

EEA life settlement fund cancels run-off share sale

By Donna Horowitz Updated 09:35 PM, Jul-17-2014 ET

EEA Life Settlements Fund PCC Ltd. has backed off its proposed sale of run-off shares after an investors' group complained that time was too short for shareholders to make a decision and due to regulatory concerns.

In a Thursday, July 17, letter to shareholders, chairman Mark Colton said the life settlement fund's board received communications on behalf of a minority of shareholders questioning the fund's proposal. He noted that complaints were made as well to regulatory authorities in Guernsey, where the fund is domiciled, and the U.K.

"The Board does not accept the criticisms made in those communications," Colton said in the letter. "It recognizes, however, that there is insufficient time to address all of the concerns raised to enable the process to proceed within the available timeframe, having particular regard to the imminent changes to the regulatory regime affecting the Fund by virtue of the Alternative Investment Fund Managers Directive ("AIFMD"), and the potential costs of compliance with AIFMD."

The directive, which took effect in the European Union in July 2013, is intended to provide more transparency and disclosure by fund managers.

Colton said the fund's board has no plans at this time to put forward a new sale proposal.

London-based investment manager EEA Fund Management Ltd. began restructuring the fund Jan. 1. It had suspended redemptions 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 fund holds 485 life insurance policies with \$1.25 billion in total face value.

David Trinkwon, coordinator of the EEA Investors Group, had written to Colton and regulators about problems the group saw with the sale.

He wrote again to the EEA board on July 17, praising its decision to cancel the sale and stating that the investor group would like to work more cooperatively with the board in the future. Trinkwon suggested that a representative of the investors' group should be included on the board.

"Our view is that there should be a majority of non-conflicted Directors on the Board and would welcome improved investor representation -- possibly even someone from our Group (we have a number of appropriate candidates)," he said.

"We would ask you to consider helping us to create a good forum for investor communication (and not just registered shareholders)," he said. "We are happy to work constructively with the Board to seek the most beneficial route for investors. We would much prefer to work with EEA than against it."

Many investors are seniors who are in danger of dying before they see returns on their EEA investment, Trinkwon wrote. Others have been devastated by the inability to access funds, he said.

"We should be able to put aside our differences and work together in the best interests of all investors," Trinkwon said.

On July 9, he had written to the Guernsey Financial Services Commission, which regulates the fund, complaining that a 10-day deadline given two days earlier by EEA wasn't enough time for shareholders to discuss a decision on selling their shares with their advisers.

He had also raised questions about potential conflicts of interest by Canaccord Genuity Inc., which was chosen to act as agent for the sellers, and the propriety of EEA and the sellers' agents being involved in the sale. Two of the largest prospective buyers had access to privileged information to carry out their due diligence, Trinkwon wrote.

In a follow-up letter on Monday, July 14, Trinkwon wrote that the proposals were potentially unfair to all EEA investors. That letter, addressed to Colton, was also sent to the Guernsey commission, the U.K.'s Financial Conduct Authority and U.K. Takeover Panel.

Trinkwon said that the investor group was not necessarily against a proposal to buy shares at a discount, but insisted on "a fair and transparent process that is in the best interests of all investors, especially if it is supported by the Fund's Board, which appears to be the case."

He further said that IAG Private Equity Ltd., Canaccord and the board did not give any information in a number of areas.

In a July 7 letter to shareholders about redeeming their shares, the fund said they could have indicated, on a non-binding basis, the price that they would have been willing to sell by sending a statement of interest to IAG by Thursday, July 17. Canaccord was to act as the broker to the purchasers, and the sale was to take place Aug. 8.

To comply with Guernsey rules, the directors said that the run-off shares were to be sold to IAG, which would then sell them to Canaccord, which would sell them to the bidders.

In Trinkwon's July 14 letter, he said IAG and Canaccord had not identified those making the offers and any existing or future connections with EEA parties and employees, or the relationship between the bidders' book builder Mark Clubb and his position as a director of the fund until recently. EEA had also not disclosed sufficient financial information for investors to make an informed decision, any board recommendation or any supporting reasons or expert corroboration for the directors' support, Trinkwon wrote. He also said EEA had failed to allow enough time for investors to make a decision and respond.