By Donna Horowitz
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The value of the EEA Life Settlements Fund PCC Ltd. dropped by $178 million in 2012, according to the fund's 2012 annual report, which was released Dec. 12.

A newly formed investors group, which claims to represent 200 shareholders in the fund, raised concerns about the fund's financial stability after reviewing the report.

London-based EEA Fund Management Ltd. said the fund held 588 life settlement policies valued at $693 million at the end of 2012, compared to 674 policies valued at $871 million at the end of 2011.

The 2012 annual report was posted on the Channel Island Stock Exchange website on Dec. 12 in time to meet a Monday, Dec. 16 deadline. If the fund manager had not submitted the long-delayed financial statement by then, it faced delisting of its shares.

EEA, which is seeking permission from the Guernsey Financial Services Commission to restructure, also needed to complete its 2012 financial account before the regulator would consider its request. The plan had been approved by a majority of the fund shareholders at Oct. 17 meetings.

"The Fund has sufficient available cash to meet premium and other obligations for the foreseeable future," EEA said in the report. "In addition, the proposed lock-in and redemption gate provisions within the proposed restructuring arrangements are sufficient to ensure the Fund's continued ability to do so in the event the restructuring proceeds as planned.

"The Board has a reasonable expectation that the restructuring will be successful and the Fund has sufficient resources to continue in operation for the foreseeable future," the fund manager said.

EEA suspended redemptions from the fund in November 2011 after the U.K.'s Financial Services Authority called life settlements a "toxic" asset, resulting in a flood of redemption requests.

The investors group said although it had a number of concerns, it was pleased to see that expenses had been reduced to $21 million in 2012 from $55 million in 2011.

David Trinkwon, co-organizer of the investors' group, said in an e-mail that the group was concerned that management fees remained at just under $15 million for the year while directors doubled their fees from $69,000 to $139,000.

"Many investors are also concerned because they understand that the Company continues to pay trail and renewal commissions to its distributors, to the investors' financial advisors and other intermediaries, even though the Fund is suspended," Trinkwon said.

In addition, he said the investors' group has "grave concerns" about the fund's liquidity, saying that only $39 million in policies matured in 2012 compared to $67 million in maturities in 2011.

Trinkwon further said that the cash balance at the end of 2012 was $66 million, which was $10 million more than 2011.

At the end of July this year, the maturity rate was slightly above the 2012 rate, he said. Since that would only add another $40 million to $50 million to this year's income, "the liquidity prospects don't look very good at the moment," he said.

The group also is "very concerned" that the accounts were written down by $287 million in 2012 due to a change in valuation methods.

"Taken in conjunction with the previous year's auditor disclaimer because they couldn't agree on a valuation basis with the Directors, this means that all previous performance fees and redemption payments appear to have been based on inflated valuations, probably since day one and the current shareholders are now being forced to accept the consequences," Trinkwon said.

EEA had valued the fund at $871 million in 2011, but former auditor Ernst & Young LLP said in June that the fund had been overvalued by $100 million.

Trinkwon further said that all the methods for valuing future hypothetical cash flows are "very volatile" and are not a valid basis for determining redemption payments or management fees.

He said the fund should be run off as the remaining policies mature, which would be less costly than the restructuring plan.

"The EEA Investors Group believes that this Fund was a good investment prospect and structure but it has been milked for its cash," Trinkwon said. "It is now past its 'sell by' date and needs to be put out of its misery by a properly managed winding down in the best interests of the investors.

In another move that has drawn criticism from the investors' group, EEA has scheduled back-to-back annual meetings on Dec. 31 in Guernsey to present its annual financial statements for 2011 and 2012.

Trinkwon said that one of the meetings will have to be reconvened anyway because EEA did not issue its 2012 financials on time. He said and that calling both meetings on Dec. 31 is "a pretty desperate stunt."

Trinkwon said in a Dec. 9 e-mail to group members that a Guernsey law requires a company to hold an annual general meeting once each calendar year and within 15 months of the previous meeting.

"Therefore EEA are just squeezing within the letter of the law by holding this AGM [annual general meeting] on 31st December 2013," he told investors' group members.

He previously said the group submitted a complaint to the Financial Conduct Authority in the U.K. in November and has had several contacts with the Guernsey regulator during the past six months.