



Re-think the tradability of life settlement risks and returns

January 2017





About tradability

Why this topic?

- Tradability ..
 - ..is at the core of every asset class.
 - ..is changing over time and often shapes and changes an asset class.
 - ..has important side effects as f.i. may change risk aspects of an asset, may help to quantify the riskiness of an asset or certain risks, may improve in general the transparency etc.
- Life settlements is still in its infancy and tradability therefore may be an important component going forward, which is the reason for this session.
- There are three basic ways of tradability:
 - Tradability of the single asset (f.i. a life settlement in the secondary and tertiary market)
 - Tradability of pools of assets (f.i. closed-end pools, indices etc.)
 - Tradability of split-out risks respective return components (f.i. longevity)

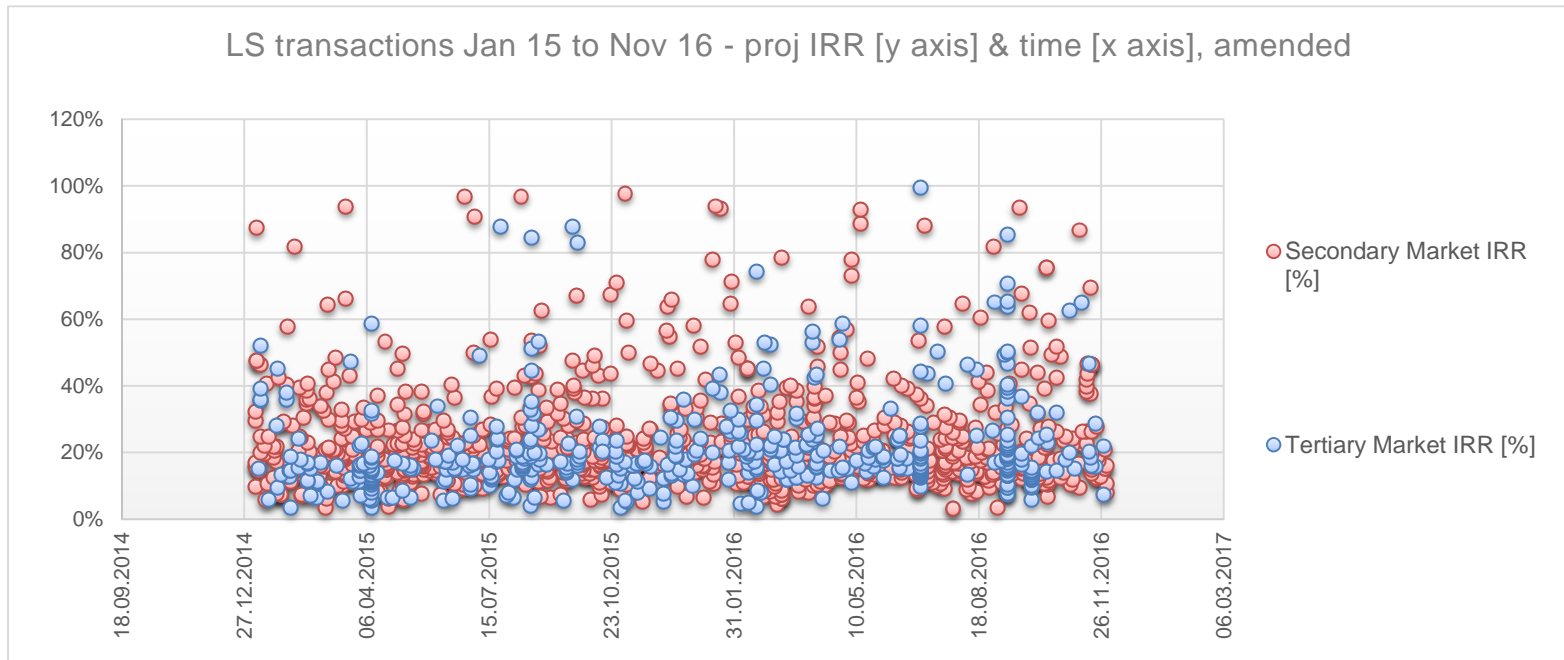
The question regarding life settlements is where we may see movements and which trends we may see going forward!



Tradability of single life settlements

The tradability of single life settlements

- Secondary and tertiary market work.
- Every dot represents a unique combination of potential risk and return which resulted from the assessment of the policies by the investors.

