investment. (We do not enter into open-ended commitments, such as an agreement to pay all the legal fees associated with a matter; rather, we enter into finite financing arrangements.) In some instances, all our capital is deployed immediately, such as when we are buying an award or monetising a position. In others, our capital flows out over time, typically as the underlying litigation matter needs capital to proceed. Given the high settlement rates of litigation, it is inevitable that some of our investments will not draw all the capital that we have committed to them before they resolve; moreover, in some portfolio investments, the portfolio will never reach the total size to which we have potentially committed.

Historically, we have ended up deploying 84% of the capital we have committed when measured across concluded core balance sheet litigation finance investments, and that number has been steady for some time. Those numbers rebut any scepticism about writing commitments that will never be fulfilled.

The chart below is perhaps a bit tricky to decipher. The black line shows the percentage of each vintage's core balance sheet litigation finance commitments that was deployed by the end of 2017, and the red line shows the same data at the end of 2018. What you will note is what we described before – that the 2017 vintage, while large, was not robustly deployed during the year of commitment. That is largely explained by two unusually large portfolios, totalling $350 million, where deployments lagged commitments. However, what the red line shows is that the 2017 vintage recovered in 2018 and that the 2018 vintage did not have that same initial lag, reaffirming our view about the incremental strength of the 2018 vintage.



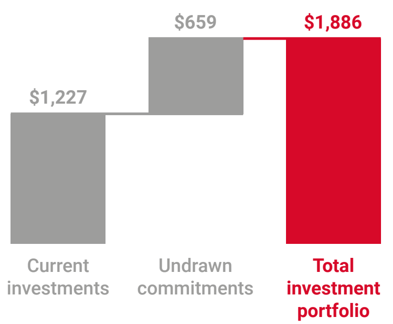
ii. Current core balance sheet litigation finance investment portfolio

- Very large and widely diversified investment portfolio comprised of $1.9 billion in traditional litigation finance investments (and $3.2 billion when including principal strategies and fund investments)
- 1,110 individual litigation claims underlying investment portfolio
- No concentration – no defendant represents even 5% of total commitments, no single case capital loss would amount to more than 3% of total commitments and our largest law firm relationship accounts for 17% of investments across more than 50 different partners

At the end of 2018, Burford had outstanding core litigation finance investments carried on our balance sheet of $1.2 billion (2017: $804 million). In addition, we have a further $659 million in undrawn commitments made to existing investments. Thus, our current balance sheet core litigation finance portfolio stands at $1.9 billion in investments and commitments (2017: $1.4 billion) across 100 different investments. When including our fund and complex strategies investments, we have a total of $3.2 billion in investments and commitments. We do not generally include our fund investments in this discussion, but it is useful to understand the total scale of Burford's business, which we believe positions us as one of the largest purchasers of litigation services in the world.

Balance sheet investment portfolio

($ in millions)



Note: Core balance sheet litigation finance investments including fair value

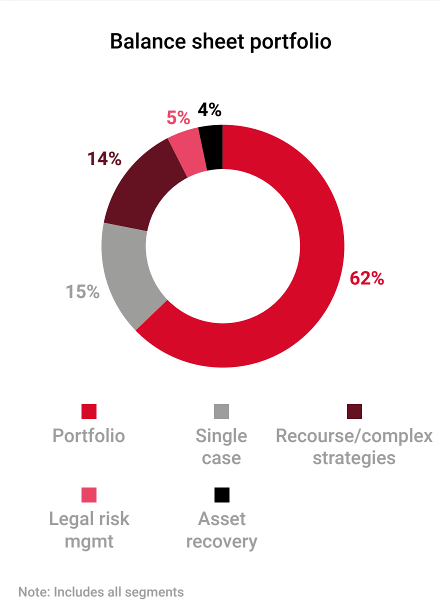
This is obviously a significant expansion of Burford's portfolio – and we said the same thing last year. In the space of two years we have expanded the balance sheet core litigation finance portfolio from $850 million at the end of 2016 to $1.9 billion now, a 122% increase.

Burford counts each of its contractual relationships as an "investment", although many such relationships are composed of multiple underlying litigation matters that are often cross-collateralised rather than reliant on the performance of a single matter. So, while Burford has 100 balance sheet "investments", there are now 1,110 separate claims underlying the investment portfolio (and a single claim may well have multiple paths to a recovery), although some of those claims relate to the same underlying legal theory and thus have some correlation.

Burford makes investments using a wide range of economic structures. The starting point in a single-case investment is typically an arrangement under which Burford will receive its invested capital back as a first dollar matter followed by some preferred return on that capital along with a share of the ultimate recovery. Even in straightforward investments, the terms agreed will vary widely based on our assessment of the risk and likely duration of the matter. Moreover, the larger or more complex a matter, the more likely it is to have an individually designed transactional structure to fit the needs of the matter, to accommodate what are often multiple parties with economic interests and to align interests and incentivise rational economic behaviour. It is impossible to generalise about the financial terms of litigation finance.

Continued

Burford engages in portfolio construction with an eye to balancing risk and return, managing duration and achieving broad diversification. Burford believes that it has – by a considerable margin – the largest diversified portfolio of litigation investments in the world that targets the kind of returns we have historically generated. As just one data point, the chart on the right shows the mix of investments held on the balance sheet.



To take that information and become more granular, we are providing some new disclosure in the table on the next page. We recently started categorising new investment commitments to show the breakdown of the new business we were writing (and we provide that data once again in the next section). In response to investor requests, we have now gone through the entire existing portfolio and divided it up into those same categories. The chart on the next page shows the breakdown of Burford's current investment portfolio (including a break-out for our investment funds) as at 31 December 2018; the granular information behind this chart can be found on Burford's website.

In addition to comprising many different types of investments, Burford's current core balance sheet litigation finance portfolio is widely diversified across many other metrics:

- Our investments relate to litigation matters spread across more than 30 US states and countries, and underway in multiple arbitral institutions
- We presently have active investments with more than 60 different law firms – and we have now worked with 90% of the AmLaw 100 (the largest US law firms by revenue) on potential investments
- Even when we have multiple matters with a single law firm, we often work with multiple partners at such firms
- Our claim types run the gamut of complex commercial litigation and arbitration; we don't specialise in any one area of law
- Although our historical focus has been on English common law jurisdictions and international arbitration, we have been increasingly expanding our focus when we have the expertise to do so, and our clients are located around the world
- There is no capital risk concentration among defendants/respondents in matters we finance for plaintiffs/claimants – none rises to even 5% of our commitments
- We are involved in every stage of claims, from claims where our financing is obtained at the beginning of the matter to matters where judgment has already been obtained and an appeal is pending

Current investment portfolio

$ in millions	Balance sheet investments		Fund and other vehicle investments		Sovereign wealth fund investments	
As at 31 December 2018						
Single case finance: Investments subject to binary legal risk, such as financing the costs of pursuing a single litigation claim	**$241.3**	**15%**	**$158.3**	**18%**	**$11.5**	**22%**
Portfolio finance: Investments with multiple paths to recovery where Burford's returns come entirely from litigation outcomes, such as financing a pool of litigation claims	**$981.0**	**62%**	**$406.8**	**46%**	**$41.0**	**78%**
Legal risk management: Investments where Burford is providing some form of legal risk arrangement, such as providing an indemnity for adverse costs	**$76.4**	**5%**	**$13.3**	**1%**	–	–
Asset recovery: Enforcement of legal judgments	**$63.6**	**4%**	–	–	–	–
Recourse/complex strategies: Investments where Burford tends to be a principal and where there is asset value supporting the litigation investment	**$231.9**	**14%**	**$89.0**	**10%**	–	–
Post-settlement: Investments where litigation risk has been largely removed through settlement or other resolution	–	–	**$224.5**	**25%**	–	–
Total	**$1,594.2**	**100%**	**$891.9**	**100%**	**$52.5**	**100%**
Total investment portfolio	**$2.5 billion**					

Note: Investments shown at cost without fair value adjustments plus undrawn commitments

Continued

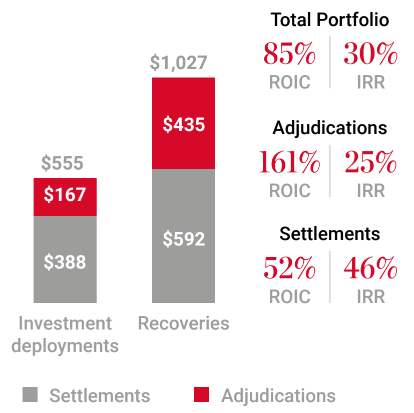
While our relationships with law firms are now resulting in some law firms doing a significant amount of repeat business with Burford, that business tends to have its own internal diversification across partners, clients and subject matters. Our largest law firm relationship comprises 17% of our investments, but that relationship is made up of matters litigated by more than 50 different partners at this large global firm.

Litigation investing has the benefit of considerable asymmetry, in that potential losses are often much smaller than potential recoveries. On a single case basis, the loss of any case would not result in a loss of capital of more than 3% of Burford's total commitments.

Finally, investors may find the data below about differential core balance sheet litigation finance economic outcomes between settled and adjudicated investments intriguing. We present these data to show that both outcomes are desirable, but in quite different ways – which is a good thing as we cannot control the client's ultimate decision-making.

Concluded investments: settled and adjudicated

($ in millions)



Note: Core balance sheet litigation finance investments

iii. Commitments to new investments

New commitment pace was sustained, with $728 million on balance sheet (2017: $703 million) and $1.3 billion in total (2017: $1.3 billion) New commitments are a valuable but imperfect leading indicator for our business. New commitments set the business up for future realisations and fund fees as those commitments turn into (hopefully) profitable investments.

The reason new commitments are an imperfect indicator is that our enthusiasm for committing capital depends on deal structures and terms. When a significant part of our economics in a matter comes from our preferred return on the amount of capital we actually invest, we are clearly incentivised to commit and deploy capital. However, some of our investments take most or even all of their economics from sharing in the outcome on some formulaic basis (e.g., 40% of whatever is recovered). In those instances, our recovery is not related to the amount of our invested capital, and we are instead incentivised to commit as little capital as possible.

As we have discussed earlier in this report, in 2018 we were able to repeat the level of 2017's commitments, which was a step-change over 2016, but with a more diversified portfolio of investments and a higher level of deployments. We are pleased with the progress of the investment portfolio.

Our 2018 business-wide commitments are shown in the table below, using our category-based reporting and expanding the number of categories by two.

The numbers below illustrate an important market development. Our volume of single case commitments rose sharply, by 175%. Moreover, a significant number of those single cases were introduced to us by new law firm relationships. This is exciting as it is consistent with our view about the overall growth and expansion of the market – and our historical data tell us that 75% of single case capital users will return to Burford to do more business with us. Thus, we regard this increase in single case financing as opening a collection of new repeat relationships.

Total 2018 investment commitments: $1.3 billion

$ in millions	Balance sheet commitments		Fund and other vehicle commitments		Sovereign wealth fund commitments	
Single case finance: Investments subject to binary legal risk, such as financing the costs of pursuing a single litigation claim	**$121.4** $34.4	**17%** 5%	**$40.7** $28.7	**8%** 4%	**$11.5** –	**22%** –
Portfolio finance: Investments with multiple paths to recovery where Burford's returns come entirely from litigation outcomes, such as financing a cross-collateralized pool of a client's litigation claims	**$269.6** $377.8	**37%** 54%	**$147.7** $204.8	**30%** 32%	**$41.0** –	**78%** –
Legal risk management: Investments where Burford is providing some form of legal risk arrangement, such as providing an indemnity for adverse costs	**$19.0** $59.2	**3%** 8%	**$6.6** $10.8	**1%** 2%	**–** –	**–** –
Asset recovery: Enforcement of legal judgments	**$62.3** $4.5	**8%** 1%	**–** –	**–** –	**–** –	**–** –
Recourse/complex strategies: Investments where Burford tends to be a principal and where there is asset value supporting the litigation investment.	**$255.5** $226.9	**35%** 32%	**$129.5** $159.3	**27%** 25%	**–** –	**–** –
Post-settlement: Investments where litigation risk has been largely removed through settlement or other resolution	**–** –	**–** –	**$167.7** $241.6	**34%** 37%	**–** –	**–** –
Total	**$727.8** $702.8	**100%** 100%	**$492.2** $645.2	**100%** 100%	**$52.5** –	**100%** –
Total investment commitments	**$1.3 billion**					

Note: 2018 commitment figures are bolded, 2017 commitment figures are light grey.
2017 post-settlement figures have been recast from single case finance, portfolio finance and recourse/complex strategies.

Continued

Some other comments about the chart on the previous page may be useful:

- Portfolio investments fell somewhat due to the presence of the two large portfolio deals done in 2017 for a total of $350 million in commitments (discussed previously) which were not repeated in 2018. Excluding those two deals, portfolio investments almost doubled from 2017 to 2018 – and of course we did much more volume in portfolio investments alone in 2018 than the entire business did across all types of investments in 2016
- Legal risk management declined as we spent much of 2018 establishing our new captive insurer (see discussion below), but we do not in any event attach much importance to the ebbs and flows of this category of business which largely facilitates our core litigation finance business
- Asset recovery, which we discuss more in-depth below, really hit its stride with a significant increase in at-risk matters
- Post-settlement volume declined as we transitioned from our prior fund, now in run-off

iv. Principal investing

- Burford continuing to develop principal investing activities alongside its client-facing financing; early results show 24% IRR
- Almost $400 million committed to principal investments in 2018 with persistently high deployment levels

Our principal investing strategy is showing early promise, with $20 million in income in 2018, a 24% IRR and a 20% ROIC[16], net of hedging costs so that we eliminated virtually all market risk.

The fundamental difference between our traditional litigation finance business and what we call complex strategies or principal investing is that in the traditional business we are financing a client, and that client has the ultimate decision-making authority in the litigation, whereas in principal investing Burford has acquired that decision-making authority. Otherwise, much of the two approaches is identical, including reliance on our investment diligence process and our post-investment management process. We are still seeking returns from the outcome of litigation and regulatory processes.

We originally started down the road of principal investing in response to client demand; we would have situations in which the client wanted to walk entirely away from an underlying matter and have us take it over by acquiring whatever asset was giving rise to the litigation. More recently, we have expanded our ambit to include situations where we have identified the specific opportunity and have decided that the litigation claim to be pursued is sufficiently compelling to warrant taking a position in an underlying asset.

An example may assist. Many US companies are incorporated in Delaware. Delaware has a statutory provision that permits shareholders of Delaware companies to challenge in court the price at which a company proposes to enter into a M&A transaction. By holding shares in the company prior to the transaction closing, Burford becomes entitled to pursue that Delaware litigation directly, as opposed to in our client-financing business where we would finance the pursuit of that litigation for an investor who owned the shares. The underlying litigation and the process for evaluating it are exactly the same; we are simply disintermediating the client dynamic and potentially making the process more efficient and more predictable, given that clients can on occasion make litigation decisions for reasons other than risk and pure economic return. In such an example, Burford isolates the litigation risk by hedging the underlying equity position.

In addition to the benefit of securing decision-making control, principal investing generally permits us to deploy more capital per investment and to have a more predictable level of total capital deployed.

There are also, of course, significant risk management benefits, because if we lose the litigation case, we still own the underlying asset, as opposed to the client-financing business where a loss of the litigation case will generally cause us to lose our entire investment. Most principal investments are much lower risk than the corresponding client-financing investment but still deliver attractive returns.

16 Including management fees and carry from the portion of complex strategies invested through funds; return on invested capital calculated on the basis of maximum capital deployed during the year in concluded investments.

We do some principal investing through our complex strategies fund, but given that the Burford balance sheet is the largest investor in that fund, we are obtaining direct exposure; we also do some principal investing directly on balance sheet the scope of which falls outside the scope of the fund. We are obviously sensitive to our allocation policy, discussed later, to ensure that every investment is appropriately allocated among investors.

The table below shows the five principal investments we have concluded to date through the complex strategies fund, which have collectively generated $20 million in income for Burford between direct investment return and fees from the complex strategies fund relating to those investments, a 20% return on invested capital and a 24% IRR, with no losses. Significantly, the table provides the quarterly cash flows associated with these investments and shows how much shorter in duration these investments can be because we retain control over decisions around settlement (all of these results occurred due to negotiated settlements). We discussed, and demonstrated, earlier the appeal of having a mixture of high return, high risk, long duration investments and lower return, lower risk and shorter duration investments.

We presently have eight further principal investments outstanding, the bulk of which were originated in 2018. We expect continued growth in this area.

Concluded complex strategies balance sheet investments

($ in millions)

	2017			2018							
	Q2	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	Profit	Profit with management fees and carry	ROIC	IRR
Matter 1	(52.7)	5.4	14.8	–	–	37.9	–	5.3	7.4	14%	17%
Matter 2	(12.3)	12.2	1.6	–	–	–	–	1.5	1.8	15%	577%
Matter 3	–	(1.6)	–	–	–	2.4	–	0.8	1.1	9%	35%
Matter 4	–	–	(29.9)	–	2.7	–	30.9	3.8	4.7	16%	17%
Matter 5	–	–	–	–	(38.5)	43.2	–	4.7	4.9	12%	53%
Net cash flows in quarter	($65.0)	$16.0	($13.5)	–	($35.8)	$83.5	$30.9				
Cumulative cash flows	**($65.0)**	**($49.0)**	**($62.5)**	**($62.5)**	**($98.3)**	**($14.8)**	**$16.1**				
							Profits and returns	**$16.1**	**$19.9**	**20%***	**24%**

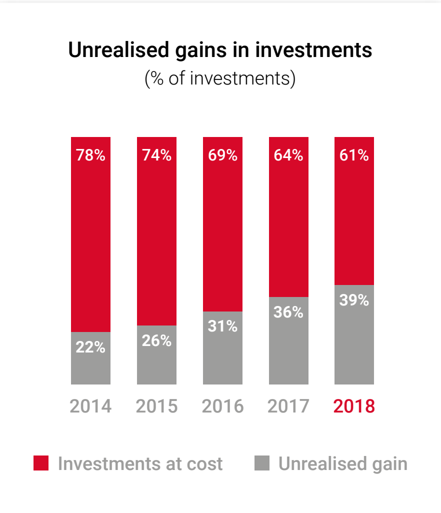
*Calculated off the maximum quarterly capital deployed in concluded portfolio ($98.3 million in Q2 2018)

Continued

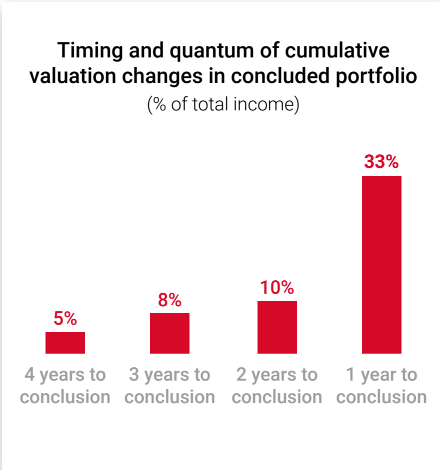
v. Valuations and the impact of fair value accounting

- Significant majority of our investments are held at fair value equivalent to invested cost with no valuation change – in other words, at cost
- Investment portfolio comprised 61% cost and 39% unrealised gain
- Portion of income from unrealised gain consistent – 55% in 2018, 53% in 2017, 54% in 2016

We have written extensively in the past about how we account for our investments under IFRS and will not repeat our prior comments here. In short, we hold litigation investments at invested cost until there is some objective event in the underlying litigation that would cause a change in value, whereupon we are required under IFRS to attempt to reflect the market impact (up or down) of that objective event. Our valuations have historically undershot our actual recoveries and that historical track record is one reason we see modest increases over time in the proportion of unrealised gain on our balance sheet. And, of course, we provide extensive information about our portfolio on a cash basis so investors who prefer to consider the business that way can do so.



We also repeat below the graph we first provided at the half-year, showing when Burford tends to make its valuation changes. What this graph shows is that a significant majority of valuation changes occur in the year leading up to investment resolution. That is entirely unsurprising given that objective events in litigation tend to occur later rather than earlier in the litigation life cycle and is a further testament to our conservatism in valuation matters. What investors will note, however, is the reduction by a couple of percentage points in the final two years before conclusion (now 33% and 10% versus 35% and 12% as reported in the 2018 interim report), which is entirely due to the impact of a fair-sized investment that ultimately lost and which we wrote down partially two years before its conclusion and again during the year of conclusion, which when netted against valuation increases caused the numbers to decline somewhat – but also proves the point that we change valuations in both directions.



The worked examples below provide an illustration of how we make fair value changes.

Fair value accounting case studies

2012 vintage investment

$5 million committed
$3.9 million deployed

$10 million proceeds
$6.1 million profit

	Initial funding		Further funding	Affirmance of liability	Matter settled
	2012	2013	2014	2014	2015
Deployment	$2.9m	–	$1.0m	–	$10.0m gross proceeds $6.1m investment profit
Fair value adjustment (unrealised P&L event)	–	–	–	$1.8m	
Carrying value of investments	**$2.9m**	**$2.9m**	**$3.9m**	**$5.7m**	**$4.3m realised gain in 2015**

2011 vintage investment

$6 million committed
$3.6 million deployed

$3.6 million loss

	Initial funding	Further funding	Further funding	Court granted summary judgment in favour of defendant	Affirmance of ruling on appeal
	2011	2012	2013	2014	2015
Deployment	$0.5m	$2.5m	$0.5m	$0.1m	$3.6m investment loss
Fair value adjustment (unrealised P&L event)	–	–	–	($0.9m)	
Carrying value of investments	**$0.5m**	**$3.0m**	**$3.5m**	**$2.7m**	**$2.7m realised loss in 2015**

Continued

vi. Petersen

While we eschew discussion of specific investments, we comment here on the current status of the Petersen matter given the level of investor interest in the case.

To recap, Petersen is a claim by a significant shareholder of YPF, the Argentine energy major, that YPF and Argentina breached their obligations under YPF's by-laws to buy out all other shareholders when Argentina renationalised YPF by expropriating a majority of its shares.

In the face of a clear contractual obligation, complete with a formula for computing Petersen's damages, Argentina has been focused on collateral matters and has been trying to avoid the jurisdiction of the US courts by invoking a piece of US legislation, the Foreign Sovereign Immunities Act ("FSIA"), which regulates when foreign sovereigns may be sued in US court. Petersen won on the application of the FSIA before the trial court, the US District Court for the Southern District of New York, meaning that the trial court would retain the case and proceed with the underlying litigation. Argentina appealed that decision to the intermediate appellate court, the US Court of Appeals for the Second Circuit, which it was entitled to do as of right. A three-judge panel of the Second Circuit rejected Argentina's appeal in July 2018. Argentina then petitioned all 13 judges of the Second Circuit to hear the case all together, which they rapidly and unanimously declined to do, without even calling for a response from Petersen.

That has brought to an end Argentina's appeals as of right. However, Argentina has asked the Supreme Court of the United States, the highest court in the US, to hear its further appeal on the FSIA issues. The Supreme Court accepts very few of the applications it receives. In this case, given that it involves a foreign sovereign, the Supreme Court has asked for the views of the US Solicitor-General as to whether it should hear the case. Once the Supreme Court receives those views, it will decide whether to grant a hearing or refuse to do so, in which case the matter would return to the trial court. Even a grant of a hearing before the Supreme Court does not, however, necessarily suggest a different ultimate result than in the courts below, especially as those courts have applied the FSIA pursuant to Supreme Court precedent.

