

Dear Sir / Madam

**London Capital & Finance Plc (in administration) (“LCF”)**

We are writing to you as a Bondholder of LCF, to update you on the progress in the administration of LCF. This communication is being sent to you by email as an update to (1) our original email to the Bondholders dated 31 January 2019 and (2) our periodic updates of the FAQs, which we have placed on LCF's website. A copy of this communication will be placed on the LCF website too.

When referring to Bondholders in LCF we are including investors who have invested either directly into an LCF mini-bond or through an LCF ISA-labelled financial product.

This communication has the following sections:

1. The administration of LCF
2. Information available to Bondholders
3. What are the prospects of Bondholders getting all of their money back, and when?
4. The Risk of the Bondholders not being repaid in full
5. The Borrowers
6. Security taken by LCF to secure the amounts owed by the Borrowers
7. Bondholder concerns
8. Potential legal actions by the Administrators against any and all parties which are found to have caused loss to the Bondholders through any improper actions.
9. Bondholder Claim Form
10. The FCA and the FSCS
11. Bonds bought through ISAs promoted by LCF as an ISA manager
12. Bondholder Facebook Groups
13. Assistance requested from Bondholders with regard to representations made to them during their bond application process
14. The Administrators' Proposals and the formation of a Creditors'/Bondholders' Committee
15. Further information
16. How we will contact you in the coming weeks
17. Contacting us
18. Summary

**1. The administration of LCF**

As you will be aware, on 30 January 2019, LCF entered into administration and Finbarr O'Connell, Adam Stephens, Colin Hardman and Henry Shinnars of Smith & Williamson LLP were appointed as Joint Administrators.

The Administrators were appointed by the directors of LCF, by order of the court, and with the consent of the Financial Conduct Authority (the “FCA”).

The Administrators are independent of the directors of LCF and have had no previous involvement with LCF or with the Borrowers from LCF. The Administrators act in the best interests of the creditors of LCF, which are mostly made up of its Bondholders. The Administrators are working efficiently and quickly in order to get the best possible results for the Bondholders in the most cost-efficient way.

## 2. Information available to Bondholders

The information contained in this Bondholder communication supplements that on LCF's website and the Administrators' FAQs.

Please note that the FAQs are being updated at appropriate times. The website links and relevant phone numbers can be found at the end of this document.

## 3. What are the prospects of Bondholders getting all of their money back, and when?

It is too early for the Administrators to say how much money they will be able to return to Bondholders and when any payments will be made to them. The Administrators are working to maximise returns to Bondholders as quickly as they are able.

The Administrators are now evaluating (i) LCF's current financial position, and (ii) working to maximise recoveries either in the short or longer term for the benefit of Bondholders. The Administrators will continue to update the Bondholders with the progress that they are making with their investigations.

LCF has 11,605 Bondholders who invested c£236m into a total of c14,000 mini-bond/ISA financial products. That Bondholder money was then lent by LCF to a small number of Borrowers (including sub-Borrowers).

LCF employed the services of an agent to raise monies from the Bondholders and process their mini-bond/ISA applications. LCF paid that agent 25% of the funds raised, except in the case of 5 year mini-bonds where it paid that agent 22.5%. Hence, c£60m of the monies invested by the Bondholders have been paid to that agent. Other fees of c.3% were charged by LCF and the custodian to the mini-bond/ISA monies prior to them being lent to the Borrowers. We are investigating the relationship between LCF and the agent.

Accordingly, in order for LCF to be able to repay the Bondholders, the Borrowers would need to make very substantial returns on the monies loaned from LCF to them. For instance, in the case of a:

- 1 year bond, we estimate that the associated Borrowers would need to repay LCF c.144% of the amount loaned to them, and thus requiring them to make a c.44% return in one year on the monies loaned to them.
- 2 year bond, we estimate that the associated Borrowers would need to repay LCF c.157% of the amount loaned to them over the 2 year period, requiring them to make a c.28.5% annual return on the monies loaned to them.

