

Part 1: Letter to Investors

Dear Investor

Proposed Settlement for Investors in the LF Equity Income Fund

Introduction

1. Link Fund Solutions Limited (referred to in this document as **LFSL**) is an independent authorised corporate director (**ACD**) of open-ended investment companies and offers certain fund governance and administration services. LFSL is the ACD of the LF Equity Income Fund (which was previously called LF Woodford Equity Income Fund) (the **WEIF**).
2. LFSL wishes to offer to settle all and any potential claims that investors in the WEIF on 3 June 2019 (the **Suspension Date**) at 12.00 p.m. (the **Suspension Time**) may have against LFSL. Whilst LFSL disputes all such claims, it is willing to enter into the settlement because it believes that it offers the best outcome for investors and LFSL.
3. On 19 April 2023, a conditional settlement was agreed between LFSL, LFSL's regulator, the Financial Conduct Authority (the **FCA**) and LFSL's ultimate parent Link Administration Holdings Limited (the **Parent**). Further information regarding this conditional settlement (the **Settlement**) is provided at paragraphs 11 to 16 of this letter.
4. LFSL is proposing to put the Settlement in place using a Court approved process called a scheme of arrangement (the **Scheme**). This document gives relevant investors important information about the Settlement and the Scheme.
5. The Scheme will affect each investor who is a Scheme Creditor. Further information about who the Scheme applies to is provided in "Part 5: How does the Scheme work?", under the heading "Who does the Scheme apply to?" on page 30.
6. **If you are a Scheme Creditor, LFSL wants you to take action now to have your say on whether or not you approve of the proposed Scheme by voting on it. You can find instructions for the next steps to take and how to vote on the Scheme at paragraph 36 on page 8.**
7. **LFSL believes that the Scheme is the best outcome for Scheme Creditors for the reasons given in paragraph 21 of this letter on page 4.**

What is a Scheme?

8. A Scheme is an agreement between a company and some or all of its creditors. A company and its relevant creditors will be bound by the Scheme if:
 - (a) it is approved by a majority in number (that is more than 50%), representing 75% or more in value, of the creditors who vote;

- (b) the Court approves the Scheme at a Court hearing. The Court will only approve the Scheme if it believes that the legal requirements for doing so are met; and
 - (c) a copy of the Court order approving the Scheme is filed with the English Registrar of Companies.
9. When the Scheme becomes effective, the company and all its relevant creditors (including those creditors who voted against the Scheme or who do not vote at all) will be bound by the Scheme.

What is the purpose of this Scheme?

10. The purpose of this Scheme is to put in place the Settlement.

What are the key terms of the Settlement being offered to the Scheme Creditors?

11. In the Settlement, a fund of up to £230 million (the **Settlement Fund**) will be made available to share proportionally amongst relevant investors according to the number and class of shares they hold in the WEIF. More information regarding the Settlement Fund can be found in "Part 5: How does the Scheme work?" at paragraph 16 on page 33.
12. The Settlement Fund will include an initial voluntary contribution from the Parent of up to £60 million (the **Initial Parent Contribution**) and, if further relevant monies become available, an additional voluntary contribution from the Parent (the **Additional Parent Contribution**). More information about the Initial Parent Contribution and the Additional Parent Contribution (together, the **Parent Contributions**) can be found at "Part 5: How does the Scheme work?" from paragraph 24 on page 35.
13. As part of the Settlement, the Parent will also voluntarily contribute up to £2.5 million towards the costs of the Scheme (the **Scheme Costs Contribution**). The Scheme Costs Contribution is not a part of the Settlement Fund distributed to investors but it does mean that LFSL has £2.5 million more to contribute to the Settlement Fund.
14. In return for the payments made from the Settlement Fund, Scheme Creditors will no longer be able to make any claims against LFSL. Where a Scheme Creditor's claim is released, they will not be able to bring that claim against the Financial Services Compensation Scheme (**FSCS**). Scheme Creditors will also no longer be able to make certain claims against other parties related to LFSL, including, but not limited to, its directors, employees, the Parent and the Parent's directors and employees. Scheme Creditors' rights to receive proceeds from proceedings that they may take in respect of the WEIF against a party other than LFSL (a **Third Party**) will be reduced if and to the extent that LFSL would be liable to make a payment to that Third Party in respect of that claim (the **Contribution Claim**). More information about the releases to be given and the treatment of Contribution Claims can be found at "Part 5: How does the Scheme work?" from paragraph 45 on page 39.
15. The maximum possible amount of the Settlement Fund is £230 million, which is approximately 77% of the amount which the FCA claims was the loss incurred by

investors who continued to hold shares in the WEIF on and after the Suspension Time (being £298,403,919) (the **FCA Total Amount**). If the Settlement Fund is distributed in full, it is estimated that investors will ultimately receive about 80% of the net asset value of the WEIF at the Suspension Time (which was approximately £3.56 billion).