While we cannot reliably predict the timing of any litigation matter, we think it is likely that the Supreme Court will decide whether to hear the case by June 2019, and if it decides to hear it, will likely hear oral argument in the fall or winter and render a decision by June 2020.

These proceedings have not changed our views on the merits of the case and nothing has occurred in the case that we did not anticipate.

As previously disclosed, Burford also has an investment in a case brought by Eton Park, a large asset manager and the third-largest YPF shareholder after Repsol and Petersen at the time of the expropriation. That case is on hold awaiting the outcome of the Supreme Court petition.

vii. Concluded investment commentary

Given our general inability to discuss pending investment matters, we have a custom of discussing concluded ones to give investors some colour about the business.

This year, we will highlight four different international cases that have many common features. They illustrate the vagaries of the adjudication process, our unrelenting focus on appropriate risk-based pricing and our deep involvement in the matters we finance, which rightly means that leading law firms perceive Burford as a provider of "smart capital" and nothing like a commodity.

The four cases had the following in common:

- All of them were complex, high-value matters arising out of international business transactions
- All of them were litigated by preeminent international law firms and by the lawyers in those firms who were at the top of the profession – but they were also defended by such lawyers
- All had very significant potential damages – in the hundreds of millions or billions of dollars
- All had sophisticated clients who were principally concerned with obtaining an economic recovery
- The potential total legal spending in each matter was well in excess of $10 million
- We believed when we made the investments, and continue to believe today, that our clients were clearly in the right and should prevail
- Our economic terms were expensive because, notwithstanding our views above, we are realists when it comes to the predictability of adjudicative decision-making

At the end of the day, two of the investments produced a return, and the other two were total losses. But in the end, we invested $32.5 million across the four matters and recovered $137.1 million.

The terms of the four matters were:

Matter 1: Investment back plus a 12% IRR, plus 30% of the first $100 million of net proceeds, 20% of the next $100 million, and 15% of the next $300 million, all subject to a minimum of 35% IRR or 4x return, whichever is greater

Matter 2: Investment back plus 5x first dollar, plus 5% of net proceeds

Matter 3: Investment back plus 3x first dollar, plus 40% of the first $100 million of proceeds, 30% of the next $400 million, 25% of the next $300 million and 15% thereafter, all subject to a minimum 50% IRR

Matter 4: Investment back plus a 35% IRR preferred return, plus 37.5% of the first $50 million, 32.5% of the next $50 million and 22.5% thereafter, all subject to a minimum 50% IRR

The first matter was a dispute over the ownership of a valuable oilfield. It was litigated in the US because of the unreliability of the court system where the oilfield was located, and the structure of the transaction did not lend itself to an international arbitration proceeding. At the end of the day, despite clear wrongdoing (machine guns, forcible detention, physical mistreatment, local judicial misconduct) the US courts were not prepared to take jurisdiction over the case; the US does not hold itself out as a court for the world and requires more nexus to the US than was able to be shown here. Burford lost all of its $3.7 million investment, although by having the matter fail at the jurisdictional phase, we spent less than half of our total $8 million commitment. With the US courts closed to the plaintiff, it has no other viable path to resolving this dispute and obtaining justice.

The second matter was a complex case involving energy transmission that spawned multiple arbitral proceedings. Ultimately, a global resolution was reached. We are due to receive $30.1 million on our $5.4 million investment; $1.35 million of our commitment remained undrawn due to the settlement occurring before the conclusion of the matter.

We have written about the third matter, Teinver, before, but as it fits neatly into this category of cases, we do so again. Teinver concerned the expropriation of two airlines owned by a Spanish travel firm and ultimately was a long and complex fight about damages, with Teinver claiming the highest value it could reasonably propound and the defendant asserting that the airlines were so badly run that they were valueless, and the World Bank arbitration tribunal ultimately settling on a value in the middle, with the result that Burford was able to sell its entitlement in Teinver for $107 million against a $13 million investment.

The final matter was also against a government which, our client alleged, had broken its promises about the operation and regulation of the market in which the client was participating. The facts were compelling and the arbitral tribunal criticised the government's conduct but ultimately decided that the principal cause of the client's damages was its flawed business plan, even if the government's bad acts had exacerbated the situation, and thus precluded any recovery, causing the loss of our $10.4 million investment and the bankruptcy of the client. We continue to believe that the decision was deeply flawed but arbitration decisions are very difficult to overturn and it rarely makes sense to spend incremental capital trying to do so.

A few conclusions may be drawn from these results. *First* and most obviously, this is a risky business and it is not hard to suffer substantial losses, even with world-class lawyers and intensive diligence. Scale and diversification, together with quality underwriting, are the key mitigants to that endemic risk and it is why law firms, let alone smaller litigation finance firms, are not well-equipped to take on such risk across a smaller pool of cases than we have. *Second*, pricing appropriate to the risk is important. While it is never nice to lose, the capital pricing demonstrated in these matters shows that successful matters can offset those losses. That is not because the cases are not strong and meritorious; rather, it reflects the reality that litigation is an inherently risky and idiosyncratic process, even for deserving clients with excellent lawyers. *Third*, to find these matters in the first place and then to have the capacity to diligence them and manage the investments once made is a significant undertaking, and not something that could realistically be undertaken by a small team. Each of these matters consumed thousands of hours from people across Burford, including the entire Investment Committee monitoring their progress and the personal involvement of the CEO and the CIO at numerous points in each case. We were involved in strategy, settlement, argument preparation and even the drafting of pleadings – not because we had a legal right to control those issues, but because our input adds value and our clients seek it.

Continued

C. Capital Structure

We have commented for some time about the dilemma we have faced between financing our growth through leverage, which made sound corporate finance sense given our historical returns but worried us given the potential volatility of our cash flows, or through private investment funds, which offered flexible capital without principal risk but came at a high cost. Historically, we have pursued both options with a degree of balance, so that in 2018 we added a further $180 million of debt and also raised a $300 million investment fund.

We were thus delighted to be able to chart a middle course with a strategic capital transaction late in 2018 with a sovereign wealth fund ("SWF"), which saw us enter into a $1 billion arrangement, 67% from the SWF and 33% from Burford's balance sheet, but from which Burford will receive 60% of the fund's returns after recoupment of capital. For us, this represents the best of both worlds: We have the flexibility of private fund capital, but we are also receiving returns that suggest a portion of that capital is more like structural leverage than equity. Moreover, we contemplate a long-term relationship with the SWF and the ability to draw on its capital for other ventures in that partnership.

We also raised some equity in 2018, for the first time since 2010. Originally, we had in mind a three-part capital expansion – equity, debt and the SWF/private fund combination, occurring in close succession. We started with the equity and successfully raised $250 million in October 2018. However, debt market conditions – exacerbated by Brexit uncertainty – in the fourth quarter were unfavourable as to price and maturity and we elected to wait on a debt offering. We did, however, close the SWF arrangement in December. If markets stabilise, we may return for the debt issue. The diversity of our capital sources makes us able to ride out market volatility and stay disciplined around rates.

Burford today is operating at a net debt/equity ratio of around 0.27x, a low level of leverage for a specialty finance firm, with abundant interest coverage. That is possible because we re-invest many of our capital receipts and manage our expenses closely. Moreover, we have laddered our long-term debt, and our first bond does not mature until 2022.

We are sometimes asked about moving our equity listing to the London Stock Exchange's Main Market (our bonds already trade on the Main Market). We wrote at some length last year about our consideration of that question, and the Board has discussed it since. Simply put, we have no present intention of making such a move. We find it an expensive and distracting undertaking with little incremental gain. We would probably be more likely to pursue a listing on a US exchange than a migration to the Main Market, but even that is not a current priority for us.

D. Investment Management[17]

- Burford is the largest investment manager in our sector; our assets under management ("AUM") grew to $2.5 billion
- New $300 million litigation finance fund raised in 2018 along with $1 billion SWF fund

Burford operates eight private investment funds as an investment adviser registered with and regulated by the US Securities and Exchange Commission ("SEC").[18] At the end of 2018 our AUM were $2.5 billion (2017: $1.7 billion). We believe that we are the largest investment manager in the legal finance sector by a considerable margin.

We view our funds business as an important addition to our balance sheet investment business. Having access to private fund capital has improved our ability to pursue investment opportunities and has also permitted us to engage in larger transactions without seeking external partners. Had we not had our funds business, we would have struggled to transact the two large portfolio transactions in 2017 that totalled $350 million, for example.

17 Burford Capital Investment Management LLC ("BCIM"), which acts as the fund manager, is registered as an investment adviser with the U.S. Securities and Exchange Commission. The information provided herein is for informational purposes only. It describes multiple investment vehicles focused on multiple investment strategies. Nothing herein should be construed as solicitation to offer investment advice or services. Information about investing in BCIM-managed funds is available only in the form of private placement memoranda and other offering documents. The information contained herein does not purport to present a complete picture of the actual or anticipated financial position, activities, results, actions and/or plans of the Fund or any other fund or account managed by the Firm. Past performance is not indicative of future results.

18 In SEC parlance we have more than eight "funds" when one includes sidecars and various fund structures but for ease of the discussion that follows we ignore sidecars unless specifically included and we collapse fund structures into overall strategies, ignoring, for example, onshore and offshore separations.

Before proceeding further into this discussion, we need to address a rather peculiar dynamic in the world of fund regulation. It is a regular feature of SEC-registered funds that they engage in multiple "closes" and that a new fund begins operations following its first close, even though it is continuing to fundraise. During that fundraising period it is strictly forbidden to discuss the fund publicly; that is viewed as violating the SEC's solicitation rules. This is of course a bizarre state of affairs for a publicly-traded fund manager like Burford because it is obvious from reporting that there is something out there that we are not discussing, but the reality is that we cannot discuss new funds until they have reached their final close even if we are investing capital and earning fees following a first or second close. Thus, to the extent you notice inconsistencies in our data, that is likely why.

a. The Funds

We now manage eight investment funds (and one sidecar vehicle) with total AUM of about $2.5 billion at 31 December 2018. We earn management and performance fees from these funds; we provide more details of those fees in our discussions of the individual funds. We earned $14.0 million in management fees and $1.8 million in performance fees from the funds in 2018.

We conduct the sponsorship and management of our funds through limited partnerships. Each investment fund that is a limited partnership has a general partner that is responsible for the management and operation of the fund's affairs and makes all policy and investment decisions relating to the conduct of the investment fund's business. The limited partners of such funds take no part in the conduct or control of the business of such funds, have no right or authority to act for or bind such funds and have no influence over the voting or disposition of the securities or other assets held by such funds. Each investment fund engages an investment adviser. Burford Capital Investment Management serves as the investment adviser for all of our funds and is registered under the Investment Advisers Act of 1940, as amended.

We are presently investing four funds: (i) our traditional litigation finance strategy (now through the Burford Opportunity Fund or "BOF"); (ii) the SWF fund; (iii) the complex strategies fund; and (iv) our post-settlement strategy. When there is overlap between investments suitable for Burford's balance sheet and for one of its investment funds, we invest pursuant to a formulaic allocation policy. The current policy provides that:

- Traditional litigation finance investments are allocated 25% to BOF, 50% to the SWF fund (of which the Burford balance sheet is a 1/3 investor) and 25% to the Burford balance sheet, so that between the direct allocation and the SWF allocation the Burford balance sheet ends up with 42% of each new investment, subject to concentration and other limits in the funds
- Complex strategy investments that meet the fund's mandate (which is not as broad as all principal strategy investments) are allocated 100% to the complex strategies fund, but Burford's balance sheet is the largest investor in the fund, and other principal strategy investments are allocated 100% to Burford's balance sheet
- Post-settlement investments are allocated 100% to our post-settlement fund
- Asset recovery investments are allocated 100% to Burford's balance sheet

We believe that this kind of clear and formulaic approach to investment allocation is fair and transparent both to Burford's public investors and its fund investors. This dual approach broadens significantly Burford's access to capital and permits Burford to engage in a range of investment strategies.

One common feature across the current funds other than the complex strategies fund and the SWF fund is the use of a so-called "European" structure for the payment of performance fees, in that the investment manager is not paid any performance fees until fund investors have had their entire capital investment repaid, as opposed to performance fees being paid on profitable resolutions as they occur. The impact of this structure is to delay the receipt of performance fees, and thus while many fund investments have already successfully and profitably concluded, leading to a steadily growing expectation of performance fees, few of those performance fees have yet been paid. Burford reports on its investment management business as a separate accounting segment. Management fee income is reported as income is earned; management fees are generally paid quarterly. Because of the funds' European performance fee structure, performance fees are recognised when a reliable estimate of the fee can be made and it is highly unlikely that a significant reversal of the amount will occur.

Continued

i. The Partners Funds

Three of the funds invest in legal finance assets in a manner comparable to Burford's core business. This part of the business is also often called "pre-settlement" financing, in that the focus is on assets with legal or regulatory risk that has not yet been resolved or adjudicated.

When considering the economic potential of the Partners funds, it is important to look at management and performance fees holistically, rather than attempting to separate those two income streams. Unlike some asset classes, properly underwritten portfolios of litigation finance investments should reasonably be expected to deliver positive returns in excess of any applicable fund hurdle rates, thereby entitling Burford to performance fees. However, just as in Burford's litigation finance business, the timing of resolutions and payments is unpredictable, and that unpredictability will affect the balance between management and performance fees at any point in time.

1. Partners I

Partners I, the inaugural small fund with $45.5 million in investor commitments, was raised in March 2013 and began investing immediately. Partners I invested in a diversified range of litigation finance assets, ultimately making 17 investments, of which 13 have already resolved. The fund has been successful on a returns basis (34% net IRR and 137% net ROIC to date) but its investments were relatively small; ultimately, it deployed $31 million in capital, or an average of $1.8 million per investment. It has generated $1.3 million in performance fees for Burford and we expect incremental performance fees in the future, especially as one of the four outstanding investments is a potentially significant investment success making its way through the appellate process, with Partners I's current entitlement being more than $27.8 million net of invested capital or almost $5 million in performance fees.

Partners I is no longer generating management fees given its maturity.

2. Partners II

Partners II was raised in December 2013 following the rapid commitment of Partners I. Partners II was a significantly larger fund, with $259.8 million in investor commitments. Its investment period ended at the end of 2015.

While Partners II has a diverse pool of investments, it has a particular emphasis on intellectual property investments. Those investments tend to be characterised by longer duration and higher risk, but also higher return when successful. Thus, compared to Partners I, it is not surprising that a smaller proportion of investments (16 in total out of 36) have resolved, and the remaining active investments represent a significant proportion of the fund's outstanding commitments. Partners II has made 36 investments and committed $249.8 million of capital, $119.0 million of which is presently deployed.

Partners II paid $1.6 million in management fees in 2018. Given its harvesting status, future fees will be based on outstanding investments and will cease at the end of 2019; investors presently pay a 2% management fee based on committed or deployed capital. The fund has not yet reached the stage of returning all of investors' capital and thus has not yet paid any performance fees. It is worth noting that $85.9 million of investor commitments in Partners II were made on the basis of 0% management fees and 50% performance fees, as opposed to the more traditional 2% management fee and 20% performance fee. For all of those reasons, it is difficult for us to project the quantum and timing of future fee income from Partners II.

3. Partners III

Partners III began investing in January 2016, following the close of the Partners I and II investment periods. Partners III had $412 million in investor commitments. Although the Partners III investment period ran through the end of 2019, we saw demand for capital such that we fully committed the fund by the end of 2018 and Partners III is now in harvest mode. Partners III has made 56 investments and committed $438.8 million of capital, $204.0 million of which is presently deployed.

Investors in Partners III paid a 2% management fee on their total capital commitments during the investment period, regardless of deployment levels, and now that the fund is in harvest mode investors are only paying fees on investment commitments. Following the fund's formal cut-off on 1 January 2020, investors pay no further management fees. Burford earned $5.9 million in management fees from Partners III in 2018, and at the fund's current level of commitments (which may change over time) would earn another $5.9 million in management fees in 2019. The fund has two investment classes: (i) Class A, 75% of total commitments, pays 2% management fees and receives full investment returns subject to 20% performance fees; and (ii) Class B, 25% of total commitments, which does not pay a management fee and which is not entitled to investment returns but receives only an 8% coupon if drawn (and Class A must be drawn in its entirely prior to Class B being drawn). The nature of litigation finance investments suggests that it is unlikely that Class B will ever be drawn. As such, it should be thought of as a form of synthetic leverage, with the result that Class A performance fees are likely to be enhanced by its presence.

ii. Burford Opportunity Fund

The Burford Opportunity Fund, the successor to the Partners fund line, began investing in December 2018. BOF had a single close at $300 million; we reduced its potential size given the SWF fund we closed virtually concurrently.

BOF's investment period runs until 31 December 2021, unless closed earlier. During the investment period, investors pay a 2% management fee on their capital commitments (i.e., on the entire $300 million committed) regardless of investment activity. Following the investment period investors pay a 2% management fee on actual investment commitments until 30 November 2023; that period may be extended for two successive periods of one-year each, with further extensions requiring consent of BOF's advisory board. Thereafter, investors pay a 0.5% management fee on investment commitments until termination. There is a 20% performance fee beyond an 8% hurdle with a full catch-up. The only investors who do not pay those fees are Burford-affiliated investors, accounting for $6 million of commitments.

At the end of 2018, after only a few weeks in existence, BOF had committed $84.5 million to 11 investments and continues to invest in 2019.

iii. Sovereign Wealth Fund

As previously announced, Burford formed a companion to BOF with a single investor, a sovereign wealth fund, which also closed in December 2018 ("BOF-C").

BOF-C has an investment period that runs until 31 December 2022 unless the fund is committed earlier. The fund concept is a $1 billion fund, 67% from the SWF and 33% invested from Burford's balance sheet, with Burford earning 60% of the aggregate profits from investments along with an annual contribution to operating expenses of up to $11 million taken from the first dollars of fund returns.

At the end of 2018, after only a few days in existence, BOF-C had committed $52.5 million to eight investments and continues to invest in 2019.

iv. Post-settlement investing

In addition to our conventional pre-settlement litigation finance, we also have a fund that monetises post-settlement and other legal receivables. There are frequently significant delays between the point at which parties to a litigation matter agree upon a settlement and the finalisation of and payment under the settlement. Often, those delays are due to the operation of the judicial process, which may require notice periods and fairness hearings before approval of settlements. In the interim period, both law firms awaiting payment of their fees and clients eager for cash to flow may well find it attractive to secure funding against those expected receipts, and our post-settlement fund provides such monetisation, at return levels considerably lower than traditional litigation finance.

We hope to provide further details about this strategy in our next report to shareholders.

v. Complex strategies

In June 2017 we raised a new fund to invest in certain principal strategies. That fund closed at $500 million, including a $150 million commitment from Burford, and has been substantially deployed during 2018. In addition to its original commitment, Burford's balance sheet also has the opportunity to take investment overages when available, which it has exercised.

Burford earns management fees of 2% on funded capital. We do not receive any fees for uncalled investor capital commitments. We also earn 20% performance fees (over a 5% annual preferred return with a full catch-up) on the investment strategy. We have reported separately on the fund's performance. In 2018 we earned $3.4 million in management fees and $1.8 million in performance fees from the fund.

As an accounting matter, because of Burford's significant investment in this fund, we are required to consolidate the fund and then show separately the entitlement of other investors. That creates some noise in our financials and we have generally excluded the impact of that fund consolidation in our presentation of results and our discussion of the business; if we had included it, it would have increased our income and total assets by $4.6 million and $250 million, respectively. Note 21 of our accounts includes these amounts in the full line-by-line treatment of the fund consolidation.

Continued

vi. Sidecars

We occasionally make use of sidecar investment vehicles when individual investments are too large for our direct investment capacity. The scale of Burford's own investment capacity means that fewer investments require the use of sidecars but they remain a useful addition to our capital mix. During 2018, we had only one active sidecar. We did not earn any fee income from sidecars in 2018.

E. Insurance

Our legacy insurance business has been in run-off since the end of 2016. The business declined in 2017 and we expected a further decline in 2018 but were surprised by the strong performance of the business in the second half of the year as a few large cases resolved favourably. As a result, the legacy business delivered $10.4 million in income (2017: $7.6 million) and $8.4 million in operating profit (2017: $5.6 million). The business is, however, slowly drawing to a close; for example, we have only 13 cases remaining in the £250,000+ category (2017: 19).

Thus far, the insurance business has generated $105.1 million in income and $79.6 million in operating profit since our acquisition of it in 2012, when we paid an effective cash price of $18.75 million to purchase it. Moreover, there is a further reserve that sits on MunichRe's balance sheet and not on ours to which we become entitled at the conclusion of the run-off; that reserve stood at $7.7 million at the end of 2018 although it can fluctuate in the future based on the outcomes of individual matters.

In addition to the cash profitability of the business, we have the benefit of an extensive track record.

The insurance business has written almost 57,000 insurance policies to cover adverse costs risk during its life. Of those matters, 77% have resolved favorably and only 21% have suffered losses (and 2% remain unresolved). That represents an enormous body of litigation assessment data and experience in addition to our core business.

The legacy insurance business was more of a middle market business than our core business and we only infrequently wrote more than £3 million coverage for a single case. As we have discussed before, demand for adverse cost insurance in that market has declined because of regulatory changes implemented in 2013, and that decline in demand coupled with increasing platform costs caused us to terminate our arrangement with MunichRe at the end of 2016 – particularly as our core business is not particularly focused on the middle market.

However, adverse cost risk remains a key issue in the kind of larger complex litigation that is squarely the focus of our core business. Today, it is difficult to find a path forward on English litigation claims once the adverse cost exposure approaches £20 million as there is limited capacity in the insurance market for such claims – and while those numbers seem large, Herbert Smith Freehills handily exceeded £100 million in costs defending RBS from actions relating to its financial crisis conduct and we have had requests for even larger levels of adverse cost protection. Moreover, adverse cost protection is often a prerequisite in large cases as individual defendants are typically unwilling to take on the kind of joint and several adverse cost exposure that can exist in such cases.

Thus, given our historical experience as an insurance provider and our expertise in litigation risk assessment, we have re-entered the adverse cost insurance business – but with our own wholly-owned insurer (as opposed to our agency relationship with MunichRe) and at the large case end of the market where we have historically focused. We have thus created Burford Worldwide Insurance Limited ("BWIL"), a Guernsey insurer that will offer adverse cost insurance globally in both litigation and arbitration, and we have arranged substantial reinsurance capacity for that insurer from leading reinsurers, with Burford taking on 20% of the insurance risk. BWIL will only write coverage for matters we are financing, providing a further impetus to work with Burford.

BWIL was fully operational by the end of 2018 and has written its first policies, and we have high hopes for its future – although economically we are more focused on unlocking the funding possibilities in large value cases than in making a large profit at BWIL.

F. New Initiatives

Our new initiatives segment principally contains our asset recovery business at this point and its associated law firm, Burford Law.

Once a matter has been litigated through to a final judgment and all appeals have been exhausted, that judgment is enforceable globally as a debt obligation of the judgment debtor. While many tenacious litigants do pay their judgments when they ultimately lose a matter, some do not, and further effort is needed to collect the judgment debt.