- 3 year bond, we estimate that the associated Borrowers would need to repay LCF c.174% of the amount loaned to them over the 3 year period, requiring them to make a c.24.5% annual return on the monies loaned to them.
- 5 year bond, we estimate that the associated Borrowers would need to repay LCF c.195% of the amount loaned to them over the 5 year period, requiring them to make a c.19% annual return on the monies loaned to them.

It is clear that the process of working out the Borrowers' loans in order to generate sufficient funds to repay the Bondholders is going to be complex.

#### **4. The Risk of the Bondholders not being repaid in full**

The previous management of LCF continue to stress that they believe the level of security available to LCF to cover its lending to the Borrowers will be sufficient to see the Bondholders repaid in full.

However, when both the level of the fundraising agent's commissions, and the interest rates due to the Bondholders, are taken into account, there is a substantial risk to the Bondholders that they will not receive a full repayment, including interest, of the monies due to them.

It is too early to determine the level of that risk to the Bondholders but the Administrators will keep the Bondholders informed of their assessment of that risk as the administration progresses.

No loans to borrowers are expected to be repaid imminently. However, the Administrators will report the likely dates of repayments to the Bondholders as soon as they become aware of them.

#### **5. The Borrowers**

The Administrators are in direct contact with all of the Borrowers (and sub-Borrowers - see below) and are assessing their ability to repay, at the appropriate maturity dates, or earlier, if possible, the monies loaned to them by LCF. The largest Borrower has been lent c£122m by LCF, which has been significantly on-lent to a small number of further sub-Borrowers.

The Borrowers and sub-Borrowers operate in a variety of different sectors and the Administrators are utilising the services of specialist teams and advisers to assess their ability to generate sufficient funds to repay LCF and hence the Bondholders. The Administrators are also investigating which of these are either actively trading or hold investment properties. The Administrators do not intend, at this stage, to name each Borrower and sub-Borrower as, to do so, might result in media attention, to the ultimate detriment of the Bondholders.

In a number of cases, the Borrowers (and sub-Borrowers) have indicated that they will be unable to generate the very high levels of financial return needed to settle the claims of the Bondholders without engaging in debt for equity swaps. This suggestion was already in contemplation with regard to one of the sub-Borrowers when the Administrators were appointed. The Administrators have appointed relevant specialists, RISC (UK) Limited, to assist them in assessing the partial debt/debt interest for equity swap proposals in that case. Furthermore, the equity in that particular case is in a quoted company. The Administrators have installed an observer on the board of this major sub-Borrower (see below) to analyse the risks involved in the partial debt/debt interest for equity swap proposal so as to be able to make an informed decision which is in the best interests of the Bondholders. It is clear that there will be further such suggestions for the Administrators to consider as this administration progresses and the Administrators will take specialist advice in each case.

Some specific points to highlight as regards the Borrowers and sub-Borrowers at this stage of our work are as follows:

- At least one of the Borrowers has informed the Administrators that it is looking to refinance the entirety of its loan with a third party.
- Teams from the Administrators' office, their lawyers (Mishcon de Reya LLP) and specialist advisers are engaged with all of the Borrowers and sub-Borrowers in order to assess their financial position and ability to repay at the appropriate maturity dates, or earlier, if possible, the monies due to LCF.
- The board of directors of the major Borrower, which has borrowed c£122m from LCF, has agreed, at the Administrators' immediate request, to take a director onto its board, in order to represent the interests of the Administrators and hence of the Bondholders. The appointed director is an experienced corporate restructuring and turnaround professional with a strong banking and operational background. One of the sub-Borrowers has already agreed that this person will also sit as an observer at their board meetings and the Administrators intend to demand such board representation or observer status in the case of all Borrowers and sub-Borrowers where they believe that would be in the ultimate interests of the Bondholders. The administrators are speaking to a variety of potential other directors and/or observers in order that they can have more transparency and control over the activities of all of the Borrowers and sub-Borrowers. The role of this new director will involve potentially acting in an executive capacity.
- In the case of one of the Borrowers, the Administrators have received an offer from two senior stakeholders to personally guarantee a £9m loan and the Administrators and their lawyers are currently producing the legal documentation to validate that arrangement.
- In the case of one of the Borrowers, the Administrators have received an undertaking from another charge holder to amend its charge in the amount of c£5.5m so as to allow legal priority for the charges in favour of LCF. The Administrators and their lawyers are currently producing the legal documentation to validate that agreement.

