

EEA Life Settlements Fund PCC Limited

Some of your questions answered about the EEA Life Settlements Fund PCC Limited

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(changes since 9th October version indicated in brown – some with bars in the RH margin.)

Previous Versions :

2. **9th October 2015**
1. **5th October 2015**

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This document is meant to help you but not to replace the primary sources of information, including in particular the Information Memorandum and Supplements. You are urged to read those documents and to consult your professional adviser before making any decision in respect of the Fund.

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Introduction

This document is designed to answer some of your questions and help you understand the latest news relating to the Fund. The guide should be read in conjunction with the Fund's Information Memorandum, Supplements and Articles of Incorporation. You should speak to your professional adviser before taking any action.

Copies of the Information Memorandum, Supplements and Articles of Incorporation, together with the Fund's monthly Fact Sheets, quarterly Portfolio Statistics (which indicates the latest update on performance and maturity projections), Maturity Schedules and other Fund updates are available online at www.eeafmg.qg.

DT Comment : Earlier versions of these documents are available from www.EEAInvestors.com

Shareholder Questions and Answers

Would you provide further information regarding the recently-announced sale of policies by the Fund?

The Manager announced on 4 September 2015 that the Fund had entered into a binding conditional agreement to sell 188 policies to an unconnected third party buyer (**the "Sale"**). The Sale price for this portfolio represents a premium to the value (as calculated by the Fund's independent valuation agent, Maple Life Analytics, LLC, ("Maple Life")) at which those policies were held by the Fund at the time of the binding conditional agreement being signed. Upon completion of the transaction, the Fund will have sold all policies where the remaining life expectancy ("LE") at the time that the policies were offered for sale exceeded four years. The Sale **should** also significantly reduce the risk of policies held by the Fund expiring without value or otherwise realising a loss to the Fund at maturity.

The Fund's board of directors (the "Board") has confirmed that it expects the level of Available Cash in the Fund (assuming that cash required to pay two years' premium payments is retained by the Fund or its subsidiaries) to increase by approximately \$150m upon completion of the Sale. This is due to the receipt of proceeds of approximately \$130m and a decrease in projected future premium payments. Consequently, the Board intends to distribute approximately \$87.6m (**attributable to the Run-off Cells**) to those persons registered as Run-Off Shareholders as at 1 December 2015 (equating to approximately 25% of the **30 September 2015** net asset value ("NAV") per Share of the Run-Off Shares), and to use approximately \$62.4m (attributable to the Continuing Cells) to meet redemption requests and/or for the purchase of new policies (via the New Fund or Other Instruments), **as appropriate**

DT Comment : As pointed out in our letters to EEA dated [14th September](#) and [25th September](#) 2015, this does not disclose that the proposed policy sale will reduce future net cash payments to holders of 80-90% of the Fund's shares by an estimated **\$170m**, and is apparently prejudicial to the interests of the majority of shareholders (based on the data published to date by EEA, the Fund Manager, ViaSource and Maple Life). EEA have so far not responded to these letters.

Does the Fund have the right to sell policies?

Yes, the Fund's investment policy, which is set out in the Information Memorandum and Supplements, provides the Fund and the Manager with the flexibility to sell policies to third parties before maturity as part of portfolio management.

DT Comment : We strongly disagree that the proposed Policy Sale forms part of (reasonable) "Portfolio Management". The purpose of "Portfolio Management" is to optimize the value of the assets for investors within the stated investment objectives and policy of the Fund which is to hold all policies to maturity over a 5-10 year period as stated at the time of the October 2013 Fund Restructuring and subsequently. We have since repeated this view to the Company (e.g. in our letters to EEA dated [28th February 2015](#) and [26th May 2015](#)). In its response dated [18th March 2015](#), EEA said that any sale of policies to raise cash simply to meet redemption requests from investors would require a new restructuring and shareholder vote. In our view, this is what the Board has now done – in contravention of the Scheme Particulars and prejudicial to the financial interest of the majority of investors.

Will the Fund sell further policies?

There is currently no intention for the Fund to sell further policies from its portfolio, although the Fund and the Manager have the discretion to do so if they believe it is in the Fund's best interests.

