Investment in Life Settlements

An Overview

SL investment management

Industry Leaders and Innovators

Industry Leaders and Innovators

$4.9bn of life settlement face value traded globally during 2015[1]

$1.4bn in maturity proceeds collected by SL on behalf of clients to end 2015[2]

1,900 policy investments made by SL clients to end 2015

60.8% average IRR on SL client matured policies

SL Investment Management

SL Investment Management (SL) is considered to be one of the largest and most expert 'full service' secondary life policy specialists in Europe.

Established in 1990, SL has managed or advised over 30 collective investment vehicles comprising total assets valued in excess of $2.6bn. We have around 20 trained professionals, and an executive team who average 12 years' experience in the sector. We specialise in investment products based primarily on Secondary Life Assets sourced in the UK and US. Our 'full service' solution includes product design and structuring, investment negotiation & acquisition, and all aspects of managing portfolios.

SL has a worldwide client base; our funds should be viewed as medium to long term investments and we pride ourselves on the development of successful long-term client relationships.

Aggregating policies into investment portfolios that will generate real value for investors is dependent upon accurate modelling and pricing together with rigorous asset selection. SL has its own in-house Actuarial team and a proven and unique value-based pricing system, providing clients with unparalleled expertise in these areas.

> "SL has been an important partner over the last 22 years, serving as investment advisor, and co-manager on 4 of our publicly listed Investment Trust Funds "
>
> **Peter Ingram, Allianz Global Investors**

SL is also able to offer a wide range of advisory and management services to the owners of pre-existing Life Settlement portfolios. Whether it be a one-off valuation, premium optimisation, due diligence, data cleansing, cash-flow model projections or client reporting, SL is able to provide an effective solution. SL is able to provide these services individually or as a full suite, on both an ad-hoc or periodic basis. [Click here for more information]

SL is authorised and regulated by the Financial Conduct Authority.

Why choose SL?

- Over 25 years' experience.
- An indexed return of 8.3% to date (average for all policies) and 60.8% IRR on policies reaching maturity.
- 100% collection record of maturity proceeds for secondary life assets ($1.4bn of maturity proceeds).
- All management functions controlled in house e.g. $246m of life settlement premiums paid, daily monitoring for deaths, 0% losses due to policy lapses.
- Unfettered market access; we utilise all sources of secondary and tertiary policy acquisitions.
- Comprehensive due diligence on all transactions - Life Settlements due diligence approved by US counsel.
- Cautious and conservative, we build long term relationships and partnerships based on quality advice. Future performance projections are realistic and based on full, transparent actuarial calculations.
- Specialist teams in trading, fund management and administration, all underpinned by our in-house actuarial team.
- Fully cost transparent including origination, servicing and management.
- Proprietary actuarial pricing model achieves portfolios tailored to each investor's profile.
- Extensive in-house developed trading platform.

1 SL estimate of combined secondary and tertiary market trades;
2 figure includes US life settlements and UK traded endowment policies

Life Settlements - key investment characteristics

Life Settlement investment returns are fundamentally based on mortality and thus have low market correlation coupled with low volatility. This represents an excellent 'market neutral' alternative to traditional investment classes.

Life Settlements are life insurance policies purchased at a significant discount to the maturity amount (Net Death Benefit - NDB). This can offer attractive returns typically around 8%-12% per annum, net of fees.

The counterparty for NDB payments are US insurance companies with investment grade ratings typically A+ or above.

Insurance liabilities (including the commitment to pay NDB on maturing policies) ranks above an insurance company's commitments to equity and bond holders (see graphic below). The collection of NDB upon maturity is very secure; hence life settlements, with a potential return of 8-12%, have a very attractive risk-return ratio when compared to an insurance company's bonds.

Excellent risk-adjusted returns

Insurers' policy liabilities rank above their equity and debt; yet the GRY on a life settlement is above the current GRY on life office bonds (see graph below and subsequent discussion on the unique properties of Life Settlements).

Reliably projected performance

Sophisticated actuarially-based models and value-based pricing systems can forecast Life Settlement investment performance.

Proven track record

Life Settlements are a well established asset class; since 2008, policies acquired by SL Investment Management clients have achieved an average return of 8.3%.

