Investing in Life Settlements

SL investment management

expertise with longevity

Contents

SL Investment Management

SL Investment Management (SL) is recognised as one of the largest and most experienced 'full service' secondary life policy specialists in Europe.

Established in 1990, SL has managed or advised over 40 collective investment vehicles comprising total assets valued in excess of $9.5bn. We have 30+ trained professionals, and an executive team who each average over 24 years' experience in the sector.

We specialise in investment products based primarily on US life settlements. Our 'full service' solution includes product design and structuring, investment negotiation & acquisition, along with all aspects of managing and servicing portfolios.

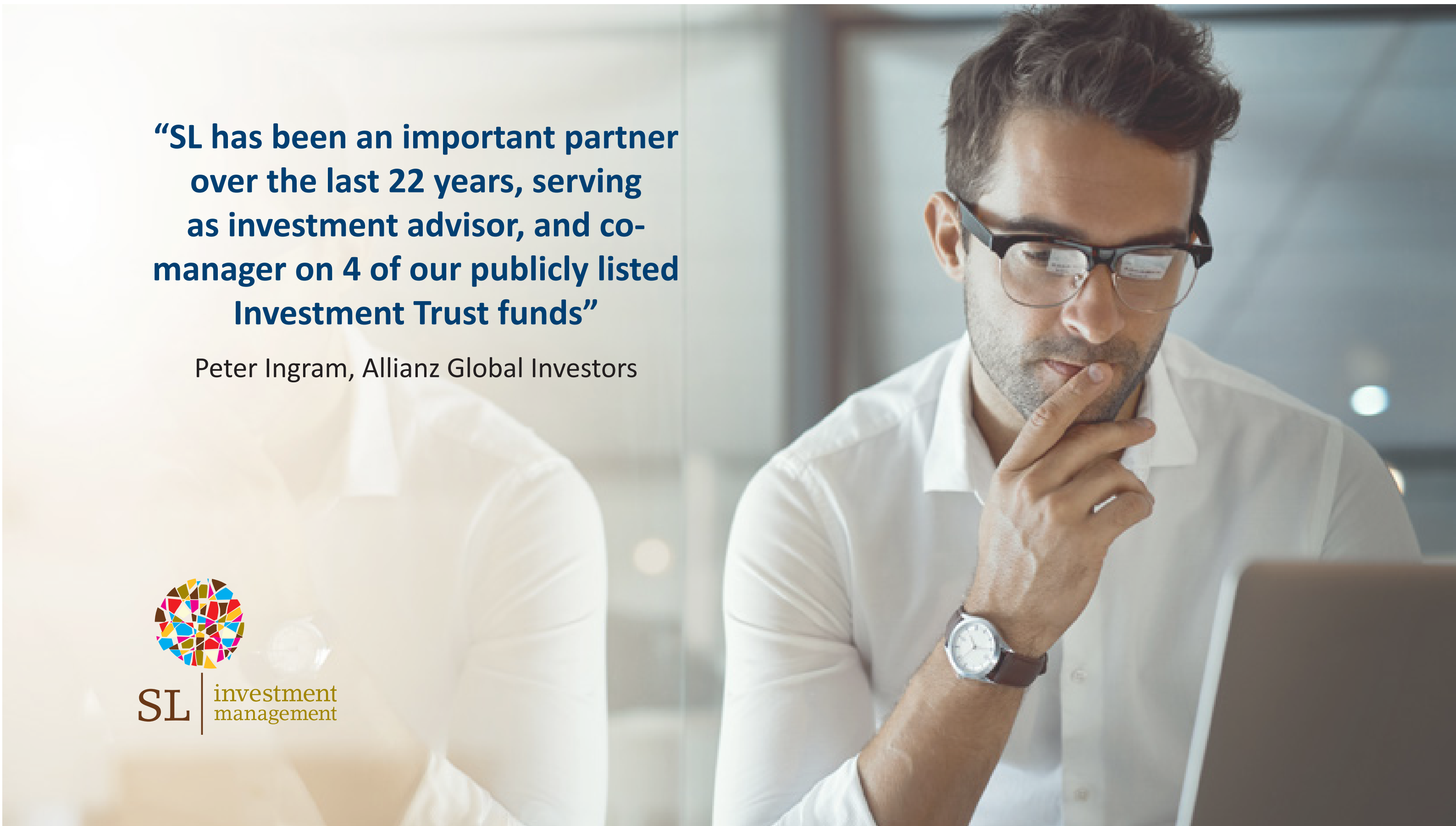
SL has a worldwide client base; our funds should be viewed as medium to long-term investments and we pride ourselves on developing successful long-term client relationships.