Our asset recovery business provides expert assistance to lawyers and clients around global asset location and enforcement. As one might expect given Burford's background and orientation, we approach this business as lawyers and add the skills of researchers and on-the-ground private investigators. With the results of our research, we use global legal tactics and strategies to obtain yet more information and ultimately to seize assets to satisfy judgments.

We also operate a small law firm inside Burford, called Burford Law, under licence from the Solicitors Regulation Authority. Burford Law today provides specialised services to our asset recovery business and also offers those services to other law firm and corporate clients.

We have been migrating the asset recovery business from a fee-for-service to a contingent risk model over the past couple of years. In other words, instead of our prior model of billing clients for our time, the bulk of our business is now done on risk in exchange for a share of whatever recovery is generated. Under most potential scenarios, the contingent risk model will be more profitable. We saw a real breakout year in 2018 in which the business made $62.3 million in new investment commitments and we think that is the way of the future for the business, although we continue to accept fee-for-service assignments as well.

While this business remains at an early stage we are beginning this year to provide the same kind of concluded and partially-concluded case data we provide for our litigation finance business.

Investment performance

Asset recovery investments

$ in millions	# of investments	Total commitments	Total invested	Total recovered	ROIC	IRR
Concluded	3	$3.6	$3.0	$4.9	**125%**	**185%**
Partial realisation	1	$4.8	$4.8	$5.9		
Ongoing	–	–	–	–		
2015 vintage total	**4**	**$8.4**	**$7.8**	**$10.8**		
Concluded	1	$0.2	$0.2	$0.6	**17%**	**26%**
Partial realisation	2	$7.8	$7.1	$2.1		
Ongoing	2	$6.0	$6.0	–		
2016 vintage total	**5**	**$14.0**	**$13.3**	**$2.7**		
Concluded	–	–	–	–	**50%**	**59%**
Partial realisation	1	$23.7	$15.0	$5.2		
Ongoing	5	$29.6	$10.1	–		
2018 vintage total	**6**	**$53.3**	**$25.1**	**$5.2**		
Total investment recoveries to date	**4**	**$11.3**	**$10.7**	**$18.7**	**75%**	**167%**
Total ongoing investments	**11**	**$64.4**	**$35.5**	**–**		

* No new investments were made in 2017

Continued

G. Environmental, Social and Governance Factors

Environmental, social and governance ("ESG") factors are of increasing concern to investors. While we have addressed many of the ESG factors relevant to Burford on a piecemeal basis in prior annual reports, for the convenience of investors we are providing here a comprehensive summary of our approach.

In creating this summary, we have relied on recently-published guidance from the London Stock Exchange on the integration of ESG into investor reporting and communication[19], and we have had reference to the United Nations-supported Principles for Responsible Investment, to which many of our investors are signatories, the influence of which has been seen in the recent amendments to the UK Stewardship Code.

As an initial matter and to set some context for Burford's reporting, it must be remembered that Burford is a finance firm with a small workforce of little more than 100 people. All our employees are "knowledge workers". Burford does not manufacture or produce anything tangible and its entire physical footprint is contained in relatively small offices that house our employees, their technology and their files – and little else. The tools of our trade are words and numbers, telephones and computers. We are not participants in any global supply chain. Thus, many ESG factors that are of deep concern with respect to other multinationals simply do not apply to Burford.

We would also note that lawyers are regularly at the forefront of social change, and Burford's team is no exception. Many of our lawyers have litigated – often pro bono – some of the most significant social issues of the day and continue to be involved in such issues while at Burford. Indeed, Burford is a paradigm of a firm with deep focus on ESG issues simply by virtue of who we are, what we do and our culture.

We also do not believe in focusing on ESG issues simply because investors are, but because they make sense for us as a business matter. An example of our approach is found in an innovation this year, The Equity Project. In October 2018, Burford launched The Equity Project, a groundbreaking initiative designed to help close the gender gap in law by providing an economic incentive for change through a $50 million pool of capital earmarked for financing commercial litigation matters led by women. Law continues to present significant and woefully-persistent gender-based inequities. For example, just 19% of equity partners at US law firms are women, and women are significantly underrepresented in leadership positions in law firms and in first chair roles in litigation. The Equity Project provides an incentive for change by providing a pool of capital reserved for matters led by women, including matters in which a woman litigator is first chair; a woman serves as plaintiffs' lead counsel or chairs the plaintiffs' steering committee; a women-owned law firm is representing the client; a woman litigator earns origination credit; or a woman partner is the client relationship manager. Cases financed by The Equity Project must also meet Burford's standard investment criteria. Since launching The Equity Project, Burford has seen a meaningful uptick in investment proposals from women, including over $30 million of requests for financing that have made it into our underwriting process for further review.

With capital from The Equity Project:

- Women litigators and women-owned firms can pitch clients knowing that they can offer alternative fee arrangements
- Law firms committed to gender diversity can share risk with Burford and encourage women litigators to pitch client-friendly alternative billing arrangements to their management committees for new business
- Women can pursue leadership positions in significant matters and ease pathways towards origination and client relationship credit with a competitive edge for them and their firms

We now discuss in more detail Burford's approach to the twelve ESG themes set forth in the FTSE Russell ESG model. As investor reporting expectations continue to develop, Burford will adapt its annual reporting accordingly.

a. Environmental

i. Climate change

As inhabitants of the planet, Burford and its employees are deeply concerned about climate change and its accelerating impact on the world in which we all live.

While Burford has much less impact on climate change than many companies, we nonetheless are focused on what we can do. A key initiative at Burford is to try to limit our carbon footprint. We make extensive and increasing use of videoconferencing to minimise physical travel and when we do travel,

19 London Stock Exchange Group, *Revealing the full picture – Your guide to ESG reporting – Guidance for issuers on the integration of ESG into investor reporting and communication*, January 2018.

we endeavour to do so efficiently and to combine multiple initiatives into a single trip. We emphasise choices such as ridesharing in preference to higher footprint activities such as rental cars.

In our offices, we are sensitive to environmental issues. Our Chicago office is located in a LEED ("Leadership in Energy and Environmental Design") Platinum building. We are in the process of relocating our New York office to a building with pending LEED certification. London presents greater challenges in terms of environmentally-efficient buildings for tenants of our size and budget, but our new London office will encourage environmental stewardship by providing abundant bicycle storage and shower facilities, encouraging employees to bike to work. As a general matter, however, Burford is not a sufficiently large tenant to control any of the building systems or operations where our offices are located and thus we are reliant on our landlords; nor are we able to obtain actual data about our own activity levels around items such as emissions.

ii. Pollution and resources

Burford has two approaches around combatting pollution.

First, we discourage the creation of potentially polluting materials. In our business, that means mostly paper. This is an excellent example of a valuable ESG theme arising out of a sound business justification separate and apart from its societal benefits. We strongly discourage printing of materials and encourage our employees to work on-screen with digital copies. There are cost and environmental benefits to such an approach, to be sure, in that we use less paper, less toner and require fewer printers, but there are also core security benefits; printing the kind of routinely sensitive material with which we work increases the risk of disclosure of that material.

Second, we operate a robust recycling program in each of our offices and we discourage single-use items such as plastic water bottles; we have installed water filtration systems in each office instead.

iii. Water use

Our only water use is in-office bathroom and drinking use. As part of our tenancy in LEED-certified buildings our bathrooms use less water than traditional fixtures.

iv. Biodiversity

This theme has little relevance to Burford's business.

b. Social

i. Human capital (a/k/a labour standards)

Burford's team is one of its key competitive advantages, and we expend considerable effort to create an environment that is appealing to the kind of people we recruit and to continue their development once employed. Competitive compensation is certainly an important part of that dynamic, but so too is a collaborative environment and mutual respect. We also devote considerable resources to training and developing our team, especially as incoming employees are generally coming into the litigation finance industry from adjacent industries for the first time – and indeed that is a limitation on our growth, as we believe that there is a limit to the number of people we can properly assimilate at any given time in light of the need to develop and inculcate them in not only Burford's approach but the fundamentals of the industry.

We also have a workforce with significant diversity across many differing metrics. We do this not merely because we believe that diversity is a social good, but because it helps our investment decision-making. Fundamentally, our business is about trying to predict litigation outcomes. Those outcomes are determined by a wide range of people from differing backgrounds and with built-in predilections based on their own backgrounds and experiences. We will do a better job of predicting outcomes if we can field diverse teams who will consider possible investments from multiple perspectives.

When it comes to gender diversity, Burford has a long track record of having a substantial population of senior women. We have a much flatter organisational structure than many firms and as a result the Hampton-Alexander test does not fit us particularly well, but taking the intent of the test and applying it to Burford, we stand at 41% women in leadership (seven of 17 executives). Moreover, we have a plethora of very senior women at Burford: the Chief Financial Officer, Senior Managing Director (functionally the head of our US business), Chief Marketing Officer, Chief Process & Innovation Officer, Chief Compliance Officer and Deputy General Counsel roles are all filled by women. The heads of our New York and Chicago offices are both women. We also have 15 women in our Managing Director, Director, Senior Vice President and Vice President roles, with at least two women at each level.

Continued

But gender is not our sole focus. We actively seek other differing backgrounds and life experiences, and create an environment where all are welcome. For example, we have a number of openly gay men and women, including in senior positions, and we have parental leave and other policies that accommodate the diversity of lifestyles present in our firm. We seek out people with multicultural or multijurisdictional experience and have many people who are multilingual or have professional qualifications in more than one country. When hiring, we actively consider diversity in all of its forms, including but not limited to gender and race.

As Burford has grown, we have focused on management depth, succession planning and the removal of key person risk, and we are very pleased with our progress. We have a deep bench of experienced, sophisticated managers and we have been able to create redundancy across the organisation, along with a substantial record of promoting from within. Indeed, we just announced 17 internal promotions as part of our annual review process.

As to compensation, our traditional model is that of base salaries and performance-based annual bonuses. Historically, that has made up the considerable majority of our compensation and reflects the origins of our team members, who typically hail from law firms and finance firms that also use this compensation approach.

In 2016, shareholders approved a long-term incentive plan and we have added grants under that plan to our compensation mix, which creates additional alignment between the team and public shareholders and also creates a long-term retention vehicle. We made an initial Long Term Incentive Plan ("LTIP") grant to every employee in the business at the time of the plan's inception, and we make grants to virtually all new employees as they join. We also use annual LTIP grants as a further compensation vehicle for our investment team and other senior employees. All LTIP grants come with performance criteria, three-year cliff vesting and clawbacks for malus. The plan has a cap of 10% of Burford's shares over a 10-year period; after three years, we have used 0.32%.

We also use more tailored compensation devices for incentivisation and retention depending on individual circumstances, in some cases sharing direct investment upside with relevant employees. However, our general compensation philosophy is team-based rather than individual as we believe that investing in this asset class benefits from a team approach and not from assigning individual ownership of and responsibility for individual investments. When we use incremental compensation devices, our focus is on a combination of performance incentivisation and retention.

Burford has historically enjoyed quite low employee turnover after employees have been with us for a period of time. There can, however, be an assimilation period upon joining that does lead to some turnover as we are generally hiring people who have not before done litigation finance, and some recruits ultimately do not fit as litigation financiers. Of the 36 employees who have worked for Burford for at least three years, only two left during 2018.

Burford engages in a number of practices around employee engagement and development. We need again to put this in context; we remain a small organisation. The senior management team knows personally every employee. The CEO has quarterly lunches for every new joiner. We regularly hold drinks events to which every employee is invited and we conduct Q&A sessions with senior management. We have an entrepreneurial culture where anyone is welcome to email the CEO about anything. But we also do more traditional things, like annual 360° performance reviews during which we also actively solicit feedback about the business and its initiatives. And, of course, we have channels for reporting misconduct or other workplace issues. Employees are asked to escalate any known or suspected compliance policy violations or misconduct to the Chief Compliance Officer. Burford also maintains a global anti-retaliation and whistleblower policy. Nothing in the policy prohibits an employee from reporting potential violations of law or regulation directly to a government agency. Retaliation of any type against an individual who reports any suspected misconduct or assists in the investigation of misconduct is strictly prohibited.

We are proud to have assembled what is clearly the leading and most experienced team in the litigation finance industry. Not only do we bring hundreds of years and billions of dollars of litigation experience, but our team is multidisciplinary as well, with senior and experienced finance and investment professionals – a critical component in any investment decision making undertaking. We would encourage shareholders to visit our website to review the biographies of all of our team members.

ii. Health and safety

Burford does not face many traditional health and safety issues in its workplace given the nature of its business. We have never had a material workplace accident or injury.

However, we are focused on employee health and wellness. To that end, because the US does not have a national healthcare scheme, Burford offers its US employees and their families a package of benefits that includes fully-paid health insurance and a contribution to a US device called a "health savings account" that can be used to pay for uninsured medical expenses. The economics of US healthcare are such that healthcare costs can be a source of very considerable stress and distraction for employees, and we are pleased to be able to offer this benefit to remove those strains – and to ensure that nothing stands in the way of employees obtaining medical care.

As to benefits more broadly, we offer competitive benefit plans in each of the countries where we operate, and those plans are offered to all employees across the business.

iii. Customer responsibility

Clients are at the heart of Burford's business and it is a measure of our management of client relationships that 75% of initial clients return for incremental transactional business. We inculcate a culture of client-focused business. We seek to add real value to our interactions with clients and to work together to maximise successful outcomes. We strive for clarity and fairness in our dealings with clients, including clear and straightforward legal documents and honest appraisals of the investment prospects of potential matters.

iv. Human rights and community

While not the typical ESG discussion around this theme, Burford does have an unusual take on this issue. Our capital can change outcomes in litigation matters, and in particular our capital can create outcomes that may be legally correct but challenging when viewed through a broader lens. Said another way, how do we decide whether there are cases we will elect not to finance, even if their merits are strong and they are likely to prevail and generate returns? That is a core function for our Investment Committee. We not only consider legal and economic analysis, but also the holistic viewpoint of a potential investment. As just one example, Burford refrains from financing litigation against impoverished small states, even when the underlying cases may well have merit, because we do not wish to put those governments in a position of having to reduce essential services to their populations in order to satisfy our returns.

We also consider carefully the underlying claims and their societal impact. This is less commonly an issue with corporate claimants as we are simply not often asked to finance companies in, for example, the tobacco industry; those companies tend to be defendants rather than plaintiffs. Nonetheless, the issues are very much front of mind when we review potential investments.

We endeavour to be good citizens within the legal communities in which we operate, and we support a variety of initiatives. For example, we are a member of the Justice 60, a group of 60 key supporters of JUSTICE, a longstanding all-party law reform and human rights organisation working to strengthen the justice system – administrative, civil and criminal – in the UK. We are also supporters of the work of the RAND Institute for Civil Justice, which is dedicated to making the US civil justice system more efficient and more equitable by supplying government and private decision-makers and the public with the results of objective, empirically based, analytic research. Its research analyses trends and outcomes, identifies and evaluates policy options, and brings together representatives of different interests to debate alternative solutions to policy problems. We do not make any political contributions and our charitable contributions are limited to the law-related organisations discussed above along with a modest budget for charitable events to support clients or Burford people.

c. Governance

i. Anti-corruption

Burford is highly sensitive to issues around corruption, sanctions and money laundering. We run extensive compliance programs to ensure we are in the right place on these issues, and we take seriously allegations of corruption in matters we finance and diligence them with great care. We rely not only on our legal and compliance team but also on specialised outside counsel.

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ii. Corporate governance

Burford is composed of its publicly traded parent company, Burford Capital Limited, and a number of wholly-owned subsidiaries in various jurisdictions through which it conducts its operations and makes its investments. Burford Capital LLC is the principal operating entity in the US and Burford Capital (UK) Limited is the principal operating entity in the UK. Those two entities provide various corporate and investment advisory services to other Group companies. Burford Capital Limited, the public parent, does not have any employees itself.

Burford Capital Limited has a single class of ordinary shares which are traded on the AIM market of the London Stock Exchange. Subsidiaries have issued bonds traded on the Main Market of the London Stock Exchange.

Burford Capital Limited is governed by its four-member Board of Directors. All four directors are independent non-executives, and all four have been directors since Burford's inception.

- Sir Peter Middleton GCB, Chairman: Sir Peter Middleton was until 2013 UK Chairman of Marsh & McLennan Companies and Chairman of Mercer Ltd. He was previously Permanent Secretary at HM Treasury and Group Chairman and Chief Executive of Barclays Bank PLC. Sir Peter remains active in a number of other business ventures which are set forth on our web site.
- Hugh Steven Wilson, Deputy Chairman: Mr. Wilson was a senior partner with Latham & Watkins, where he was Global Co-Chair of the Mergers and Acquisitions Practice Group and former Chairman of both the National Litigation Department and the National Mergers and Acquisitions Litigation Practice Group. He is the former Managing Partner of Tennenbaum Capital Partners. He has served as a director of other US entities as set forth on our web site.
- David Lowe OBE, Director: David Lowe was until recently Senior Jurat of the Guernsey Royal Court. He was previously the Chief Executive of Bucktrout & Company Limited and a former director of Lazard and Barclays Capital in Guernsey.
- Charles Parkinson, Director: Charles Parkinson is President of the States of Guernsey Trading Supervisory Board and formerly the Minister of Treasury and Resources for the States of Guernsey. He is a past Partner/Director of PKF Guernsey, accountants and fiduciaries, and is a barrister and an accountant.

The Board holds an in-person meeting every quarter during which it reviews thoroughly all aspects of the business' strategy and performance; the directors spend at least one evening and one full day together for each meeting, and every director attended all such meetings held in 2018. Burford's Chief Executive Officer and Chief Investment Officer participated in the entirety of each board meeting (other than the closed session discussed below), joined as appropriate by other senior members of management. The Board reviews its performance and director compensation annually and regularly discusses succession planning and management oversight. The Board meets in closed session without management present at each of its meetings.

The Board also operates through three committees composed entirely of independent directors, Audit (Parkinson (Chair) and Lowe), Investment (Lowe (Chair) and Parkinson) and Remuneration (Wilson (Chair), Middleton, Lowe and Parkinson), all of which meet throughout the year as required. The Remuneration Committee reviews and approves compensation and LTIP awards for all staff. The Audit Committee plays an active role, not only in overseeing the audit process and managing non-audit services to ensure the continued independence of the auditors, but also in addressing investment valuations, an area of key judgement for the business.

No members of management sit on the Board; while atypical for a UK business, we believe this structure maximises independent oversight of the business. As a result, the Board is smaller than many. The Board composition is also dictated by the provisions of Burford's Articles, which limit the proportion of US persons that can be directors, thus making it impossible to add executives to the Board without expanding its size considerably, which we consider undesirable for both cost and functional reasons. Sir Peter Middleton also chairs the Board of Burford Capital Holdings (UK) Limited, a significant Burford subsidiary, to ensure non-executive oversight.

We suggest that a number of the precepts of current corporate governance need to be considered in the relatively unique context of Burford. We have built a large and complex business quite rapidly; Burford only came into existence in late 2009. Moreover, our business, and the industry in which we operate, has seen seismic changes during the decade of our existence on a regular basis. We believe that there is enormous value in a board at this stage of our existence that is deeply experienced in the business and has lived through its growth and history. We believe shareholders would be very poorly served by rotating our directors off the Board now simply because they have served for nine years, for example.

We are also mindful that the Board is composed of all-white, older men. This would not be the case if Burford had a more typical English board that included senior executives, as both our CFO and the head of our US business are women, and thus we do not believe the issue should be considered in isolation even though we do not fit neatly in a box. These issues have been considered in the Board succession discussions as well. But at the end of the day we believe that constancy, experience and longevity matter more to the business right now than anything else.

iii. Tax transparency

Burford has historically been very transparent about its tax status, including disclosing tax paid by jurisdiction in the notes to our financial statements.

Burford's gradual progression from a tax-free fund prior to 2012 to a multinational taxpayer was altered somewhat by the Gerchen Keller Capital ("GKC") acquisition in 2016. Under US tax law, given that GKC had very few tangible assets, the bulk of the acquisition price of $160 million was characterised as goodwill and other intangible assets for US tax purposes, and those assets are amortised for tax purposes, significantly reducing future US taxable income for some years while the tax benefit of that amortisation is used over time. The value of that tax offset has been impacted by the 2017 passage of tax reform legislation in the US that lowered US corporate tax rates substantially (although it may also have the impact of limiting some interest deductibility and some other tax planning opportunities).

In addition, 2018 saw the increase in value of our net deferred tax asset as detailed in note 5 to our accounts with a commensurate further positive impact on the tax line of the income statement. We believe that our tax cost will remain below our expected future run-rate level for some time while we continue to reap the benefit of the US tax amortisation and the deferred tax asset, although there will be annual variations. Once those benefits are exhausted, we would expect long-term tax rates for our business to ultimately land in the low teens.

iv. Risk management

Burford manages risk in a number of ways.

In the investment portfolio, Burford employs a disciplined, comprehensive, multi-stage process to evaluate potential investments and benefit from the judgement and experience of Burford's highly qualified team of experienced lawyers and finance professionals. Burford also uses an internal, proprietary risk tool to assess risk during the investment process and regularly after the investment has been made and engages in substantial portfolio management activities using a risk-based approach. Burford believes that its approach to risk management has enabled it to improve materially on investment results in challenging situations where a more conventional approach would likely have yielded diminished performance.

Burford also regularly considers business and systemic risk in its business units and overall. We have long been focused on operational risk and have a system of internal controls around the integrity of our internal processes and data. Among other steps, we have a dedicated team focused on operational controls and data.

Moreover, while perhaps trite to say, Burford is fundamentally a business run by experienced lawyers, including some who have functioned in senior legal roles in major global corporations. The challenge in many businesses is reining in business people who take on unacceptable or ill-considered risk, and it is the function of the lawyers to hold those reins – so here, we have a business run by the people accustomed to that role. Burford's culture is a disciplined, risk-focused one. We augment that culture with a seven-member in-house legal and compliance team.

In addition to our ongoing risk management activities within the business, we make a comprehensive risk presentation to the Burford Board at every quarterly meeting.

While a species of risk, IT and cybersecurity risk deserve their own dedicated discussion.

Burford has always been very alive to the risk associated with the dissemination of its confidential information publicly, especially as that information contains highly sensitive client litigation information. We have also focused on the risk associated with attacks on our financial systems. Happily, we have never had a widespread data breach although we do have protocols in place should one occur.

From our inception, Burford has been sensitive to these issues and has operated on an entirely cloud-based platform. Our data does not sit on our own

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servers, even virtual cloud servers, but rather on the servers of world-class technology companies such as Microsoft and Salesforce. While that is no guarantee of perfect security, it is probably as close as one can come in this day and age. The use of those platforms also comes with state-of-the-art built-in disaster recovery protection.

However, data security is much more than protecting data against invasive hacking. Human error and inattention is arguably a greater risk than sophisticated penetration attacks. Thus, we engage in a variety of training and testing, and we also introduce restrictions on technology use designed to minimise those risks. We regularly review best practices from both the legal and the financial services industries and are engaged in a program of continuous improvement, including adopting a wide range of measures designed to improve security and minimise risk. We have an internal Cybersecurity committee, composed of senior representatives of all our offices, and we regularly benchmark and audit our own performance against peer norms, including those promulgated by the US SEC and best practices identified in the legal industry.

Finally, we strive to create a pervasive culture of information technology security, focusing particularly on tone from the top when it comes to these issues. Burford's senior management regularly spends time on these issues and communicates about their importance to all staff.