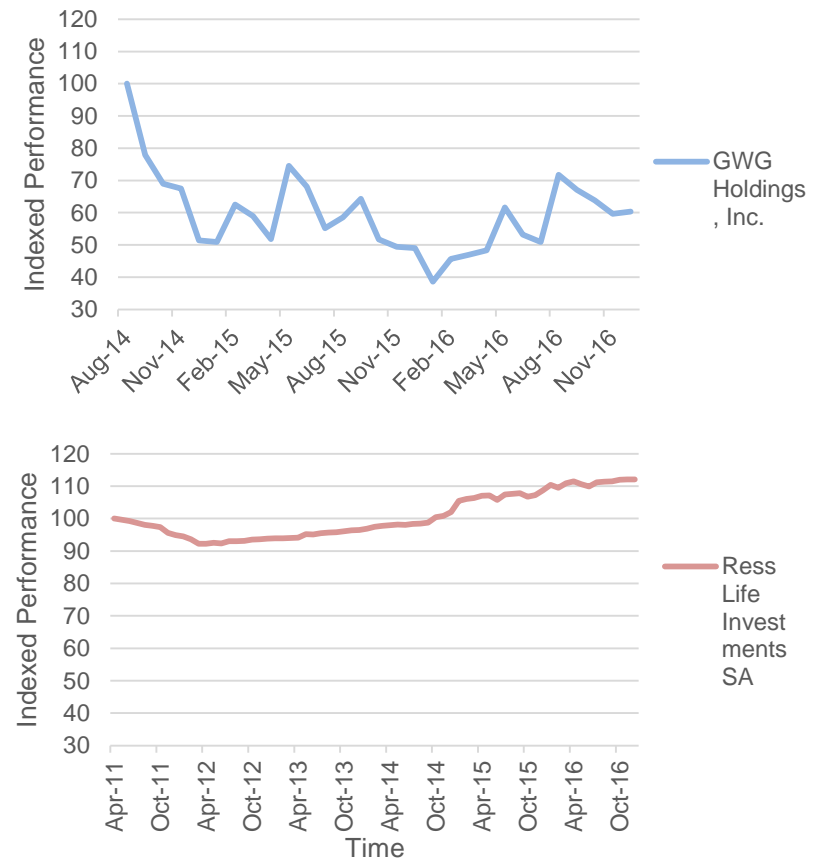




Listed entities

There are just a few listed entities

- GWG Holdings, Inc.:
 - SEC registered
 - NASDAQ listing: GWGH
- Ress Life Investments SA
 - Resscapital AB is a regulated AIFMD asset manager
 - Listed at Nasdaq Copenhagen: RLIINV