It is clear that the financial relationships between LCF and the Borrowers and sub-Borrowers are complex but the Administrators will continue their strategy of working closely with the Borrowers and sub-Borrowers with a view to maximising the returns to the Bondholders. The Borrowers and sub-Borrowers have all stated that they will cooperate with the Administrators to maximise returns to the Bondholders and the Administrators will keep the Bondholders updated with regard to this in future communications.

## 6. Security taken by LCF to secure the amounts owed by the Borrowers

The Bondholders will be aware that LCF took security over the Borrowers and their assets to secure the repayment of the loan amounts. The directors of LCF have indicated that the strength of this security will protect the Bondholders in circumstances where the Borrowers and sub-Borrowers do not have sufficient cash to be able to meet their annual interest and capital repayment obligations. However, the Administrators are currently reviewing the value of the assets over which LCF has taken security and the adequacy of that security. In the case of sub-Borrowers, the Administrators are both (1) assessing the value of the sub-Borrowers' security available to the Borrower, and (2) demanding to have direct security over the assets of the sub-Borrowers for the benefit of the Bondholders.

It is important to note that a critical element of the Administrators' work is to fully investigate the security value of the Borrower companies and their assets to ascertain the best strategy for realisation of that security.

## 7. Bondholder concerns

We are aware of the following major concerns expressed to us:

- There are concerning connections between people currently or previously involved with LCF and people currently or previously involved with the Borrowers and sub-Borrowers.
- The fact that c£236m of Bondholder monies has been lent by LCF to a small number of Borrowers and sub-Borrowers shows a lack of the spread of risk that one would expect from a professional portfolio manager. It is especially concerning that c£122m was lent to one Borrower, notwithstanding that Borrower on-lent a large proportion of that money to a number of sub-Borrowers.
- The Bondholders believed that their money was being lent to a wide portfolio of UK small and medium sized enterprises ('SMEs') but they now find that it has been lent to a small number of complex businesses with substantial risk profiles and which are often dependent on foreign and/or exotic (such as oil & gas) assets.

- The Bondholders are very concerned:
  - that they have been characterised as sophisticated lenders when, in reality, they are often people who have invested their life savings in LCF financial products for the best possible return. The Bondholders are very upset that the boards of directors of the Borrowers and sub-Borrowers have viewed them as investors with an interest in investments with high risk profiles.
  - that LCF was planning to engage in debt for equity swaps with the Borrowers and sub-Borrowers, using the monies lent by the Bondholders. The Bondholders had seen no evidence in any of the Information Memoranda indicating that Bondholder monies might be used in this way.
  - that there are corporate transactions involving the Borrowers and sub-Borrowers which involve companies with similar names, frequent name and accounting date changes, Companies House strike off notices and the same individuals.

The Administrators have been investigating and following up on the same matters as those reported by the Bondholders. However, whilst analysing and interpreting all of the Bondholders concerns, the Administrators' main focus is to maximise the financial returns to the Bondholders.

#### **8. Potential legal actions by the Administrators against any and all parties which are found to have caused loss to the Bondholders through any improper actions.**

It is very important for the Administrators to confirm that, in the event the Bondholders do not receive a full return on their investments (plus interest) the Administrators will take the appropriate legal actions against any and all parties which are found to have caused loss to the Bondholders through any improper actions.