In addition to data security we are also focused on privacy, and are sensitive to the various obligations we face in that regard. Given that Burford does not deal with consumers and is purely a corporate business, the burdens on us are far less than on businesses amassing considerable personal data. Burford also has procedures in place to address conflicts of interest under the oversight of the Board; those procedures have operated effectively.

v. Guernsey Code

Burford has throughout its history adopted and complied with the Guernsey Finance Sector Code of Corporate Governance (the "Code"), and our compliance has been the subject of regular reporting to, and oversight by, the Board.

While the ESG discussion above touches on many of the elements of compliance with the Code and we incorporate the totality of that discussion by reference, we also provide here a non-exhaustive summary of Burford's compliance keyed specifically to the Code's provisions for the convenience of investors:

1. Effective responsible board: the Board, chaired by Sir Peter Middleton GCB, is comprised of four independent non-executive directors, each with direct and relevant experience in investment management and litigation. All four directors have been in their roles since Burford's inception. The Board generally meets quarterly for a full day meeting preceded by a board dinner and is in active communication with management in-between meetings. Senior management attends every board meeting, although the Board also meets without management present at each meeting. The Board has established three committees – Audit, Remuneration and Investment – composed entirely of independent directors with each committee chaired by a different director. The Board retains ultimate responsibility with respect to Burford's activities, performance and governance.

2. Collective responsibility of the directors: Burford's directors are experienced and collectively well-versed in the legislative and regulatory environment in which Burford operates. They are provided with relevant information in a timely manner (including a daily business update) and kept abreast of relevant information in order that they can discharge their duties. The Board has overall responsibility for Burford's governance, strategy, risk management and key policies and engages in robust scrutiny of the business and its investment portfolios. The Board regularly evaluates its own performance and discusses improvements to its structure and processes.

3. Good standards of business conduct, integrity and ethical behaviour: The Board is subject to Burford's various integrity policies, including with regard to conflicts of interest, self-dealing and fiduciary duties.

4. Accountability for Burford's position and prospects: At its in-person quarterly board meetings, the Board is presented with materials so it can meaningfully assess Burford's performance, measure the impact of the business' strategy and evaluate its position. Burford has a significant professional finance function that provides detailed management reporting and also prepares financial statements pursuant to International Financial Reporting Standards. The Board is in regular contact with Ernst & Young, Burford's auditors. Sir Peter Middleton also chairs the Board of Burford Capital Holdings (UK) Limited, a significant subsidiary, to ensure non-executive oversight. The Board has ultimate responsibility for Burford's objectives and business plans.

5. Board Oversight of Risk Management: The Board maintains oversight of risk by way of a comprehensive risk presentation at every quarterly Board meeting. Burford has a robust management team focused on risk, including a Chief Risk Officer, a Chief Compliance Officer, a General Counsel and a number of other in-house lawyers – in addition to dozens of the business' professional staff being lawyers, including many of the business' most senior managers.

6. Timely and Balanced Disclosure and Reporting: The Board ensures appropriate and timely reporting pursuant to all applicable obligations.

7. Fair and Responsible Remuneration: The Remuneration Committee of the Board reviews and approves compensation for all employees and appointees. The Remuneration Committee is responsible for setting Burford's remuneration policy which is consistent with effective risk management.

8. Effective Shareholder Relations: The Board's general practice is to disclose publicly adequate materials relevant to Burford's performance whenever is necessary or practical. The Board provides the AGM as a forum for shareholders to exercise their rights as well as supervising a robust investor relations program.

Burford's adoption of the Code is current as of the date of the release of this annual report and is reviewed as part of the Company's annual reporting process. There are no material departures from Burford's obligations under the Code.

H. Forecasting and Guidance

Burford is, as far as we know, unique among public companies in the world. We know of no other large business with a management team composed largely of veteran litigation lawyers. We make this point because as corporate litigators we have spent decades of our professional lives seeing, and dealing with, the misjudgements and other fallacies of corporate executives and market participants. We were the people called in when companies got into trouble. Collectively, we have hundreds of years of such experience, addressing corporate peccadillos measured in the many billions of dollars.

This experience leaves us sceptical about predictions and deeply reluctant to try to make them, particularly in the kind of business we have. Our view is that it is our function as corporate managers to be excellent stewards for shareholders' capital and to provide investors with data and with commentary on the past, and that it is for investors to form their own individual views about what the future holds.

We are repeating this annual homily because as we have grown in size and prominence, we have attracted an expanding audience that takes the view that we should give "guidance" on not only what is going to happen in the future but when it is going to happen. With respect, we decline to do so.

This philosophy is particularly appropriate for our line of business. We are dependent for much of our income on the outcomes of legal proceedings. While we have shown some level of ability to predict substantive outcomes (although we are certainly fallible), we are simply incapable of predicting the timing of those outcomes finely enough to produce a financial model to estimate quarterly earnings. We do, however, have the comfort of knowing that all legal proceedings do come to an end – and do so on an uncorrelated basis.

What we *can* say is that we assemble our large and diversified portfolio with great care, and more than nine years in this business and more than a billion dollars in investment proceeds have shown that we have a level of competence at doing so. We also manage our costs aggressively. We are investing personally in Burford and its funds and are highly exposed to its success. We believe that our portfolio will generate a desirable level of profits as it matures, and we believe that our investment funds will generate appealing performance fee income from their own litigation resolutions. But we are not going to try to predict precisely when or how much income we will generate, despite mounting pressure to conform and pretend we can.

And now for some disclaimers, which we have provided before and also appear on our web site:

Burford cautions that its earnings for any financial period partly depend on judgements made by management, which are then included in the audit process and ultimately determined by Burford's board of directors. That review process often results in adjustments to initial expectations and continues right up until the finalisation and release of these results.

Burford values transparency in its presentation of financial results and wants to be clear with investors about its approach to those results.

Most of Burford's income comes from its litigation finance business. Within that business, there are two principal sources of income for accounting purposes,

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realised gains on investments and unrealised gains on investments. (Realised and unrealised losses will naturally negatively affect income and the principles we set forth here apply equally to losses.)

Realised gains are straightforward: they represent the amount of profit, net of the return of Burford's invested capital and any previously recognised unrealised gains, on an investment that has either resolved entirely or has been settled or adjudicated such that, in Burford's view, there is no longer litigation risk associated with the investment. (In the latter event, Burford may discount the anticipated profit in respect of an investment to account for any continuing uncertainty as to the recoverability of any amount.) Burford announces individual investment results that will produce realised gains separately from its financial results only when the individual gain is new information which may be material to Burford.

Unrealised gains are more complex: they represent the fair value of Burford's investment assets, as determined by Burford's board of directors in accordance with the requirements of the relevant IFRS standards, as at the end of the relevant financial reporting period. There is no active secondary market for litigation risk, and thus there is generally no market-based approach to assessing fair value; to the extent that a secondary market transaction does take place with respect to an investment, the implied value of that transaction is a relevant valuation input. In the absence of such a transaction, we are mindful that the outcome of each matter Burford finances is likely to be inherently uncertain, may take several years to conclude and is often difficult to predict with accuracy. Moreover, litigation matters frequently experience multiple significant shifts in sentiment during their evolution. Burford thus eschews fair values based solely on current sentiment, and focuses on objective events (such as court rulings or settlement offers) to ground its assessment of fair value.

Burford's board of directors assesses the fair value of Burford's investments after the close of each financial reporting period and therefore investors should not expect updates about potential changes in fair value during the course of any given reporting period. Following the close of each financial reporting period, Burford's board determines the fair values of investments after taking into account the views of management, the operation of the audit process and input from external experts (as it considers appropriate). Generally, that process does not conclude finally until shortly before the release of Burford's financial results for the relevant period.

Burford is pleased to be followed by a number of research analysts and we are grateful for their efforts to understand and explain our business. They perform a valuable role in assessing our operating performance, the evolution of the litigation finance market and interpreting other relevant industry developments. However, prospective investors and other market participants must appreciate that, due to the confidential, potentially privileged, long-term and uncertain nature of each investment asset, it is very difficult for research analysts to project accurately the likely investment income of the business. Any projections produced by research analysts are not produced on behalf of Burford and Burford takes no responsibility for such projections. As a result, prospective investors and other market participants should not treat, and Burford does not intend to treat, the financial projections produced by research analysts as indicative of the market's expectations of Burford's future financial performance. We specifically eschew any obligation to correct estimates made by financial analysts or to inform the market should we come to believe that our actual performance will diverge from those estimates. This is, of course, different to the approach taken by most operating companies, in respect of which research analysts can produce relatively reliable estimates and the relevant company will advise the market if it expects to see performance materially different from the consensus of analyst forecasts. It is important that investors understand that Burford takes a different approach as a result of the different nature of its business.

I. Corporate and Financial Matters

a. Finance function and controls

Burford operates an extensive and sophisticated finance function, with 14 dedicated finance staff located throughout the business and present in all three of our significant offices, including eight with public accounting qualifications. By having the finance team embedded in the business and privy to investment activity, we gain considerable control benefits in addition to a more effective operation. It bears remembering that Burford does a relatively small number of large investments each year; we are closing only a couple of new investments per week on average. Thus, there is abundant opportunity for the finance team to be intimately familiar with the activity in the business.

We also have an extensive system of internal controls around access to payment systems and the release of payments. For example, for any payment, regardless of size, to be released, that payment must be created in our internal systems by one of several team members, none of whom have the authority to release payments, and then the payment's release must be authorised by two other team members separately, neither of whom is able to create a payment. Thus, at least three different people from two different groups are required to provide sign-off before a single dollar leaves Burford's hands. Moreover, payments are not even created without a formal process of approval, with investment payments being circulated widely among and approved by the investment team. Senior executives in the business, including the Chief Executive Officer and the Chief Investment Officer, do not have access to our payment systems and cannot release payments as a control matter.

b. Foreign exchange

Burford is a US dollar reporting business with the considerable majority of its operations occurring in dollar-denominated activities. We also pay our dividends in US dollars. However, our first three bond issues, totalling £365 million, are denominated in Sterling and thus Burford is exposed to currency risk. Burford also has a minority of its investments denominated in currencies other than US dollars. Burford generally does not hedge its currency exposure although its exposure to different currencies, especially Sterling, does provide a degree of natural hedging.

c. Brexit

Burford does not anticipate any negative impact from Brexit, whenever it occurs and in whatever form it takes, other than its disruption to the Sterling-denominated debt markets. Indeed, Brexit creates uncertainty, and uncertainty is generally good for the legal sector as it drives demand for services and creates disputes, so from that perspective Brexit is probably positive for Burford. It is possible that Brexit will pose a risk to London's prominence as a global litigation centre, but that is of no moment to us as we are perfectly happy doing transnational litigation and arbitration all over the world and already do so in Europe and elsewhere. In fact, moving some dispute resolution from London to Europe is arguably also good for us as adverse costs are less of an issue in Europe as opposed to the often prohibitive nature of them in England; even without Brexit, the English preoccupation with adverse costs is increasingly making England an unfavourable jurisdiction for commercial litigation.

d. Operating expenses

Burford expenses its operating costs as they are incurred. We don't capitalise them as part of our investment portfolio. Moreover, we perform virtually all of our investment activities internally, with our own staff, as opposed to outsourcing diligence or legal work. Thus, we do not add external costs to our investment balances as opposed to expensing them. As a result, the operating expenses shown on our accounts are essentially what we are actually spending in cash each year to operate the business.

This is a transparent and conservative way of proceeding, and we believe it provides the best quality of outcome. However, it introduces a timing mismatch between expenses (current) and portfolio income (future). As we grow the portfolio, we take on immediately higher levels of activity around (i) making new commitments and (ii) managing a higher level of portfolio activity. While our model is scalable to some extent, increases in business activity will drive increased current costs – and the profit those costs are working to achieve may only be seen in the future.

Moreover, when we invest in principal strategies, the costs we incur for legal fees to engage in the underlying litigation – which in client-financing transactions constitute our investments and thus do not flow through our profit and loss ("P&L") account as expenses are not treated as investments but instead as P&L expenses. If one needed more examples of how IFRS deftly cloaks business substance, here is another one. So, the net result is that we will see operating expenses rise commensurate with our increased investment in principal strategies.

Our operating expenses (principally staff costs) rose in 2018, but our operating expenses remained consistent as a percentage of income (2018: 15.8%; 2017: 15.3%). We continue to balance the desirability of investing in the growth of the business and maintaining prudent levels of spending, although for the next several years we may see an uptick in operating expenses due to our continued investment in the business and the impact of the principal strategies issue described above. Even if we were to see dramatic increases in operating expenses, we remain well below the cost levels of many peer specialty finance firms.

e. Regulation

We are often asked about regulation, or more precisely the potential for expanded regulation of this business in a way that would be harmful to it. We do not see that as a likely prospect in the current environment.

We are of course already regulated in a number of different ways. The SEC regulates our investment management business. The FCA regulates our legacy insurance business. The GFSC regulates our new insurance business. The UKLA passes on our debt prospectuses for our Main Market-traded debt. AIM and our Nominated Adviser regulate our activities as a public company. And we are of course subject to a myriad of laws and regulations, ranging from the Bribery Act and the FCPA to AML and KYC regulations in many jurisdictions.

Beyond that alphabet soup of regulation, we are subject to an unusual – but very comprehensive – level of regulation because of our activities within the justice system. Courts have inherent power to regulate within the matters before them, and unlike agency-based regulation which is based on rules and spot-checking, litigation comes with 100% regulatory oversight in that every single matter is put before a judge – and judges are not shy to exercise that inherent power when it is warranted. Thus, there is clear protection for clients when litigation finance providers overreach, but there is also no need for some sort of new agency in that regard given the adequacy of the existing remedies.

This is also a matter that varies by jurisdiction. For example, the US has a long tradition of not regulating non-bank finance providers who deal with corporate clients, as Burford does. Most states have quite a clear ceiling above which sophisticated parties like Burford and its corporate clients are free to contract without regulatory oversight; for example, in New York, that point is when the purchase price exceeds $500,000, well below Burford's smallest investment. On the other hand, the UK does engage in some regulation of litigation finance conduct, as expressed in a Code of Conduct promulgated by the Association of Litigation Funders, a self-regulatory body that operates under the auspices of the Ministry of Justice. Some newer entrants to the market, such as Singapore and Hong Kong, have also enacted regulatory regimes largely focused on capital adequacy and constraining abusive behaviour.

There is no question that business lobbyists have added litigation finance to the long list of legal items to which they are opposed. However, we have not seen any indication that there is any groundswell of support for fundamental regulation of this sector and what regulation is subject to ongoing discussion tends to be around subsidiary issues such as disclosure and capital adequacy. In the US, state and federal legislatures, as well as the federal courts, have generally declined to impose new regulations on commercial litigation finance. Even if there were support for additional regulation, it is far from clear that such regulation would not in fact create a further barrier to entry and protect Burford's market position. Nevertheless, there is a constant level of activity around monitoring and engagement on regulatory initiatives.

We are pleased to present these results, which show another year of growth and performance. We continue to set our sights high in this rapidly evolving industry, and look forward to communicating our future progress to you, just as we thank you for your support and enthusiasm for the business to date.

Sir Peter Middleton GCB
Chairman

Christopher Bogart
Chief Executive Officer

Jonathan Molot
Chief Investments Officer

In our view, it is confusing to include the interests of fund investors other than Burford in our discussion of performance, and we have thus generally excluded the non-Burford portion of such funds from our presentation of our financial performance.

The table below provides a full reconciliation so that investors are able to relate our performance discussion with our published accounts.

Reconciliation of consolidated statement of comprehensive income

For the year ended 31 December 2018

US$'000	Consolidated IFRS	Elimination of third-party interests*	Other adjustments**	Burford
Investment income	$401,203	($11,705)	–	$389,498
Investment management income	$11,691	$4,108	–	$15,799
Insurance income	$10,406	–	–	$10,406
New initiatives income	$9,529	–	–	$9,529
Other	($4,504)	($354)	–	($4,858)
Third-party (gain)/loss in consolidated entities	($3,348)	$3,348	–	–
Total income	**$424,977**	**($4,603)**	**–**	**$420,374**
Operating expenses	($70,931)	$4,603	–	($66,328)
Amortisation of intangible asset	($9,494)	–	$9,494	–
Banking and brokerage fees	($900)	–	$900	–
Operating profit	**$343,652**	**–**	**$10,394**	**$354,046**
Finance costs	($38,538)	–	–	($38,538)
Profit before tax	**$305,114**	**–**	**$10,394**	**$315,508**
Taxation	$12,463	–	–	$12,463
Profit after tax	**$317,577**	**–**	**$10,394**	**$327,971**
Other comprehensive income	$24,701	–	–	$24,701
Total comprehensive income	**$342,278**	**–**	**$10,394**	**$352,672**

* Elimination of third-party interests is the net of the entities and adjustments and eliminations figures shown in Note 21 to the consolidated financial statements.

** Other adjustments exclude the impact of amortisation of the intangible asset and non-recurring investment banking and brokerage fees to assist in understanding the underlying performance of the Company.

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Reconciliation of consolidated statement of financial position

As at 31 December 2018

US$'000	Consolidated IFRS	Elimination of third-party interests*	Other adjustment**	Burford
Assets				
Non-current assets				
Investments	$1,592,378	($112,143)	($20,735)	$1,459,500
Due from settlement of investments	$3,083	-	–	$3,083
New initiatives investments	$42,856	–	–	$42,856
Interest receivable	$7,301	($7,301)	–	–
Other non-current assets	$183,460	–	–	$183,460
	$1,829,078	**($119,444)**	**($20,735)**	**$1,688,899**
Current assets				
Due from settlement of investments	$34,026	–	–	$34,026
Receivables and prepayments	$12,990	$20,393	–	$33,383
Taxation receivable	$1,823	–	–	$1,823
Derivative financial assets	$4,154	($4,154)	–	–
Due from brokers	$129,911	($129,911)	–	–
Receivable from sovereign wealth fund	–	–	$20,735	$20,735
Cash management investments	$41,449	–	–	$41,449
Cash and cash equivalents	$265,551	($29,574)	–	$235,977
	$489,904	**($143,246)**	**$20,735**	**$367,393**
Total assets	**$2,318,982**	**($262,690)**	**–**	**$2,056,292**
Liabilities				
Current liabilities				
Payables	$31,038	($406)	–	$30,632
Due to brokers	$12,667	($12,667)	–	–
Financial liabilities at fair value through profit and loss	$112,821	($112,821)	–	–
Due to limited partners	$8	($8)	–	–
Derivative financial liabilities	$7,000	–	–	$7,000
Loan capital interest payable	$9,327	–	–	$9,327
	$172,861	**($125,902)**	**–**	**$46,959**
Non-current liabilities				
Other non-current liabilities	$646,008	$171	–	$646,179
Third-party interest in consolidated entities	$136,959	($136,959)	–	–
	$782,967	**($136,788)**	**–**	**$646,179**
Total liabilities	**$955,828**	**($262,690)**	**–**	**$693,138**
Total net assets	**$1,363,154**	52 **–**	**–**	**$1,363,154**

* Elimination of third-party interests is the net of the entities and adjustments and eliminations figures shown in Note 21 to the consolidated financial statements.

** Other adjustment excludes investments that are being warehoused by a wholly-owned group subsidiary company under a forward purchase and sale agreement with a newly formed consolidated investment fund.

Notes 7 and 8 to the consolidated financial statements also provide a reconciliation of the investments and due from settlement of investments balances showing the interests of Burford excluding the third-party interests in consolidated entities.

Alternative Performance Measures

We explain the financial performance of the Group using measures that are not defined under IFRS and are therefore referred to as 'non-GAAP' or 'alternative performance measures'. These alternative performance measures are explained further below. The alternative performance measures we use may not be directly comparable with similarly titled measures by other companies.

Assets under management ("AUM")

Consistent with its status as a registered investment adviser with the SEC, Burford reports publicly on its investment management business on the basis of regulatory assets under management. For the benefit of non-US investors, the SEC's definition of AUM may well differ from that used by European investment managers. AUM as we report it means the fair value of the capital invested in funds and individual capital vehicles plus the capital that we are entitled to call from investors in those funds and vehicles pursuant to the terms of their capital commitments to those funds and vehicles. Our AUM will fluctuate as we raise new funds and other investment vehicles, and as existing funds and vehicles mature and no longer represent sources of callable capital in the future; there is no direct translation from AUM to investment management income.

Return on equity ("ROE")

ROE is a measure of financial performance calculated by dividing profit after tax by the average shareholders' equity and expressed as a percentage figure. Profit after tax used in this calculation is the adjusted figure post the adjustments and eliminations as set out in the reconciliation tables on pages 51 and 52. ROE is an indicator of our effectiveness in using the Group's assets to create profits.

Return on invested capital ("ROIC")

ROIC is a measure of financial performance calculated by comparing the absolute amount of investment recoveries from a concluded or partially concluded investment, or a portfolio of investments, relative to the amount of expenditure incurred in making those investments and expressed as a percentage figure. ROIC is a measure of our ability to generate returns on our investments.

We have consistently used concluded investments and investment recoveries as terms to refer to those investments where there is no longer any litigation risk remaining. We use the term to encompass: (i) entirely concluded investments where Burford has received all proceeds to which it is entitled (net of any entirely concluded investment losses); (ii) the portion of investments where Burford has received some proceeds (for example, from a settlement with one party in a multi-party case) but where the investment is continuing with the possibility of receiving additional proceeds; and (iii) investments where the underlying litigation has been resolved and there is a promise to pay proceeds in the future (for example, in a settlement that is to be paid over time) and there is no longer any litigation risk involved in the investment. When we express returns, we do so assuming all investment recoveries are paid currently, discounting back future payments as appropriate. We do not include wins or other successes where there remains litigation risk in the definition of "investment recoveries". We view matters as concluded when there is no longer litigation risk associated with their outcome and when our entitlement is crystallised or well-defined. While concluded matters often produce cash returns rapidly, some concluded matters are still in the process of being monetised.

Internal rate of return ("IRR")

IRR is a discount rate that makes the net present value of a series of cash flows equal to zero and is expressed as a percentage figure. The Group computes IRR by treating our entire investment portfolio (or, when noted, a subset thereof) as one undifferentiated pool of capital and measuring inflows and outflows from that pool. IRRs are computed only as to concluded investments and do not include unrealised gains. IRR is an indicator of the profitability of our investments expressed on an annualised basis.

The Directors present their Annual Report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

Business activities

Burford Capital Limited (the "Company") and its subsidiaries (the "Subsidiaries") (together the "Group") provide investment capital, investment management, financing and risk solutions with a focus on the legal sector. The Company is incorporated under The Companies (Guernsey) Law, 2008. Shares in the Company were admitted to trading on AIM, a market operated by the London Stock Exchange, on 21 October 2009.

Corporate governance

The Directors recognise the high standards of corporate governance demanded of listed companies. The Company has adopted and complied with the Guernsey Code of Corporate Governance (the "Code"). The Code includes a number of the principles contained in the UK Corporate Governance Code.

Results and dividend

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 65.

The Directors propose to pay a final dividend of 8.83¢ (United States cents) per ordinary share in the capital of the Company during 2019. Together with the interim dividend of 3.67¢ paid in December 2018, this makes a total 2018 dividend of 12.50¢. A resolution for the declaration of the final dividend shall be put to the shareholders of the Company at the Company's forthcoming Annual General Meeting (scheduled for 14 May 2019). If approved by shareholders, the record date for this dividend will be 24 May 2019 and payment of this dividend would then occur on 14 June 2019.

