

30th September 2014

If the links in this update (or on our web page www.EEAInvestors.com) don't work for you then please let me know

➤ **FCA Warning to Investors - Claims against UK IFAs**

As described in our [Letter to IFAs](#) last January, it has not been our policy to encourage EEA investors to claim for mis-selling against IFAs, although we have provided information and support to any member who has chosen to go down this path. The UK Financial Conduct Authority (FCA) [issued a Notice](#) last Thursday 24th September which warned all EEA investors to consider making complaints / claims against their UK IFAs before certain deadlines for the Financial Ombudsman Service (FOS) expire, starting in December 2014.

Although we believe that (once again) the FCA (ex-FSA) is attacking the wrong targets, they are correct (but a bit late) to point out the warning, and as such we must reluctantly recommend that all members who invested in EEA on the basis of advice given by a UK registered IFA should immediately prepare such a claim in order to retain your rights and options under the FOS scheme.

We issued a [Press Release](#) to explain our position through the media to as many investors, IFAs and other intermediaries as possible, and will be making an information Bulletin available on our website later this week. If anyone has a specific question or concern in the meantime, then please get in touch – but don't all rush at once. I need time to get all the facts together for the Bulletin – there are several issues and complexities to take into account, which I am working on in my "spare" time. Two additional lawyers have asked to be included in our documentation as being available to assist investors with their claims, and we will include details in the Bulletin mentioned above.

➤ **FCA Alert to UK IFAs re Sales to EEA Investors**

The FCA also [issued an Alert](#) to UK IFAs suggesting that they should examine their sales to EEA Investors against the [FCA guidance issued in 2012](#). The FCA Alert concludes :

" Firms that recommended to their clients that they invest into the EEA Life Settlements Fund should check that they have followed our 2012 guidance. If firms have not yet acted on the 2012 guidance, they should do so now.

Action is important as we believe some investors may be disadvantaged if firms have not already reviewed past sales. The circumstances will be different for each investor, but some may face a deadline on when to make complaints.

Firms that uncover problems with sales of investments in EEA Life Settlements Fund should contact their affected customers and should consider whether, and how much, redress is appropriate.

Where significant mis-sales are discovered, firms should also contact their supervisor at the FCA.

If firms do not act on our guidance, they may be failing to pay due regard to the interests of their customers or to treat them fairly, which could lead to regulatory action."

➤ **Our Message to IFAs everywhere – We are NOT your enemy.**

We have more than fifty IFAs on our membership and email lists but only a dozen are “active participants”. The rest are not – for a number of reasons, which include :

- a) They disagree with our approach or views (“The Emperor Has No Clothes ...”)
- b) They agree with EEA’s approach and views (“Everything is on track. The future is rosy ...”)
- c) Their Firms (and/or PI Insurers) are afraid of potential repercussions, retribution and claims if they follow anything except the EEA line.
- d) They prefer to concentrate on new sales and investments, rather than the “old stuff” – especially if the original Advisors have moved on to other Firms or careers.
- e) They don’t want to worry investors unnecessarily, or confuse them with alternative views (or facts).

Our main message is that as a result of the latest FCA Notice, burying your heads in the sand is no longer an option – it simply makes an easier target for other parts of your anatomy. The truth (whatever that is) about the EEA Fund and the future prospects for the remaining investors will emerge, one way or another, and if your clients feel that you have kept information from them, or failed to advise them fairly and properly over the past three years, they will be even angrier, and even more likely to make a claim and/or take their other business away from your Firm. Remember that claims can also be made for failure to properly monitor and advise on the progress (or sale) of an investment – not just for mis-selling the original purchase.

We respectfully suggest that you now have specific obligations to :

- i) Inform your EEA Investor clients about the FCA Notice and their options
- ii) Inform your EEA Investor clients about the existence of our Group (and our contact information), and that we disagree strongly with the EEA positions about the Fund. You can and should of course add your own factual comments or opinions about the credibility of EEA and our Group.
- iii) Inform your EEA Investor clients about the conflict of interest between your Firm’s (and PI Insurer’s) interests and the clients potential interest in making a complaint or claim against your Firm, and advise the client where they can go for independent advice about making a claim.

And don’t forget to document your discussion with the client. Things might get worse.

Our purpose is to inform and support investors to get the best and fastest possible return of cash from their investment (original capital and any available growth). Based on our current view of the prospects for Run-off and Continuing shareholders, then a successful claim for the return of the original investment plus appropriate redress represents a much better and faster outcome for the investor. The Ombudsman and Adjudicator will be responsible for making the ultimate decision on each claim and the current indications are that they are allowing most claims on the basis that the risks were too high for low and medium risk investors.

