

Life Contingent Structured Settlement Assets

Dan Knipe (Partner & Senior Portfolio Manager)
Tel: +44 207 746 1782
E-mail: dan.knipe@leadenhallcp.com

Leadenhall Capital Partners
The Leadenhall Building
122 Leadenhall Street
London EC3V 4AG
United Kingdom

www.leadenhallcp.com

October 2015

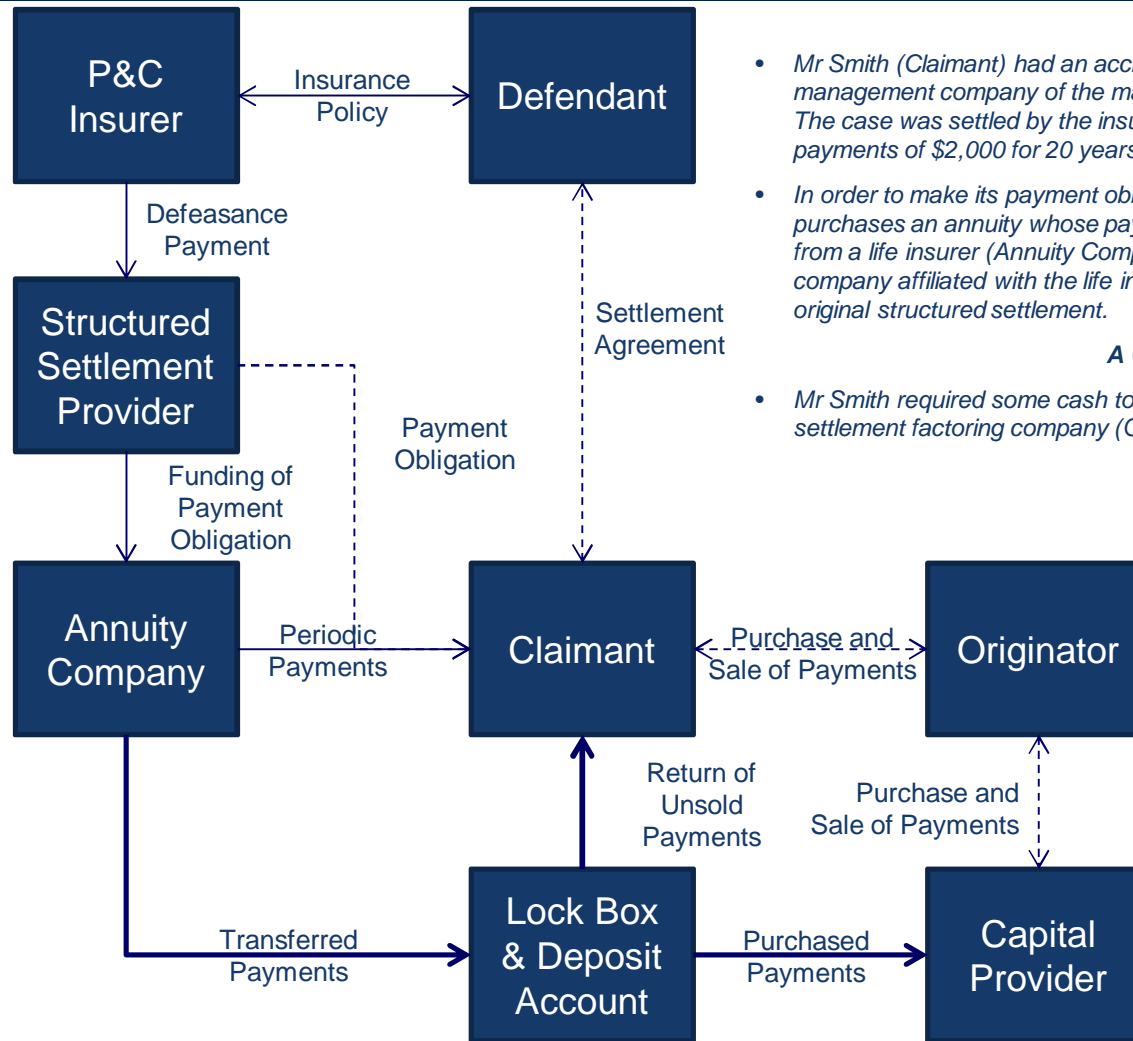
Introduction to Leadenhall

Leadenhall Capital Partners was founded in 2008 as a specialist insurance linked asset manager and has a strong track record of over 6 years managing institutional investors' investments across both the life and non-life sectors. Current assets under management of the firm are around \$2.2bn spread across a broad institutional investor base.



