This Working Paper summarises the EEA Fund and Investor Group situation at 2014 year-end

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A. EEA Portfolio Management Objectives

The EEA Board frequently refers to the 95% "overwhelming vote" in favour of restructuring in October 2013, and states that this also meant a commitment (by investors) to hold all policies to maturity, rather than to sell-off some policies earlier. We believe that this is a misrepresentation of the facts. The 95% is correct, but only refers to the portion of the 3.2m voted shares that were in favour of restructuring, not to the 62% of the 4.9m total shares outstanding at that time. Also in the October 2013 elections, 2.9m (58%) shares were voted for Run-off Cells and 2m (42%) shares voted for Continuing Cells, of which (we believe) more than half are being held with an expectation of redeeming them for cash as soon as possible after the 23-month lockup period rather than for longer term NAV growth via the New Irish Fund.

In our view, therefore, approximately 4m shares (80%) of the currently remaining 4.8m shares are now being held for nearer term redemption of capital (as cash) rather than for longer term income or return on capital through NAV growth. All decisions on the future management of the Fund should therefore reflect this majority view and be optimised accordingly.

B. Maturity Predictions and Redemption Payments

The cash available for future share redemptions (across all Cells) is linked directly to the maturity receipts from the remaining life policies in the portfolio. The September 2013 restructuring circular "…*predicts that approximately 28 per cent of the Current Underlying Investments will have reached maturity by the end of the [23-month] Lock-Up Period [in October or December 2015]* [1]*, such percentage increasing to approximately 42 per cent three years after the Effective Date and to approximately 62 per cent five years after the Effective Date."*

The Portfolio Statistics issued by ViaSource and the Fund Manager in September and December 2013 contained different maturity predictions, supposedly based on the same model. These three different predictions give the following estimated maturity results for the five years starting in 2014 [2] :

		Estimated Maturities (NDB) $m							
	NDB	2014		2015	2016	2017	2018	Total	
Rest Circ Sep 2013	1296	14.0%	181	181	181	156	104	804	62%
Port Stats Sep 2013	1296	17.8%	230	213	190	149	123	906	70%
Port Stats Dec 2013	1272	17.9%	227	216	190	145	122	900	71%
WP7A from Dec 2013	1266	10.3%	131	125	119	113	105	593	47%
			Total=28%						
2014 Actual (Est)	1272	9.8%	125	*+ $6m late postings from 2013 = $131m*					

[1] In September 2013 the Effective Date was assumed to be 1st November 2013, but actually became 1st January 2014. The 23-month lockup expiry therefore moved from 30th September 2015 to 30th November 2015.

[2] For simplicity, we have applied the September 12, 24, 36… month predictions to the calendar years ending Dec 2014, 2015, 2016 …respectively.

Our current estimate for 2014 year-end maturities is ($117 - 126m), based on the maturities to November plus a predicted $2 - 11m of maturities during December [3]. This would yield a cash balance around $126 - 135m at 2014 year-end.

According to EEA, the two-year premium reserve at November 2014 is around $136m (we believe that it should be $140 – 150m), leaving no more "available cash" for the potential redemption payments due in January / February 2015.

The table below shows that the Fund has been in breach of its two year premium reserve policy for the last four years, following $162m of net cash outflow in 2011 (including $53m of fees and charges to connected companies and $312m of share redemptions during 2011, prior to the November 30th suspension).

At Dec --->	2009	2010	2011	2012	2013	2014 (Est)
Cash Balance ($m)	239	218	56	66	92	134
2-yr Premiums	129	148	149	145	142	136
Cash / 2yr Premiums	185%	147%	38%	45%	65%	99%

C. How Much Cash Will We Get Back ?

At December 2014 there will be around $790m of remaining shareholder capital in the Fund. If we add in the "lost" 8% pa returns for the relevant shares then we would need an additional $500m of cash to December 2014 and further amounts beyond that (i.e. total "available cash" of $1300 – 1500m over the run-off period) in order to repay the original capital plus the 8% pa "promised" cumulative returns already enjoyed by the investors who redeemed prior to the 2011 suspension.

There is only just over $1130m of gross cash available from remaining maturities at December 2014, minus future premium payments ($170 – 590m) and other costs ($60 – 140m), depending on how long it takes for the maturities to occur and the management strategy used to run off the portfolio.

The ViaSource / EEA predictions mentioned in (B) above have been seriously deficient in every prediction period to date [4] (20-40% accurate prior to 2013, 50-60% accurate for 2013 and 2014). This means that their remaining predictions for 2015 onwards must also be under question. Our alternative predictions [5], also shown in the table in (B) above, gives a significantly lower rate of maturities and a much longer run-off period for the portfolio (47% of NDB within five years rather than EEA's 60 – 70% of NDB).