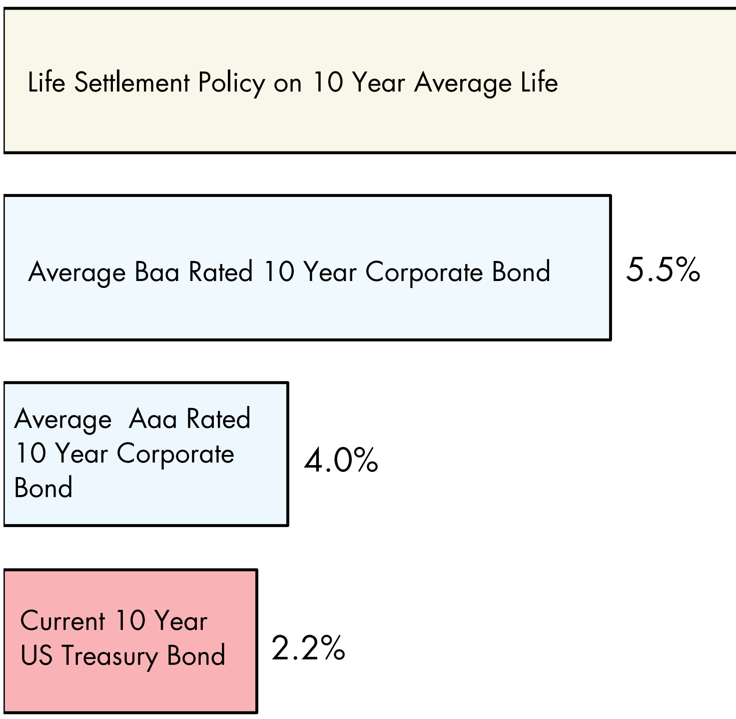
Low volatility

Life Settlement portfolio investments held to maturity are less volatile than traditional investments, such as equities. Returns are primarily dependent upon mortality experience and secondary market values, which have historically changed slowly.

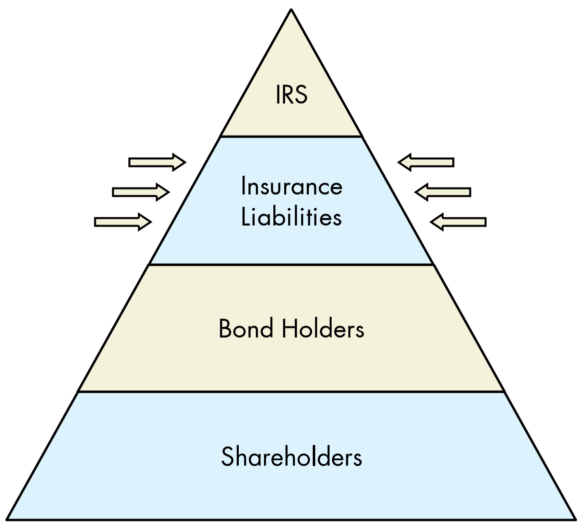
Minimal market correlation

Investment performance is directly linked to the life expectancy of the insured, unless policies are sold prior to maturity. Therefore, the asset has low correlation to traditional equity, property and bond markets.

Net yields of various 10 year assets December 2015



Seniority pyramid of insurance company



Source: US Federal Reserve (December 2015)

