

EEA Accuses Investor Group of Acting Against the Interests of Investors

In a Notice ¹ posted on the EEA website on 26th January 2018 and in its updated Q&A Bulletin ² of the same date, the Board of the Guernsey based EEA Life Settlements Fund said

“ ... It is remarkable that, despite the obvious harm that the claim by Coventry Capital may cause to the Fund, the [EEA Investors] Group not only supports but also offers assistance to Coventry; this is entirely inconsistent with the Group's purported objective of furthering the interests of investors in the Fund. We are also concerned that the legal costs associated with dealing with the Complaint are likely to increase as a result of the Group's actions.”

The coordinator for the Investors' Group denies that the legal costs are likely to increase as a result of the Investors' Group's activities. He said that these were complex matters and it was not up to EEA to determine whether the Investors' Group is correctly pursuing its objectives to improve the outcomes for EEA investors, who have been trapped in the failed Fund since it was suspended in November 2011, following a “toxic death bond” announcement by the UK Financial Services Authority (FSA – now FCA).

He went on to explain that the Investors' Group had provided information ³ to Coventry's lawyers which would assist them to correct certain errors and misunderstandings in the Complaint that they filed at the end of September 2017 with the New York US Federal Court against the EEA Fund's US subsidiary and two Directors of the Fund Manager. The information also clearly set out the Investors' Group's position and interest in the substance of the Coventry complaint and that we wanted the very serious allegations to be heard and determined in court rather than to be swept under the carpet by EEA.

In the Investors' Group's view, EEA's proposed sale of the remaining portfolio of life insurance policies to Coventry Capital for \$204m would have been against the terms of the Fund's prospectus approved by shareholders at a restructuring EGM in October 2013. The sale would currently lose investors a further \$116m (at December 2017 valuations) of future cash from the eventual maturity of the policies and leave EEA in control of more than \$80m of investor cash to reinvest in their new (but undocumented) Guernsey based sub-fund, with ongoing fees and charges plus uncertain redemption or liquidity conditions.

Regarding the potential harm to the Fund, a letter from EEA to the Investors' Group dated 25 January 2018 ³ said that this could amount to more than \$40m if Coventry wins its case. This has nothing to do with the actions of the Investors' Group and is a situation brought about entirely by the Fund Manager and the Fund's US subsidiary. The Investors' Group has written three times to the Fund's Chairman asking for confirmation that any costs, expenses and damages awarded against the Fund's US subsidiary will be charged to the account of the Fund Manager (rather than the investors) but we have not yet received any relevant response.

¹ See www.eeafmg.gg/news - also available from [Ref 3] below with annotated comments.

² See www.eeafmg.gg/wp-content/uploads/Key-Questions-Jan-18.pdf (Item 17)

³ See documents available at www.EEAInvestors.com/Coventry

28th January 2018

The Investors' Group believes that it is totally unacceptable for any company to refuse to tell its shareholders how they might be affected by a lawsuit. The Fund and its Directors have appointed a Manager to manage the Fund and its portfolio. This Manager has apparently triggered a lawsuit and to date there is no clarity as to who is to blame. Is it the Fund's Directors for appointing the wrong Manager or is it the Manager which has failed in its duty to manage ? Failure to disclose such information is a serious governance matter because investors could be materially affected by the answer to the questions being asked.

The Investors' Group has previously asked the Guernsey Regulator to suspend or revoke the licence of the Fund Manager and to appoint inspectors and/or Administrators for the Fund to properly protect the interest of investors. We have also asked the Company (via its Directors) to sue the Fund Manager and certain other parties in respect of various acts of apparent mismanagement, misrepresentation and negligence over the years.

We have also complained to the previous Auditor (**Ernst and Young**) about their 2008 – 2011 audits (prior to their eventual resignation in 2013) and in the absence of a response have referred the matters to the Institute of Chartered Accountants for England and Wales (**ICAEW**). We are also considering formal complaints against the current Auditor (**Grant Thornton**) for possible shortcomings in the 2012 – 2016 audits of the Fund.

The Investors' Group is also aware that some of its members, acting through **Enyo Law** in London, have alleged (among other things) that EEA operated a Ponzi or Ponzi-like scheme in the earlier years. We are not involved in this action by Enyo Law but have our own analysis that supports their view. EEA have appointed a Board Committee to investigate these allegations.

28th January 2018**BACKGROUND**

The **EEA Investors' Group** was formed in October 2013 to improve the outcomes for EEA investors who became “trapped” in the EEA Fund as a result of the Fund’s suspension and subsequent restructuring following a “toxic death bond” announcement by the UK Financial Services Authority (FSA) in November 2011. The Group is funded by voluntary donations from its 500+ members in more than a dozen countries worldwide

Further information is available from the Group’s website www.EEAInvestors.com

Investor Losses

The Investors’ Group has estimated the following losses caused by the actions, omissions or apparent negligence of the Fund, its Manager and associates over the years. We are projecting further losses and writedowns in the future, in addition to the consequences of the Coventry lawsuit.

- An estimated \$186m of “future cash” losses as a result of the 2015 Policy Sale to Leadenhall Capital which EEA tries to justify under an erroneous “portfolio management” discretion.
- More than \$400m of NAV writedowns resulting from flawed valuations during 2008 – 2013,
- An estimated \$350m of losses from overpayments of valuation based fees and share redemptions 2006 – 2014 based on the flawed valuations. New investors were also overcharged by an estimated \$456m based on the same flawed valuations.

.At 29 December 2017 the remaining portfolio was estimated to be worth \$408m of gross maturity value (known as “Face Value”) or \$300m net of future premium payments. This corresponds to an estimated sale value (known as “Fair Value”) of \$185m. These figures still include certain policies which Coventry Capital has described as “worthless” in their Complaint.

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*NOTE : EEA changed the names of its UK Group Companies to **Melquart Ltd**, **Anath Capital Ltd** and **Garraway Capital Management LLP** during 2015. **Simon Shaw** is Chairman of the Melquart Group and is also a Director of the Guernsey EEA Life Settlements Fund. Until April 2015 Simon was also a Director of the Fund Manager responsible for managing the EEA Life Settlements Fund. Other Directors and employees of Melquart and Anath Capital (**Hiren Patel** and **Vincent Piscaer**) are also Directors of the Fund Manager (EEA Fund Management (Guernsey) Ltd) together with other Guernsey based Directors **Mark Clubb**, **Martyn Roussel** and **William Simpson**.*

***EEA Life Settlements Inc** is a wholly owned subsidiary of the Guernsey Fund Company via two Guernsey based intermediaries – **EEA Life Settlements Holdings Ltd** and **EEA Master Fund II Ltd**. The Directors of EEA LS Inc include **Christopher Daly** who is also a Director of the EEA Life Settlements Fund, and a Managing Director of **Viasource Funding LLC** which is the Investment Advisor to the Fund (under contract to the Fund Manager) and a Custodian’s agent in the US.*