You and your insurers might like to consider making voluntary offers of compensation and redress (especially for the smaller investments) in order to retain goodwill and the rest of the client’s portfolio and business (and any friends that he or she talks to). You would then own the benefit of any future EEA redemption payments or returns.

We are quite happy to provide you with further information and support on why we hold the views that we do so that you and your Insurers can better assess the options available to you and you can present a fairer and more balanced view to your investor clients. We are also happy to work alongside you to provide information and updates to your EEA investor clients, or to sign them up as members of the Group in their own names.

➤ **Other Discussions and Forums**

There have been some extensive discussions on the web this week, here are a couple. [Citywire Link 1](#) and [Citywire Link 2](#). Click through to see all the associated comments. I haven't had time yet to go through these threads myself, but will do so over the next couple of days.

There is also a meeting this week of a large IFA study group and I have offered to meet with them (now or later) to discuss our differences. These views differ from ours, and support the opinion that EEA is right and that the faults all lie with the FCA.

Our view is that the many faults lie with EEA and ViaSource (probably from the outset) exacerbated by regulatory weakness in Guernsey and the UK. Investors and IFAs relied on these organisations to act in (or protect) the investors best interests, have been badly let down and are still being misled.

➤ **Run-off Shares – June 2014 Redemption (September 2014) and Scam Alert**

\$14.6m of redemption payments should now be heading for your bank accounts (or platform accounts) as previously stated. This represents a 2.9% return of your original capital and at this rate it will take 17 years to return all of your original investment (it might be faster or slower, and there might never be enough cash to repay it all).

Last week we alerted our Belgian members to a scam whereby someone (possibly within the Belgian Post Office) was opening envelopes addressed to EEA in Guernsey and substituting different bank account details. EEA and the Belgian Police were aware of the problem, and hopefully managed to stop and correct any erroneous payments. We aren't aware of this scam being repeated anywhere else, but suggest that all Direct EEA investors (in Belgium and elsewhere) check your bank accounts and other documentation to ensure that the redemption payments actually end up where they are supposed to. Thanks to the Belgian member who pointed this out to us in time.

➤ **Continuing Shares – Optional / Discretionary 5% Redemption (December 2014)**

A source (allegedly from within EEA) has confirmed that EEA are hoping that as few Continuing shareholders as possible will apply for the 5% redemption at the end of the year, because there might not be enough cash available to meet the demand, and it might force the Fund back into suspension again (we don't share this latter view – the Directors have enough discretion to reject or reduce the redemption offer without suspending anything or affecting other investors).

We have been stating for some time now that the cash balance at the end of the year will be much less than that needed to maintain the two year premium reserve and the redemption expectations of Run-off and Continuing investors. EEA seem to be more worried about the fact that they won't be able to get the New Irish Fund up and running as quickly as expected but we say that this is EEA's problem – not the Continuing investors problem.

We will be doing our utmost to make as many investors as possible aware of the redemption option and procedures and to encourage them to apply for the 5% (potential) redemption in good time. We have no confidence in the future redemption prospects or the viability of the New Irish Fund, if it ever gets up and running. A bird in the hand might be all that's left ...

The updated information Bulletin is available on our web site with everything that you currently need to know about this redemption process (including the appropriate forms). Transact have also now sent instructions to all their EEA Investors and IFAs. We still haven't heard anything about Standard Life, Generali, AXA, de Vere / SEB, Scottish Widows, Hornbuckle Mitchell, Pershing or Vestra. Aegon Ireland are supposedly announcing their decision this week and will advise their investors accordingly.

Please spread the word and let me know how you get on with your particular applications / platforms / intermediaries and any problems that you encounter or help that you need. EEA won't state whether the redemptions will be paid (or what percentage) until some time in January 2015. This will itself also depend on how many redemption requests that they receive. The deadline for requests to reach EEA is **Friday 28th November 2014** – Platforms and other intermediaries will need an earlier deadline. **Please get started NOW**. It will be another year before you can request further redemptions from December 2015.