16. It is expected that initial distributions from the Settlement Fund totalling £183.5 million will be made in the first quarter of 2024.
17. **For a fuller illustration of the potential returns per share, please go to the worked example on page 10.**

How does the Scheme work?

18. The Scheme, if implemented, will do three main things:
 - (a) all Scheme Creditors will automatically be included in the Scheme;
 - (b) the Settlement Fund of up to a maximum of £230 million will be made available to the WEIF to distribute in the same manner as capital distributions have been made since the Suspension Date. For more information on this, see "Part 5: How does the Scheme work?" at paragraph 16 on page 33; and
 - (c) Scheme Creditors' claims against LFSL, the Parent and other related parties will be subject to certain automatic releases. For information on this, please see "Part 5: How does the Scheme work?" from paragraph 45 on page 39. Where a Scheme Creditor's claim is released, they will also not be able to bring that claim against the FSCS.

What is the purpose of this document?

19. This document is called the **Explanatory Statement**. The purpose of this Explanatory Statement is to explain the terms of the Scheme and the Settlement. This document is intended to give Scheme Creditors the information they need to decide for themselves whether they agree with the proposed Scheme and the Settlement.

What are Scheme Creditors expected to receive under the Scheme?

20. As explained above, a Settlement Fund of up to £230 million will be made available to share proportionally amongst relevant investors according to the number and class of shares they hold in the WEIF. It is estimated that the initial distributions from the Settlement Fund will be made in the first quarter of 2024 and will total between £183.5 million and £200 million. Additional payments will also be made to ensure that the Settlement Fund is distributed in full.

Advantages of the Scheme

21. LFSL believes that Scheme Creditors are better off with the Scheme than without it because:
 - (a) the Scheme provides for all of LFSL's available assets to be paid to relevant investors. Those assets will be added to the Initial Parent Contribution of up to

£60 million, and insurance proceeds of approximately £48 million resulting in the Settlement Fund being up to £230 million;

- (b) the first payments will be made much earlier with the Scheme than without it (because Scheme Creditors will not need to bring litigation claims successfully or have the benefit of any other final judgment to be made). The initial distributions from the Settlement Fund are expected to be made in the first quarter of 2024 and are expected to total between £183.5 million and £200 million. Additional payments are also expected to be made as soon as possible. By contrast, without the Scheme, the most likely outcome is years of litigation and an uncertain outcome, resulting either in no payment at all, or (at best) later payment;
- (c) in the Scheme, the Parent will make the voluntary Initial Parent Contribution, and Scheme Costs Contribution, which together total up to £62.5 million. It is also possible that the Additional Parent Contribution will be made, although this is not currently expected to be a material addition to the Settlement Fund. These payments will only be made if the Scheme is approved and not otherwise;
- (d) the Scheme provides a convenient and streamlined process for making payments to relevant investors as they will not need to bring any litigation, complete any paperwork or carry out any other steps to receive payment from the Settlement Fund, except where the WEIF is dissolved or it is otherwise not possible to make distributions through the WEIF, in which case other provisions will apply. The relevant provisions are described in "Part 5: How does the Scheme work?", at paragraph 55 on page 42. Otherwise, distributions from the Settlement Fund will be made automatically in the same way that capital distributions are currently made;
- (e) the Scheme does not prevent Scheme Creditors from bringing claims against a Third Party; and
- (f) relevant investors will be treated equally in that they will each receive the same percentage payment because the Settlement Fund will be shared proportionally amongst relevant investors according to the number and class of shares they hold in the WEIF.