Dan Knipe is the Head of Life Investments and Market Risk and is a Partner and Senior Portfolio Manager. Dan is an actuary specialising in Life Insurance and Investment. He joined Leadenhall in 2009 and currently manages over \$800m of life insurance linked investments across various funds and managed accounts. Dan qualified as an Actuary at Tillinghast where he advised insurers on a wide range of topics including fund restructuring. Between 2007 and 2009 he worked in the Insurance Linked Securities team at Swiss Re Capital Markets. Dan has worked in insurance and financial services since 2001 and is a graduate of the University of Manchester Institute of Science and Technology.

Origins of Structured Settlements



SEVERAL YEARS AGO

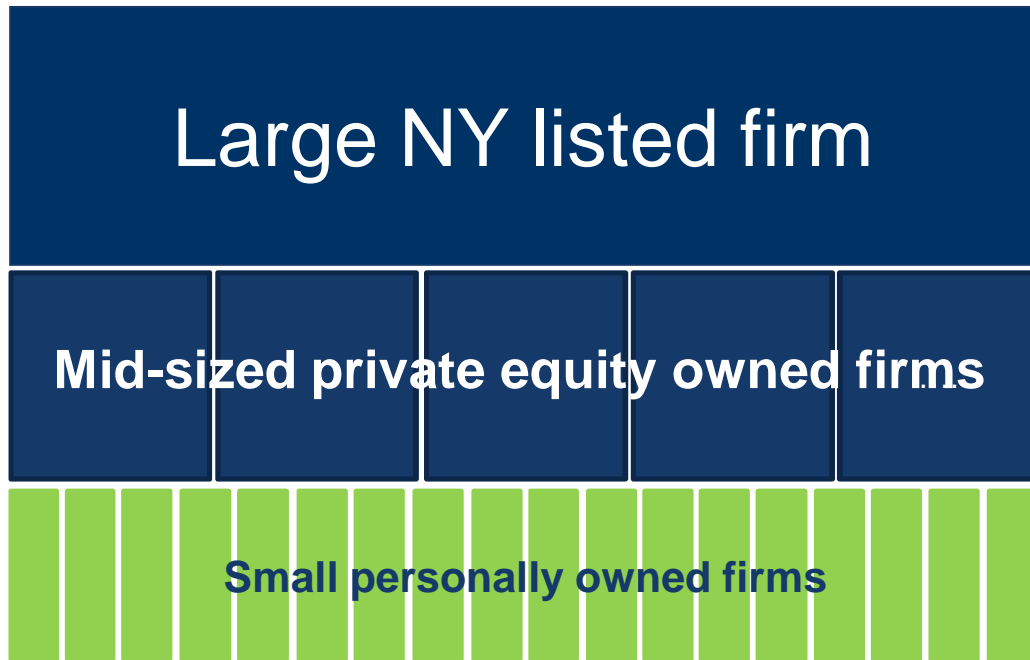
- Mr Smith (Claimant) had an accident at the local shopping mall and brought a suit against the management company of the mall (Defendant) and their insurance company (P&C Insurer). The case was settled by the insurance company agreeing to pay to Mr Smith monthly payments of \$2,000 for 20 years and the remainder of his life thereafter.
- In order to make its payment obligations under the settlement the insurance company purchases an annuity whose payment schedule matches the one agreed under the settlement from a life insurer (Annuity Company) and transfers its obligation to make payment to a company affiliated with the life insurer (Structured Settlement Provider). This process is the original structured settlement.