Because the Company is a dollar-denominated business, dividends are declared in US Dollars. For UK shareholders, those dividends will then be converted into Sterling shortly before the time of payment and paid in Sterling. Any UK shareholder who would like to receive dividends in US Dollars instead of Sterling should contact the Registrar. US shareholders will automatically receive their dividends in Dollars unless they request otherwise.

The Directors proposed and, following shareholder approval, paid a final 2017 dividend of 7.95¢ per share on 22 June 2018 to shareholders on the register as at close of business on 1 June 2018. This combined with an interim dividend of 3.05¢, paid in November 2017, resulted in a full year 2017 dividend of 11.00¢.

Directors

The Directors of the Company who served during the year and to date are as stated on page 44.

Directors' interests

	Number of Shares	% Holding at 31 December 2018
Sir Peter Middleton	100,000	0.05%
Hugh Steven Wilson	200,000	0.09%
David Charles Lowe	200,000	0.09%

Furthermore, at 31 December 2018, Hugh Steven Wilson has a $1,000,000 commitment to the Strategic Value Fund, and a $500,000 commitment to the Burford Opportunity Fund. David Charles Lowe holds £300,000 nominal of bonds as issued by the Group's subsidiary Burford Capital PLC. Charles Nigel Kennedy Parkinson has a $50,000 commitment to the Burford Opportunity Fund.

Statement of Directors' responsibilities in relation to the Group financial statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards.

Under Company Law, the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the financial position, financial performance and cash flows of the Group for that period. In preparing the Group financial statements the Directors are required to:

- Select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- Make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with The Companies (Guernsey) Law, 2008 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to Auditors

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Charles Parkinson
Director
12 March 2019

Opinion

We have audited the consolidated financial statements of Burford Capital Limited and its subsidiaries (together the 'group') for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	■ Incorrect valuation of investments ■ Incorrect goodwill impairment assessment[1] ■ Incorrect calculation of tax balances ■ Incorrect recognition of investment management income[2] All of the above matters are considered to be significant risks, and consistent with the 2017 audit.
Materiality	■ Overall group materiality of US$13.6m which represents 1% of Total net assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

1 The risk of incorrect allocation of goodwill to cash generating units (CGUs) has been removed as a significant risk this year this was audited in 2017.

2 The risk of incorrect recognition of insurance fee income has been removed as a significant risk this year as this income is no longer considered a significant risk due to a further decline in the income stream.

Continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect valuation of investments and new initiatives investments **(US$1,592 million and US$42.9 million, 2017: US$1,076 million and US$10.2 million) respectively** Refer to the Accounting policies (pages 75 to 78); and Notes 7 and 9 of the Consolidated Financial Statements (pages 85 to 88). Owing to the illiquid nature of these investments, the assessment of fair valuation is highly subjective and requires a number of significant and complex judgements to be made by management. The exit value will be determined for each investment by the contractual entitlement, the underlying risk profile of the litigation, a trial or an appellate outcome or other case events, any other agreements in respect of settlement discussions or negotiations as well as the credit risk associated with the investment value and any relevant secondary market activity. There is a risk that inaccurate judgements made in the assessment of fair value, in particular in respect of the expected return on the legal judgement and the application of discounts could lead to the incorrect valuation of an investment. This could materially misstate the value of the investments in the consolidated statement of financial position and relevant fair value gain in the consolidated statement of comprehensive income. There is also the risk that management may influence the significant judgments and estimates in respect of the valuation of investments.	For all investments where there had been a change in fair value, we tested the assumptions, performed external research on the status of litigation, obtained supporting documentation, considered any relevant secondary market trading and challenged management's judgments. Where there had not been a change to assessed fair value during the year, we tested a sample of investments applying a combination of methods, including obtaining other supporting information as appropriate and reviewing the contract documentation, if acquired in the current period. Additionally, we performed independent research in the public domain to ensure that all factors we have considered in the valuation are accurate and complete. We held discussions with management to determine the qualitative factors and ongoing legal proceedings and whether there have been any changes in the facts and circumstances that suggest that the fair valuation is not appropriate. In all cases above, we considered whether the investments tested were assessed for fair value consistent with the detailed fair value policy guidelines maintained by management.	The valuation of investments is determined to be within an acceptable range of fair values. Appropriate inputs to the valuations were used for investments tested and. management judgements and estimates are considered to be reasonable and supported by relevant evidence. The investment valuations calculated by management are consistent with the Burford accounting policy and detailed valuation guidelines and are within an acceptable range. Based on our procedures performed we had no matters to report to management.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	At our request, management engaged an independent counsel to perform an annual review of a specific investment selected by us. The review focussed on the significance of the legal judgments and of the subsequent developments arising thereon. We reviewed his conclusions, independence and objectivity and discussed with him the approach and judgements considered in reaching his conclusion. We engaged our valuation specialists to review samples of larger and higher risk investments to: ■ use their relevant industry knowledge and experience to assess and corroborate the valuation metrics; ■ assist us to determine whether the methodologies used and judgements applied to value investments were appropriate and consistent. We performed back-testing procedures on cases concluded in 2018 and, combining this with previous history, continued to challenge the ongoing valuation process and methodology of management which may involve significant judgements given the dependency on inherently unpredictable trial outcomes.	

Continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect goodwill impairment assessment **(US$134.0 million, 2017: US$134.0 million)** Refer to the Accounting policies (page 75); and Note 18 of the Consolidated Financial Statements (pages 92 to 93). Determining whether the carrying value of goodwill is recoverable requires management to make significant estimates concerning the estimated future cash flows and associated discount rates, returns and growth rates based on management's view of future business prospects. There is a risk that inappropriate estimates are applied to the value in use calculation. This could misstate materially the carrying value by excluding any required impairment.	We reviewed and assessed the reasonableness of the cash flow projections and key inputs used in the value in use model. Key inputs such as deployed capital, deployment rates and investment returns were agreed to available historical data of the group and supporting documents. We utilised our valuation specialists to assess critically the subjective inputs, such as discount rates and agree calculation inputs to available market data. We validated the mathematical accuracy and logical integrity of the model. Our valuation model specialist assessed the model inputs and formulae, ensuring they were consistently applied throughout. We have considered the disclosures in the financial statements including the critical judgments and significant estimates and ensured they comply with IAS 36.	Based on the procedures performed, we concluded that the overall total valuation of goodwill is appropriately stated and that there was no material goodwill impairment identified in respect of the year.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect calculation of tax balances **(Net deferred tax asset US$24.7 million, 2017: US$10.4 million; Tax receivable US$1.8 million, 2017 US$1.7 million; in the consolidated statement of financial position)** **(Taxation credit US$12.5 million, 2017: US$0.1 million in the consolidated statement of comprehensive income)** Refer to the Accounting policies (page 79); and Note 5 of the Consolidated Financial Statements (pages 80 to 81). The group is exposed to a number of tax regimes across the different tax jurisdictions in which it operates. Income tax is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the group operates and generates taxable items. Management establish provisions where appropriate on the basis of amounts expected to be paid to tax authorities. Deferred tax is recognised on temporary differences arising between the tax bases of investments and their carrying amounts as disclosed in the financial statements. This risk is related to the recoverability of the deferred tax assets recognised.	With the involvement of tax specialists in our team: ■ we obtained the deferred tax calculations and assessed the recoverability of the deferred tax assets. We evaluated the evidence supporting the reversal of temporary and permanent differences in the future, challenged the key underlying assumptions for this and whether there were sufficient taxable profits available against which the temporary and permanent differences can be utilised. ■ we performed a review of the realised and unrealised gains arising on investments to ensure that any tax aspects are appropriately recorded. ■ we reviewed the transfer pricing report and considered the impact on the group. ■ we have read relevant tax advice received by the group and considered its application to the group. In addition, we tested the disclosures in the financial statements and ensured they complied with relevant accounting standards.	Based on the procedures performed, we concluded that the tax balances were not materially misstated and are properly disclosed in the financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect recognition of investment management income **(US$11.7 million, 2017: US$14.5 million in the consolidated statement of comprehensive income)** Refer to the Accounting policies (page 74). Investment management fees are composed of management fees and performance fees. Management fees are calculated as a percentage of the invested or committed capital of the fund (depending on the fund specific terms) managed by the group while performance fees are earned when relevant contractual realised performance levels on exited investments are exceeded.	For investment management income: We recalculated the management fees ensuring they were in line with the relevant limited partnership and operating agreements and obtained evidence supporting all inputs into the calculations. We recalculated the performance fees income due and received in accordance with the contractual commitment under the relevant agreements and agreed all inputs used to source data. We traced the fees paid during the year to bank statements.	Based on the procedures performed, we concluded that investment management income is not materially misstated.

An overview of the scope of our audit

Tailoring the scope for an integrated audit team

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements our audit scope focussed on the three components Investments, New Initiatives and Other Corporate Activity, which were subject to a full scope audit for the year ended 31 December 2018. For the remaining components we performed specific scope audit procedures on selected account balances based on the size of these individual account balances or their risk profiles. The scope of our audit is based on the reporting components of the Group as described in note 6 of the consolidated financial statements.

The components for which we performed full scope audits accounted for 97.4% (2017: 94.8%) of the Group's Profit Before Tax and 98.6% (2017: 98.4%) of the Group's Total Net Assets. The components for which we performed specific scope audits accounted for the remaining balances.

There has been no change in our approach from the prior year other than a change in the account balances selected for the specific scope audit procedures.

All audit work was performed by one integrated audit team with one audit partner across the whole group. The team comprised individuals from Guernsey ("Group audit team") and the United Kingdom ("Funds and Insurance team") and we operated across both jurisdictions. We performed the audit procedures and responded to the risks identified as described above.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$13.6 million (2017: US$8,0 million), which is 1% (2017: 1%) of Total net assets. We believe that Total net assets provides an appropriate basis as the group's objective is to provide attractive levels of dividends and capital growth.

During the course of our audit, we reassessed initial materiality and accordingly updated the materiality using year end figures.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely US$10.2m (2017: US$6.0m). We have set performance materiality at this percentage, which represents our expectation of material misstatements based on our understanding of the group and past history of corrected and uncorrected misstatements.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$0.7m (2017: US$0.4m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. There was no change in the percentage basis threshold of 5% used from prior year.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 55 other than the consolidated financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the group, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the group's accounting records and returns; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 54 to 55, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the group's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the group and the group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
London
12 March 2019

Notes:

1. The maintenance and integrity of Burford Capital Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

for the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Income			
Investment income	7	**401,203**	321,102
Investment management income		**11,691**	14,458
Insurance income		**10,406**	7,613
New initiatives income	9	**9,529**	2,968
Net loss on equity securities	10	**(4,852)**	(6,953)
Cash management income and bank interest	11	**1,801**	2,650
Foreign exchange (losses)/gains		**(1,453)**	1,639
Third-party share of gains relating to interests in consolidated entities		**(3,348)**	(863)
Total income		**424,977**	342,614
Operating expenses	12	**(70,931)**	(53,641)
Amortisation of intangible asset	17	**(9,494)**	(11,703)
Banking and brokerage fees	12	**(900)**	(3,838)
Operating profit		**343,652**	273,432
Finance costs	15	**(38,538)**	(24,251)
Profit for the year before taxation		**305,114**	249,181
Taxation	5	**12,463**	123
Profit for the year after taxation		**317,577**	249,304
Other comprehensive income			
Exchange differences on translation of foreign operations on consolidation		**24,701**	(28,206)
Total comprehensive income for the year		**342,278**	221,098

		Cents	Cents
Basic profit per ordinary share	26	**150.7**	119.7
Diluted profit per ordinary share	26	**150.3**	119.6
Basic comprehensive income per ordinary share	26	**162.4**	106.2
Diluted comprehensive income per ordinary share	26	**162.0**	106.0

The notes on pages 71 to 108 form an integral part of these consolidated financial statements.

as at 31 December 2018

	Notes	2018 $'000	2017 $'000
Assets			
Non-current assets			
Investments	7	**1,592,378**	1,075,941
Due from settlement of investments	8	**3,083**	3,083
New initiatives investments	9	**42,856**	10,189
Equity securities	10	**582**	6,058
Investment income receivables		**7,301**	4,765
Deferred tax asset	5	**28,848**	10,863
Goodwill	18	**133,966**	134,022
Intangible asset	17	**18,198**	27,692
Tangible fixed assets		**1,866**	2,399
		1,829,078	1,275,012
Current assets			
Due from settlement of investments	8	**34,026**	165
Receivables and prepayments	13	**12,990**	5,474
Tax receivable		**1,823**	1,676
Derivative financial asset		**4,154**	–
Due from brokers	21	**129,911**	41,678
Cash management investments	11	**41,449**	39,933
Cash and cash equivalents		**265,551**	135,415
		489,904	224,341
Total assets		**2,318,982**	1,499,353
Liabilities			
Current liabilities			
Payables	14	**31,038**	23,833
Due to brokers		**12,667**	–
Financial liabilities at fair value through profit and loss	21	**112,821**	36,242
Due to limited partners		**8**	1,158
Derivative financial liabilities	7	**7,000**	–
Loan interest payable	15	**9,327**	5,397
		172,861	66,630
Non-current liabilities			
Deferred tax liability	5	**4,099**	437
Investment subparticipations		**3,244**	3,152
Third-party interests in consolidated entities	21	**136,959**	143,639
Loan capital	15	**638,665**	486,931
		782,967	634,159
Total liabilities		**955,828**	700,789
Total net assets		**1,363,154**	798,564

as at 31 December 2018 (continued)

	Notes	2018 $'000	2017 $'000
Represented by:			
Ordinary share capital	24	**596,454**	351,249
Contingent share capital – deferred consideration	24	**13,500**	13,500
Other capital reserve		**2,838**	1,152
Revenue reserve		**716,218**	423,220
Foreign currency translation reserve		**34,282**	9,581
Capital redemption reserve		**(138)**	(138)
Total equity shareholders' funds		**1,363,154**	798,564

The notes on pages 71 to 108 form an integral part of these consolidated financial statements.

The financial statements on pages 65 to 108 were approved by the Board of Directors on 12 March 2019 and were signed on its behalf by:

Charles Parkinson
Director

12 March 2019

for the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Profit for the year before tax		**305,114**	249,181
Changes in operating assets and liabilities	4	**(361,184)**	(288,959)
Adjustments for non-cash items	4	**16,709**	13,113
Changes in working capital			
Proceeds from investments		**629,410**	363,889
(Increase)/decrease in due from settlements of investments		**(33,861)**	23,109
Funding of investments		**(738,243)**	(569,564)
Funding of derivative financial asset		**(7,616)**	–
Proceeds from new initiatives investments		**8,757**	2,623
Funding of new initiatives investments		**(33,074)**	(6,467)
Proceeds from equity securities		**624**	–
Net funding of cash management investments		**(5,613)**	(27,942)
Net proceeds from financial liabilities at fair value through profit and loss		**74,044**	36,510
(Increase) in investment income receivables		**(2,536)**	(4,765)
Net (increase) in due from brokers and due to brokers		**(75,566)**	(41,678)
(Increase)/decrease in receivables		**(26,080)**	2,528
Increase in payables		**24,755**	3,524
Taxation paid		**(2,273)**	(1,064)
(Decrease)/increase in third-party interests in consolidated entities		**(6,680)**	143,639
Net cash (outflow) from operating activities		**(233,313)**	(102,323)
Cash flows from financing activities			
Issue of loan capital and loan notes		**180,000**	225,803
Issue expenses – loan capital		**(2,637)**	(3,170)
Interest paid on loan capital and loan notes		**(33,108)**	(22,680)
Repayment of loan notes		**–**	(43,750)
Issue of share capital		**249,983**	–
Issue expenses – share capital		**(4,778)**	–
Dividends paid on ordinary shares		**(24,579)**	(19,845)
Net cash inflow from financing activities		**364,881**	136,358
Cash flows from investing activities			
Purchases of tangible fixed assets		**(104)**	(650)
Settlement of outstanding creditor relating to prior year's acquisition of subsidiary		**–**	(57,863)
Net cash (outflow) from investing activities		**(104)**	(58,513)
Net increase/(decrease) in cash and cash equivalents		**131,464**	(24,478)

Reconciliation of net cash flow to movements in cash and cash equivalents			
Cash and cash equivalents at beginning of year		**135,415**	158,371
Increase/(decrease) in cash and cash equivalents		**131,464**	(24,478)
Effect of exchange rate changes on cash and cash equivalents		**(1,328)**	1,522
Cash and cash equivalents at end of year		**265,551**	135,415

for the year ended 31 December 2018 (continued)

Supplemental Disclosure	**2018 $'000**	2017 $'000
Cash received from interest income	**6,377**	2,986
Asset received in kind to settle due from settlement of investments	**–**	13,011

The notes on pages 71 to 108 form an integral part of these consolidated financial statements.

for the year to 31 December 2018

31 December 2018	Share capital $'000	Contingent share capital $'000	Other Capital Reserve $'000	Revenue reserve $'000	Foreign currency consol-idation reserve $'000	Capital redemp-tion reserve $'000	Total equity shareholders' funds $'000
As at 1 January 2018	351,249	13,500	1,152	423,220	9,581	(138)	798,564
Profit for the year	–	–	–	317,577	–	–	317,577
Other comprehensive income	–	–	–	–	24,701	–	24,701
Issue of share capital (Note 24)	245,205	–	–	–	–	–	245,205
Share-based payments (Note 25)	–	–	1,686	–	–	–	1,686
Dividends paid (Note 27)	–	–	–	(24,579)	–	–	(24,579)
Balance at 31 December 2018	**596,454**	**13,500**	**2,838**	**716,218**	**34,282**	**(138)**	**1,363,154**

31 December 2017	Share capital $'000	Contingent share capital $'000	Other Capital Reserve $'000	Revenue reserve $'000	Foreign currency consol-idation reserve $'000	Capital redemp-tion reserve $'000	Total equity shareholders' funds $'000
As at 1 January 2017	351,249	13,500	–	193,761	37,787	(138)	596,159
Profit for the year	–	–	–	249,304	–	–	249,304
Other comprehensive income	–	–	–	–	(28,206)	–	(28,206)
Share-based payments (Note 25)	–	–	1,152	–	–	–	1,152
Dividends paid (Note 27)	–	–	–	(19,845)	–	–	(19,845)
Balance at 31 December 2017	351,249	13,500	1,152	423,220	9,581	(138)	798,564

The notes on pages 71 to 108 form an integral part of these consolidated financial statements.

1. Legal form and principal activity

Burford Capital Limited (the "Company") and its subsidiaries (the "Subsidiaries") (together the "Group") provide investment capital, investment management, financing and risk solutions with a focus on the legal sector.

The Company was incorporated under The Companies (Guernsey) Law, 2008 (the "Law") on 11 September 2009. Shares in the Company were admitted to trading on AIM, a market operated by the London Stock Exchange, on 21 October 2009.

These financial statements cover the year from 1 January 2018 to 31 December 2018.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets that are not apparent from other sources. Actual results may differ from these estimates. The consolidated financial statements are presented in United States Dollars and are rounded to the nearest $'000 unless otherwise indicated.

Significant estimates and judgements

The most significant estimates relate to the valuation of investments at fair value through profit or loss which are determined by the Group.

Fair values are determined on the specifics of each investment and will typically change upon an investment having a return entitlement or progressing in a manner that, in the Group's judgement, would result in a third party being prepared to pay an amount different from the original sum invested for the Group's rights in connection with the investment. Positive, material progression of an investment will give rise to an increase in fair value whilst adverse outcomes give rise to a reduction. The quantum of change depends on the potential future stages of investment progression. The consequent effect when an adjustment is made is that the fair value of an investment with few remaining stages is adjusted closer to its predicted final outcome than one with many remaining stages.

In litigation matters, before a judgment is entered following trial or other adjudication, the key stages of any matter and their impact on fair value is substantially case specific but may include the motion to dismiss and the summary judgment stages. Following adjudication, appeals proceedings provide further opportunities to re-assess the fair value of an investment.

The estimation of fair value is inherently uncertain. Awards and settlements are hard to predict and often have a wide range of possible outcomes. Furthermore, there is much unpredictability in the actions of courts, litigants and defendants because of the large number of variables involved and consequent difficulty of predictive analysis. In addition, there is little activity in transacting investments and hence little relevant data for benchmarking the effect of investment progression on fair value, although the existence of secondary market transactions is a valuation input.

Continued

2. Principal accounting policies continued

There is a significant estimate around deferred tax as it is based on the tax expected to be paid in the future and that estimate is based on factors including the structuring of investments for tax efficiency.

Testing goodwill for impairment involves a significant amount of judgement. This includes the identification of independent Group's cash-generating units ("CGU") and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. Cash flow projections necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity, and the impacts of regulatory change. Determining both the expected cash flows and the risk-adjusted interest rate appropriate to the CGUs requires the exercise of judgement. The estimation of cash flows is sensitive to the periods for which the projections are made and to assumptions regarding long-term sustainable cash flows.

Control of funds and affiliates

In connection with investment funds and other investment-related entities where the Group does not own 100% of the entity in question, the Group makes judgements about whether it is required to consolidate such entities by applying the factors set forth in the relevant accounting standards, including but not limited to the Group's equity and economic ownership interest, the economic structures in use in the entity, the level of control the Group has over the entity through the entity's structure or any relevant contractual agreements, and the rights of other investors.

Non-controlling interests where the Group does not own 100% of a consolidated entity are classified as financial liabilities and recorded as third-party interest in consolidated entities on the consolidated statement of financial position when they contain an obligation to transfer a financial asset to another entity. Accordingly, third-party share of gains or losses relating to interest in consolidated entities is treated as a reduction or increase, respectively, of income on the consolidated statement of comprehensive income.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Burford Capital Limited and its Subsidiaries. All the Subsidiaries are consolidated in full from the date of acquisition.

The Subsidiaries' accounting policies and financial year end are consistent with those of the Company.

All intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full.

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention adjusted to take account of the revaluation of certain of the Group's financial assets and liabilities to fair value.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group has retrospectively applied IFRS 9, but not restated comparative information.

2. Principal accounting policies continued

(a) Classification and measurement
There are no changes in the classification and measurement requirements of IFRS 9 as the Group early adopted these requirements in prior periods.

(b) Impairment
IFRS 9 requires the Group to record expected credit losses (ECLs) on its debt securities, loans, amounts due from settlement of both investments and new initiatives investments and trade receivables, either on a 12-month or lifetime basis. The Group has determined there is no material impact of ECLs on the financial statements.

(c) Hedge accounting
The Group has not applied hedge accounting.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations, and establishes a five-step model to account for all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 using the modified retrospective method of application to all contracts as of 1 January 2018 and there was no material impact on its reported amounts. Disclosures related to revenue from contracts with customers is included within Note 6, segmental information.

New accounting pronouncements not yet effective
The following issued standards and interpretations, which are not yet effective, have not been adopted in these financial statements.