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 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 provides an effective solution.

SL has the flexibility to provide these services individually or as a full suite, on both an ad-hoc or periodic basis. SL is authorised and regulated by the Financial Conduct Authority.



"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 | investment management

42bn+

USD trading activity 2018 to 2022[1]

15.6%

IRR of SL client acquired policies[3]

1.9bn

USD maturity proceeds collected by SL clients[2]

586k+

policies analysed[2]

3,300+

life settlement policies acquired by SL clients[4]

1. SL estimate of combined secondary and tertiary NDB market trading activity over the 5 years;
2. Figure includes US life settlements and UK traded endowment policies;
3. Includes all SL life settlement purchases made since the introduction of VBT2008;
4. Excludes UK traded endowment policies.

Why Choose SL?

- Over 30 years of experience.
- Asset level IRR of 15.6%[1].
- More than half a million policies[2] analysed with over 70,000 acquired on behalf of clients.
- 100% collection record of maturity proceeds for secondary life assets ($1.9bn of maturity proceeds[2]).
- All management functions controlled in-house e.g. $412m 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 settlement 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 product profile.
- Extensive in-house developed trading platform.

1. SL life settlement performance Index return since Feb 2014. Further information on page 9;
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 offers attractive returns typically around 8%-12% per annum in an open-ended fund structure. The counterparties for NDB payments are US insurance companies with investment grade ratings typically A+ and above.

Insurance liabilities (including the commitment to pay the NDB on maturing policies) ranks above an insurance company's commitments to equity and bondholders. The collection of the NDB upon maturity is very secure; hence why life settlements 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 Gross Redemption Yield (GRY) on a life settlement is above the current GRY on insurance company bonds - please refer to the graph on the next page and subsequent discussion on the unique properties of life settlements.

Reliably projected performance

Sophisticated actuarially-based models and value-based pricing systems are used to forecast life settlement investment performance.

Proven track record

The SL life settlement performance Index indicates that policies purchased across vehicles managed or advised by SL have delivered 15.6% annualised growth[1].

Low volatility

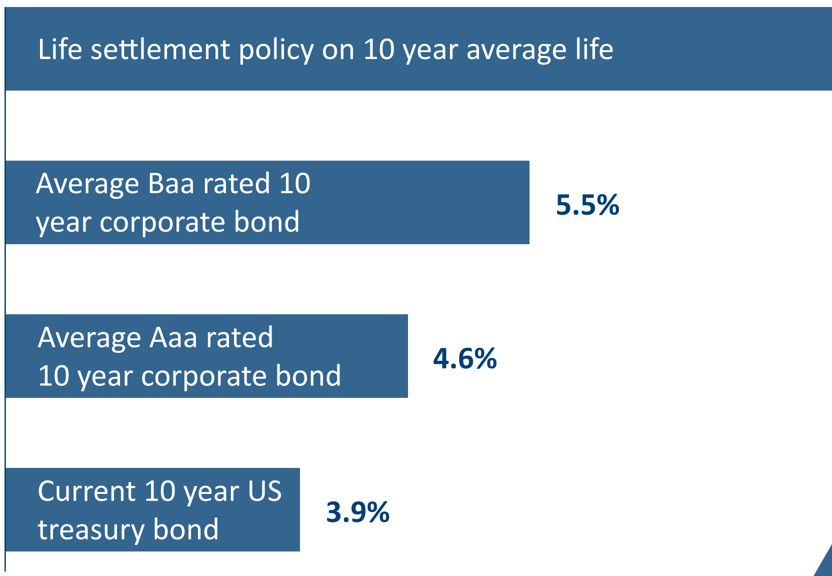
Life settlement portfolio investments held to maturity are less volatile than traditional investments such as equities. Returns are primarily dependent upon mortality experience and secondary market values, which have historically changed slowly.