This slower rate of maturities will result in the higher future premium payments mentioned above, a greater loss of future NDB (from policies where cover lapses because of the age of the insured, or term expiry) and extended payments of fees, charges and other expenses over a longer period of time. Our alternative predictions

[3] At 23rd December 2014, the actual December Maturities was reported as One policy with $1.5m NDB. The historic average NDB for December is $7m and our year-end projection based on January – November 2014 was $11m.
[4] EEA Investors' Group Working Paper WP7C
[5] EEA Investors' Group Working Paper WP7A Table 10

also include a potential gain from better management of the portfolio in the light of the objective to raise maximum redemption cash for investors sooner (e.g. by selling off the less profitable policies before maturity). These differences are summarised in the table below [6].

	EEA View *			Our View		
Period End	**2006-2013 ****	**2014 Onwards**	**Total**	**2014 Onwards**	**Total**	**Comment**
Cash b/f	0	92	92	92	92	*same*
Gross Maturity (NDB) ($m)	606	1,272	1,878	1,272	1,878	*same*
Future Costs - Premiums ($m)	0	*(240)*	(240)	(673)	(673)	Tables
- NDB Loss ($m)	0	(27)	(27)	(132)	(132)	13b,13c
- Tail Writedown ($m)	0	Not stated	Not stated	*Included in NDB Loss Above*		
- Portfolio Improvement		Not stated	Not stated	95	95	Par 7.5
Other Items / Adjustments	(507)	0	0	0	0	*same*
Operating Expenses ($m)	*(190)*	*(75)*	(265)	*(125)*	(315)	(50)
	7.5 yrs	*7.5 yrs*	*15.0 yrs*	*12.5 yrs*	*20.0 yrs*	$10m pa
Net Cash For Redemptions ($m)	92	< 1,022	< 1,113	528	620	(493)
All EEA data extracted from EEA Annual Reports and Financial Statements, Maturity Schedules, Policy List, Fact Sheets or Portfolio Statistics						
** Excludes 3 policies ($5.4m NDB) posted in 2014*						
**** EEA Future Premium Costs from 2013 Annual Report – Note 19*						Estimated

D. How Long Will it Take ?

An "immediate liquidation" at NAV should yield around $600m cash for investors (allowing for a 30% discount for selling costs and "distressed" sales) whereas holding the current policies to full maturity would yield (maybe) $1000m over 5 – 10 years (using EEA's current predictions) or $620m over 10 -20 years using our predictions, as in (C) above. These figures must be compared with the $790m "original capital" remaining at December 2014, as mentioned in (C) above). Everything depends on the credibility of ViaSource / EEA's maturity predictions.

A 1-to-3 year "managed run-off" (as we requested at the 2013 EGM) might yield around $850m in net cash and therefore appears to offer a faster and more certain return of capital than EEA's current longer term and less certain "hold to maturity" approach.

We repeated this position at the 2014 AGM in Guernsey and the EEA Board stated that they were currently undertaking a review of the portfolio in order to determine the best way of freeing up the most cash for investors (and most quickly). We will be actively monitoring the Board's progress on this topic during January – March 2015 and preparing contingency plans if we don't believe that they are living up to expectations or pursuing the optimum course for the majority of investors.

E. Other Costs

Valuation based fees and charges are still costing around $14m per year, increasing by 2-3% pa simply because of the maths involved in calculating the dealing NAV (i.e. not because of any management action). This includes around $4m pa of fees and trail commissions to platforms, distributors and IFAs worldwide. In addition there are $1-2m

[6] EEA Investors' Group Working Paper WP7A Table 11d updated based on EEA Shareholder Notices dated 14th and 18th November 2014.

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pa of non-valuation based charges. We will be looking for ways to reduce or limit the valuation-based charges so that more cash accrues to the investors.

F. Corporate Governance and Investor Communications

At the 2014 AGM, the EEA Board stated that they were committed to improving corporate governance and investor communications. We have our own list of topics that we would like to see addressed under these headings, including an independent audit against the Guernsey Finance Sector Code of Corporate Governance, and will be closely monitoring the Board during January – March 2015 for signs of relevant improvements.

G. Management Changes

We have identified certain management changes that we believe to be necessary or desirable in order to improve the performance and effectiveness of the Fund and its Board. We will be watching for and pressing for these and other appropriate changes in the January – June 2015 period.

a) The Company is currently set up as non-executive Board with all management matters delegated to a sub-contracted Fund Manager, Administrator, Investment Advisor and Marketing Agent. Our perception is that the priorities and decisions in the past were unduly influenced and "controlled" by the two most-conflicted Directors (Simon Shaw and Christopher Daly) with their connected companies and interests. We don't believe that suppliers and sub-contractors should normally also be Directors of the Fund - their interests are not necessarily aligned with the best interests of the investors (especially retail investors). We would welcome the removal of all three conflicted Directors from the Fund Company and (probably) the termination of the contract between the Fund Manager and the Investment Advisor (ViaSource) because of past performance failure.

b) We suggest that the Board really needs a "Managing Director" with executive authority to drive the necessary changes and future operations, but under the existing Scheme Particulars this would require a different mandate for the Board and the Fund Manager, supported by a new "Insurance policy" advisor or portfolio specialist. We don't perceive that these skills exist within the current Directors, Fund Manager or Auditor. It is not just a "simple" accounting or administration matter and we don't have confidence in ViaSource to carry out the portfolio management role properly or effectively in the best interest of redeeming investors (the majority).