A COUPLE OF MONTHS AGO

- Mr Smith required some cash to make home improvements so contacted a structured settlement factoring company (Originator) to sell some of his future payments.
 - Mr Smith and the factoring company agree to a deal whereby Mr Smith sells \$500 of each of his next 24 payments to the factoring company for a lump sum of \$10,500, equivalent to a discount rate of 14% per annum.
 - The factoring company agrees to sell the deal to an investor (Capital Provider) for \$11,300, equivalent to a discount rate of 6% per annum and names the investor as the assignee and payee in the draft court order.
 - Mr Smith and the factoring company petition the court to approve the transaction, which it does.
 - After the transaction the next 24 payments under the annuity from the life insurer are made into a lock box account with the factoring company which retains \$500 a month and forwards to Mr Smith the remaining \$1,500.

Structured Settlement Market Landscape

Brokers / Originators of Settled Annuities



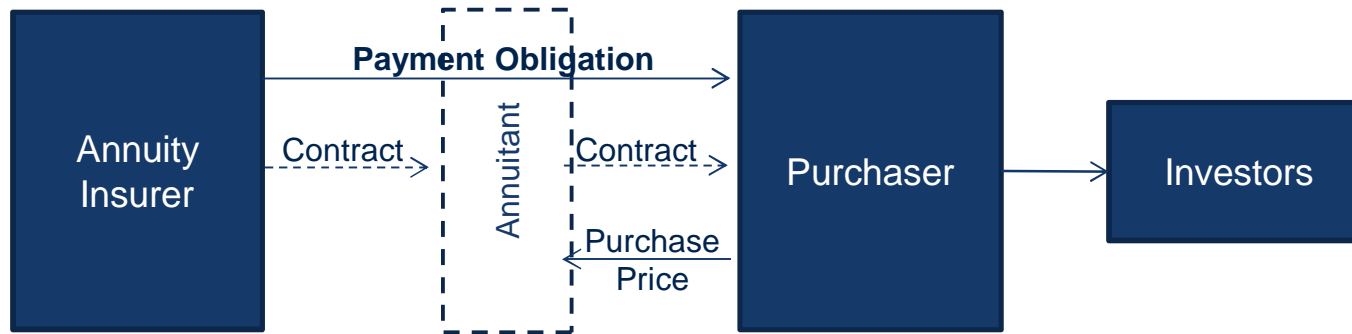
Funders of Settled Annuities

- Rated securitisations & warehouse facilities
- Institutional money market investors

- Privately placed via facility programmes
- Sophisticated long-term investors

- Privately placed deal-by-deal
- Retail & high net worth individuals

Sources of Return from Life Contingent Structured Settlements



- The Payment Obligation is only in force so long as the Annuitant survives
- the death of the Annuitant before the final payment will either:
 - reduce the return achieved on the asset; or
 - create a principal loss on the asset
- The discount rate used to determine the Purchase Price is made up of
 - Risk Free Return; &
 - Credit Risk Premium; &
 - Illiquidity Premium; &
 - **Mortality Risk Premium; &**
 - Premium for Other Risks

Mortality Risk

The Mortality Risk Premium in the discount rate can be broken down further into:

- Expected losses from Mortality (calculated actuarially using mortality tables and underwriting information)
- Extra return available from exposing capital to the variation of return arising from deviations from expected mortality