Disadvantages of the Scheme

22. LFSL believes that Scheme Creditors are better off with the Scheme than without it for all of the reasons given in paragraph 21 above. However, LFSL has identified the following possible disadvantages with the Scheme:
- (a) the Settlement Fund will be less than the FCA Total Amount. The maximum amount of the Settlement Fund is approximately 77% of the FCA Total Amount;
 - (b) Scheme Creditors will no longer be able to bring certain claims against LFSL, the Parent and its subsidiaries (and each of their directors, partners and employees, advisers and officers) in relation to the WEIF;

- (c) Scheme Creditors' rights to receive proceeds from proceedings that they may take in respect of the WEIF against a Third Party will be reduced if LFSL would be liable to pay a Contribution Claim to that Third Party in respect of that claim; and
- (d) if the Scheme goes ahead, Scheme Creditors will not be able to pursue the Scheme Claims released in the Scheme against the FSCS.

What happens if the Scheme does not go ahead?

- 23. If the Scheme does not go ahead, LFSL will not accept any liability to Scheme Creditors. LFSL instead intends to defend itself against any claims made against it in relation to the WEIF. These claims are explained in more detail in "Part 4: Events leading to the proposed Scheme and Settlement" on page 23. Such claims may take years to conclude and no payments will be made in the meantime.
- 24. If LFSL is successful in the defence of the claims against it, it will not be required to pay any compensation at all to Scheme Creditors. Where those unsuccessful claims have been in the form of Court proceedings, any claimant Scheme Creditors may be liable to pay LFSL for the costs of its defence. If LFSL only succeeds in defending some of the claims against it, Scheme Creditors may be awarded a lower amount than they are being offered under the Scheme.
- 25. If LFSL is unsuccessful in its defence against all claims made against it, it will have less money available to pay to relevant investors.
- 26. In the absence of the Scheme, a Scheme Creditor may be able to obtain compensation from the FSCS for up to £85,000 if it is able to demonstrate that it has a valid claim and is otherwise eligible. However, the FSCS has not made any determination in relation to any of the claims made against LFSL. If the FSCS accepts a claim, it may take longer to receive a payment from the FSCS than the time frame for receiving a payment in the Scheme.
- 27. More information about what may happen if the Scheme does not go ahead can be found in "Part 6: What happens if the Scheme does not go ahead?" on page 47 below.

Position of the FCA

- 28. The FCA continues to consider that the Scheme offers investors the quickest and best chance to obtain a better outcome than might be achieved by any other means. As such, the FCA encourages investors to consider it.

Position of the FSCS

- 29. The FSCS is the UK's compensation scheme of last resort for the customers of failed financial services firms. It is a matter for the FSCS to determine whether any payments may become due to investors from the FSCS. Currently, the FSCS has not made any determination in relation to any of the claims made against LFSL. However, the FSCS has confirmed that it will assess and pay claims in accordance with its rules. It should be noted that, if the Scheme goes ahead, Scheme Creditors will not be able to make Scheme Claims against the FSCS.

Position of the Investors' Committee

30. The Investors' Committee has concluded that the Scheme provides a better outcome than the alternative described in the Practice Statement Letter based on (1) the information provided by the Company (and by the FCA) and (2) all the constituent elements stated to compromise the Settlement Fund of up to £230 million being received and ultimately distributed to creditors under the terms of the Scheme. The Chair of the Investors' Committee encourages Scheme Creditors to read his report (which is available at <https://ifwoodfordfundscheme.com/documents/>) for a full explanation as to how and why the Investors' Committee reached that conclusion. The report includes a summary of the interactions between the Investors' Committee and the Company, including the questions raised and responses received which ultimately formed the basis of their conclusion. The report also summarises the interaction between the FCA and the Investors' Committee.

Voting on the Scheme

31. As explained at paragraph 8(a) above, the Scheme requires approval from a majority of Scheme Creditors. LFSL expects to hold a meeting for the Scheme Creditors to vote on the Scheme on 13 December 2023. Details of how to attend and vote at the meeting can be found in "Part 8: Arrangements for voting" on page 58.

Recommendation to vote for the Scheme

LFSL recommends that Scheme Creditors vote for the Scheme. LFSL believes that the Scheme provides the best outcome for Scheme Creditors because it offers a number of advantages, including the certainty of a payment from a Settlement Fund of up to £230 million. By contrast, in the absence of the Scheme, the voluntary Parent Contributions will fall away and it is uncertain whether any compensation would be paid at all, whether as a result of the Litigation Claims or the FCA Conclusions against LFSL. The initial distributions from the Settlement Fund are expected to be made in the first quarter of 2024 (far earlier than might otherwise be the case) and are expected to total between £183.5 million and £200 million.