   This is no longer an Investment Fund, trying to earn a "growth" of 8 – 10% or more for investors, plus return of capital. It is a Run-off fund struggling to return as much of the residual capital ($790m) as possible to the remaining investors,

c) We also suggest that future incentive payments to the Directors, the Fund Manager, Administrator and other relevant parties should be based on cash redemption achievements rather than (disputed) and possibly meaningless NAV calculations.

d) We want the Board to immediately "re-open the window" for Continuing shareholders to review and (if appropriate) change their allocation to Run-off shares, and also in due course to actively publicise the Continuing Share Redemption procedure before the September 2015 deadline (including via platforms, nominees and IFAs).

H. Independent Administrator

We have agreed to give the Chairman and the two "new" independent non-executive directors the benefit of the doubt and a grace period in which to demonstrate their willingness and ability to make the necessary management changes and improvements in the best interests of the investors. However, we still have reservations and currently believe that the alternative appointment of an independent Administrator to oversee the run-down of the Fund and portfolio would yield the following benefits to investors :

a) An Administrator would be freer (and more likely) to change contract terms to reduce ongoing valuation-based charges or commissions and to investigate then recover past over-payments because of (alleged) faulty or manipulated portfolio management, mis-representations and NAVs .

b) An Administrator would normally engage a "creditors committee" to oversee his / her actions, and this could (with agreement) authorise "priority" payments to elderly, very small or financially distressed investors. This is extremely difficult to achieve within the current *pari passu* shareholding arrangement, especially involving significant platform and nominee holdings, with a mixture of direct shareholders, beneficial owners and contractual owners scattered throughout the world.

c) An Administration process would formalise the Run-off or "liquidation" nature of the Fund and enable investors to crystallise any losses much sooner, therefore allowing organisations such as the UK FSCS to recognise the losses and release compensation funds accordingly, which they currently seem reluctant to do

We will continue to evaluate and develop our views on "Management Change" versus "Administration" as circumstances evolve during early 2015, and in the light of any actions taken by the EEA Board, the Regulator and/or Auditor (e.g. for the 2014 Report and Financial Statements due in June 2015).

I. Mis-Management and Mis-Representation

The EEA Board frequently states that they have always operated the fund in accordance with the Scheme Particulars, and that Investors signed up to these Particulars when they made their investments. Again, these statements are a misrepresentation of the facts.

a) Our analysis indicates that the Scheme Particulars themselves are flawed in the way that they enable inaccurate life expectancy estimates and/or manipulated valuations to distort the NAVs and the basis on which valuation-based fees, charges and redemption payments were made in the early years of the Scheme (2006-2013), and

b) For the large number of investors through platforms, nominee accounts / brokers, trustees and other intermediaries, and especially retail investors using Financial Advisors, the full Scheme Particulars and Risk Warnings were never disclosed and the investors didn't normally see or sign the declarations on the EEA dealing forms.

Our three Working Papers (WP7A, WP7B and WP7C) concluded that the Fund had been mis-managed and mis-represented almost since inception, and was never capable of generating the benchmark 8% pa returns over a prolonged period. We identified some specific investigations that were needed to determine what went wrong and whether any of the parties concerned (e.g. the Directors , the Fund Manager, Investment Advisor, and

previous auditor) were in any way culpable and liable to repay overpayments or other compensation. We will continue to press these issues with the Board, the Regulator (GFSC) and Ernst & Young's supervisory bodies (ICAEW [7] and FRC [8]) as applicable. We also still have concerns about the 2012 and 2013 audits by Grant Thornton which we believe have not been adequately addressed by the Auditor or the Board so far and we will be reviewing what further action we might take there also with ICAEW and /or FRC.

We will be examining in more detail the past and present roles of the various marketing agents, distributors, platforms, nominees, trustees and other intermediaries in terms of their duties of care and oversight to the beneficial and contractual owners of the EEA investments, and the roles that they played in endorsing or supporting the Financial Advisors who promoted these shares to the investors. We shall also be looking into their actions when providing (or not providing) information to Financial Advisors and Investors as the concerns and risks became more evident or the performance of the Board and Fund was increasingly called into question.

We will also be examining whether criminal or civil proceedings might be appropriate and practicable in any of the above areas, as well as in relation to our failed attempts to obtain a copy of the EEA Shareholder Register.

J. Investors Group

We currently have over 200 members covering almost 10% of outstanding shares, representing more than $90m of original investment. We are funded by (suggested) 0.01% voluntary donations from our members. This membership includes a range of small, medium and large investors (including experienced accountants, compliance managers, fund managers, auditors, life settlements and other specialists) in more than a dozen countries, including some very distressing "hardship", pensions and trustee situations. We have members with direct shareholdings in EEA and also indirectly through all the main UK, Isle of Man, European and other International intermediaries and platforms.

[7] Institute of Chartered Accountants in England and Wales See www.icaew.com
[8] UK Financial Reporting Council See www.frc.org.uk