**EEA outlines sales process, upsetting investors group**

By Donna Horowitz   Updated 09:40 PM, Jul-09-2014 ET

EEA Life Settlements Fund PCC Ltd. outlined a sales process for run-off shares in the previously suspended fund, which prompted a complaint Wednesday, July 9, to Guernsey regulatory authorities from an investors' group.

The sales process was announced two days earlier at the same time that fund chairman Mark Colton told investors that it is likely that EEA will distribute between $10 million and $20 million to shareholders in August.

David Trinkwon, coordinator of the EEA Investors Group, dashed off a "very urgent" letter to the Guernsey Financial Services Commission on July 9, complaining that a 10-day deadline by the fund isn't enough time for shareholders to make a decision on the sale of their shares in consultation with their advisers.

"Since time is very much of the essence, we would ask you to urgently review this situation and determine whether Regulatory action is needed to protect the interests of EEA shareholders, or whether this will become just another failure of the Guernsey authorities to protect the interests of investors, and another serious dent in Guernsey's reputation as a global financial centre," Trinkwon wrote to the Guernsey Financial Services Commission.

Trinkwon also raised questions about the company apparently chosen to act as agents for the sellers and the propriety of EEA and the sellers' agent being involved in the sale due to what he views as conflicts of interests. He further complained that two of the largest prospective buyers had access to privileged information to carry out their due diligence.

Meanwhile, Colton said in one of two July 7 letters to shareholders that the actual amount of cash available for an August distribution won't be known until late July because the net asset value calculations for June 30 must be completed first.

The Guernsey Financial Services Commission, which regulates the Guernsey-domiciled fund, gave London-based fund manager EEA Fund Management Ltd. permission to restructure the fund as of Jan. 1. The firm had suspended redemptions in the fund more than two years ago, after the U.K.'s Financial Services Authority called life settlements a "toxic" asset, causing a deluge of redemption requests.

The EEA Life Settlements Fund currently holds 485 policies with a total face value of $1.25 billion. The fund's net asset value is $845 million, according to a May letter to shareholders from Colton.

The restructuring allows investors to continue to holds shares in the fund or convert their holdings into run-off shares. Investors have opted to convert about 58.1% of their holdings into run-off shares. Cash in continuing cells will be invested in new underlying investments.

In a separate July 7 letter to shareholders seeking to redeem their run-off shares, the fund's directors said they have had discussions with a number of parties that would allow the shareholders to sell some or all of their shares.

Those wishing to redeem their shares will be able to indicate, on a non-binding basis, the price at which they would be willing to sell by sending a statement of interest to IAG Private Equity Ltd. of

Guernsey by July 17. Canaccord Genuity Wealth International Ltd., also of Guernsey, will act as the broker to the purchasers. The sales of shares will take place Aug. 8. The binding sales prices must be agreed upon the day before.

To meet Guernsey regulations, the fund directors said that the run-off shares would be sold to IAG. It would then sell them to Canaccord, which would sell them to the bidders.

"Run-Off Shareholders should note that potential bidders may consider any sales pursuant to the proposed sales process to be distressed sales," the letter said. "Bidders taking such a view may offer at a very significant discount to the net asset value of the Run-Off Shares at the time of sale."

Canaccord has confirmed that it has received non-binding indications of interest for more than $100 million worth of shares based on the May 30 net asset value per share, with bids ranging from 30% to 75% of the May net asset value per share, the fund directors said.

This indicates a weighted average price ranging from 30% to 35% of the May 30 net asset value per share, the directors said. However, they noted that there is no assurance that the bids would not be lower.

In his letter to the Guernsey regulator, Trinkwon questioned why IAG would be matching bids and offers on the basis of the lowest offers if it's acting on behalf of the investors who want to sell their shares. He said the company has a clear duty to act in the best interests of EEA investors and should match offers on the basis of the highest offers, "not in the best interest of the buyers."

He further said the proposed sales method would probably be most detrimental to the "most vulnerable and desperate investors who will see other (less desperate) investors receiving a higher price for their shares." He said there's no plan for a normal auction process in which the sellers would receive the highest possible prices for their shares in an open competition.

Alison Simpson and Mark Woodall are both directors of the fund and the ultimate beneficial owners of IAG, although no directors of the fund or manager will participate as bidders or sellers in the sale process, one of Colton's letters said.

Trinkwon, in his letter to the Guernsey regulator, questioned the propriety of EEA and IAG being involved in the sales process due to what he views as conflicts of interest of directors of the fund. He said Canaccord should be able to broker a series of sales without involving EEA or IAG.

In a response to Colton's letters to members of his group, Trinkwon said that he previously believed a minimum of $20 million would be distributed in the August distribution.

He said EEA's announcement of a potential offer by Canaccord and IAG to facilitate private purchases of run-off shares is not a serious effort to attract interest from shareholders except for those who already have contacted EEA in the past months. Trinkwon reiterated that position in his letter to the Guernsey regulator.

Ten days' notice is not enough time for intermediaries to send information to their beneficial owners who would need time to discuss the proposal with their advisers, Trinkwon said.

In his July 9 letter to the Guernsey Financial Services Commission, he said, "we are also suspicious that this sale is being rushed through on the basis of the May 2014 valuations, immediately before EEA will be reporting what we believe will be very poor results for June 2014."

In his letter to his members, he said, "The fund is not in good shape, in spite of the positive spin that EEA puts on all its pronouncements. The net income from Maturities is only around half what is needed to service the current (annual) premium payments and expenses."

A second distribution to shareholders later this year is "equally bleak (but might improve)," Trinkwon said.

EEA needs to accumulate $85 million in cash to meet the June and December distributions, plus $175 million in reserves for two years of premiums and expenses, he said. As of May 31, the cash balance was only $135 million and the investors' group only expects another $50 million to come in from maturities for the rest of the year. Trinkwon said that, in all, the group believes that total maturities for the year will be half of the $277 million projected by EEA on Dec. 31.

The fund's chairman gave his view of the fund's outlook in his May letter to shareholders.

If maturities occur when expected, the fund expects to collect 40.22% of the deaths benefits during the next two years, 60.27% during the next three years and 78.28% during the next five years, Colton's letter said. For the quarter ending March 31, he reported that 32 policies matured, representing $21 million in death benefits. From July 2013 through March of this year, there were 65 maturities reflecting $80 million in death benefits.

"Based on the assumption that maturities happen when the latest life expectancy reports predict that they will happen, this was ahead of expectations," Colton stated. "Based on the assumption that maturities are accrued policy-by-policy proportionately over a period equal to two times the current life expectancy associated with the policy in question, although the number of maturities accorded with expectations, the total death benefit was about half of that expected. The average value of these maturities ($1.23m) was below the average policy size in the Fund ($2.58m)."