If the Scheme goes ahead and the maximum amount of the Settlement Fund is distributed in full, Scheme Creditors will receive approximately 77% of the FCA Total Amount and will have received around 80% of the net asset value of the WEIF at the point of suspension. Please see page 10 "Pence per Share Distributions and Worked Example" for more information about how to calculate potential distributions.

Please see "Part 9: Things to consider when deciding whether to vote for the Scheme" on page 62 for more information about the advantages and possible disadvantages of the proposed Scheme.

Directors' interests

32. Under the Companies Act 2006, LFSL must give Scheme Creditors certain information about its directors, and their interests in the Scheme.

33. Prior to the completion of the Sale of the Link Funds Solutions business to various companies in the Waystone Group (**Waystone**) (which is further described on page 18) (**Completion**), LFSL's independent directors were Alistair Reid, Tony Stuart and Elizabeth Tracey. LFSL's executive directors were Karl Midl, Nigel Boyling and Ben Hammond.
34. Following Completion, Mr. Midl and Mr. Hammond transferred to Waystone as an agreed condition of the Sale. LFSL and Waystone have agreed that LFSL may have reasonable access during normal business hours to Mr. Midl and Mr. Hammond for any assistance, information or documents required in respect of the Scheme and certain other matters. Following Completion, Ms. Tracey was appointed as a non-executive director of Waystone Management (UK) Limited.
35. The directors are paid their salaries and expenses by LFSL in the ordinary course of business. None of the directors are owed money by LFSL nor have a direct interest in LFSL or the Scheme.

Next Steps

36. If you are a Scheme Creditor, please take the following steps:
 - (a) read this document and consider whether or not you want to approve the Scheme; and
 - (b) if you wish to approve the Scheme or object to the Scheme, please vote on it. Voting is a way for you to have a say. The arrangements for voting can be found in "Part 8: Arrangements for voting" on page 58. You also have the right not to vote on the Scheme at all. In that case, you do not have to do anything.
37. If the required majority of Scheme Creditors vote to approve the Scheme, LFSL intends to apply to the Court on 18 January 2024 to ask it to approve the Scheme (the **Sanction Hearing**). Scheme Creditors are entitled to attend and speak at the Sanction Hearing but do not have to. If you are a Scheme Creditor and want to attend the Sanction Hearing, please inform the Investor Advocate at josephbannisterIA@dacbeachcroft.com by no later than 8 January 2024. If you wish to attend the Sanction Hearing to object to the Scheme, please go to "Part 10: Scheme Creditors' rights to object to the Scheme" on page 65 to see what steps you can take.
38. If the required majority of Scheme Creditors and the Court approve the Scheme, it is expected to become effective on 9 February 2024.
39. A more detailed timetable to implement the Scheme is set out on page 12. A detailed timetable setting out the key events in the Scheme process if it becomes effective is set out on page 45.

How can Scheme Creditors contact LFSL about the Scheme?

40. If Scheme Creditors have any questions about the Scheme, the Settlement, this document or on how to vote, leading up to it becoming effective, they can contact LFSL by using the details set out in the table below.

41. Scheme Creditors can also raise any general questions free of charge with Joe Bannister, the **Investor Advocate**, who has been appointed to represent Scheme Creditors in respect of the Scheme. Mr. Bannister is an experienced lawyer. He is independent of LFSL and the Parent and he does not work for, and has never worked for, LFSL, the Parent or any member of the Link Group. The Investor Advocate has prepared an initial report on the feedback he has received on the Scheme from Scheme Creditors which is available at <https://lfwoodfordfundscheme.com/documents>. Further information regarding his role can be found in "Part 7: The Investors' Committee and the Investor Advocate" on page 55. Mr. Bannister's details are also set out in the table below.

| Contact method | Contact details |
|-------------------|---|
| Customer helpline | +44 20 3991 0224 Open: 8.00 a.m to 6.00 p.m., Monday to Friday 9.00 a.m to 12.00 p.m. on Saturdays |
| Email | lfsoa@huntswood.com |
| Scheme Website | www.lfwoodfordfundscheme.com |
| Address | LFSL Scheme Vote, PO Box 16840, Birmingham B2 2US |
| Investor Advocate | josephbannisterIA@dacbeachcroft.com |

Yours faithfully

Link Fund Solutions Limited