➤ **August 2014 Results**

Following is the final update for the August results

| Description | Policies | Lives | Gross NDB |
|-----------------------------------|----------|----------|---------------|
| <i>Historical Average for Aug</i> | 6.0 | 5.0 | \$15.0m |
| Aug 2014 Actual | 7 | 6 | \$ 13.8m |
| Addnl items booked in Aug | (2) * | (2) * | \$(5.7m) |
| Totals | 9 | 8 | \$8.1m |

* Two policies ran out of term and have been removed from the portfolio. We are awaiting further details from EEA.

| | |
|--|-----------------|
| Cash b/f from 30 th July 2014 | \$142.3m |
| Estimated Premium Payments and Expenses (Aug) | \$(7.3)m |
| Gross Income (NDB) from Maturities | \$13.8m |
| Adjustments and Other Items | \$(0.1)m |
| Estimated Cash Balance at 31st Aug 2014 | \$148.7m |

➤ **2014 Performance Maturities**

| Description | 2014 Year to Date (August) | | | 2014 Year End (December) Projection | | | | |
|------------------------------|----------------------------|------------------|------------------------|-------------------------------------|------------------|-----------------------|----------------------|-----------------------|
| | Policies | Lives | Gross NDB | Policies | Lives | Gross NDB | EEA F'Cast * | WP7 F'Cast ** |
| <i>Historical Average</i> | 50.8 | 42.2 | \$83.9m | 73 | 68 | \$125m | | |
| Actual in Period | 73 | 46 | \$95.5m (7.5%) | 103 | 66 | \$125m 9.9% | \$227m 18% | \$125m 9.9% |
| Addnl items booked in period | - (2) * | - (2) * | \$5.4m \$(5.7)m | 3 (2) * | 2 (2) * | \$5.4m \$(5.7)m | 0 | 0 |
| Totals | 73 14% | 46 11% | \$95.2m 7.5% | 108 21% | 70 18% | \$125m 9.9% | \$227m 18% | \$125m 9.9% |

Cashflow

| | | | | | |
|---|-----------------|------------|------------|---------------|---|
| b/f from 31 st Dec 2013 | \$104.2m | 517 | 394 | \$104m | * 2013 EEA Annual Report and Portfolio Statistics ** EEAIG WP7 |
| Estimated Premium Payments and Expenses | \$(59.3)m | | | (\$88m) | |
| Maturities | \$95.5m | (108) | (70) | \$125m | |
| June (Sept) Run-off Redemption Payment | 0 | | | \$(14.6)m | |
| Estimated Adjustments and Other Items | \$8.3m | | | \$10m | |
| Estimated End of Period | \$148.7m | 407 | 324 | \$136m | |

Note that our year-end cash balance projection of \$136m is below the two-year premium reserve level of around \$145m and the Fund will therefore be (technically) in breach of the Scheme Particulars, leaving nothing available for the December / January Run-off and Continuing share redemptions. Although the Directors have discretion to waive the minimum cash limits for redemptions, we're not so sure that they have the discretion to reduce the premium reserve without an amendment to the particulars through an AGM or EGM. We will be examining this more carefully, especially since we believe that the future premium requirements are much higher (\$673m) than the \$240m stated by EEA in the 2013 Annual Report.

➤ **Portfolio Analysis and Management (Working Paper WP7)**

EEA have declined to comment on the draft that we sent them, and stand by their own valuations and forecasts. We have agreed to add an appropriate disclaimer to the published document. We are now waiting to update our analysis with the August and September data plus two additional independent reports that we have recently received. Planned publication date is now 17th October 2014, having (partly) been delayed by all the activity in relation to the FCA Notice.

➤ **Regulatory**

- **Shareholder Register.** No response received (so far) from GFSC or the Guernsey Law Officers.
- **FCA Consultation.** The UK FCA have asked for evidence of retrospective regulation. We will not be making a response on behalf of the Group but suspect that IFAs will be responding themselves or through their trade associations, especially with regard to the application of "high risk" dictums after the event, especially when the

investments were originally marketed by EEA and approved by the (Guernsey) regulator as “low risk”.

[Here is the link to the FCA web page](#) .

- **2nd Reminder - ShareSoc Campaign.** On the **14th October** The UK Individual Shareholder Society is launching a campaign to give full rights to ALL shareholders. At present most private investors purchase shares through nominee accounts. With a very few exceptions this means that they have no automatic rights to vote, to attend General Meetings of companies or even receive information on the affairs of the company. (Ring any Bells ? !!!) I will be attending the launch meeting (in London) and would ask anyone else who can get there to attend. If we can get the UK to adopt such improvements then we might even be able to influence Guernsey to adopt them as well (one day). [Please visit this web page](#) for more info and to register your attendance (it's free, by the way)

Kind Regards

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