
ELSA / BVZL Investor Summit

Investment Opportunities: Life Settlements

October 2015

Policy Supply: Secondary Market

- Secondary market transactions remain subdued, 2015 expected flat to slightly higher.
- U.S. population demographics and insurance stats suggest volumes should be increasing, but headwinds persist:
 - Longer LEs
 - More selective investors
 - Policy holder awareness lacking
 - High transaction costs / inefficiencies
 - Carriers remain obstructive
- Radical market overhaul required to spark significant growth in volume – unlikely to happen.

Year	Face Value (\$b)
2008	12.33
2009	6.29
2010	4.01
2011	5.07
2012	2.13
2013	2.57
2014	1.65
2015	?

Source: The Deal

Policy Supply: Tertiary Market

- Increasing number of investors looking to tertiary market to supplement underperforming secondary market buying programmes.
- Large transactions continue to be dominated by 2-3 cash-heavy buyers, with small to medium portfolios attracting a wider range of bidders.
- Tertiary IRRs now level and in some cases below secondary market, driven by lack of volume in secondary market and pressure on some bidders to invest quickly.

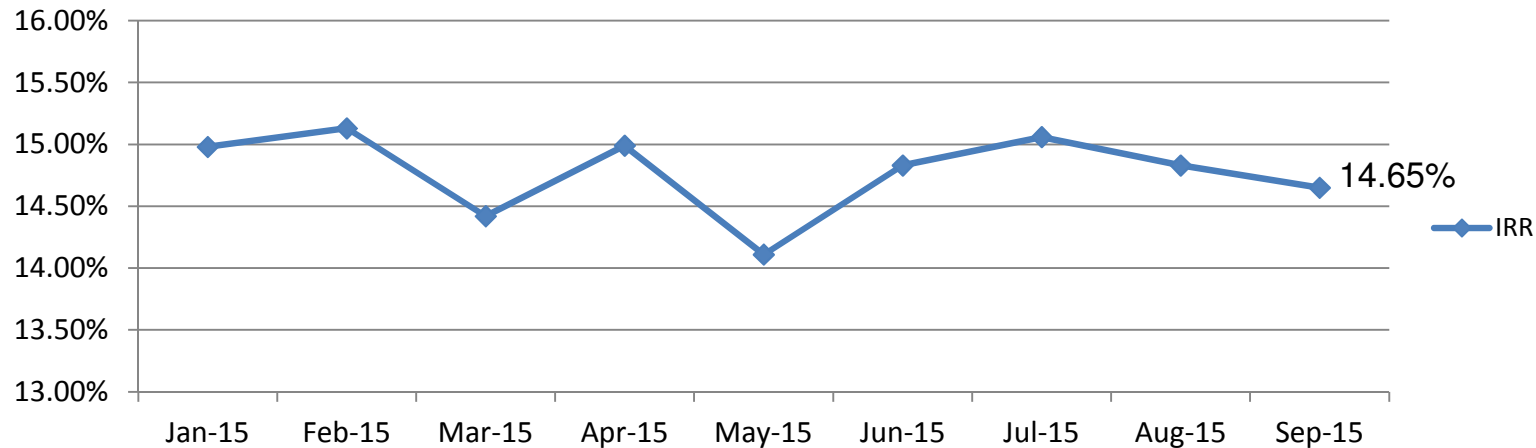
Investor Demand: Key Factors

- Global stock market volatility current reminder of benefits of non-correlated alternative investments.
- Over last 10 years, demand for life settlements had tended to increase in line with a rising stock market as investors take profits and diversify as well as a general risk on / off sentiment – higher stock market / lower life settlement IRRs.
- Typical investor assessment of life settlements:

Positive	Negative
Low-correlated	Illiquid
Low volatility	New Build: Slow ramp rate
Reasonable return above cash	Existing Fund: Valuation issues
	High bid/ask spread
	Lack of conviction re LEs