Minimal market correlation

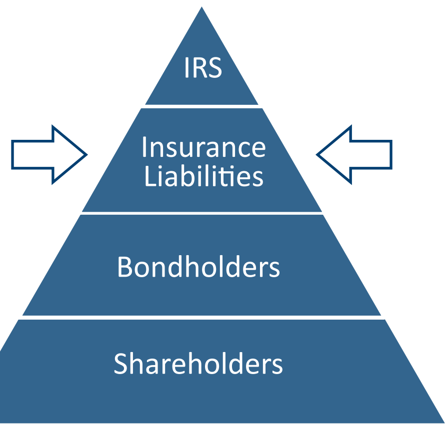
'Buy to hold' investment performance is directly linked to the life expectancy of the insured. Therefore, the asset has low correlation to traditional equity, property and bond markets.

1. Includes all SL life settlement purchases made from 2014.

Net Yields of Various 10 Year Assets December 2023



source: US Federal Reserve and Moody's; December 2023
note: chart is not to scale



Seniority Pyramid of Insurance Company

Typical Life Settlement Policy Investment Example

Policy Type	Universal Life
Net Death Benefit	$400,000
Average Annual Premium	$27,677
Surrender Value	$1,000
Age of Life Insured	76 years
Pricing Life Expectancy	8.25 years
Purchase Price	$106,000
Life Company Rating	A+

Sensitivity Matrix - annualised returns

Life Expectancy (years)	IRR
6.25	21.3%
7.25	16.8%
8.25	13.4%
9.25	10.7%
10.25	8.6%

Life settlement returns are fundamentally driven by 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 VBT2015 (issued by the Society of Actuaries), along with additional adjustments that allow for future mortality improvements, and a period of lower mortality immediately proceeding the policy purchase.

Multiple policy specific factors are taken into account to ensure the projected returns are appropriate for the perceived risk.

SL Life Settlement Performance Index

The SL life settlement performance index is a monthly index constructed from the underlying performance of all life settlements ('Policies') acquired by investment vehicles advised or managed by SL since February 2014.

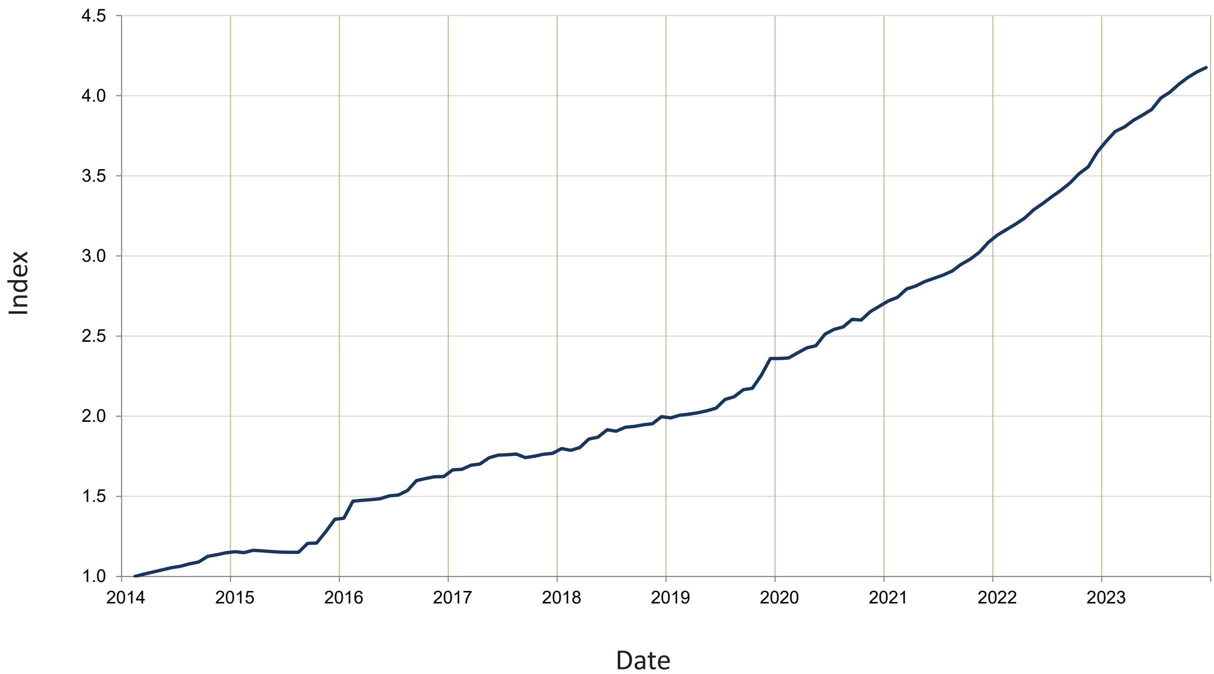
The index launch date has been purposely chosen to coincide with the opening of investment vehicles that have targeted buying strategies.