		Effective Date
IFRS 16	Leases	1 Jan 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 Jan 2019

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. At the commencement date of a lease, a liability will be recognized to make lease payments and an asset will be recognized to represent the right to use the underlying asset during the lease term. Interest expense on the lease liability and the depreciation expense on the right-of-use asset will be separately recognized.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early application permitted. The Group will apply the Standard as at 1 January 2019 in accordance with the modified retrospective approach. The Group will not make any adjustment to prior-year figures and will recognise the cumulative effect of initially applying the Standard as an adjustment to the opening balance of retained earnings at 1 January 2019. The Group will make use of the relief options provided for leases of low-value assets and short-term leases (shorter than twelve months). The analysis conducted indicated that the application of IFRS will have the following effect on the consolidated financial statements and the presentation of the net assets, financial position and results of operations of the Group.

Continued

2. Principal accounting policies continued

For leases that have been classified to date as operating leases in accordance with IAS 17, the lease liability will be recognised at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the time the Standard is first applied. The right-of-use asset will generally be measured at the amount of the lease liabilities plus initial direct costs. Advance payments and liabilities from the previous financial year will also be accounted for. The analysis conducted indicated the recognition of lease liabilities in the balance sheet totaling $6,781,000 as a result of the transition with a small decline in retained earnings on initial application.

In contrast to the presentation to date of operating lease expenses as operating expenses, future depreciation charges on right-of-use assets and the interest expense from the unwinding of the discount on the lease liabilities will be recognised. The depreciation will be recognised as operating expenses and the interest will be a finance cost. These changes are not material and will (i) increase the Group's operating profit and cash flows from operating activities, and (ii) decrease the Group's profit before taxation and cash flows from financing activities.

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a tax authority will accept an entity's tax treatment. The Group has not identified any material impacts resulting from this clarification and will adopt the interpretation with effect from 1 January 2019.

Insurance income

Insurance income comprises income derived from the sale of legal expenses insurance policies issued in the name of Great Lakes Reinsurance (UK) Plc, a subsidiary of MunichRe, under a binding authority agreement. Insurance income represents commissions receivable which are calculated based on the premium earned, net of reinsurance and Insurance Premium Tax, less an allowance for claims, sales commissions, fees and the other direct insurance related costs such as Financial Services Compensation Scheme Levy. The payment of premiums is often contingent on a case being won or settled and the Group recognises the associated income only at this point, whilst a deduction is made for claims estimated to be paid on all policies in force.

Investment management income

Investment management income is derived from the governing agreements in place with various investment funds under management. The rate or amount at which fees are charged, the basis on which such fees are calculated, and the timing of payment, vary across investment funds and, as to a particular investment fund, may also vary across investment options available to underlying investors in or members of the investment fund. Management fees are generally based on an agreed percentage of investor fund commitments, amounts committed or deployed depending on the fund agreements. Management fees are recognised over time as the services are provided. Performance fees are earned when contractually agreed performance levels are exceeded within specified performance measurement periods. They are recognised when a reliable estimate of the fee can be made and it is highly unlikely that a significant reversal of the amount will occur, which is generally at the end of the performance period.

Segment reporting

Management consider that there are four operating business segments in addition to its corporate functions, being (i) provision of investment capital to the legal industry or in connection with legal matters; (ii) investment management activities; (iii) provision of litigation cost insurance; and (iv) exploration of new initiatives related to application of capital to the legal sector until such time as those initiatives mature into full-fledged independent segments.

2. Principal accounting policies continued

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred and included in the consolidated statement of comprehensive income. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are reflected in the consolidated statement of comprehensive income. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the purchase consideration over the fair value of the Group's share of the assets acquired and the liabilities assumed on the date of the acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible asset

The intangible is recognised at fair value when acquired as part of a business combination. It represents the future cash flows of investment management income recognised in accordance with the Group's policy for the recognition of investment management income. This intangible is amortised to the income statement over the period revenue is expected to be earned.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units ("CGU") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the consolidated statement of comprehensive income.

Financial instruments

The Group classifies its financial instruments into the categories below in accordance with IFRS 9.

1) Investments

Investments relate to the provision of investment capital to the legal industry or in connection with legal matters. The Group takes investment positions in assets where legal and regulatory risk can affect asset value, either through direct litigation or through other dynamics relating to that risk. Investments comprise primarily of investments held at fair value through profit or loss and some investments held at amortised cost. Investments are initially measured as the sum invested. Attributable due diligence and closing costs are expensed.

Continued

2. Principal accounting policies continued

Recognition, derecognition and measurement
Purchases and sales of investments at fair value through profit or loss are generally recognised on the trade date, being the date on which the Group disburses funds in connection with the investment (or becomes contractually committed to pay a fixed amount on a certain date, if earlier). In some cases, multiple disbursements occur over time. Investments are initially measured as the sum invested. An investment that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated asset is substantially a different financial instrument.

Movements in fair value on investments are included within investment income in the consolidated statement of comprehensive income. Investment income can also consist of interest that is accrued or received on event-driven legal claim investments.

Investments held at amortised cost use the effective interest method, less any impairment, for loan investments in the law firm lending business. Interest income is recognised on an accruals basis and included within investment income in the consolidated statement of comprehensive income.

2) New initiatives investments
New initiatives investments are held at fair value and relate to investments in the asset recovery business. Investments are initially measured as the sum invested. Attributable due diligence and closing costs are expensed.

New initiatives income comprises income from professional services and investment income from the asset recovery business. Professional services income is recognised as services are provided.

3) Financial assets and liabilities at amortised cost
Financial assets and liabilities include loan capital, loan notes, receivables, payables, due from broker, amounts due from settlement of investments and amounts due from settlement of new initiatives investments that have fixed or determinable payments representing principal and interest that are not quoted in an active market, are measured at amortised cost using the effective interest method, less any impairment.

4) Cash management investments
Investments for the purpose of cash management, acquired to generate returns on cash balances awaiting subsequent investment, and are managed and evaluated on a fair value basis at the time of acquisition. Their initial fair value is the cost incurred at their acquisition. Transaction costs incurred are expensed in the consolidated statement of comprehensive income.

Recognition, derecognition and measurement
Cash management investments through profit or loss are recorded on the trade date, and those held at the year end date are valued at bid price.

Listed interest-bearing debt securities are valued at their quoted bid price. Interest earned on these investments is recognised on an accruals basis. Listed corporate bond funds are valued at their quoted bid price. Unlisted managed funds are valued at the Net Asset Value per share published by the administrator of those funds as it is the price at which they could have been realised at the reporting date.

Movements in fair value and realised gains and losses on disposal or maturity of investments, including interest income, are reflected in cash management income and bank interest in the consolidated statement of comprehensive income.

2. Principal accounting policies continued

5) Derivative financial assets and liabilities
Options are held for the purpose of hedging gains and losses attributable to long equity positions held within investments and one put option contract has been recognised relating to a sale of an investment (see note 7). Derivative assets and liabilities are classified as fair value through profit or loss, and movements in fair value are included within investment income in the consolidated statement of comprehensive income.

6) Financial liabilities at fair value through profit and loss
Equity securities are held for the purpose of hedging offsetting gains and losses attributable to long equity positions held within Investments. Movements in fair value on financial liabilities at fair value through profit and loss and transactions costs incurred are included within investment income in the consolidated statement of comprehensive income.

7) Investment subparticipations
Investment subparticipations are classified as financial liabilities at fair value through profit and loss and are initially recorded at the fair value of proceeds received. They are subsequently measured at fair value with changes in fair value being recorded in investment income in the consolidated statement of comprehensive income.

Fair value hierarchy of financial instruments
The financial assets and liabilities measured at fair value are disclosed using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities;
Level 2 – Those involving inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
Level 3 – Those inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation Methodology for Level 1 Investments
Level 1 assets and liabilities are comprised of listed instruments including equities, fixed income securities, investment funds, financial liabilities at fair value through profit and loss and loan capital. All level 1 assets and liabilities are valued at the quoted market price as of the reporting date.

Valuation Methodology for Level 2 Investments
Level 2 assets are comprised of equity securities that are not actively traded and are valued at the last traded price as of the reporting date.

Valuation Processes for Level 3 Investments
The Group's senior professionals are responsible for developing the policies and procedures for fair value measurement of assets and liabilities. At each reporting date, the movements in the values of assets and liabilities are required to be re-assessed as per the Group's accounting policies. Following investment, each investment's valuation is reviewed semi-annually. For this analysis, the reasonableness of material estimates and assumptions underlying the valuation are discussed and the major inputs applied are verified by agreeing the information in the valuation computation to contracts, investment status and progress information and other relevant documents.

The semi-annual reviews are presented to the Audit Committee and the Group's independent auditors.

Continued

2. Principal accounting policies continued

Valuation Methodology
Fair value represents the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants as of the measurement date.

The methods and procedures to fair value assets and liabilities may include, but are not limited to: (i) obtaining information provided by third parties when available; (ii) obtaining valuation-related information from the issuers or counterparties (or their advisors); (iii) performing comparisons of comparable or similar investment matters; (iv) calculating the present value of future cash flows; (v) assessing other analytical data and information relating to the investment that is an indication of value; (vi) reviewing the amounts invested in these investments; (vii) evaluating financial information provided by the investment counterparties and (viii) entering into a market transaction with an arm's-length party.

The material estimates and assumptions used in the analyses of fair value include the status and risk profile of the risks underlying the investment, the timing and expected amount of cash flows based on the investment structure and agreement, the appropriateness of discount rates used, if any, and in some cases, the timing of, and estimated minimum proceeds from, a favourable outcome. Significant judgement and estimation goes into the assumptions which underlie the analyses, and the actual values realised with respect to investments could be materially different from values obtained based on the use of those estimates.

Foreign currency translation
Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company, as determined in accordance with IFRS, is the United States Dollar ("US Dollar") because this is the currency that best reflects the economic substance of the underlying events and circumstances of the Company and its Subsidiaries. The consolidated financial statements are presented in US Dollars, the presentation currency.

Certain subsidiaries operate and prepare financial statements denominated in Sterling. For the purposes of preparing consolidated financial statements, those subsidiaries' assets and liabilities are translated at exchange rates prevailing at each balance sheet date. Income and expense items are translated at average exchange rates for the year.

Exchange differences arising are recognised in other comprehensive income and accumulated in equity (foreign currency consolidation reserve).

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies including intragroup balances are recognised in the Consolidated Statement of Comprehensive Income as part of the profit or loss for the year.

Since April 2016, certain intragroup balances are now considered, in substance, to form part of a net investment in a foreign operation. Gains and losses on such balances are recognised in other comprehensive income, with a loss of $1,888,000 recognised in the current year (2017: gain of $2,325,000).

Bank interest income
Bank interest income is recognised on an accruals basis.

Expenses
All expenses are accounted for on an accruals basis.

2. Principal accounting policies continued

Finance costs
Finance costs represent loan capital and loan notes interest and issue expenses which are recognised in the consolidated statement of comprehensive income in line with the effective interest rate method.

Cash and cash equivalents
Cash and cash equivalents are defined as cash in hand, demand deposits, and highly liquid investments readily convertible within three months or less to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents at the balance sheet date comprised amounts held on current or overnight deposit accounts.

Taxation
Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted.

To the extent that any foreign withholding taxes or any form of profit taxes become payable these will be accrued on the basis of the event that creates the liability to taxation.

Deferred tax is provided on the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Dividends
Dividends paid during the year are shown in the consolidated statement of changes in equity. Dividends proposed but not approved by shareholders are disclosed in the notes.

Tangible fixed assets
Fixed assets are recorded at cost less accumulated depreciation and provision for impairment. Depreciation is provided to write off the cost less estimated residual value in equal instalments over the estimated useful lives of the assets. The expected useful lives are as follows:

Leasehold improvements	Life of lease
Fixtures, fittings and equipment	5 years
Computer hardware and software	3 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in income.

Receivables and prepayments
Receivables and prepayments are recognised at nominal value, less provision for impairments for non-recoverable amounts calculated using an expected credit loss model. They do not carry any interest.

Payables
Payables are recognised at nominal value and are non-interest bearing.

Capital and reserves
Ordinary shares are classified as equity in share capital. Contingent shares are classified as equity in share capital, where shares will be issued and converted to ordinary shares only after the specified terms have been met. Other capital reserve is the obligation for the long term incentive plan issuance of shares to the Group’s employees. Incremental costs directly attributable to the issue of new shares are deducted from equity in share capital.

Continued

3. Material agreements

During 2018 and 2017 there were no material agreements in place between the Group entities and third parties.

4. Reconciliation of net cash from operating activities

This note should be read in conjunction with the consolidated statement of cash flows. It provides a reconciliation to show how profit before tax, which is based on accounting rules, translates to cash flows.

	2018 $'000	2017 $'000
Changes in operating assets and liabilities		
Net (increase) on investments	**(405,139)**	(316,069)
Decrease on derivative financial asset	**3,462**	–
Net (increase) on new initiatives investments	**(9,529)**	(2,933)
Net decrease/(increase) on cash management investments	**4,097**	(893)
Net decrease in equity securities	**4,852**	6,953
Net increase/(decrease) on financial liabilities at fair value through profit and loss	**2,535**	(268)
Loan capital – finance costs	**38,538**	24,251
Total changes in operating assets and liabilities	**(361,184)**	(288,959)

	2018 $'000	2017 $'000
Non-cash items		
Amortisation and depreciation of intangible assets and tangible fixed assets	**10,111**	12,147
Other non-cash including exchange rate movements	**6,598**	966
Total non-cash items	**16,709**	13,113

5. Taxation

The Company obtained exempt company status in Guernsey. In certain cases, a subsidiary of the Company may elect to make use of investment structures that are subject to income tax in a country related to the investment. The Company's subsidiaries in Ireland, Singapore, the UK and the US are subject to taxation in such jurisdictions as determined in accordance with relevant tax legislation.

	2018 $'000	2017 $'000
Profit on ordinary activities before tax	**305,114**	249,181
Corporation tax at country rates	**(15,926)**	(198)
Factors affecting charge:		
Adjustment in respect of prior year	**2,250**	25
Tax losses not recognised	**340**	521
Costs allowable for tax	**–**	(3,936)
Costs not allowable for tax	**82**	30
Adjustment for US tax rate change	**–**	3,435
Other	**791**	–
Total taxation (credit)	**(12,463)**	(123)

Corporation tax at country rates is influenced by taxable profits and losses arising in jurisdictions at different rates and non taxable gains and losses arising on fair value adjustments. On 22 December 2017, the Tax Cuts and Jobs Act (US Tax Reform) was enacted reducing the US federal corporate income tax from 35% to 21%.

5. Taxation continued

The taxation charge for the year comprises:

	2018 $'000	2017 $'000
US subsidiaries taxation charge/(credit)	1,790	(227)
Irish subsidiaries taxation (credit)/charge	(191)	1,188
UK subsidiaries taxation charge	79	–
Non-resident taxation charge	179	–
US deferred taxation (credit)	(14,241)	(1,802)
Irish deferred taxation charge	–	718
UK deferred tax (credit)	(79)	–
Total taxation (credit)	(12,463)	(123)

Deferred tax asset	2018 $'000	2017 $'000
Balance at 1 January	10,863	9,498
Movement on UK deferred tax – temporary differences	60	–
Movement on US deferred tax – temporary differences	17,925	5,681
Movement on Irish deferred tax – temporary differences	–	(644)
Adjustment for US tax rate change	–	(3,672)
Balance at 31 December	28,848	10,863

Included in the deferred tax asset recognised at the balance sheet date are amounts relating to operating losses that the Group believes it will be able to utilise in the future.

Deferred tax liability	2018 $'000	2017 $'000
Balance at 1 January	437	227
Movement on UK deferred tax – temporary differences	(19)	–
Movement on US deferred tax – temporary differences	3,684	443
Foreign exchange adjustment	(3)	4
Adjustment for US tax rate change	–	(237)
Balance at 31 December	4,099	437

	2018 $'000	2017 $'000
Net deferred tax asset	24,749	10,426

Analysis of net deferred tax asset by type

	2018 $'000	2017 $'000
Staff compensation and benefits	7,050	3,618
GKC acquisition costs	(1,767)	690
Investment fair value adjustments	7,040	1,584
Capital allowances	(91)	(209)
Net operating loss carry forward	12,517	4,743
	24,749	10,426

Continued

6. Segmental information

Management consider that there are four operating business segments in addition to its corporate functions, being (i) provision of investment capital to the legal industry or in connection with legal matters, (ii) investment management activities, (iii) provision of litigation insurance (reflecting UK and Channel Islands litigation insurance activities), and (iv) exploration of new initiatives related to application of capital to the legal sector until such time as those initiatives mature into full-fledged independent segments.

Segment revenue and results

31 December 2018	Investments $'000	Investment management $'000	Litigation insurance $'000	New initiatives $'000	Other corporate activity $'000	Total $'000
Income*	393,003	11,691	10,406	9,529	348	424,977
Operating expenses	(43,146)	(12,175)	(1,992)	(4,365)	(9,253)	(70,931)
Amortisation of intangible asset arising on acquisition	–	–	–	–	(9,494)	(9,494)
Investment banking and brokerage fees	–	–	–	–	(900)	(900)
Finance costs	–	–	–	–	(38,538)	(38,538)
Profit/(loss) for the year before taxation	349,857	(484)	8,414	5,164	(57,837)	305,114
Taxation	15,193	(164)	(882)	(143)	(1,541)	12,463
Other comprehensive income	–	–	–	–	24,701	24,701
Total comprehensive income	365,050	(648)	7,532	5,021	(34,677)	342,278
*Includes the following revenue from contracts with customers for services transferred over time	–	11,691	10,406	1,650	–	23,747

31 December 2017	Investments $'000	Investment management $'000	Litigation insurance $'000	New initiatives $'000	Other corporate activity $'000	Total $'000
Income	313,286	14,458	7,613	2,968	4,289	342,614
Operating expenses	(34,912)	(7,159)	(2,001)	(2,271)	(7,298)	(53,641)
Amortisation of intangible asset arising on acquisition	–	–	–	–	(11,703)	(11,703)
Investment banking and brokerage fees	–	–	–	–	(3,838)	(3,838)
Finance costs	–	–	–	–	(24,251)	(24,251)
Profit/(loss) for the year before taxation	278,374	7,299	5,612	697	(42,801)	249,181
Taxation	2,412	(3,008)	(662)	(235)	1,616	123
Other comprehensive income	–	–	–	–	(28,206)	(28,206)
Total comprehensive income	280,786	4,291	4,950	462	(69,391)	221,098

6. Segmental information continued

Segment assets

31 December 2018	Investments $'000	Investment management $'000	Litigation insurance $'000	New initiatives $'000	Other corporate activity $'000	Total $'000
Non-current assets						
Investments	1,592,378	–	–	–	–	1,592,378
Due from settlement of investments	3,083	–	–	–	–	3,083
New initiatives investments	–	–	–	42,856	–	42,856
Equity securities	582	–	–	–	–	582
Investment income receivables	7,301	–	–	–	–	7,301
Deferred tax asset	28,116	–	60	–	672	28,848
Goodwill	–	–	–	–	133,966	133,966
Intangible asset	–	–	–	–	18,198	18,198
Tangible fixed assets	1,353	191	322	–	–	1,866
	1,632,813	191	382	42,856	152,836	1,829,078
Current assets						
Due from settlement of investments	34,026	–	–	–	–	34,026
Receivables and prepayments	2,406	2,263	7,565	735	21	12,990
Tax receivable	2,053	–	(230)	–	–	1,823
Derivative financial asset	4,154	–	–	–	–	4,154
Due from brokers	129,911	–	–	–	–	129,911
Cash management investments	–	–	–	–	41,449	41,449
Cash and cash equivalents	97,847	648	10,041	602	156,413	265,551
	270,397	2,911	17,376	1,337	197,883	489,904
Total assets	1,903,210	3,102	17,758	44,193	350,719	2,318,982
Current liabilities						
Payables	26,675	361	2,164	1,027	811	31,038
Due to brokers	12,667	–	–	–	–	12,667
Financial liabilities at fair value through profit and loss	112,821	–	–	–	–	112,821
Due to limited partner	–	–	–	–	8	8
Derivative financial liabilities	7,000	–	–	–	–	7,000
Loan interest payable	–	–	–	–	9,327	9,327
	159,163	361	2,164	1,027	10,146	172,861
Non-current liabilities						
Deferred tax liability	1,639	–	20	–	2,440	4,099
Investment subparticipation	3,244	–	–	–	–	3,244
Third party interest in consolidated entities	136,959	–	–	–	–	136,959
Loan capital	–	–	–	–	638,665	638,665
	141,842	–	20	–	641,105	782,967
Total liabilities	301,005	361	2,184	1,027	651,251	955,828
Total net assets	1,602,205	2,741	15,574	43,166	(300,532)	1,363,154

Continued

6. Segmental information continued

31 December 2017	Investments $'000	Investment management $'000	Litigation insurance $'000	New initiatives $'000	Other corporate activity $'000	Total $'000
Non-current assets						
Investments	1,075,941	–	–	–	–	1,075,941
Due from settlement of investments	3,083	–	–	–	–	3,083
New initiatives investments	–	–	–	10,189	–	10,189
Equity securities	6,058	–	–	–	–	6,058
Investment income receivables	4,765	–	–	–	–	4,765
Deferred tax asset	10,138	–	–	–	725	10,863
Goodwill	–	–	–	–	134,022	134,022
Intangible asset	–	–	–	–	27,692	27,692
Tangible fixed assets	1,654	320	425	–	–	2,399
	1,101,639	320	425	10,189	162,439	1,275,012
Current assets						
Due from settlement of investments	165	–	–	–	–	165
Receivables and prepayments	995	2,845	832	771	31	5,474
Tax receivable	1,541	–	135	–	–	1,676
Due from broker	41,678	–	–	–	–	41,678
Cash management investments	–	–	–	–	39,933	39,933
Cash and cash equivalents	61,598	236	10,017	13,627	49,937	135,415
	105,977	3,081	10,984	14,398	89,901	224,341
Total assets	1,207,616	3,401	11,409	24,587	252,340	1,499,353
Current liabilities						
Payables	20,647	30	1,865	866	425	23,833
Financial liabilities at fair value through profit and loss	36,242	–	–	–	–	36,242
Due to limited partner	1,158	–	–	–	–	1,158
Loan interest payable	–	–	–	–	5,397	5,397
	58,047	30	1,865	866	5,822	66,630
Non-current liabilities						
Deferred tax liability	361	–	41	–	35	437
Investment subparticipation	3,152	–	–	–	–	3,152
Third party interest in consolidated entities	143,639	–	–	–	–	143,639
Loan capital	–	–	–	–	486,931	486,931
	147,152	–	41	–	486,966	634,159
Total liabilities	205,199	30	1,906	866	492,788	700,789
Total net assets	1,002,417	3,371	9,503	23,721	(240,448)	798,564

7. Investments

The majority of investments are comprised of assets at fair value and some assets at amortised cost. As at 31 December 2018, investments at fair value is $1,590,878,000 (2017: $1,074,441,000) and investments at amortised cost is $1,500,000 (2017: $1,500,000), totaling $1,592,378,000 (2017: $1,075,941,000) as shown on the consolidated statement of financial position.