DT Comment : We would prefer to see the Board acting in the best interest of (all) the Fund's investors, not in the best interests of "The Fund" which is not so clearly defined. In this context, the "best interests" of the Continuing shareholders who wish to redeem as soon as possible is different (based on NAV per share) than the "best interests" of the other Continuing and Run-off shareholders (which is based on the future net cash available for redemptions or reinvestment over the remaining life of the portfolio)

Can I redeem my Shares?

In respect of the Run-Off Cells:

Run-Off Shares cannot be redeemed. Surplus cash (if any) generated within each Run-Off Cell from the policies that mature or are sold (after prudent provision has been made to cover anticipated premiums and other necessary costs) will be distributed among shareholders in that Run-Off Cell, until proceeds **from the final policy held in respect of that Run-Off Cell** have been returned to Run-Off Shareholders. Run-Off Shareholders will continue to receive periodic distributions as and when cash levels permit. Please refer to the Fund's Information Memorandum and Supplements, which contain full details of this process.

DT Comment : Policies are not held in respect of specific Cells. Policies are held in a common asset pool and only the cash from maturities (or sales) is allocated to the various Cells in proportion to their NAVs. This is behind the current problem where the 188 policies have been sold at a premium to NAV (which satisfies the objectives of redeeming Continuing shareholders) but at less than net future cash value (which is against the interests of the Run-off and remaining Continuing shareholders).

For further information on the Board's intentions regarding distributions to Run-Off Shareholders, see page 5 below. **[now Page 6]**

For further information on the recently-announced share sale process for Run-Off Shares, see pages 5-6 below. **[now Page 7]**

In respect of the Continuing Cells:

Continuing Shares are redeemable on the last working day of each calendar quarter, subject to at least 95 days' written notice of any redemption request. The first Redemption Day following the expiry of the lock-up period is 31 December 2015, and the deadline for receipt of redemption requests for that Redemption Day **has now passed** (it was 25 September 2015). **Further** details of the redemption process, and the Board's powers to restrict redemptions, are set out in the Fund's Information Memorandum and Supplements. A Redemption Request Form is available at www.eeafmg.gg/eea-life-settlements-fund/. If you have any further questions about the redemption process, please contact the Fund's administrator, International Administration Group (Guernsey) Limited (the "Administrator") by emailing them at shareholderservices@iag.co.gg.

When will the Fund make an announcement regarding requests for the 31 December 2015 Redemption Day ?

The Fund plans to make an announcement regarding this in December 2015

Will any redemption charges be applied to the Continuing Cells?

The Fund has the ability to apply various redemptions charges or dilution levies on redemption from various Cells in certain circumstances. However, to date the only redemption charge to be levied is in relation to the USD Fund Class X Cell, Euro Fund Class X Cell, Sterling Fund Class X Cell and Swedish Krona Fund Class X Cell (together the X Cells). In the Supplement for each X Cell it states that, to the extent that the Manager has previously charged such Cell a distribution fee of up to 5 per cent. of the amount subscribed, such distribution fee will be charged to the Net Asset Value at a rate of 1 per cent. each year (or 1/12 per cent. each month) up to a period of five years from the date of subscription or up to the date of redemption of the relevant Shares. The redemption charge on a Share will be equal to that portion (if any) of the distribution fee which has not yet been charged to the Net Asset Value and in no circumstances will be more than 5 per cent. of the original subscribed amount.

This means that in respect of the 31 December 2015 Redemption Day no redemption charge will be levied on a redemption of Shares in an X Cell which were subscribed for on or before 4 January 2011.

Since the last subscription for Shares in the Fund was in October 2011, in all cases the majority of any distribution fee will already have been charged to the Net Asset Value of the relevant X Cell, meaning the redemption charge attributable to a Shareholder's redemption, if any, will be less than 1%.

DT Comment : In our letter to EEA dated [25th September 2015](#), we asked whether EEA will apply a redemption or anti-dilution charge against the 10-20% redeeming Continuing shares in respect to the estimated \$160m of losses incurred by the other 80-90% of non-redeeming Continuing and Run-off shares by the proposed Policy Sale. EEA have not yet responded to these questions.

As a Run-off Shareholder, how long will it be before I receive the final proceeds from the maturity or sale of the final policy ?

