

LF Equity Income Fund Scheme of Arrangement

Welcome to the Scheme Meeting for the
LF Equity Income Fund Scheme of Arrangement

The Scheme Meeting will start at 10.00 a.m.

Today's attendees – Chair, Company and advisors

- Jamie Drummond-Smith, independent Chair
- Alistair Reid, Non-executive Director and Chair of Link Fund Solutions Limited (**LFSL** or the **Company**)
- Tony Stuart, Non-executive Director of LFSL
- PricewaterhouseCoopers (Company Scheme Advisors)
- Clifford Chance (Company Legal Advisors)

Today's attendees – Scheme Creditors (and their authorised representatives)

- **Scheme Creditors** are those who hold a Scheme Claim as at 12 December 2023
- A **Scheme Claim** is all liabilities that a Suspension Date Investor is or may be owed by LFSL
- A **Suspension Date Investor** is any person who had a beneficial interest in shares in the WEIF as at 12.00 p.m. on 3 June 2019
- If a Suspension Date Investor has transferred all or any of its beneficial interest in shares in the WEIF any person who has that beneficial interest as at 12 December 2023 is a Scheme Creditor

Agenda

- Housekeeping
- Company presentation about the Scheme by Alistair Reid
- Summary of the role of the Investors' Committee by the Chair
- Questions and comments with the Company and its advisors
- Questions and comments without the Company and its advisors
- Closing comments from the Chair

Housekeeping – How to Ask Questions or Make Comments

- Attending online:
 - Ask your question or make your comment by typing in the chat box; or
 - Ask your question or make your comment verbally by selecting the Request to Speak button
- Attending by telephone:
 - Press *1 and join the queue to be invited to speak

Questions and comments will be taken during the Q&A part of this meeting

Housekeeping – How to Vote

- Voting online:
 - Click on the voting tab at the top of your screen
 - Click “FOR” to vote in favour of the Scheme, “AGAINST” to vote against the Scheme or “ABSTAIN” if you do not want to vote
- Voting by telephone:
 - If you have requested to vote by telephone, a member of the team will contact you by telephone to take your vote at the end of the Scheme Meeting

You do not have to vote if you appointed the Chair of the Scheme Meeting as proxy. As Chair of the Scheme Meeting, I have instructions by proxy from 53,874 Scheme Creditors.

Meeting resolution

We resolve to approve the scheme of arrangement pursuant to Part 26 of the Companies Act 2006 proposed for Link Fund Solutions Limited, as set out in the Scheme Document, with or subject to any modification, addition or condition approved or imposed by the Court (as it shall think fit) which would not directly or indirectly have a materially adverse effect on the interests of Scheme Creditors as a whole under the Scheme

Presentation by Link Fund Solutions Limited

Alistair Reid
Non-Executive Director and Chair

Background

Link Fund Solutions Limited (LFSL)

- An independent authorised corporate director (**ACD**) of open-ended investment companies
- Authorised and regulated since 1 December 2001, currently by the Financial Conduct Authority (the **FCA**)
- An indirect subsidiary of Link Administration Holdings Limited (**Parent**)

The WEIF

- LFSL is the ACD of LF Equity Income Fund (the **WEIF** or the **Fund**)
- On 31 May 2019 and 3 June 2019, the WEIF received redemption requests totalling 8.2% of its net asset value (**NAV**)
- The size of those redemption requests meant that the WEIF could not meet them without prejudicing the interests of remaining investors
- On 3 June 2019, LFSL suspended trading in the WEIF to protect remaining investors
- Having considered all options, LFSL determined, acting with the approval of the depositary and the FCA, that it was in the best interests of investors to wind the WEIF up
- The winding up formally started on 18 January 2020
- Since 3 June 2019 (the **Suspension Date**), investors in the WEIF have been paid c.£2.56 billion of capital distributions, as well as c.£37.6 million of income