Typical Life Settlement policy investment example

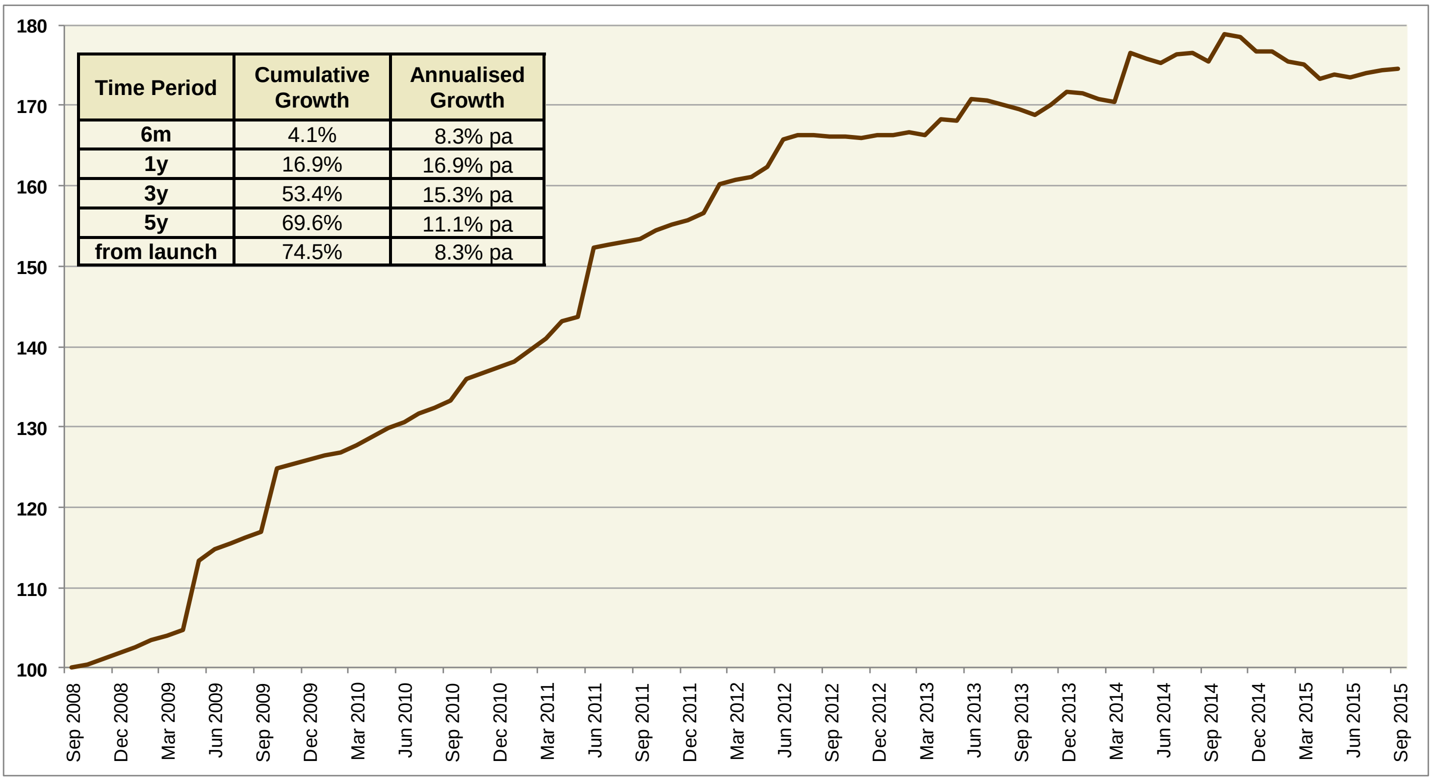
Policy Type	Universal Life
Net Death Benefit	$1,750,000
Average Annual Premium	$120,000
Surrender Value	$20,000
Age of Life Insured	83 years
Pricing Life Expectancy	7.63 years
Purchase Price	$360,000
Life company Rating	A

Life Expectancy - 5.63 years	28.71% per annum
Life Expectancy - 6.63 years	20.43% per annum
Life Expectancy - 7.63 years	14.32% per annum
Life Expectancy - 8.63 years	9.45% per annum
Life Expectancy - 9.63 years	5.23% per annum

The example above demonstrates that returns are largely dependent upon the timing of the death of the insured life. Consequently, an investor is exposed to the 'longevity risk' of an insured life surviving longer than projected. The valuation methodology employed by SL utilises mortality expectations set out in the VBT2008 (issued by the Society of Actuaries), along with additional adjustments that allow for future mortality improvements and a period of lower mortality immediately following on from the policy purchase. Multiple policy specific factors are taken into account to ensure the projected returns are in line with the perceived risk.

SL Life Settlement performance index

The SL Life Settlements performance index is a simulated monthly index constructed from the raw performance of all Life Settlements ('Policies') acquired by investment vehicles advised or managed by SL since September 2008. This date has been chosen to coincide with the publication of the U.S. Society of Actuaries 2008 Valuation Basic Table (2008 VBT). A common and consistent valuation has been applied to all policies present in the index using the latest SL valuation curves, with the opening position derived from the actual purchase price of the policy. Monthly movements are calculated from aggregated policy cash flows including premium payments, sale proceeds, withdrawals, maturity proceeds and the unwinding of the valuation. The monthly movements are compounded to construct the index.