Since this will depend largely on the timing of policy maturities, it is impossible to say with certainty how long it will be before Run-Off Shareholders receive the final proceeds from the maturity or sale of the final policy **held by the relevant Run-Off Cells.**

DT Comment : Policies are not held in respect of specific Cells

Although there is no guarantee that actual maturities will happen as projected, the Manager does publish maturity projections in the quarterly Portfolio Statistics, which are available at www.eeafmg.gg. We recognise that these estimates of future maturities will need to be revised following the completion of the recently-announced sale of policies (see page 3), particularly as the sale was weighted towards policies with longer LE estimates. We will provide an update in due course — we hope to be in a position to do so as part of the 31 December 2015 Portfolio Statistics, published towards the end of January 2016.

DT Comment : The Maturity projections contained in the [June 2015 Portfolio Statistics](#) are based on the Maple Life projections at December 2014, and the actual Maturities during 2015 are running far below these projected levels. We also pointed out in our letter to EEA dated [14th September](#) 2015 the Maple Life December 2014 projections (supposedly based on “historical” maturity performance) did not match our own analysis of historical maturity performance based on published EEA and ViaSource data.

When will another distribution be made to Run-Off Shareholders?

As explained above, the Board expects the level of Available Cash in the Fund to increase **by** approximately \$150m upon completion of the intended Sale announced on 4 September 2015. That Sale is now anticipated to complete by the end of November 2015 and, as a result, the Board now intends to distribute approximately \$87.6m to those persons registered as Run-Off Shareholders as at 1 December 2015. This equates to approximately 25% of the **30 September 2015** NAV per Share of the Run-Off Cells. The Board expects to confirm the distribution to Run-Off Shareholders in December 2015 with proceeds being paid during December 2015.

DT Comment : These dates are a month later than stated in the [original Q&A Bulletin](#) published four days earlier on 5th October 2015.

A further review of the cash position of each Run-Off Cell is scheduled for 31 December 2015, with an update expected to be given towards the end of January 2016.

Can I switch my shareholding from one Cell to another Cell?

Switches between Cells are not possible.

Can I transfer my Shares?

It is possible to transfer shares in the Fund in certain circumstances. You will need to contact the Administrator by emailing them at_shareholderservices@iaq.co.gg or calling them on +44 (0)1481 740900 to discuss what is required if you wish to transfer your Shares.

DT Comment : It's actually the other way round. Subject to certain (exceptional) restrictions, any Shareholder may transfer in writing all or any of his / her Shares in

any form, which the Directors may accept at their discretion. There are certain formalities involved, especially where the shares are held through a platform, nominee, trustee or pension plan (for example) but we have been able to help many investors so far to successfully transfer their shares, e.g. to avoid or minimize ongoing platform charges and fees. **Special considerations are needed when transferring Continuing shares for which a redemption request has been lodged with EEA by the transferring shareholder.**

Can you please provide an update regarding the sales process for Run-Off Shares?

On 7 August 2015, the Fund informed Run-Off Shareholders of a proposed share sale process (the "Secondary Sales Process") to be run on an arm's length basis by an independent firm, Tullett Prebon ("TPAI"), who would match certain of its clients who have indicated to TPAI that they wish to purchase Run-Off Shares with Run-Off Shareholders who indicate to TPAI that they wish to sell some or all of their Run-Off Shares. That letter invited Run-Off Shareholders to contact TPAI in order to register their interest in participating in the Secondary Sales Process.

DT Comment : In our letters to EEA and TPAI dated 31st August 2015 and 29th September 2015 and EEA's response dated 25th September 2015 it was confirmed that it is not EEA's position to decide whether or not Continuing shareholders can participate in the proposed secondary share sale.

This is a decision for TPAI and their potential buyers, plus the potential sellers. EEA have confirmed that anyone who sells their shares privately (to anyone) can have them transferred on the Register of the Company. We don't know yet whether TPAI will change the terms of their proposed sale once it resumes following the proposed Policy Sale.