The FCA Investigation

- Shortly after the Suspension Date, the FCA started an investigation into the events that led to the suspension of the WEIF
- The FCA's conclusions in relation to LFSL allege that:
 - investors who left the WEIF from 1 November 2018 onwards benefited disproportionately from the sale of the most liquid assets in the WEIF
 - investors who continued to hold investments in the WEIF on the Suspension Date were treated unfairly because they were left with a disproportionate share of less liquid assets
 - LFSL had failed to comply with principles 2 and 6 of the FCA's Principles for Businesses:
 - Principle 2: A firm must conduct its business with due skill, care and diligence; and
 - Principle 6: A firm must pay due regard to the interests of its customers and treat them fairly; and
 - the investors who continued to hold investments in the WEIF on and after the Suspension Date were owed redress of £298 million

The FCA Investigation – Important Points

- It is important to note that:
 - Other than principles 2 and 6, the FCA did not find that there had been any breach by LFSL of the FCA rules
 - The FCA's conclusions are not final or binding
 - The FCA's conclusions that there had been a breach of principles 2 and 6 are strongly disputed by LFSL
 - LFSL will challenge the FCA's conclusions that it has breached the FCA Principles for Businesses, if the Scheme is not approved
 - The redress does not reflect any amount which may be owed as a result of potential wrongdoing by other parties. The Scheme does not prevent people making claims against third parties in relation to the failure of the fund.
- No further redress is offered because:
 - LFSL believes that it has carried out its obligations in accordance with the FCA's principles and rules
 - The FCA's redress calculation covers the losses that it considers flowed from LFSL's conduct
 - The FCA's redress calculation does not include losses caused by fluctuations in market value or the price of investments; and
 - All of LFSL's available assets are to be paid into the Settlement Fund.

The Litigation Claims

- Certain investors of the WEIF have started Court proceedings against LFSL
- They argue that LFSL breached certain FCA rules
- **LFSL strongly disputes any liability, including those alleged in these claims**
- **Other than concluding that LFSL failed to comply with principles 2 and 6, the FCA did not make any findings in relation to breaches by LFSL of the rules set out in the FCA Handbook. This includes the rules which are alleged to provide causes of action in the litigation claims** – see the FCA Investigation Summary and the FCA Redress Calculation on the Scheme Website
- The litigation claims are at a very early stage, have not been proved and are for an uncertain amount
- The served claims are currently paused until 31 January 2024 to avoid incurring unnecessary further costs
- If the Scheme becomes effective, investors who held shares in the WEIF on the Suspension Date will terminate their litigation claims. The Scheme will not prevent Scheme Creditors (defined below) from claiming against other parties

The Conditional Settlement with the FCA

- LFSL disputes both the FCA's conclusions and the litigation claims and considers that it has carried out all of its obligations as ACD of the WEIF consistent with the FCA's principles and rules
- However, on 19 April 2023, LFSL and Parent agreed a conditional settlement with the FCA (the **Settlement**)
- **Even though LFSL disputes the FCA findings, it agreed to the Settlement because it believes that the Settlement will produce the best outcome for investors**
- **LFSL reached this decision because the alternative to the Settlement would mean incurring significant additional cost and time in dealing with the FCA's conclusions and litigation claims, and it is uncertain whether any compensation would be paid at all. The voluntary Parent Contributions would also fall away**
- The Settlement is subject to two conditions:
 - the Settlement is to be put in place through a scheme of arrangement; and
 - the completion of a sale of the Link Fund Solutions Business by LFSL and its affiliates to the Waystone Group (the **Sale**). This Sale completed on 9 October 2023

What is a Scheme?

- A scheme of arrangement (**Scheme**) is an agreement under the Companies Act 2006 between a company and some or all of its creditors
- For a Scheme to become effective it must be approved by relevant creditors and the Court
- The Scheme is approved by creditors if:
 - more creditors vote for the Scheme than against it; and
 - the creditors voting in favour of the Scheme hold 75% or more of the amount voted
- Only the votes cast will count for determining whether the Scheme has been approved or not
- If Scheme Creditors vote to approve the Scheme, LFSL will ask the Court to approve the Scheme
- If the Court approves the Scheme, the Court order approving the Scheme will be filed with the Registrar of Companies and, if no appeal of that decision is made, the Scheme will become effective
- Once a Scheme becomes effective, LFSL and all relevant investors will be bound by it whether or not they voted for the Scheme or did not vote at all

Who are the Scheme Creditors?