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 acquisition price of each 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
1m	0.6%	7.8% pa
3m	2.5%	10.5% pa
6m	6.7%	13.8% pa
1y	14.4%	14.4% pa
2y	35.4%	16.3% pa
3y	55.4%	15.8% pa
4y	76.9%	15.3% pa
5y	109.1%	15.9% pa
6y	136.1%	15.4% pa
7y	157.3%	14.5% pa
8y	207.8%	15.1% pa
9y	263.8%	15.4% pa
to date	317.5%	15.6% pa

source: SL Investment Management January 2024



History of Life Settlements

2023

2023: FINRA publishes "What You Should Know About Life Settlements" designed to raise awareness of the life settlement option to US seniors.

2021

2021: The secondary life settlement market records its 5th consecutive year of market growth, driven by increased consumer awareness of the life settlement option.

2020

2020: The COVID-19 pandemic increases volatility within traditional capital markets, and clearly demonstrates the uncorrelated nature of a life settlement investment.

2018

2018: The European Life Settlement Association (ELSA) publishes the 5th edition of its Code of Practice, strengthening standards in the life settlement market.

2017

2017: Direct to consumer initiatives in the US help drive policy supply. A greater volume of smaller policies become available on the secondary market, supporting portfolio diversification.

2014

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

2013

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: A 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

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

2011

2011: As a result of the LISA initiative in 2010, 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: A 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

2010: The 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 if the new owner has no insurable interest.

2010: LISA publishes underwriting best practices.

2010: The Securities & Exchange Commission releases a staff report recommending that life settlements be clearly defined as securities.

2009

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

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

2003

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

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

1995

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

1990s

1990s: Increased senior awareness and participation.

1980s

1980s: First period of major growth.

1911

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

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 the acquisition price of the policy plus premiums paid up to maturity.

Typically, sensible target net returns for investors in an open-ended life settlement fund are 8% - 12% per annum. Returns can be higher in long-term closed-ended remits.

Although many life settlement fund managers frequently use more aggressive assumptions to indicate much higher returns are achievable, we believe in a more conservative approach, quoting what we believe to be 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:

- Targeted stock selection based on the historical analysis of medical underwriter performance.
- 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 more than half of transactions in the life settlement market.

In recent years SL has developed a powerful and user-friendly on-line submission and valuation platform that allows for a rapid and efficient turnaround of bids.