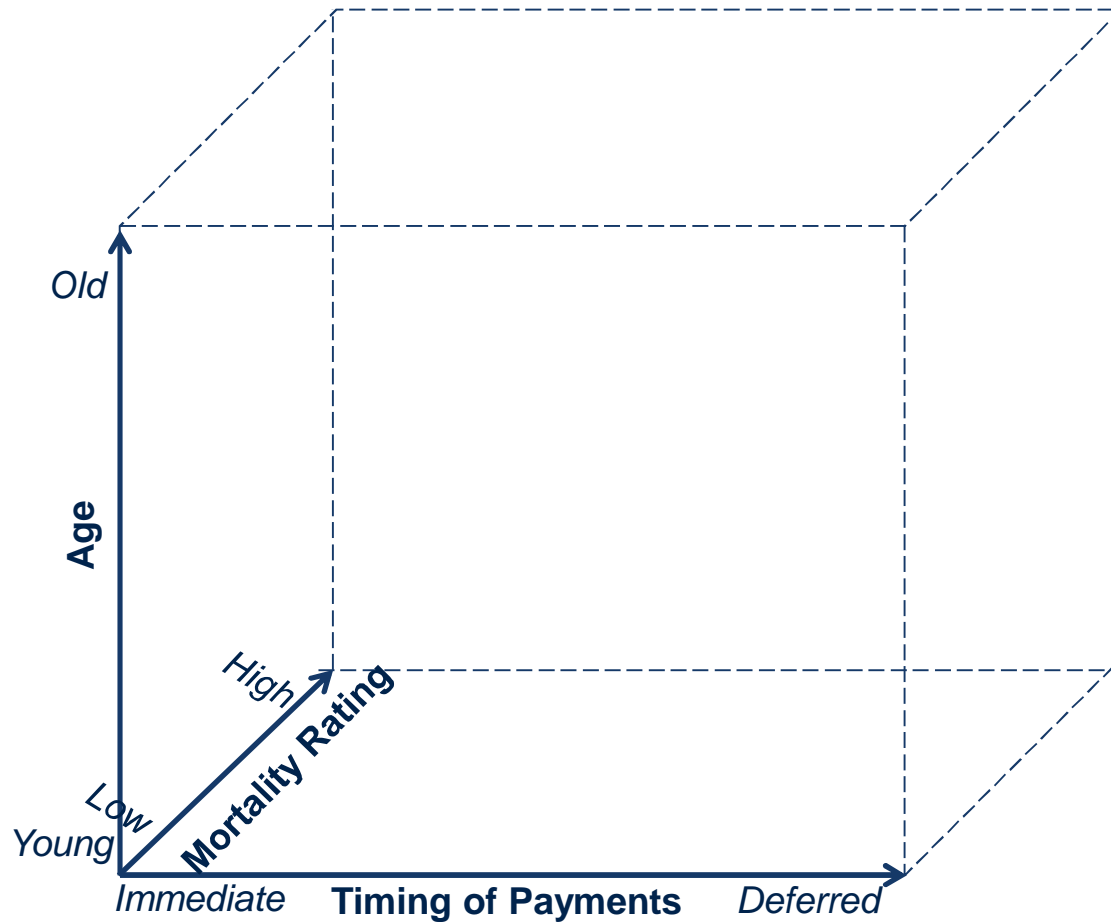
The mortality risk associated with each life is assessed by means of a short-form underwriting performed by Fasano Associates using:

- An underwriting questionnaire completed by the Payee
- A check of the prescription history of the Payee
- A telephone interview with the Payee (in some cases)

There are a number of ways to mitigate the variation of return arising from deviations to expected mortality:

- Accumulate a pool of assets large enough to provide the diversification necessary to smooth out some of the volatility
- Purchase a retail life insurance policy from a domestic US life insurer on the life of the Annuitant
- Source bespoke protection in the form of an insurance policy or swap from a specialist such as a global reinsurer

Current Market Dynamics



As general rules of thumb:

- Pricing for young and healthy annuitants with immediate payments is competitive
- Pricing for older and severely impaired annuitants reflects the additional risks associated with such annuitants

There will be some cases where the annuitant is so old, unhealthy and the payments are so far in the future that the cost of their mortality risk is too high for the transaction to obtain court approval

Important Information

No Reliance or Advice:

This presentation does not constitute, in any way, advice in relation to the tax, legal or regulatory treatment of any suggested structure or solution. The material in this presentation contains assessment and analyses of complex technical concepts and the recipient of the presentation should take those steps, including seeking suitable qualified professional advice, it deems appropriate to investigate the treatment of any solution or investment proposition outlined in this document (whether for risk-taking or hedging purposes). Leadenhall makes no representations or warranties regarding the content of this presentation to the recipient or any third party and the recipient should place no reliance on the presentation.

General information:

This presentation does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or purchase, any investment, nor shall it or the fact of its distribution or communication form the basis of, or be relied on in connection with, any contract therefor. Applications for an investment in a fund pursuing one of the Strategies (the "Investment") can only be made at the relevant time on the basis of the offering documents available. Any person subscribing for an Investment must be able to bear the risks involved and must meet the suitability requirements relating to such Investments. Some or all alternative investment programmes may not be suitable for certain investors.