Economics: Policy IRRs YTD (Gross)

Estimated Transaction IRR



Data Set Stats:

- 180 transactions
- Based on SL proprietary mortality curve and weighted 21st/AVS LEs
- Insured Age Range: min 65, max 95
- Insured Pricing LE Range: min 22 months, max 153 months
- Policy Face Size Range: min \$100k, max \$5m

LE Matters: Gross IRR by LE

100 Recent LEs	21st	AVS	Fasano
Average LE (months)	75.0	81.6 (+8.8%)	101.5 (+35.3%)
Number with shortest LE	58	41	6
Number with longest LE	9	8	85

LE Basis	Pricing LE (months)	Implied purchase IRR (pa)
Just 21 st	78	16.08%
Simple average 21 st / AVS	80.5	14.65%
Just AVS	83	13.27%
Simple average 21 st / AVS / Fasano	88	10.74%
Just Fasano	103	4.14%

Notes: Based on 100 recent policies submitted for pricing where a 21st, AVS and Fasano LE were all available. IRR analysis based on typical policy from the 100 submitted; 81.5 year old male non-smoker \$3m face.

Net Return Expectations

Gross Asset IRR (pa)	14.65%		\$35m USD Life Settlement Portfolio
Cash Drag	13.34%	-1.31%	Cash earns interest at 2% pa
Ramp-Up Period	12.89%	-0.45%	Policies acquired over 18 months
Claims Delay	12.49%	-0.40%	Maturity receipts obtained 2 months after reporting
AMC	11.38%	-1.11%	AMC of 1% pa (paid monthly)
Misc Expenses	11.33%	-0.05%	Misc fees and expenses
Net Investor IRR	11.33%	-3.32%	

Avg Insured Life Span Approximates	Net Return (pa)
Just 21 st	12.76%
Simple average 21st / AVS	11.33%
Just AVS	9.95%
Simple average 21st / AVS / Fasano	7.42%
Just Fasano	0.82%

Near / Medium Term Factors: COI Increases

The following insurance carriers have recently announced plans to increase COI rates on some classes of insurance policies:

- Banner Life (sub of Legal & General USA)
- Transamerica
- US Financial Life (sub of AXA)
- William Penn (sub of Legal & General USA)
- Voya Financial (parent of Reliastar, Security Life of Denver, Voya Insurance and Annuity)

Carriers have cited 'future mortality experience to be less favorable', 'current expectations regarding our future cost' and 'impossible to earn the investment income assumed in pricing' as reasons for the increase.

Increases will typically apply from the next policy anniversary date.

The scale of increase will vary by carrier and product type and we have seen increases in COI of 5-11% for some policies and up to 200-300% for others.

Near / Medium Term Factors: VBT 2015

Male, Non-Smoker, 100% Rating			
Age	2008 VBT	2015 VBT	% increase
75	14.1	14.7	4.5%
80	10.7	11.9	11.3%
85	7.4	8.7	18.0%
90	5.1	5.9	15.3%
95	3.1	3.6	16.4%

Female, Non-Smoker, 100% Rating			
Age	2008 VBT	2015 VBT	% increase
75	16.0	16.4	2.0%
80	12.4	13.1	5.1%
85	8.9	9.8	10.3%
90	6.5	6.6	1.4%
95	4.0	3.9	-0.9%

Near / Medium Term Factors: LE Provider Basis Changes

Year	21st	AVS	Fasano
2007	-	-	UW changes (cardiovascular impairments)
2008	Mortality tables; UW changes	Mortality tables; UW changes	Mortality tables; UW changes (older ages)
2011	-	UW changes (statins users)	-
2013	UW changes (anti-selection, high mortality ratings and "lifestyle")	-	-
2014	Mortality tables; UW changes (older ages and higher mortality ratings)	-	-
2015	-	-	UW changes (dementia, neurological and respiratory impairments, as well as lower and higher mortality ratings)

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