In light of the Fund's announcement of 4 September 2015 and the intended distribution of approximately \$87.6 million to Run-Off Shareholders upon completion of the Sale, TPAI have confirmed that they will be adjusting the timetable for the Secondary Sales Process, and that no Run-Off Shares will be sold as part of the Secondary Sales Process until after the intended distribution to Run-Off Shareholders has been made. Further details will be provided to Run-Off Shareholders in due course.

Run-Off Shareholders should note that none of the Fund, the Fund's manager, EEA Fund Management Limited (the Fund's Marketing agent) or any of their respective directors, employees, officers, affiliates and agents (each an "EEA Party") are responsible for, and/or is in any way endorsing, the Secondary Sales Process and the only involvement of any EEA Party is in relation to assisting in the creation and maintenance of the data room (including to decide upon who may access the data room) and registering successful transfers of Run-Off Shares (which will only be made in accordance with the terms and conditions referred to in the Fund's Information Memorandum and Supplements). Run-Off Shareholders should contact their independent financial adviser if in any doubt as to what action to take in relation to the Secondary Sales Process and TPAI (by emailing them at eea-process@tullettprebon.com) if they have any questions regarding the process.

Does the Fund intend to purchase policies for the Continuing Cells?

Available Cash attributable to Continuing Cells that is not used to fund redemption requests and/or other expenses will be reinvested into a New Fund or Other Instruments (as defined in the Information Memorandum and Supplements) to provide exposure to policies with similar characteristics to those currently held by the Fund. No amounts have yet been reinvested.

DT Comment : Under the Scheme Particulars, the Directors can limit the redemption payments to 10% (or a higher proportion) of the NAV of any Continuing Cell on any Redemption Day. In this case (arguably) they could use the balance of cash (e.g. 15%) to reinvest in the New Fund or other instruments. EEA have refused to answer a questions from some members on how they will exercise these discretions.

Why did the Manager recommend a change to the Fund's definition of Available Cash?

The definition of Available Cash was changed so as to refer to setting aside sufficient cash to make one year's premium payments (or such longer period that the Board may determine) rather than two years' premium payments.

This change, recently passed by Shareholders at the 2014 AGM, permits but does not oblige the directors to decide that Available Cash should be calculated by reference to one rather than two years' premium payments.

In recommending this amendment, the Manager wished to minimise the capital in the Fund that is not "at work". The Manager believes that this change will enable cash to be made available more quickly when appropriate, either for distribution to Run-Off Shareholders or for reinvestment to provide exposure to additional policies for Continuing Shareholders, whilst providing a mechanism for maintaining a prudent cash reserve.

Before submitting this proposal for the AGM, Maple Life was instructed to analyse the potential capital requirements and the risk of potential capital shortfalls. From this analysis, the Manager concluded that a one year buffer should be expected to be sufficient in all but the most extreme scenarios in which reduced maturities occur for a prolonged period.

DT Comment : There was a lot of discussion and concern expressed by the investors at the two AGM sessions on 11th and 21st August 2015 and the Resolution only passed marginally among some questionable "anomalies" in the proxy and vote counts for the first session, which have subsequently been confirmed by EEA in their letter dated [5th October](#) 2015 and our response dated [18th October](#) 2015. (There has been a further response from EEA and a further reply to them). The policy sale has reduced the significance of this threshold because an estimated **half** of future premiums have been saved by the sale of the policies and will therefore reduce the premium reserve threshold accordingly.

What performance is expected?

As you will appreciate, it is not possible to project future returns with any certainty, although the Board will of course be monitoring the maturity experience of the portfolio and will continue to provide updates to shareholders on Fund performance and maturity projections in the quarterly Portfolio Statistics.

DT Comment : Although projections cannot be made with “certainty” EEA’s valuation experts and actuaries can and should publish their projections with supporting assumptions and scenarios, as indeed any other asset based fund does to the best of its ability.

How are policy maturities performing in comparison with earlier projections?

As at 31 December 2013, the Fund held 517 policies with a net death benefit of \$1,272m. The Portfolio Statistics estimated then that, based on the assumption that maturities happened at LE, policies with a total net death benefit of \$419m would mature by the end of 2015 and, based on the assumption that maturities are accrued policy-by-policy proportionately over a period equal to two times the current LE associated with the policy in question, that policies with a total net death benefit of \$443m would mature by the end of 2015. Since then, to the end of September 2015, there have been maturities with a net death benefit of **\$212m**. The average value of these maturities (**\$1.65m**) is below the average net death benefit of the Fund's portfolio of policies as at 31 December 2013 (\$2.46m).