#### **9. Bondholder Claim Form**

The Administrators are currently designing a claim form (and questionnaire) which will enable all Bondholders to lodge their claims with the Administrators and to help the Administrators to investigate LCF's affairs. This claim form and questionnaire will be sent to the Bondholders when the Administrators have had input into its design from all relevant parties.

## 10. The FCA and the FSCS

The FCA has stated that investors are unlikely to have access to the FSCS but that this is a matter for the FSCS to determine. We are in discussions with the FSCS in this regard.

The FCA has a section on their website with various questions and answers. Here is a link to it:

<https://www.fca.org.uk/news/news-stories/london-capital-and-finance-plc-enters-administration>

## 11. Bonds bought through ISAs promoted by LCF as an ISA manager

LCF issued bonds which it indicated would be deemed ISA qualifying investments. The FCA has maintained an alternative position and in their second supervisory notice (dated 17 January 2019) it states that “it...appears that LCF’s Bonds do not qualify to be held in an ISA account”.

The FCA’s website does state in relation to people holding ISAs with LCF that they “do not need to take any action at this time with respect to their tax position and the Administrators understand that this has been confirmed by the FCA with Her Majesty’s Revenue & Customs (‘HMRC’). Here is a link to the FCA’s website [www.fca.org.uk/news/news-stories/london-capital-and-finance-plc-enters-administration](http://www.fca.org.uk/news/news-stories/london-capital-and-finance-plc-enters-administration)

As part of our work, we are liaising with HMRC (including regular conference calls) on the tax status of the LCF bonds. HMRC have confirmed to us that they are carrying out a review with regard to this and will be corresponding with all of the Bondholders who have invested in their mini-bonds by way of ISAs promoted by LCF as an ISA manager, when they have completed their investigations in this regard.

No ISA transfers to other ISA providers can be actioned by the Administrators, the Company or any third party at this time.

ISA holders can contact HMRC by email at [savings.audit@hmrc.gsi.gov.uk](mailto:savings.audit@hmrc.gsi.gov.uk) with regard to any specific questions they have relating to the tax status of their ISAs.

## 12. Bondholder Facebook Groups

The Administrators have been in constant communication with Nathan Brown who is the co-ordinator of the largest Bondholder Facebook Group. The Administrators have also been in contact with other smaller groups.

### **13. Assistance requested from Bondholders with regard to representations made to them during their bond application process**

The Administrators wish to interview a cross-section of 30 Bondholders with regard to the representations made to them when they applied to invest in the mini-bonds and the LCF ISA-labelled product. The Administrators have identified a number of Bondholders to assist in this regard through the Bondholder action groups but if any other Bondholder would like to be considered for involvement in this review process can they please email to [LondonCapital@smithandwilliamson.com](mailto:LondonCapital@smithandwilliamson.com) quoting, in the email subject heading, 'Representations made to Bondholders during their bond application process', and they will then be considered for inclusion in this process.

The Administrators are particularly interested in any advice given to them, or representations made to them, during the application process from LCF or its agents with regard to the benefits to be obtained from applying for or re-investing in the LCF mini-bonds or ISA-labelled financial products.

### **14. The Administrators' Proposals and the formation of a Creditors'/Bondholders' Committee**

Within 8 weeks of the Administrators' appointment (which equates to 27 March 2019), they will be contacting creditors (which mostly means Bondholders) with details of the Administrators' Proposals. Creditors will receive access to a website portal from where they will be able to download the Administrators' Proposals. The Administrators' Proposals will contain essential updates for the creditors.

A creditors' meeting will be convened at the time when the Administrators' Proposals are being considered and creditors will be able to vote on certain key matters in person or by proxy.