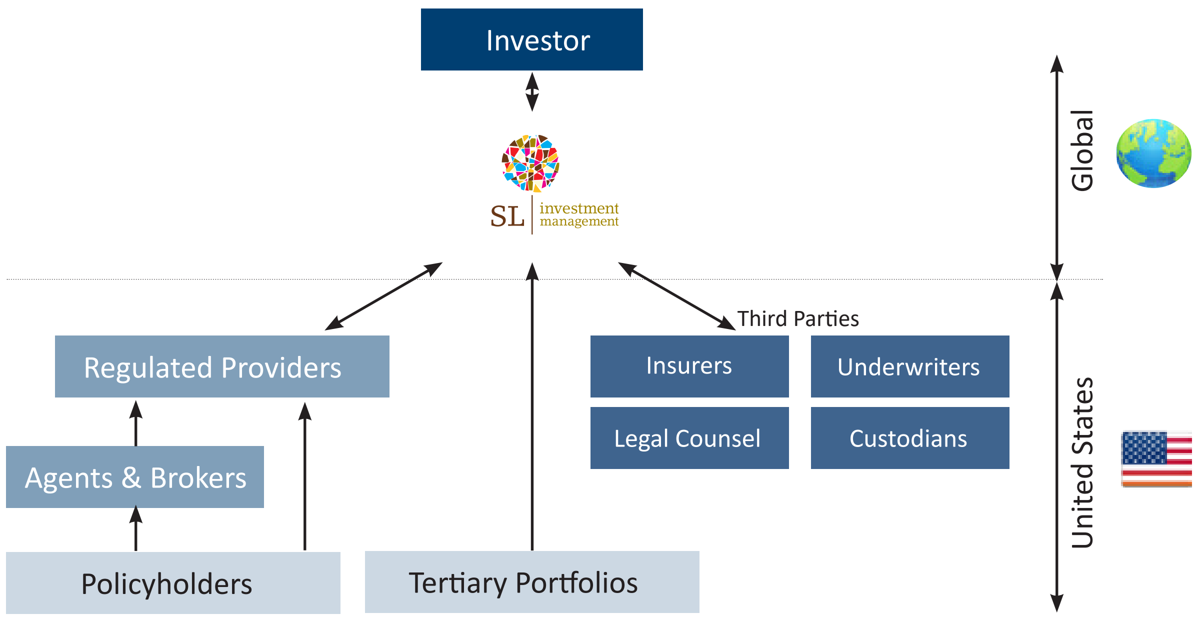
Further, it is typical that SL will see identical policies offered through multiple sources in the market; our systems allow for an authoritative cross-referencing of data at both life insured and policy level.

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.

Life settlement market structure



Market Growth

The secondary life settlement market has grown significantly in recent years. According to a survey carried out by The Deal[1]**,** the annual number of policies traded in the secondary market increased by 169% between 2015 and 2022.

Extensive marketing campaigns and a more direct to consumer approach have been the key drivers behind increasing public awareness of the life settlement option.

In 2023, the American Council of Life Insurers[2] estimated that in the US there were around 259 million in-force life insurance policies representing $21.8 trillion of death benefit.

The Conning[3] 2023 annual report on the life settlement industry projected that the gross life settlement market potential (policies that fit investor buying criteria) between 2023 and 2032 would average $224bn in face amount per year, with the annual volume increasing over that period as the baby boomer generation reaches retirement age.

By the end of 2032, Conning projects that there will be in excess of $39Bn of life settlements in force within investor portfolios.

Market penetration - a survey carried out by a large life settlement provider suggested that almost 90% of US seniors who owned a life insurance policy were unaware that they could sell their policy, demonstrating that there is great potential for significant further market growth.

Market Regulation

The life settlement market is regulated at state level, with each state having its own insurance commission to regulate and enforce the business of insurance within its state borders.

The market is maturing rapidly, with very few states now failing to include provision for life settlement regulation. Further, the level and quality of oversight is increasing in those states that have already adopted regulation.

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 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.

SL is a founding member of ELSA (the European Life Settlement Association) which was formed to encourage ethical practices in the life settlement market and promote investor understanding of the market.

Members must adhere to a strict Code of Practice, introduced by ELSA to establish common standards of best practice within the European life settlement industry - protecting the interests of Investors in the asset class.

1. Market analysis sourced from www.thedeal.com
2. ACLI 2023 Life Insurers Fact Book;
3. Reports sourced from www.conning.com;

Q&A

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
- Children have reached adulthood and are self-supporting
- Change in health status of insured
- Divorce
- Can no longer sustain premium commitments in retirement

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 necessarily terminal, do reduce life expectancy.

This differs from viatical policies, where the lives insured are typically younger and 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 has produced a guidance note, [10 Key Questions to Ask Life Settlement Fund Managers], listing the key questions investors should be asking during their due diligence process to ensure a sound choice of investment manager.

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:

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