Following the Fund's appointment of Maple Life, we are now publishing Maple Life's updated maturity projections each quarter in the Portfolio Statistics, calculated on the basis of the current LE estimates and used by Maple Life in the calculation of the NAV of the Fund's portfolio of life insurance policies. The quarterly Portfolio Statistics document now also contains Maple Life's maturity projections as at 31 December 2014, which are based on an assumed continuation of historic Fund mortality experience.

DT Comment : Until now EEA has only published projections based on the Maple Life view at December 2014, and have refused to release any more information about the scenarios and assumptions behind the Maple Life projections. They have stopped publishing the Life Expectancy (LE) statistics for the portfolio. **The recently published September Portfolio Statistics include Maple Life’s projections at 31 August 2015 of \$17m for the remainder of 2015 and a reduction in the projections for 2016 onwards, mostly due to the Sale of half the Fund’s policies.**

As we pointed out in our letter to EEA dated [14th September](#) 2015, the Maple Life “historical” projections don’t align with our own analysis of the historical performance of the Fund. EEA’s ability to estimate and monitor actual versus expected maturity performance has never been good (less than 40% accurate prior to 2013, less than 60% accurate since 2013, less than 40% again so far in 2015).

What is being done to keep costs under control?

The Manager and the Board have been working hard to reduce the Fund's costs. In May 2015, the Manager confirmed that it would pay the future fees of the Administrator, thus reducing the fees paid by the Fund. **The Manager has also negotiated a reduction in the fees of the Investment Adviser, which has agreed to reduce its NAV-based fee so that it no longer receives a fee based on the NAV attributable to the Fund's cash assets.** Both the Manager and the Investment Adviser have also agreed to waive their entitlement to any future performance fee.

The Board and the Manager will continue to monitor the Fund's costs.

DT Comment : This is a puzzling comment. Prior to the suspension and restructuring the Investment Advisor (ViaSource) was paid (among other things) 1% of the purchase price of any new policies acquired. The **Restructuring Circular** issued on 18th September 2013 replaced this with a provision that the Investment Advisor would receive

*“...an annual advisory fee of 0.1 per cent of the Net Asset Value of each **Continuing Cell** attributable to **Current Underlying Investments**, accrued and payable on a monthly basis in arrears...”*

However, the Offering Memorandum which came into effect on **1st January 2014** changed this to :

*“...The Investment Adviser charges EEA Inc an annual advisory fee of 0.1 per cent. of the Net Asset Value **of each Cell** attributable to **Current Underlying Investments**, accrued and payable on a monthly basis in arrears.*

This is still the wording in the current (**May 2015**) Information Memorandum.

The term “Current Underlying Investments” would appear to **exclude** the cash component of the Cell NAVs so if EEA is now suggesting that this has changed, it would appear that they have been wrongly calculating the fee so far and should therefore reclaim the overpayments since restructuring.

The Fund paid a total of \$13.7m in valuation based charges to its “connected companies” in 2014, plus another \$1.7m of non-valuation based charges to the “connected companies” and a further \$2.1m elsewhere. We have asked the Board several times to eliminate the valuation based charges but they always refuse.

Total expenses in 2014 were \$18m (up by \$2m from 2013) and 2015 seems to be running at about \$17m so far.

Some policies expired without value in 2014 and 2015. Could this happen again?

Five policies, with a total death benefit of around US\$8.7m, have expired since the start of 2014 due to the underlying insureds reaching the age at which their policy automatically terminates. The value of these policies had been written down over several years thus reducing the impact on the Fund's NAV.

DT Comment : Although the impact on the NAV has been minimized, this is primarily of interest to the minority of redeeming Continuing shareholders. It does not protect the future net cash available to the remaining (majority of) Continuing and Run-off shareholders.

Since then, as explained above, a binding conditional agreement has been signed in respect of all policies where the remaining LE (at the time that the policies were offered for sale) exceeded four years. The sale should significantly reduce the risk of policies held by the Fund expiring without value or otherwise realising a loss to the Fund at maturity.