One key matter which creditors/Bondholders will be able to vote on at that creditors' meeting will be the formation of a creditors'/Bondholders' committee which can be composed of up to 5 formal members (plus potentially some observers). The committee has a key role in working with the Administrators so that the Administrators can both (1) put certain formal resolutions as regards the business of the administration before that committee and also (2) act as a sounding board for the Administrators as regards the creditors'/Bondholders' views and opinions relating to the manner in which the administration should operate.

### **15. Further information**

As we have mentioned before, you can find further information, including the updated FAQs at the LCF website. Here is a link to it:

[www.londoncapitalandfinance.co.uk](http://www.londoncapitalandfinance.co.uk)



The FAQs contain questions and answers relating to ISA status, the administration process and the FSCS.

The FCA's website also has a section as regards LCF, which we understand will be updated with further information from time to time. Here is a link to it:

[www.fca.org.uk/news/news-stories/information-london-capital-and-finance-plc-investors](http://www.fca.org.uk/news/news-stories/information-london-capital-and-finance-plc-investors)

**Login Access.** The Administrators are working to ensure that access to the client portal remains live. Obviously, in light of recent events the website may experience high levels of traffic, so please bear with us. However, you should still be able to login to the website. The website is:

[www.londoncapitalandfinance.co.uk/login](http://www.londoncapitalandfinance.co.uk/login)

Please be aware that the system will have limited functionality and, for instance, you will not be able to carry out any transactions. The information currently available on the Company's platform is based on the Company's records as at the date of our appointment.

## **16. How we will contact you in the coming weeks**

We will continue to provide updates in the coming weeks.

We will also be writing to you with details around the insolvency process. This, more lengthy document will be provided to you within 8 weeks of our appointment and is called the Administrators' Proposals document. The 8 week anniversary corresponds to 27 March 2019. It will set out the Administrators' plans for managing the Administration. You will receive a letter with access to a website portal from where you will be able to download the Administrators' Proposals.

## **17. Contacting us**

We have set up a dedicated call centre helpline phone number and a dedicated email address: [LondonCapital@smithandwilliamson.com](mailto:LondonCapital@smithandwilliamson.com)

The call centre helpline operates Monday to Friday, 0800 to 1900 (GMT).  
UK - 0800 046 7006. International - +44 (0)20 3281 1808.

The people who are manning the phone lines will be able to take queries, but will not be able to answer any specific details about your individual Bonds. They will likely refer you to information contained within the FAQs.

## 18. Summary

We hope that this further update is helpful to Bondholders. We appreciate that this is a lengthy document, however, we consider it important to provide you with as much information as we are able to at this time. We have been contacted by many Bondholders, and we thank you for your input to the administration process at what we know is a very concerning time for you. We want to reiterate that the Administrators key role is to maximise realisations for the benefit of all creditors of LCF.

We will continue to update the FAQs as appropriate, in order to provide the most up to date and relevant information to the Bondholders.

Thank you.  
Yours faithfully

**Joint Administrators**  
Finbarr O'Connell, Adam Stephens, Colin Hardman and Henry Shinnors

The affairs, business and property of the Company are being managed by the administrators Finbarr O'Connell, Adam Stephens, Colin Hardman and Henry Shinnors who act as agents of the Company and without personal liability. Finbarr O'Connell, Adam Stephens, Colin Hardman and Henry Shinnors are licensed as insolvency practitioners in the UK by the Institute of Chartered Accountants in England and Wales. Further information regarding the administration can be found at the joint administrators' webpage: [www.smithandwilliamson.com/london-capital](http://www.smithandwilliamson.com/london-capital) London Capital & Finance Plc is incorporated in England and Wales under the Companies Act 2006 with registered number 08140312. The Company is authorised and regulated by the Financial Conduct Authority with FRN 722603.

The Fair Processing Notice in relation to the General Data Protection Regulation can be accessed at <https://smithandwilliamson.com/rrsgdpr> Should you wish to be supplied with a hard copy, free of charge, please contact Smith & Williamson's offices.