- If you hold a Scheme Claim as at 12 December 2023, you are a **Scheme Creditor**
- A **Scheme Claim** is all liabilities that a Suspension Date Investor is or may be owed by LFSL
- A **Suspension Date Investor** is any person who had a beneficial interest in shares in the WEIF as at 12.00 p.m. on 3 June 2019. If a Suspension Date Investor has transferred all or any of its beneficial interest in shares in the WEIF any person who has that beneficial interest as at 12 December 2023 is a Scheme Creditor

The Settlement Proposal

- The purpose of the Company's Scheme is to put in place the settlement agreed with the FCA
- The Settlement provides that a fund of up to £230 million will be made available to share proportionately amongst holders of shares in the WEIF
- In return for making the Settlement Fund available, Scheme Creditors will release LFSL, Parent, each member of the Company's group and their directors, partners, employees, consultants and advisors and certain other parties from claims they may have relating to the WEIF
- The Scheme will not prevent Scheme Creditors from claiming against other parties, however a Scheme Creditor's rights to receive proceeds from proceedings that they may take against another party will be reduced if LFSL would be liable to pay a contribution to that other party

The Settlement Fund

- The **Settlement Fund** will be made up of three key elements, being:

All of LFSL's available cash assets	
Proceeds from the sale to Waystone	Est. £80,000,000
Other available cash assets	Est. £47,000,000
All of LFSL's remaining rights under certain insurance policies	Est. £48,000,000
A contribution from Parent	Approx. £60,000,000

- The total amount of the Settlement Fund will be reduced by expected costs of £5 million
- LFSL will hold a reserve from the Settlement Fund to pay LFSL's further costs and liabilities (the **Reserve Amount**)
- It is currently estimated that the initial Reserve Amount will be £46.5m. The Reserve Amount will be reviewed at least every 6 months, and any reduction to the Reserve Amount will be transferred to the Settlement Fund.
- Under the Settlement, Parent has also agreed to:
 - contribute any available net consideration from the sales of the Luxembourg and Swiss entities to the Settlement Fund; and
 - contribute up to £2.5 million towards the costs of implementing the Scheme

What happens if the Scheme becomes effective?

- A Settlement Fund of up to £230 million will be made available under the Scheme
- Parent will voluntarily contribute up to £60 million to the Settlement Fund. Additional voluntary contributions from Parent may also be made from the sale of the Luxembourg and Swiss entities although these contributions are not expected to be material
- Parent will make a £2.5 million contribution to help pay for the Scheme costs. This means that LFSL will have additional available assets for the Settlement Fund
- The Settlement Fund will include ALL of LFSL's available assets, which are expected to be greater than if the Scheme does not go ahead
- Payments are expected to be made from the Settlement Fund as early as in the first quarter of 2024
- Scheme Creditors will not need to bring litigation, complete any paperwork or carry out any other steps to receive payment from the Settlement Fund unless the WEIF is dissolved or it is otherwise not possible to make distributions through the WEIF, in which case other provisions will apply
- All Scheme Creditors will be treated equally - the Settlement Fund will be shared proportionately amongst Scheme Creditors, according to the number and class of shares they hold in the WEIF
- Scheme Creditors' rights to receive payments from third parties may be reduced
- Scheme Creditors will not be able to pursue the claims released in the Scheme against the FSCS

What happens if the Scheme does not become effective?

- If the Scheme does not go ahead, LFSL intends to defend itself against the FCA's conclusions and the litigation claims because it disputes them
- Even if LFSL is unsuccessful in that defence, any payments due to investors will not be made for some years
- In addition, there will be less money available to pay compensation to affected investors because:
 - Parent will not pay the voluntary Parent contribution of up to £60 million
 - Parent will not pay the £2.5 million in relation to the costs of the Scheme
 - The costs of the defending against the FCA's conclusions may be significant and will reduce the amount of money that LFSL has available to pay compensation
 - The FCA may decide to impose a financial penalty on LFSL. A draft warning notice issued on 20 September 2022 in respect of the FCA investigation included a proposed penalty of £50 million
 - The costs of defending against the litigation claims may be significant and will reduce the amount of money that LFSL has available to pay compensation
 - If the amount of compensation ultimately awarded is greater than LFSL's assets, LFSL may enter into insolvency proceedings which will mean additional costs