DT Comment : No, instead they have crystallized an estimated \$170m loss now in terms of future net cash available to the majority of shareholders.

In September 2015, the Investment Adviser estimated that none of the policies would expire should they mature within their LE estimate and around 3% of the remaining net death benefit was represented by policies that would expire should they not mature within two-times their LE estimate.

DT Comment : In October 2014 we estimated that the future losses due to termination of cover would be \$132m (10% of the Dec 2013 NDB). In November 2014 EEA estimated \$19m (2.3% of NAV) and they are now saying 3% of NDB at Sept 2015, which is \$18m.

What is the situation regarding the currency hedge?

There is no obligation to reinstate the currency hedge, but the Manager will consider doing so if commercially reasonable terms can be found.

It is worth mentioning that a currency hedge requires cash to be set aside to settle positions, and a counterparty would also expect collateral (more cash) to be posted. These requirements would reduce the amounts of cash available for distribution (in relation to Run-Off **and Continuing** Shares) and reinvestment (in relation to Continuing Shares).

What are your views on the adverse publicity about the Fund?

We are obviously concerned when we read inappropriate or ill-informed comments in the press, particularly from persons who are neither regulated financial advisers nor experts in the area of life settlements.

Many Shareholders may not be aware of these but they are seen by some, and in particular they are noticed by relevant third parties, such as those considering buying policies from the Fund. We recognise that such comments cause unnecessary alarm and anxiety to some of our Shareholders. Such behaviour is also regrettable as it risks, amongst other things, having an adverse effect on the sale prices of policies and/or the Secondary Sales Process, and can therefore be detrimental to the interests of both the Fund and Shareholders more generally.

DT Comment : Investors will make up their own minds about the relative usefulness and credibility of the information provided (or not) by EEA and regulated (or unregulated) financial advisors and platforms over the years. The EEA Investors' Group DOES include Life Settlements (and other) experts (who have been more accurate than EEA's experts over the past year or two). Our information does not appear to have affected the ability of EEA to sell half the policies in the portfolio at a "premium to NAV" – although we believe that the NAV itself is flawed, and that EEA have now lost an estimated \$170m of future cash that was due to the majority of shareholders. The secondary share sale is still in the future, but expert buyers are more savvy than even we are and will analyse the EEA data to come to their own conclusions when determining a "distressed" offer price for EEA shares.

The Manager provides a substantial amount of information regarding the Fund and will continue to encourage constructive dialogue with **Shareholders and their advisers**. Shareholders are strongly encouraged to make their own investment decisions based solely on information provided by the Fund and/or any advice provided by their independent financial advisers.

DT Comment : Not just shareholders, but all investors. EEA does not provide useful or credible information about the future prospects for the Fund or useful projections for cashflow and run-off profiles, in spite of numerous requests from Financial Advisors, investors and the EEA Investors' Group since the suspension. Many investors no longer have a Financial Advisor and many more never receive (useful) information from their platforms, nominees or advisors.

The EEA Investors' Group will continue to provide information to its members and the media where applicable and campaign for better outcomes for the long suffering EEA investors. We do not provide financial advice and always make clear whether information is from EEA or ourselves. Investors (and their advisors – where applicable) have to make up their own minds what weight to give to the information and opinions that they receive from various sources.

How can I keep up to date with the Fund?

The Manager provides Shareholders and their advisers with information regarding the Fund at www.eeafmg.gg and will continue to do so. This includes monthly Fact Sheets, quarterly Portfolio Statistics (which includes the **latest update on performance and maturity projections**), Maturity Schedules and other Fund updates.

DT Comment : We ARE investors and shareholders (EEA Directors ARE NOT, with one minor exception). Most Financial Advisors are also not EEA Investors (but some are). EEA does NOT publish updated maturity projections. Since June 2015 they have published projections as at December 2014 but based (allegedly) on historical performance rather than an actuarial or “expert” forward view. They have stopped publishing LE statistics for the remaining portfolio. EEA claim to now have a lot more analysis and information about the portfolio and future maturity scenarios from Maple Life, but refuse to share it with the investors who own the Fund and have paid for all the policies and fees so far – and continue to pay while their own investment continues to decline.