The information and opinions contained in this presentation are for background purposes only, do not purport to be full or complete, and do not constitute investment advice, arranging deals in investments or making arrangements with a view to transactions in investments.

The indicative terms and other information included in this presentation are provided for discussion purposes and are subject to completion or amendment. Certain information included in this presentation is based on information obtained from sources considered to be reliable. However, any projections or analyses provided to assist the recipient of this presentation in evaluating the matters described herein may be based on subjective assessments and assumptions and may use one among alternative methodologies that produce different results. Accordingly, any projections or analyses should not be viewed as factual and should not be relied upon as an accurate prediction of future results. Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the investments represented do not represent actual investments, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity or market disruptions. Simulated investments in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any investment will or is likely to achieve profits or losses similar to those shown. No reliance may be placed for any purpose on the information and opinions contained in this presentation or their accuracy or completeness. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this presentation by Leadenhall or any of its members, officers or employees and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions.

No representation is being made by the inclusion of the investment examples and strategies presented herein that the Strategies will achieve performance similar to the investment examples and strategies herein or avoid losses. There can be no assurance that the investment examples and specific strategies described herein will meet their objectives generally, or avoid losses. Past performance is not a reliable indicator of future results. An Investment involves a significant degree of risk. Potential investors must familiarize themselves with the offering documentation and similar materials and must meet certain eligibility requirements in order to make such investment and must be able to fully absorb the risks associated with such investment. The offering documentation and related materials will be made available in due course to those persons eligible for participation who demonstrate the capacity to evaluate the risks and merits of such investment.

Communication of this presentation by Leadenhall:

Leadenhall is authorised and regulated by the Financial Conduct Authority of the United Kingdom. This presentation constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (the "Act") and the handbook of rules and guidance issued from time-to-time by the Financial Conduct Authority of the United Kingdom ("FCA Rules"). This presentation refers to the Funds, which are unrecognised collective investment schemes for the purposes of Section 235 of the Act, the promotion of which is restricted by law. This presentation is being issued inside and outside the United Kingdom to and/or is directed at persons who are Professional Clients or Eligible Counterparties for the purposes of the FCA Rules. The investments and investment services to which this presentation relates are only available to such persons and other persons must not act or rely on it. This document is exempt from the restrictions in Sections 238 of the Act on the communication of invitations or inducements to participate in unregulated collective investment schemes on the grounds that it is being issued only to the types of person referred to above. Recipients of this document who intend to apply for Shares are reminded that any such application may be made solely on the basis of the information and opinions contained in the relevant offering documentation when available, which may be different from the information and opinions contained in this document. Prospective investors should inform themselves and take appropriate advice as to any applicable legal requirements and any applicable taxation and exchange control regulations in the countries of their citizenship, residence or domicile which might be relevant to the subscription, purchase, holding, exchange, redemption, disposal or taxation of any investments. This document is not intended to constitute, and should not be construed as, investment advice. Potential investors in the Funds should seek their own independent financial and tax advice. Leadenhall neither provides investment advice to, nor receives and transmits orders from, investors in the Funds nor does it carry on any other activities with or for such investors that constitute "MiFID or equivalent third country business" for the purposes of the FCA Rules.

Notice:

Acquiring Shares may expose an investor to a significant risk of losing all of the amount invested. Any person who is in any doubt about investing in the Funds should consult an authorised person specialising in advising on such investments. The material contained in this presentation is based upon proprietary information and is provided purely for reference and as such is confidential and intended for private use only. The text and statistical data or any portion thereof contained in this presentation may not be stored in a computer, published, rewritten for broadcast or publication or redistributed in any medium, except with the express written permission of Leadenhall. Leadenhall will not be liable for any inaccuracies, errors or omissions in the material or in the transmission or delivery of all or any part thereof or for any damage arising from any of the foregoing.

r any inaccuracies, errors or omissions in the material or in the transmission or delivery of all or any part thereof or for any damage arising from any of the foregoing.