Advantages of the Scheme

- LFSL considers that investors are better off with the Scheme than without the Scheme because:
 - LFSL will pay ALL of its available assets to Scheme Creditors under the Scheme
 - If the £230 million Settlement Fund is distributed in full, investors will receive about 80% of the NAV of the WEIF at the Suspension Date (more than would be available from LFSL without the Scheme)
 - Payments are expected to be made earlier (in the first quarter of 2024) than would otherwise be the case
 - Parent will make a voluntary contribution of up to £60 million to the Settlement Fund
 - Parent may make an additional voluntary contribution from the sale of the Luxembourg and Swiss entities
 - Parent will also make a contribution of up to £2.5 million towards the costs of the Scheme
 - The Scheme provides a convenient and streamlined process for making payments to investors
 - Shareholders in the WEIF will be treated equally and receive the same payment percentage
 - The FCA enforcement case against LFSL will be resolved with no additional financial penalties
 - LFSL's costs will be reduced because it will not need to defend against the FCA's conclusions and/or the litigation claims
 - The Scheme does not prevent Scheme Creditors from bringing claims against other parties

Disadvantages of the Scheme

- The possible disadvantages of the Scheme:
 - The Settlement Fund will be less than the redress amount of £298 million that the FCA considers that the investors who continued to hold investments in the WEIF on and after the Suspension Date were owed
 - Scheme Creditors will no longer be able to bring claims against LFSL, Parent and its subsidiaries (and each of their directors, partners and employees, advisors and officers) in relation to the WEIF
 - A Scheme Creditor's rights to receive proceeds from proceedings that they may take against another party will be reduced if LFSL would be liable to pay a contribution to that other party
 - Scheme Creditors will not be able to pursue Scheme Claims against the FSCS

The Position of the FCA

- **19 April 2023**

“If approved, the Scheme offers investors substantially more than is otherwise available from LFS alone and more than would be achieved by any other means, given the contribution by Link Group.”

“We believe the proposed Scheme offers investors the best chance to obtain a better outcome than might be achieved by any other means and it is in the investors’ interests they be given the chance to consider it”

- **10 November 2023**

“The FCA considers the Scheme to be the quickest and best way to return as much money to investors as possible compared to other means”

- **27 November 2023**

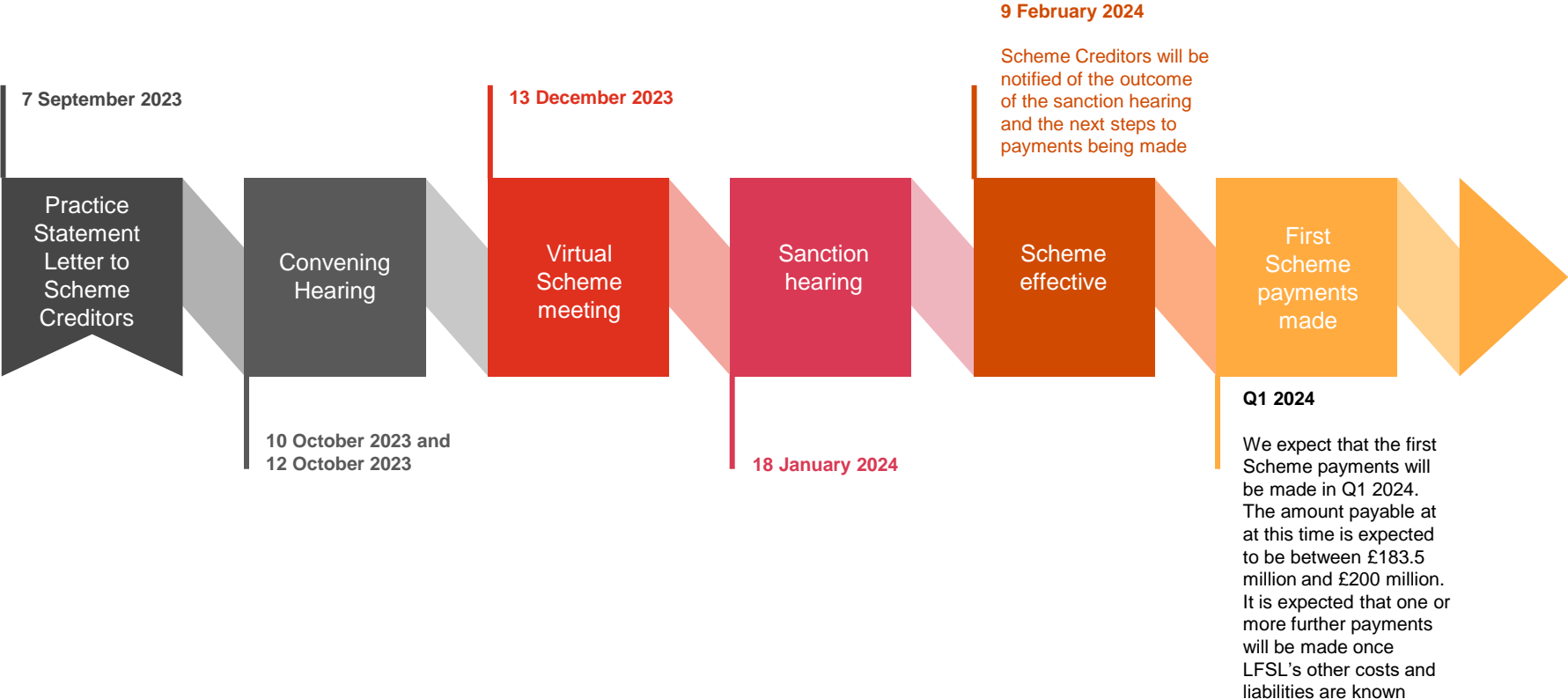
“This Scheme represents the best way for most people to get money back. Any other routes are highly uncertain, would take much longer and be unlikely to deliver anywhere near the levels of redress being suggested elsewhere. The scheme does not prevent people making claims against third parties in relation to the failure of the fund.”

