

# EEA Life Settlements Fund PCC Limited

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

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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.gg](http://www.eeafmg.gg).

## **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.

### **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.

### **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.

## **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.

For further information on the Board's intentions regarding distributions to Run-Off Shareholders, see page 5 below.

For further information on the recently-announced share sale process for Run-Off Shares, see pages 5-6 below.

### 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/](http://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](mailto: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%.

**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. 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](http://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.

**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.

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@iag.co.gg](mailto:shareholderservices@iag.co.gg) or calling them on +44 (0)1481 740900 to discuss what is required if you wish to transfer your Shares.

**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.

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 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](mailto: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.

#### **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.

### **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.

### **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.

### **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.

### **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.

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.

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.

**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 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.

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.

**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](http://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.