	2018 $'000	2017 $'000
As at 1 January	1,075,941	559,687
Additions	738,335	560,346
Realisations	(627,718)	(362,890)
Net realised gain for year	171,458	122,712
Fair value movement (net of transfers to realisations)	229,739	191,830
Transfer to derivative financial liabilities	9,250	–
Net gain on investments at amortised cost	–	528
Foreign exchange gains/(losses)	(4,627)	3,728
As at 31 December	1,592,378	1,075,941

The investment income on the face of the consolidated statement of comprehensive income comprise:

	2018 $'000	2017 $'000
Net realised gains on investments (above)	171,458	122,712
Fair value movement on investments (above)	229,739	191,830
Net gain on investments at amortised cost (above)	–	528
Interest and other income*	3,753	5,764
Net realised gain on derivative financial liabilities	2,250	–
Fair value movement on derivative financial asset	(3,462)	–
Net loss on financial liabilities at fair value through profit and loss	(2,535)	268
Total investment income	401,203	321,102

* Interest and other income includes $1,692,000 (2017: $999,000) of income received as part of due from settlement of investments and $2,061,000 (2017: $4,765,000) of interest income from the complex strategies investment fund included as part of investment income receivables.

Included in net realised gains for the year is $87,197,000 relating to a sale transaction where the Group has written a put option relating to the investment that was sold and derecognised in the financial statements. The fair value of the option at 31 December 2018 is $7,000,000 (2017: $nil) and is included in derivative financial liabilities in the consolidated statement of financial position. There has been no subsequent income or expense following the recognition of the option. The option is only exercisable based on contingent future events and, in the event it is exercised, the Group would recover the underlying entitlement and become entitled to its future value. The cash outflow required to repurchase the asset if the put option becomes exerciseable and was exercised would be $100,000,000 and the maximum exposure to loss for the Group assuming a recovery of zero proceeds would be $100,000,000. The put option expires on the resolution of the contingent event, which could be expected within 12 months.

Continued

7. Investments continued

Further detail and commentary on realised gains on investments and unrealised gains on investments is included in the report to shareholders on pages 30 to 32.

The following table reflects the line-by-line impact of eliminating the interests of third parties in the entities which Burford consolidates from the investments balance reported in the consolidated statement of financial position to arrive at Burford's investments at 31 December 2018.

	Consolidated Total $'000	Elimination of third-party interests $'000	Burford $'000
At 1 January 2018	**1,075,941**	**(93,764)**	**982,177**
Additions	**738,335**	**(113,697)**	**624,638**
Realisations	**(627,718)**	**109,317**	**(518,401)**
Net realised gain for the year	**171,458**	**(16,364)**	**155,094**
Fair value movement (net of transfers to realisations)	**229,739**	**2,365**	**232,104**
Transfer to derivative financial liabilities	**9,250**	**-**	**9,250**
Net gain on investments at amortised cost	**-**	**-**	**-**
Foreign exchange losses	**(4,627)**	**-**	**(4,627)**
As at 31 December 2018	**1,592,378**	**(112,143)**	**1,480,235**

	Consolidated Total $'000	Elimination of third-party interests $'000	Burford $'000
At 1 January 2017	559,687	–	559,687
Additions	560,346	(145,429)	414,917
Realisations	(362,890)	49,398	(313,492)
Net realised gain for the year	122,712	12,959	135,671
Fair value movement (net of transfers to realisations)	191,830	(10,608)	181,222
Net gain on investments at amortised cost	528	–	528
Foreign exchange gains	3,728	(84)	3,644
As at 31 December 2017	1,075,941	(93,764)	982,177

Included within the balances for consolidated total and Burford only investments as at 31 December 2018 is $20,735,000 (2017: $nil) relating to six investments that are being warehoused by a wholly-owned Group subsidiary company under a forward purchase and sale agreement with a newly formed consolidated investment fund. At the expiry of the warehousing period in 2019 the investments will remain in the consolidated total of investments but then also included in the elimination of third-party interests. Excluding those investments that are being warehoused, as at 31 December 2018, Burford holds investments of $1,459,500,000.

8. Due from settlement of investments

Amounts due from settlement of investments relate to the recovery of investments that have successfully concluded and where there is no longer any litigation risk remaining. The settlement terms and duration vary by investment. The carrying value of these assets approximate the fair value of the assets at the balance sheet date.

	2018 $'000	2017 $'000
As at 1 January	**3,248**	39,368
Transfer of realisations from investments (Note 7)	**627,718**	362,890
Interest and other income (Note 7)	**1,692**	999
Proceeds received	**(595,540)**	(387,010)
Assets received in kind (Note 10)	**–**	(13,011)
Foreign exchange (losses)/gains	**(9)**	12
As at 31 December	**37,109**	3,248
Split:		
Non-current assets	**3,083**	3,083
Current assets	**34,026**	165
Total due from settlement of investments	**37,109**	3,248

The following table reflects the line-by-line impact of eliminating the interests of third parties in the entities which Burford consolidates from the due from settlement of investments balance reported in the consolidated statement of financial position to arrive at Burford's investment receivables at 31 December 2018.

	Consolidated Total $'000	Elimination of third-party interests $'000	Burford $'000
At 1 January 2018	**3,248**	**1,517**	**4,765**
Transfer of realisations from investments	**627,718**	**(109,317)**	**518,401**
Interest and other income	**1,692**	**(1,642)**	**50**
Proceeds received	**(595,540)**	**109,442**	**(486,098)**
Foreign exchange losses	**(9)**	**–**	**(9)**
As at 31 December 2018	**37,109**	**–**	**37,109**

	Consolidated Total $'000	Elimination of third-party interests $'000	Burford $'000
At 1 January 2017	39,368	–	39,368
Transfer of realisations from investments	362,890	(49,398)	313,492
Interest and other income	999	(186)	813
Proceeds received	(387,010)	51,101	(335,909)
Assets received in kind	(13,011)	–	(13,011)
Foreign exchange gains	12	–	12
As at 31 December 2017	3,248	1,517	4,765

Continued

9. New initiatives investments

New initiatives investments represent capital deployed in the exploration of new initiatives related to application of capital to the legal sector until such time as those initiatives mature into full-fledged independent segments.

	2018 $'000	2017 $'000
As at 1 January	10,189	2,337
Additions	33,074	6,467
Realisations	(7,138)	–
Net realised gains for the year	1,661	–
Fair value movement (net of transfers to realisations)	6,218	1,096
Foreign exchange (losses)/gains	(1,148)	289
As at 31 December	42,856	10,189

New initiatives income on the face of the consolidated statement of comprehensive income is $9,529,000 (2017: $2,968,000), which includes income of $1,650,000 (2017: $1,837,000) from fees for asset recovery services and other income of $nil (2017: $35,000).

10. Equity securities

As at 31 December 2018, equity securities are held at fair value of $582,000 (2017: $6,058,000) and there is a net loss on equity securities of $4,852,000 (2017: $6,953,000) on the face of the consolidated statement of comprehensive income.

	2018 $'000	2017 $'000
As at 1 January	6,058	–
Assets received in kind	–	13,011
Realisations	(624)	–
Realised loss for the year	(924)	–
Fair value movement (net of transfers to realisations)	(3,928)	(6,953)
As at 31 December	582	6,058

11. Cash management investments

As at 31 December 2018, cash management investments of $41,449,000 (2017: $39,933,000) were invested primarily in a listed investment fund and fixed income securities.

Reconciliation of movements	2018 $'000	2017 $'000
Balance at 1 January	39,933	11,098
Purchases	17,376	32,948
Proceeds on disposal	(11,721)	(4,975)
Net realised gains on disposal	527	70
Fair value movement (net of transfers to realisation)	(4,624)	823
Change in accrued interest	(42)	(31)
Balance at 31 December	41,449	39,933

11. Cash management investments continued

The cash management income and bank interest on the face of the consolidated statement of comprehensive income comprise:

	2018 $'000	2017 $'000
Realised gains (see above)	527	70
Fair value movement (see above)	(4,624)	823
Interest and dividend income	1,990	1,006
Bank interest income	3,908	751
Total cash management income and bank interest	1,801	2,650

12. Total operating expenses

	2018 $'000	2017 $'000
Staff costs	49,884	40,991
Pension costs	736	817
Non-executive directors' remuneration	415	348
Non-staff operating expenses	11,478	7,182
Investment related costs	3,815	2,931
Expenses incurred by consolidated entities*	4,603	1,372
	70,931	53,641

* Expenses incurred by consolidated entities are shown net of adjustments and eliminations as shown in Note 21.

Directors' remuneration* comprise:	2018 $'000	2017 $'000
Sir Peter Middleton	171	114
Hugh Steven Wilson	112	108
David Charles Lowe	66	63
Charles Nigel Kennedy Parkinson	66	63
	415	348

* Directors' remuneration is Sterling denominated.

Fees paid and payable to Ernst & Young LLP comprise:	2018 $'000	2017 $'000
Audit fees	961	743
Interim review fees	38	45
Tax compliance fees	287	206
Tax advisory fees	133	253
Other advisory fees	166	51
	1,585	1,298

In 2018, the Group incurred investment banking and brokerage fees of $900,000 (2017: $3,838,000) related to the sale of an investment in the secondary market.

Continued

13. Receivables and prepayments

	2018 $'000	2017 $'000
Trade receivable – insurance segment	**7,438**	722
Trade receivable – new initiatives segment	**735**	746
Investment management receivables	**2,118**	2,698
Prepayments	**352**	348
Other debtors	**2,347**	960
	12,990	5,474

14. Payables

	2018 $'000	2017 $'000
Audit fee payable	**381**	505
General expenses payable	**30,657**	23,328
	31,038	23,833

15. Loan capital

The Group has issued the following retail bonds listed on the London Stock Exchange's Order Book for Retail Bonds.

Issuance date	19 August 2014	19 April 2016	1 June 2017	12 February 2018
Issuing entity (100% owned subsidiary)	Burford Capital PLC	Burford Capital PLC	Burford Capital PLC	Burford Capital Finance LLC
Currency	GBP	GBP	GBP	USD
Face amount (in currency)	£90,000,000	£100,000,000	£175,000,000	$180,000,000
Maturity date	19 August 2022	26 October 2024	1 December 2026	12 August 2025
Interest rate per annum	6.5%	6.125%	5.0%	6.125%
USD equivalent face value	$149,562,000	$144,020,000	$225,803,000	$180,000,000
Fair value equivalent:				
At 31 December 2018	**$121,098,000**	**$134,872,000**	**$224,240,000**	**$177,075,000**
At 31 December 2017	$135,056,000	$151,042,000	$250,079,000	N/A

Retail bonds	2018 $'000	2017 $'000
As at 1 January	**492,328**	234,258
Retail bonds issued	**180,000**	225,803
Bond issue costs	**(2,637)**	(3,170)
Finance costs	**38,538**	22,976
Interest paid	**(33,108)**	(21,281)
Foreign exchange (gains)/losses	**(27,129)**	33,742
As at 31 December	**647,992**	492,328
Split:		
Loan capital	**638,665**	486,931
Loan interest payable	**9,327**	5,397
Total loan capital	**647,992**	492,328

15. Loan capital continued

	2018 $'000	2017 $'000
Loan capital interest expense	**37,334**	22,233
Bond issue costs incurred as finance costs	**1,204**	743
Loan notes interest expense (Note 16)	**–**	1,275
Total finance costs	**38,538**	24,251

16. Changes in liabilities arising from financing activities

A summary of the changes arising from cash flows and non-cash changes of loan capital is shown below.

	Loan capital $'000
At 1 January 2018	**492,328**
Cash flows:	
Issuance/(repayments) net of issue costs	**177,363**
Interest paid	**(33,108)**
Non-cash charges:	
Interest expense	**37,334**
Amortisation of bond issue costs	**1,204**
Foreign exchange (gains)/losses	**(27,129)**
As at 31 December 2018	**647,992**

	Loan capital $'000	Loan notes $'000	Total $'000
At 1 January 2017	234,258	43,874	278,132
Cash flows:			
Issuance/(repayments) net of issue costs	222,633	(43,750)	178,883
Interest paid	(21,281)	(1,399)	(22,680)
Non-cash charges:			
Interest expense	22,233	1,275	23,508
Amortisation of bond issue costs	743	–	743
Foreign exchange losses	33,742	–	33,742
As at 31 December 2017	492,328	–	492,328

On 30 June 2017, the $43,750,000 of loan notes that were issued on 14 December 2016 as part of the acquisition of GKC Holdings, LLC ("GKC") were redeemed in full and there is no balance outstanding. The notes paid a rate per annum equal to LIBOR plus 5.00% (semi-annual interest payment), but the interest rate was not to exceed 6.00% per annum.

Continued

17. Intangible asset

	2018 $'000	2017 $'000
At 1 January	**27,692**	39,395
Amortisation	**(9,494)**	(11,703)
At 31 December	**18,198**	27,692

	2018 $'000	2017 $'000
Acquisition of subsidiary	**39,666**	39,666
Accumulated amortisation	**(21,468)**	(11,974)
Net book value at 31 December	**18,198**	27,692

GKC was acquired on 14 December 2016. The intangible asset represents an assessment, for accounting purposes, of the value of GKC's future investment management income at the date of acquisition. The intangible asset has an estimated useful life extending to 2020 and is being amortised over this period, in accordance with revenue generated from investment management income.

18. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the purchase consideration over the fair value of the Group's share of the assets acquired and the liabilities assumed on the date of the acquisition. The goodwill allocated to each of the Group's operating business segments is set out in the table below.

Carrying Value of Goodwill

	Investments $'000	Investment management $'000	New initiatives $'000	Total $'000
At 1 January 2018	**107,991**	**25,020**	**1,011**	**134,022**
Foreign exchange losses	**–**	**–**	**(56)**	**(56)**
At 31 December 2018	**107,991**	**25,020**	**955**	**133,966**

	Investments $'000	Investment management $'000	New initiatives $'000	Total $'000
At 1 January 2017	107,991	25,020	921	133,932
Foreign exchange gains	–	–	90	90
At 31 December 2017	107,991	25,020	1,011	134,022

18. Goodwill continued

As goodwill does not generate cash flows independently of other assets or groups of assets the recoverable amount, being the value in use, is determined at a cash-generating unit ("CGU") level. The Group's CGU's are consistent with the operating business segments above.

The Group's value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for each cash-generating unit ("CGU").

The future cash flows are discounted using a discount rate that reflects the time value of money. The discount rate used in each cash-generating unit ("CGU") is adjusted for the risk specific to the asset.

The group is required to test goodwill acquired in a business combination annually for impairment. This was carried out for the period ended 31 December 2018.

Key Assumptions and Sensitivities

The value in use of each cash-generating unit ("CGU") is determined using cash flow projections over a five-year period, based on past experience of business performance.

Discount rate

The discount rates used in performing the value in use calculation in 2018 were 9.9% (2017: 9.7%) except for Investment Management where we have used 8.5% (2017: 8.6%) reflecting the lower risk and volatility of income in this cash-generating unit ("CGU"). The discount rates estimated on a pre–tax equivalent basis were 11.0% (2017: 10.7%) and 10.7% (2017: 10.6%) for Investment Management.

Growth

The annual growth rate assumption for the five-year projection period is 5% (2017: 5%). The perpetuity growth rates are determined based on the forecast market growth rates of the economies in which the CGU operates, and they reflect an assessment of the long–term growth prospects of that market. For all CGUs this rate is 2% (2017: 2%).

Return on Investments

The rates of return are determined based on historical experience. The rates used in performing the value in use calculation in 2018 were 22.5% for existing and 20% for new investments (2017: 22.5% and 20%, respectively) per annum except for Investment Management where we have used rates of between 6.5% (2017: 6.5%) and 22.5% (2017: 22.5%) reflecting the differing rates of return expected on the different funds.

Sensitivities

There is significant headroom in all the cash-generating units ("CGU"). No reasonably possible changes in the key assumptions would cause the carrying amount of the cash-generating units ("CGU") to exceed the recoverable amount.

Continued

19. Fair value of assets and liabilities

Valuation Methodology

The fair value of financial assets and liabilities continue to be valued using the techniques set out in the accounting policies in Note 2.

Fair Value Hierarchy

31 December 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets:				
Investments*	–	–	1,380,377	1,380,377
Investments – equity securities	137,809	72,692	–	210,501
New initiatives investments	–	–	42,856	42,856
Equity securities	582	–	–	582
Derivative financial asset	–	–	4,154	4,154
Cash management investments: Listed fixed income securities and investment funds	41,449	–	–	41,449
Total assets	179,840	72,692	1,427,387	1,679,919
Liabilities:				
Financial liabilities at fair value through profit or loss	(112,821)	–	–	(112,821)
Derivative financial liabilities	–	–	(7,000)	(7,000)
Investment sub-participations	–	–	(3,244)	(3,244)
Loan capital, at fair value**	(657,285)	–	–	(657,285)
Total liabilities	(770,106)	–	(10,244)	(780,350)
Net total	(590,266)	72,692	1,417,143	899,569

31 December 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets:				
Investments*	–	–	1,009,988	1,009,988
Investments – equity securities	64,453	–	–	64,453
New initiatives investments	–	–	10,189	10,189
Equity securities	6,058	–	–	6,058
Cash management investments: Listed fixed income securities and investment funds	39,933	–	–	39,933
Total assets	110,444	–	1,020,177	1,130,621
Liabilities:				
Financial liabilities at fair value through profit or loss	(36,242)	–	–	(36,242)
Investment sub-participations	–	–	(3,152)	(3,152)
Loan capital, at fair value**	(536,177)	–	–	(536,177)
Total liabilities	(572,419)	–	(3,152)	(575,571)
Net total	(461,975)	–	1,017,025	555,050

* The carrying value of other investments held at amortised cost of $1,500,000 (2017: $1,500,000) approximate fair value and have not been included the above tables.

** Loan capital is held at amortised cost in the consolidated financial statements and the figures disclosed in the above tables represent the fair value equivalent amounts.

19. Fair value of assets and liabilities continued

All transfers into level 3 are recognised as if they have taken place at the beginning of each reporting period. Transfers into level 3 during the year of $49,050,000 (2017: $261,487,000) relate to investments where the underlying asset no longer has a quoted price and becomes subject to the Group's valuation methodology for level 3 financial instruments as set out in Note 2.

	Investments $'000	New initiatives investments $'000	Derivative financial assets $'000	Total Level 3 assets $'000	Investment sub-participations $'000	Derivative financial liabilities $'000	Total Level 3 liabilities $'000
As at 1 January 2018	1,009,988	10,189	–	1,020,177	(3,152)	–	(3,152)
Additions	457,566	33,074	7,616	498,256	(274)	–	(274)
Transfers into level 3	49,050	–	–	49,050	–	–	–
Realisations	(537,638)	(7,138)	–	(544,776)	182	–	182
Net realised gain	163,752	1,661	–	165,413	–	2,250	2,250
Fair value movement	233,037	6,218	(3,462)	235,793	–	–	–
Transfer to derivative financial liabilities	9,250	–	–	9,250	–	(9,250)	(9,250)
Foreign exchange losses	(4,628)	(1,148)	–	(5,776)	–	–	–
As at 31 December 2018	1,380,377	42,856	4,154	1,427,387	(3,244)	(7,000)	(10,244)

Movements in Level 3 fair value assets and liabilities

The table below provides analysis of the movements in the Level 3 financial assets and liabilities.

	Investments $'000	New initiatives investments $'000	Total Level 3 assets $'000	Level 3 liabilities: Investment sub-participations $'000	Total Level 3 liabilities $'000
As at 1 January 2017	549,173	2,337	551,510	(2,865)	(2,865)
Additions	234,303	6,467	240,770	(433)	(433)
Transfers into level 3	261,487	–	261,487	–	–
Realisations	(364,681)	–	(364,681)	146	146
Net realised gain	134,045	–	134,045	–	–
Fair value movement	191,933	1,096	193,029	–	–
Foreign exchange gains	3,728	289	4,017	–	–
As at 31 December 2017	1,009,988	10,189	1,020,177	(3,152)	(3,152)

There were no gains or losses recognised in other comprehensive income with respect to these assets and liabilities.

Sensitivity of Level 3 valuations

Following investment, the Group engages in a semi-annual review of each investment's fair value. At 31 December 2018, should the value of investments have been 10% higher or lower than provided for in the Group's fair value estimation, while all other variables remained constant, the Group's income and net assets would have increased and decreased respectively by $141,714,000 (2017: $101,703,000).

Continued

19. Fair value of assets and liabilities continued

Reasonably possible alternative assumptions

The determination of fair value for investments, new initiative investments and derivative instruments involve significant judgements and estimates. Whilst the potential range of outcomes for the investments is wide, the Group's fair value estimation is its best assessment of the current fair value of each investment. That estimate is inherently subjective being based largely on an assessment of how individual events have changed the possible outcomes of the investment and their relative probabilities and hence the extent to which the fair value has altered. The aggregate of the fair values selected falls within a wide range of reasonably possible estimates. In the Group's opinion there is no useful alternative valuation that would better quantify the market risk inherent in the portfolio and there are no inputs or variables to which the values of the investments are correlated.

20. Risk management

Market and investment risk

The Group is exposed to market and investment risk with respect to its cash management investments, investments, new initiative investments, financial liabilities at fair value through profit and loss and derivative financial assets and liabilities. The maximum risk equals the fair value of all such financial instruments.

With respect to the Group's cash management investments, consisting of corporate bonds and investment funds, market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables such as interest rates, credit risk, security and bond prices and foreign exchange rates. At 31 December 2018, should the prices of the investments in corporate bonds and investment funds have been 10% higher or lower while all other variables remained constant, the Group's income and net assets would have increased and decreased respectively by $4,145,000 (2017: $3,993,000).

With respect to the Group's financial liabilities at fair value through profit and loss and derivative financial assets the market risk is negligible as the positions are held exclusively as economic hedges against gains and losses arising on offsetting long positions included in the Group's investments. The fair value of the Group's offsetting long positions is approximately $112,821,000 at 31 December 2018 (2017: $36,163,000). The market and investment risk associated with the derivative financial liability is explained in note 7.

The Group only makes investments following a due diligence process. However, such investing is high risk and there can be no assurance of any particular recovery in any individual investment. Certain of the Group's investments or similar investments comprise a portfolio of investments thereby mitigating the impact of the outcome of any single investment.

Liquidity risk

The Group is exposed to liquidity risk. The Group's investment in investments and new initiatives investments require funds to meet investment commitments (see Note 28) and for settlement of operating liabilities. The Group's investments (as described in Note 2) typically require significant capital contributions with little or no immediate return and no guarantee of return or repayment. In order to manage liquidity, risk the Group makes investments with a range of anticipated durations and invests in cash management investments which can be readily realised to meet those liabilities and commitments. Cash management investments include investments in listed fixed income instruments and investment funds that can be redeemed on short notice or can be sold on an active trading market.