Time Period	Cumulative Growth	Annualised Growth
6m	4.1%	8.3% pa
1y	16.9%	16.9% pa
3y	53.4%	15.3% pa
5y	69.6%	11.1% pa
from launch	74.5%	8.3% pa

History of Life Settlements

2014: Report released by Market Data confirms increased activity in secondary and tertiary markets, boosting achievable internal rates of return for investors.

2013: Texas becomes the first state to allow owners to use the proceeds from selling a life insurance policy in the secondary market to pay for long term care.

2013: London Business School study concludes that policy sellers can expect more than four times the amount selling a policy in the secondary market than they would receive surrendering it to the insurance carrier.

2012: Delaware Judiciary Committee pass a bill preventing carriers from retaining premiums while still voiding policies.

2011: As a result of the LISA initiative, the LE underwriting companies create a spin-off Association, the LE Providers Association (LEPr) and begin consulting with the industry on disclosure and best practices.

2011: Delaware court rules policies can be challenged outside of their S&C period but the intention to sell does not breach insurable interest rules.

2010: New York state Court of Appeals rules that a person can take out a policy on their own life and immediately transfer it to whomever they want even with the new owner having no insurable interest.

2010: LISA publishes underwriting best practices.

2010: The Securities & Exchange commission release a staff report recommending that Life Settlements be clearly defined as securities.

2009: SL Investment Management is a founder member of the European Life Settlement Association (ELSA), established to promote fair standards for the Life Settlement industry in Europe.

2009: Oregon, Maine and Washington sign state legislation requiring life insurers to notify policyholders that Life Settlements are a viable alternative to lapse or cash surrender.

2008: Analysis of experience causes a number of Life Expectancy companies to rebase their mortality and underwriting approach leading to increased convergence and comparability.

2003: SL Investment Management enters the Life Settlement market by launching the world's first listed Life Settlement fund, Alternative Asset Opportunities, on the London Stock Exchange.

2000: The National Conference of Insurance Legislators (NCOIL) adopts a Life Settlements Model Act defining good business practices for the emerging industry.

1995: The Life Insurance Settlement Association (LISA) is formed to address needs of the market.

1990s: Increased senior awareness and participation.

1980s: First period of major growth.

1911: Supreme Court case, Grigsby vs. Russell establishes life insurance policies as transferable property.

Life Settlements

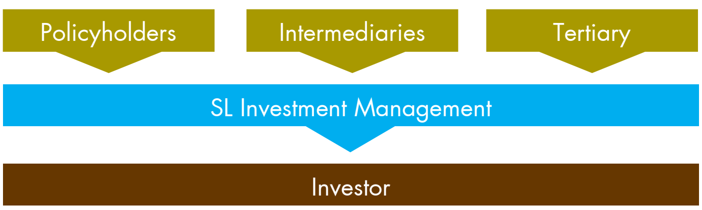
Added Value

Life Settlements are life insurance policies issued on the lives of US seniors that have been sold by the original policy owner. The investment return to the new owner is the excess of the Net Death Benefit (NDB) received over and above the purchase cost of the policy plus premiums paid up to maturity. Typically, sensible target net returns for investors in a Life Settlement fund are 8% - 12% per annum. Although many Life Settlement companies frequently use more aggressive assumptions to indicate much higher achievable returns, we believe in a more conservative approach, quoting what we believe to be more realistic expectations of actual investor performance.

A number of key skills and targeted approaches can be used to create value in a Life Settlement investment, these include:

- Enhancing policy value through the prudent selection of service partners
- Efficient sourcing of assets from secondary and tertiary markets, creating value through utilisation of broad supply channels, providing access to the widest range of policies at the best possible prices
- Accurately modelled distribution of mortality events for each insured life leads to a rigorous and diligent valuation process, resulting in the 'right' purchase price
- Ongoing monitoring and active management of the portfolio

Market Structure



SL utilises all available sources for acquiring policies. A typical transaction will involve the direct transfer of ownership from the original US senior into the name of the SL client portfolio. However, as the market has matured there has been an increasing component of re-trading, whereby existing investors onwardly sell policies. This 'tertiary' market is now estimated to account for around third of transactions in the Life Settlement market.

In recent years SL has developed a very powerful and user friendly online submission and valuation platform that allows for a rapid and efficient turnaround of bids. Further, it is typical that SL will see identical policies offered through multiple sources in the market; our systems allow for an authoritative cross referencing of data at both life insured and policy level. This provides SL with a distinct advantage in terms of rapid response bidding, and aggregating of data enables us to identify particular value opportunities for investors in the market.