The Position of the FOS and FSCS

- Some investors have complained to the Financial Ombudsman Service (**FOS**)
- 104 complaints have been referred to the FOS, and 85 remain open. None have been decided against LFSL
- If the Scheme succeeds, all claims against LFSL will be settled. This means that there will be no basis for Scheme Creditors to bring or continue FOS complaints against LFSL
- If the Scheme does not proceed, LFSL will dispute any claim made or continued with the FOS

- The Financial Services Compensation Scheme (**FSCS**) is the UK's compensation scheme for customers of authorised financial services firms
- LFSL has been in discussions with the FSCS since June 2023
- The FSCS may pay compensation where it is satisfied that a “Protected Claim” has been made by an “Eligible Claimant” against a firm in “Default”
- It is a matter for the FSCS to determine whether or not any payments are or will become due
- The FSCS has not made any determination in relation to the FCA’s conclusions
- The FSCS has confirmed that it will assess and pay claims in accordance with its rules
- With the Scheme, relevant investors do not have to prove these matters to qualify for a payment from the Settlement Fund

Next Steps



The Position of the Investors' Committee

- An Investors' Committee was formed by the independent Chair of the Investors' Committee (Jamie Drummond-Smith)
- The Investors' Committee comprised of nine investors: seven individuals and two representatives of institutional funds
- The Investors' Committee included investors who have brought a claim against LFSL as part of the litigation claims
- Eight out of nine members of the Investors' Committee concluded that the Scheme provides a better outcome than the alternative described in the Practice Statement Letter. This conclusion was based on:
 1. the information provided by the Company and by the FCA; and
 2. all constituent elements stated to comprise the Settlement Fund of up to £230 million being received and ultimately distributed to Scheme Creditors under the terms of the Scheme

Questions and Answers

With LFSL present:

- Questions from online participants
- Questions from telephone participants

Without LFSL present:

- Questions from online participants
- Questions from telephone participants

Closing remarks

- A notice regarding the outcome of the vote of this meeting will be published by 15 December 2023, by order of the Court
- As Chair of the Scheme Meeting, I am required to report the proceedings of this meeting to the Court at the hearing where LFSL will ask the Court to approve the Scheme
- The Court hearing will be held on 18 January 2024. If you wish to attend the hearing, please contact josephbannister1A@dacbeachcroft.com
- The meeting will remain open for 1 hour to allow participants to vote. After that time, the meeting and the vote will close