20. Risk management continued

During 2014, 2016, 2017 and 2018, the total issues of $699 million in retail bonds raised sufficient extra capital to help mitigate liquidity risk. Interest payments on the bonds will total approximately $243 million over the remaining four-year, six-year, seven-year and eight-year periods until maturity in August 2022, October 2024, August 2025 and December 2026, respectively, at which point the principal amounts shall be repaid.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

31 December 2018	Current liabilities $'000	Loan capital interest $'000	Loan capital $'000	Deferred tax liability $'000	Investment sub-participations $'000	Derivative financial liabilities $'000	Third party interests in consolidated entities $'000	Total $'000
Less than 3 months	**143,867**	**9,247**	**–**	**–**	**–**	**–**	**–**	**153,114**
3 to 6 months	**–**	**9,497**	**–**	**–**	**–**	**–**	**–**	**9,497**
6 to 12 months	**–**	**18,744**	**–**	**–**	**–**	**–**	**–**	**18,744**
1 to 5 years	**–**	**142,485**	**114,921**	**–**	**–**	**–**	**–**	**257,406**
Greater than 5 years	**–**	**63,390**	**531,148**	**–**	**–**	**–**	**–**	**594,538**
No contractual maturity date	**–**	**–**	**–**	**4,099**	**3,244**	**7,000**	**136,959**	**151,302**
Total undiscounted cash outflows	**143,867**	**243,363**	**646,069**	**4,099**	**3,244**	**7,000**	**136,959**	**1,184,601**

31 December 2017	Current liabilities $'000	Loan capital interest $'000	Loan capital $'000	Deferred tax liability $'000	Investment sub-participations $'000	Third party interests in consolidated entities $'000	Total $'000
Less than 3 months	61,233	3,951	–	–	–	–	65,184
3 to 6 months	–	10,048	–	–	–	–	10,048
6 to 12 months	–	14,000	–	–	–	–	14,000
1 to 5 years	–	111,998	121,590	–	–	–	233,588
Greater than 5 years	–	63,835	371,525	–	–	–	435,360
No contractual maturity date	–	–	–	437	3,152	143,639	147,228
Total undiscounted cash outflows	61,233	203,832	493,115	437	3,152	143,639	905,408

Credit risk

The Group is exposed to credit risk in various investment structures (see Note 2), most of which involve investing sums recoverable only out of successful investments with a concomitant risk of loss of investment cost. On becoming contractually entitled to proceeds, depending on the structure of the particular investment, the Group could be a creditor of, and subject to direct or indirect credit risk from, a claimant, a defendant, both or other parties. Moreover, the Group may be indirectly subject to credit risk to the extent a defendant does not pay a claimant immediately notwithstanding successful adjudication of a claim in the claimant's favour. The Group's credit risk is uncertain given that its entitlement pursuant to its investments is generally not established until a successful resolution of claims and the Group's potential credit risk is mitigated by the diversity of its counterparties and indirect creditors.

Continued

20. Risk management continued

The Group is also exposed to credit risk in respect of the cash management investments, due from broker and cash and cash equivalents. The credit risk of the due from broker and cash and cash equivalents is mitigated as all cash is placed with reputable banks with a sound credit rating (A–2). Cash management investments are held in a listed fund investing in senior short duration floating rate corporate debt and investment grade corporate bonds. At the year end the bulk of cash management investments are held in a listed investment fund.

The Group is also exposed to credit risk from opponents in litigation insurance. The underwriting process includes an assessment of counterparty credit risk and there is a large diversification of counterparties and therefore no concentration of risk.

The maximum credit risk exposure represented by cash, cash equivalents, due from broker and investments is as stated on the consolidated statement of financial position.

The Group is exposed to credit risk on financial assets held at amortised cost including amounts due from settlement of investments and receivables. The maximum credit exposure for amounts due from settlement of investments and receivables is the carrying value at 31 December 2018 of $49,747,000 (2017: $8,374,000). The Group applies the simplified approach to recognise impairment on settlement and receivable balances based on the lifetime expected credit loss. The Group reviews the lifetime expected credit loss based on historical collection performance, the specific provisions of any settlement agreement and a forward-looking assessment of macro-economic factors.

Financial assets are generally considered to be in default when amounts are more than 90 days past due or if sufficient indicators exist that the debtor is unlikely to pay. Amounts are written off as uncollectable when all reasonably collectable amounts have been recovered and following the completion or cessation of enforcement activity.

Currency risk

The Group holds assets denominated in currencies other than US dollars, the functional currency of the Company, including Sterling, the functional currency of Burford UK. Further, the Group issued Sterling loan capital during 2014, 2016, and 2017. It is therefore exposed to currency risk, as values of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Group may use forward exchange contracts from time to time to mitigate currency risk.

At 31 December 2018, the Group's net exposure to currency risk could be analysed as follows:

	Investments $'000	Other Net Assets/ (Liabilities) $'000
US dollar	1,446,098	203,332
Sterling	42,051	(438,849)
Euro	107,888	(36)
Australian dollar	2,670	–
	1,598,707	(235,553)

20. Risk management continued

At 31 December 2017, the Group's net exposure to currency risk could be analysed as follows:

	Investments $'000	Other Net Assets/ (Liabilities) $'000
US dollar	1,053,663	164,524
Sterling	27,705	(465,206)
Euro	17,759	119
	1,099,127	(300,563)

At 31 December 2018 should Sterling have strengthened or weakened by 10% against the US dollar and all other variables held constant, the Group's net profit and net assets would have decreased and increased respectively by $39,680,000 (2017: $43,750,000) from instruments denominated in a currency other than the functional currency of the relevant entity.

At 31 December 2018 should Euro have strengthened or weakened by 10% against the US dollar and all other variables held constant, the Group's net profit and net assets would have increased and decreased respectively by $10,785,000 (2017: $1,788,000) from instruments denominated in a currency other than the functional currency of the relevant entity.

At 31 December 2018 should Australian dollar have strengthened or weakened by 10% against the US Dollar and all other variables held constant, the Group's net profit and net assets would have increased and decreased respectively by $267,000 (2017: $nil) from instruments denominated in a currency other than the functional currency of the relevant entity.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to market risk for changes in floating interest rates relates primarily to the Group's cash, certain cash management investments and certain investments. All cash bears interest at floating rates. There are certain investments, due from settlement of investments and cash management investments that earn interest based on fixed rates; however, those assets do not have interest rate risk as they are not exposed to changes in market interest rates. The Group's loan capital incurs interest at a fixed rate and so is not exposed to changes in market interest rates. The following table sets out the Group's exposure to interest rate risk.

	2018 $'000	2017 $'000
Non-interest bearing	**1,430,085**	787,882
Interest bearing – floating rate	**509,661**	370,790
Interest bearing – fixed rate	**(576,592)**	(360,108)
Total net assets	**1,363,154**	798,564

The interest bearing floating rate assets and liabilities are denominated in both US Dollars and Sterling. If interest rates increased/decreased by 25 basis points while all other variables remained constant, the profit for the year and net assets would increase/decrease by $1,274,000 (2017: $927,000). For fixed rate assets and liabilities, it is estimated that there would be no material profit or net assets impact. Fixed rate liabilities include the loan capital as disclosed in Note 15.

Continued

20. Risk management continued

The maturity profile of interest bearing assets and liabilities is:

Maturity period at 31 December 2018	Floating $'000	Fixed $'000	Total $'000
Assets			
Less than 3 months	415,026	762	415,788
3 to 6 months	–	1,453	1,453
6 to 12 months	–	2,522	2,522
1 to 2 years	–	2,193	2,193
No contractual maturity	94,635	62,547	157,182
Liabilities			
Greater than 2 years	–	(646,069)	(646,069)
Net assets/(liabilities)	509,661	(576,592)	(66,931)

Maturity period at 31 December 2017	Floating $'000	Fixed $'000	Total $'000
Assets			
Less than 3 months	208,384	3,078	211,462
3 to 6 months	–	551	551
6 to 12 months	–	1,515	1,515
1 to 2 years	–	3,291	3,291
Greater than 2 years	162,406	124,572	286,978
Liabilities			
Greater than 2 years	–	(493,115)	(493,115)
Net assets/(liabilities)	370,790	(360,108)	10,682

Management of capital

Cash management assets are managed to ensure adequate liquidity to meet commitments and to ensure resources are available to finance investments as opportunities arise. The Company issued loan capital in the form of retail bonds in 2014, 2016, 2017 and 2018 to also provide further capital resources to finance investments. Additionally, the Company issued new equity shares in 2018.

21. Investments in consolidated entities

Burford may invest in entities that it manages and may be deemed to control such entities, which results in their consolidation on a line-by-line basis as detailed below.

Line-by-line consolidation

The following tables reflect the line-by-line impact of consolidating the results of the entities with the stand alone results for Burford (i.e., if Burford only accounted for its investment in the entities) to arrive at the totals reported in the consolidated statement of comprehensive income and consolidated statement of financial position.

Consolidated Statement of Comprehensive Income

31 December 2018	Burford $'000	Entities $'000	Adjustments and eliminations* $'000	Consolidated total $'000
Investment income	389,498	22,203	(10,498)	401,203
Investment management income	15,799	-	(4,108)	11,691
Insurance income	10,406	-	-	10,406
New initiatives income	9,529	-	-	9,529
Other income	(4,858)	974	(620)	(4,504)
Third-party share of gains relating to interests in consolidated entities	-	-	(3,348)	(3,348)
Total income	420,374	23,177	(18,574)	424,977
Operating expenses	(66,328)	(8,494)	3,891	(70,931)
Amortisation of intangible asset	(9,494)	-	-	(9,494)
Banking and brokerage fees	(900)	-	-	(900)
Operating profit	343,652	14,683	(14,683)	343,652
Finance costs	(38,538)	-	-	(38,538)
Profit before tax	305,114	14,683	(14,683)	305,114
Taxation	12,463	-	-	12,463
Profit after tax	317,577	14,683	(14,683)	317,577
Other comprehensive income	24,701	-	-	24,701
Total comprehensive income	342,278	14,683	(14,683)	342,278

* The adjustments and eliminations are required due to the services provided by the Group to the consolidated entities as investment manager and the Group's investment as a limited partner in consolidated entities. Accordingly, these adjustments and eliminations do not have an effect on the net income or total net assets of Burford.

Continued

21. Investments in consolidated entities continued

31 December 2017	Burford $'000	Entities $'000	Adjustments and eliminations* $'000	Consolidated total $'000
Investment income	318,234	6,673	(3,805)	321,102
Investment management income	15,626	–	(1,168)	14,458
Insurance income	7,613	–	–	7,613
New initiatives income	2,968	–	–	2,968
Other income	(3,199)	535	–	(2,664)
Third-party share of gains relating to interests in consolidated entities	–	–	(863)	(863)
Total income	341,242	7,208	(5,836)	342,614
Operating expenses	(52,269)	(2,278)	906	(53,641)
Amortisation of intangible asset	(11,703)	–	–	(11,703)
Banking and brokerage fees	(3,838)	–	–	(3,838)
Operating profit	273,432	4,930	(4,930)	273,432
Finance costs	(24,251)	–	–	(24,251)
Profit before tax	249,181	4,930	(4,930)	249,181
Taxation	123	–	–	123
Profit after tax	249,304	4,930	(4,930)	249,304
Other comprehensive income	(28,206)	–	–	(28,206)
Total comprehensive income	221,098	4,930	(4,930)	221,098

* The adjustments and eliminations are required due to the services provided by the Group to the consolidated entities as investment manager and the Group's investment as a limited partner in one of the consolidated entities. Accordingly, these adjustments and eliminations do not have an effect on the net income or total net assets of Burford.

21. Investments in consolidated entities continued

Consolidated Statement of Financial Position

31 December 2018	Burford $'000	Entities $'000	Adjustments and eliminations* $'000	Consolidated total $'000
Investments	1,480,235	409,079	(296,936)	1,592,378
Due from settlement of investments – total	37,109	35	(35)	37,109
New initiatives investments	42,856	–	–	42,856
Investment income receivable	–	7,301	–	7,301
Receivables and prepayments	33,383	273	(20,666)	12,990
Derivative financial asset	–	4,154	–	4,154
Due from brokers	–	129,911	–	129,911
Cash management investments	41,449	–	–	41,449
Cash and cash equivalents	235,977	29,574	–	265,551
Other assets	185,283	–	–	185,283
Total assets	2,056,292	580,327	(317,637)	2,318,982
Payables	30,632	9,949	(9,543)	31,038
Due to brokers	–	12,667	–	12,667
Financial liabilities at fair value through profit and loss	–	112,821	–	112,821
Due to limited partners	–	8	–	8
Derivative financial liabilities	7,000	–	–	7,000
Other liabilities	655,506	6,948	(7,119)	655,335
Third-party interest in consolidated entities	–	–	136,959	136,959
Total liabilities	693,138	142,393	120,297	955,828
Total net assets	1,363,154	437,934	(437,934)	1,363,154

* The adjustments and eliminations are required due to the services provided by the Group to the consolidated entities as investment manager and the Group's investment as a limited partner in the funds. Accordingly, these adjustments and eliminations do not have an effect on the net income or total net assets of Burford.

Included within the balances for consolidated total and Burford-only investments as at 31 December 2018 is $20,735,000 (2017: $nil) relating to six investments that are being warehoused by a wholly-owned Group subsidiary company under a forward purchase and sale agreement with a newly formed consolidated investment fund. At the expiry of the warehousing period in 2019 the investments will remain in the consolidated total of investments but then also be included in the elimination of third-party interests. Excluding those investments that are being warehoused, as at 31 December 2018, Burford holds investments of $1,459,500,000.

Continued

21. Investments in consolidated entities continued

31 December 2017	Burford $'000	Entities $'000	Adjustments and eliminations* $'000	Consolidated total $'000
Investments	982,177	249,644	(155,880)	1,075,941
Due from settlement of investments – total	4,765	–	(1,517)	3,248
Investment income receivable	–	4,765	–	4,765
Receivables and prepayments	6,772	282	(1,580)	5,474
Due from broker	–	41,678	–	41,678
Cash management investments	39,933	–	–	39,933
Cash and cash equivalents	91,473	43,942	–	135,415
Other assets	192,899	–	–	192,899
Total assets	1,318,019	340,311	(158,977)	1,499,353
Payables	23,538	1,614	(1,319)	23,833
Financial liabilities at fair value through profit and loss	–	36,242	–	36,242
Due to limited partners	–	2,675	(1,517)	1,158
Loan interest payable	5,397	–	–	5,397
Other liabilities	490,520	–	–	490,520
Third-party interest in consolidated entities	–	–	143,639	143,639
Total liabilities	519,455	40,531	140,803	700,789
Total net assets	798,564	299,780	(299,780)	798,564

* The adjustments and eliminations are required due to the services provided by the Group to the consolidated entities as investment manager and the Group's investment as a limited partner in the funds. Accordingly, these adjustments and eliminations do not have an effect on the net income or total net assets of Burford.

Due from brokers of $129,911,000 at December 2018 (2017: $41,678,000) includes restricted cash and margin balances held by the broker in relation to the financial liabilities at fair value through profit and loss.

22. Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in establishing control, for example where contractual arrangements are the dominant factor in affecting an investor's returns. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions on their permitted activities.

The key considerations in assessing whether the Group controls a structured entity are set out in the Group's principal accounting policies in Note 2.

Consolidated structured entities

The Group holds investments in certain investment funds where it also acts as investment adviser. The total investment in these funds was $242,874,000 as at 31 December 2018 (2017: $155,880,000). The Group provides revolving credit facilities with a total commitment amount of $105,000,000 (2017: $100,000,000) to certain investment funds to bridge capital calls when needed.

As at 31 December 2018 $478,827,000 (2017: $340,311,000) of the total assets included in the Group's balance sheet relates to the consolidated investment funds, held to pay principal and return to the holders of interests in those funds. The Group cannot access the assets except for the investment made by the Group in these funds.

Unconsolidated structured entities

The Group's maximum exposure to loss from unconsolidated structured entities is the sum total of any investment held, fee receivables, accrued income and loans to those entities, and is $276,808,000 as at 31 December 2018 (2017: $2,698,000). The Group's interests in, and exposure to, unconsolidated structured entities are set out below.

As at 31 December 2018	Investment funds $'000	Other $'000	Total $'000
Investments	–	9,109	9,109
Due from settlement of investments	–	–	–
Receivables	2,118	–	2,118
Total on balance sheet exposures	**2,118**	**9,109**	**11,227**
Off balance sheet – revolving credit facilities	250,000	–	250,000
Off balance sheet – undrawn commitments	–	15,581	15,581
Maximum exposure to loss	**252,118**	**24,690**	**276,808**
Total assets of the entity	**693,271**	**9,109**	**702,380**

As at 31 December 2017	Investment funds $'000	Total $'000
Investments	–	–
Due from settlement of investments	–	–
Receivables and prepayments	2,698	2,698
Total on balance sheet maximum exposure	2,698	2,698
Total assets of the entity	576,105	576,105

Continued

22. Structured entities continued

Investment funds
The Group acts as investment adviser to a number of unconsolidated investment funds and sidecar vehicles where the Group's interest in investment funds is generally restricted to management and incentive fees. The value of the fees are typically based on investor commitments, capital deployed or committed to investments and the performance of the fund. The off balance sheet exposure relates to revolving credit facilities provided by the Group to certain investment funds to bridge capital calls when needed and is included at the maximum commitment amount.

Other
This includes litigation investments with structured entities that aggregate claims from multiple parties. The nature and recourse of the Group's investment in these matters is consistent with the rest of the litigation investments portfolio and the use of the structured entity to aggregate the claims does not introduce incremental risk. The off balance sheet exposure represents the maximum extent of the undrawn committed amounts relating to these litigation commitments.

23. Investments in joint ventures

The Group makes certain of its litigation investments under joint arrangements that are classified as joint ventures in accordance with IAS 28 Investments in Associates and Joint Ventures and accounted for at fair value through profit and loss in accordance with IFRS 9. The total fair value of the Group's interest in joint ventures as at 31 December 2018 is $95,494,000 (2017: $17,759,000) and is included within Investments in the consolidated statement of financial position. None of the joint venture arrangements are individually material to the Group and there are no significant restrictions on the ability of the joint ventures to make cash distributions or repayment of advances to the Group.

The Group's share of commitments and contingencies for its joint ventures at 31 December 2018 is $87,076,000 (2017: $142,693,000) and are included in the commitment amounts relating to funding obligations on investment agreements disclosed in note 28.

24. Share capital

Authorised share capital	**2018 $'000**	2017 $'000
Unlimited Ordinary Shares of no par value	**–**	–

Issued share capital	**Number**	Number
Ordinary Shares of no par value	**218,649,877**	208,237,979

80,000,001 ordinary shares were issued at 100p each on 21 October 2009. A further 100,000,000 ordinary shares were issued at 110p each on 9 December 2010. A further 24,545,454 shares were issued on 12 December 2012. A further 3,692,524 shares were issued on 14 December 2016 as part of the GKC acquisition as noted in the 2016 Annual Report. A further 10,411,898 shares were issued at 1850p each on 4 October 2018.

24. Share capital continued

	2018 $'000	2017 $'000
At 1 January	**351,249**	351,249
Share capital issued	**249,983**	–
Share capital issue costs	**(4,778)**	–
At 31 December	**596,454**	351,249

Also, the GKC acquisition in 2016 included $15,000,000 of contingent equity consideration. In calculating the fair value of the contingent consideration a discount of 10% was applied for non-performance risk, hence the contingent equity consideration is valued at $13,500,000 at acquisition. Shares of 2,461,682 will be issued only after GKC's investment funds contribute more than $100 million in performance fee income (and, in certain instances, fee income from new funds or other investment income) to Burford. If the $100 million income target is not achieved, no contingent consideration is payable.

25. Long term incentive plan

In 2017 the Group introduced a long term incentive plan ("LTIP"). Participants will only be entitled to these shares at end of a three-year period if the Group has met the relevant pre-determined corporate performance measures over the three-year performance period and they are still employed by the Group. The performance measures for the 2017 and 2018 awards are equally weighted between the Group's total shareholder return as compared to a group of comparable public companies; earnings per share growth adjusted to remove amortisation and other non-cash items; and growth in aggregate asset value defined as gross investment assets plus gross cash receipts from investments. The expense included within these financial statements arising from equity-settled share-based payment transactions amounted to $1,686,000 (2017: $1,652,000).

The following table summarises the fair values and key assumptions used for valuing grants made under the LTIP in 2018:

	2018	2017
Awards granted (number of shares)	**288,752**	506,637
Dividend yield (%)	**1.9%**	2.8%
Expected volatility (%)	**35.6%**	25.8%
Risk-free interest rate (%)	**0.93%**	0.15%
Expected life of share awards (years)	**3.0**	3.0
Weighted average fair value ($)	**16.72**	9.10
Weighted average share price ($)	**19.46**	10.27
Model used	**Monte Carlo**	Monte Carlo

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the awards is indicative of future trends, which may not necessarily be the actual outcome.

26. Profit per ordinary share and comprehensive income per ordinary share

Profit per ordinary share is calculated based on profit attributable to ordinary shareholders for the year of $317,577,000 (2017: $249,304,000) and the weighted average number of ordinary shares in issue for the year of 210,776,771 (2017: 208,237,979). Comprehensive income per ordinary share is calculated based on comprehensive income attributable to ordinary shareholders for the year of $342,278,000 (2017: $221,098,000), and the weighted average number of ordinary shares in issue for the year of 210,776,771 (2017: 208,237,979). The effect of dilution is attributable to the addition of 554,680 shares related to the LTIP (2017: 298,575).

Continued

27. Dividends

The Directors propose to pay a final dividend of 8.83¢ (United States cents) per ordinary share in the capital of the Company during 2019. Together with the interim dividend of 3.67¢ paid on 5 December 2018, this makes the full year 2018 dividend 12.50¢. A resolution for the declaration of the final dividend shall be put to the shareholders of the Company at the Company's forthcoming Annual General Meeting (scheduled for 14 May 2019). If approved by shareholders, the record date for this dividend will be 24 May 2019 and payment of this dividend would then occur on 14 June 2019. The proposed dividend will be paid in US Dollars and will be converted to and paid in Sterling for non-US shareholders not electing to receive it in US Dollars.

The Directors proposed and paid a 2017 interim dividend of 3.05¢ in November 2017 and a final dividend of 7.95¢ per share on 22 June 2018 to shareholders on the register as at close of business on 1 June 2018.

28. Financial commitments and contingent liabilities

As a normal part of its business, the Group routinely enters into some investment agreements that oblige the Group to make continuing investments over time, whereas other agreements provide for the immediate funding of the total investment commitment. The terms of the former type of investment agreements vary widely; in some cases, the Group has broad discretion as to each incremental funding of a continuing investment, and in others, the Group has little discretion and would suffer punitive consequences were it to fail to provide incremental funding.

The Group's funding obligations are capped at a fixed amount in its agreements. At 31 December 2018, the Group had outstanding commitments for $646,631,000, of which $618,338,000 are for investments and $28,293,000 are for new initiative investments (2017: $503,435,000 outstanding commitments, of which $502,830,000 are for investments and $605,000 are for new initiative investments). Of the $646,631,000 in commitments, the Group expects less than 50% to be sought from it during the next 12 months. In addition, at 31 December 2018 at current exchange rates, the Group had $72,523,000 (2017: $61,070,000) of exposure to investments where the Group is providing some form of legal risk arrangement pursuant to which the Group does not generally expect to deploy capital unless there is a failure of the claim, such as providing an indemnity for adverse costs.

The Group provides revolving credit facilities with a total commitment amount of $250,000,000 (2017: $nil) to certain investment funds to bridge capital calls when needed.

29. Related party transactions

Directors' fees paid in the year amounted to $415,000 (2017: $348,000). There were no Directors' fees outstanding at 31 December 2018 or 31 December 2017. Directors' interests are disclosed in the Directors' Report.

The Group holds investments in joint ventures conducted on the same terms as third party transactions. Details of the balances held with joint ventures are set out in Note 23. Funding during the year on the investments in joint ventures was $80,858,000 (2017: $15,388,000).

There is no controlling party.

30. Subsequent events

There have been no significant subsequent events.

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