Our broad and independent acquisition approach has the benefit of increasing competition between brokers. This results in downward pressure on commission payments to intermediaries, which is to the ultimate benefit of both the policy vendor and secondary investor. The level and quality of information provided from multiple sources also improves the overall quality of information in respect of each policy, enabling a better informed assessment to be made of the real underlying value to the investor.

Market Size

The volume of Life Settlements traded in the secondary market is large and growing rapidly. In 2010, independent analysts estimated that policyholders settled approximately $8bn in face value and there were reported to be approximately $35bn of Life Settlements already traded and owned by secondary investors.

Analysts estimate that the market has the potential to grow to up to $162bn by 2019.

A strong supply dynamic exists and awareness of the market is rising. 90% of US States now have some form of Life Settlement regulation.

Market Regulation

The Life Settlement market is regulated at the state level. Each state has its own insurance commission that regulates and enforces the business of insurance within its state borders. The Life Settlement industry operates within a rapidly maturing market; very few states remain unregulated, and the level and quality of regulated states is increasing. SL has always been a strong supporter of consistent and rigorous regulation of secondary life markets, both in the US and the UK.

At Federal level, a recent General Accounting Office report in 2012 concluded that the market successfully benefits US seniors. The report supports the opinion that the market is here to stay, with expectations that market regulation will continue to be developed and supported at both the State and Federal level.

The Life Settlement market trade body in the US is the Life Insurance Settlement Association (LISA). The mission of LISA is to, "promote the development, integrity and reputation of the Life Settlement industry; and to promote a competitive market for the people it serves."

SL is a founding member of ELSA (the European Life Settlements Association) which was formed to promote ethical practices and investor education regarding the secondary life asset market.

Q & As

Is this market beneficial for US seniors?

For "Seniors" (older policyholders), the development of the secondary market has created liquidity for a previously illiquid asset. Policyholders are now receiving a value for their policies where previously they were left to lapse or surrender at a nominal value. Over 80% of all life policies lapse prior to claim; so the biggest benefactors of a policy sale are always the policyholders themselves.

The secondary market provides a win-win arbitrage opportunity; the life insured gains more value than surrendering or lapsing a policy, whilst the secondary investor acquires a unique investment with low correlation.

Why do policy holders sell?

Prior to the establishment of the secondary market, if policyholders no longer wished to retain a policy they had two options: return the policy to the issuing life insurance company in return for the surrender value; or let the policy lapse by ceasing premium payments. Both options are highly unattractive when compared to selling the policy on the secondary market.

Typically, in excess of 80% of all terminated life policies lapse prior to maturity. The reasons are that policyholders often no longer have a need for the policy or, having retired, can no longer afford to pay the premiums on their policies. The emergence of a secondary market, with the possibility for the policyholder to obtain more value through a sale, offers an attractive alternative for seniors – providing liquidity to the policyholder for an otherwise illiquid asset.

A policy may be sold for various reasons, for example:

- Estate planning needs have changed
- The policy was used as key person insurance for a now retired employee
- A need to release funds to meet expenditure
- A desire to invest in income-producing assets

Do you trade in 'Viatical' policies?

No. A Life Settlement is typically sold by a US senior aged 65 and over who has age-related medical impairments that, whilst not terminal, do reduce life expectancy. This differs from so-called "viatical" policies, where the lives insured commonly have an advanced terminal illness with a life expectancy shorter than two years. SL does not purchase "viatical" policies.

How do I select a Fund Manager?

Life Settlements offer a particularly attractive investment opportunity for institutional investors. The choice of a proficient fund manager should always be of paramount importance to such investors.

SL Investment Management have produced a guidance note recommending that potential investors in Life Settlement funds include ten key life settlement oriented questions during their due diligence processes to ensure a sound choice of investment manager.
[Click here to access the guidance note].

Industry Leaders and Innovators

Contact Us

If you would like to learn more about attractive investment opportunities in Life Settlements, or require any further information about SL, please contact:

Ioan Roberts
Head of Life Settlement Trading

T: +44 (0)1244 317999
E: iroberts@slinvest.co.uk
W: www.slinvest.co.uk

Patrick McAdams
Investment Director

T: +44 (0)1244 615665
E: pmcadams@slinvest.co.uk
W: www.slinvest.co.uk

SL investment management