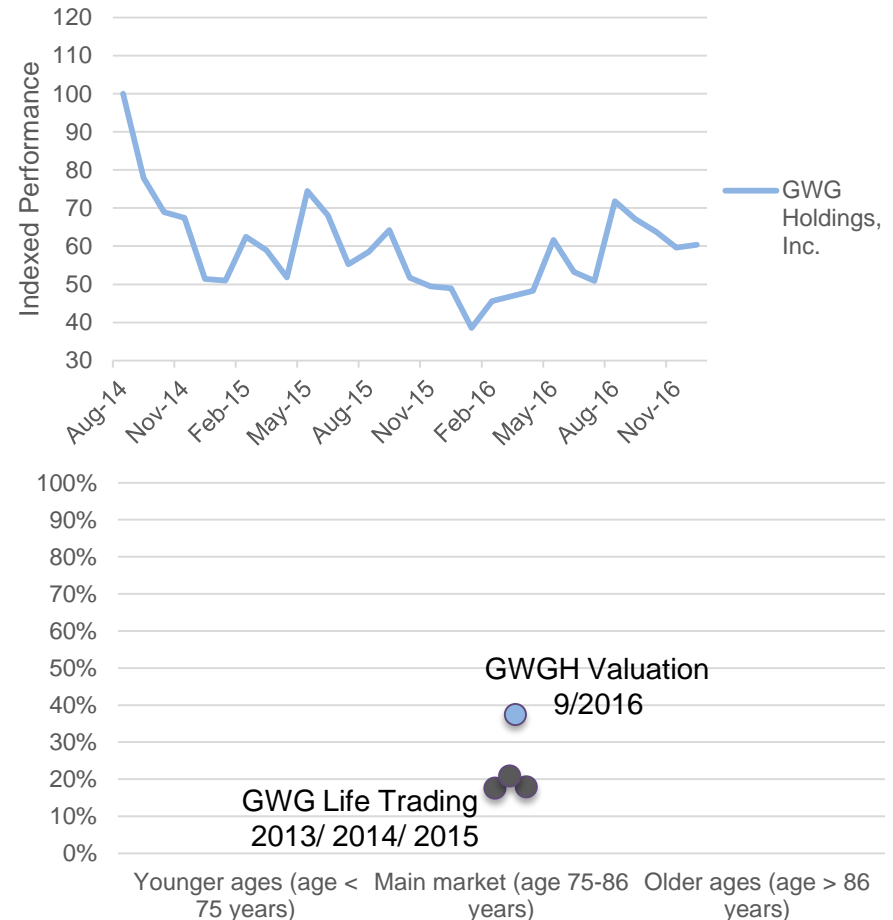
Listing does not solve all issues

Example: GWG Holdings Inc.

- Connected provider: GWG Life
 - Trading*: 20.09% (2015), 17.91% (2014), 17.04% (2013).
- Portfolio information & valuation at 30 Sept 2016**:
 - Weighted average age: 81.8 years
 - Weighted average life expectancy: 81.6 months
 - Average annual premium: 3.33% of FV
 - Total face value: USD 1'272 Mio (625 policies)
 - Portfolio value: USD 477.6 Mio
 - Relative valuation: 37.5% of face value

* Trading in % of face value of GWG Life: Source 'The Deal' Top 15 Life Settlement Companies 2013, 2014 & 2015.

** Source: Form 10-Q (unaudited); Quarterly report pursuant to section 13 or 15(d) of the securities exchange act of 1934 for the quarterly period ended September 30, 2016.

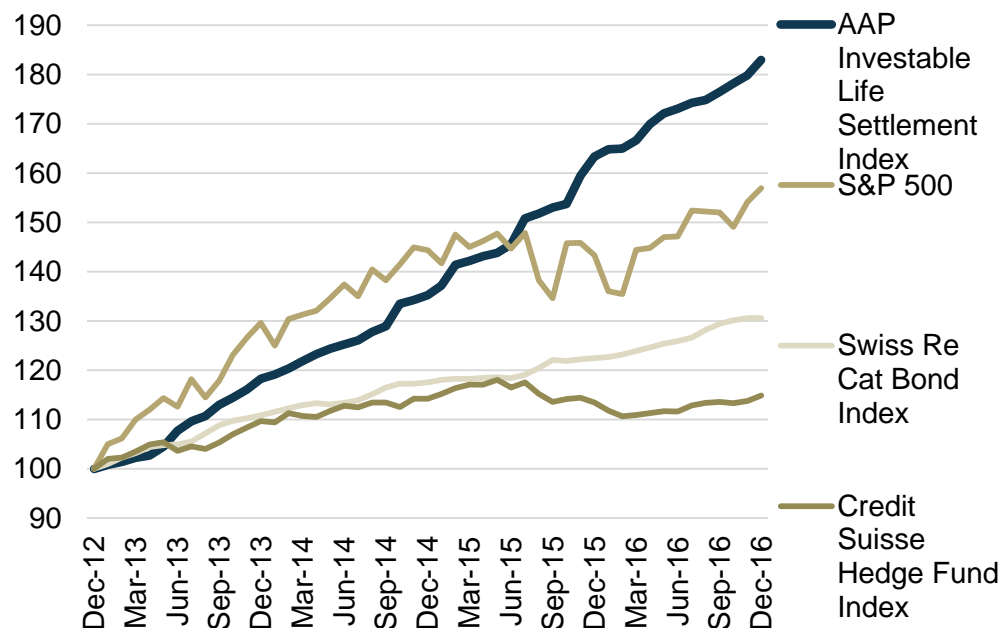




Tradable indices

Are tradable indices a possible alternative?

- Indices can be listed and traded at exchanges.
- Significant experience with tradable indices, also referring to non traditional asset classes/ liquid alternatives.
- But: issues as with GWG Life need to be carefully considered / such issues need to be mitigated for such tradable indices.

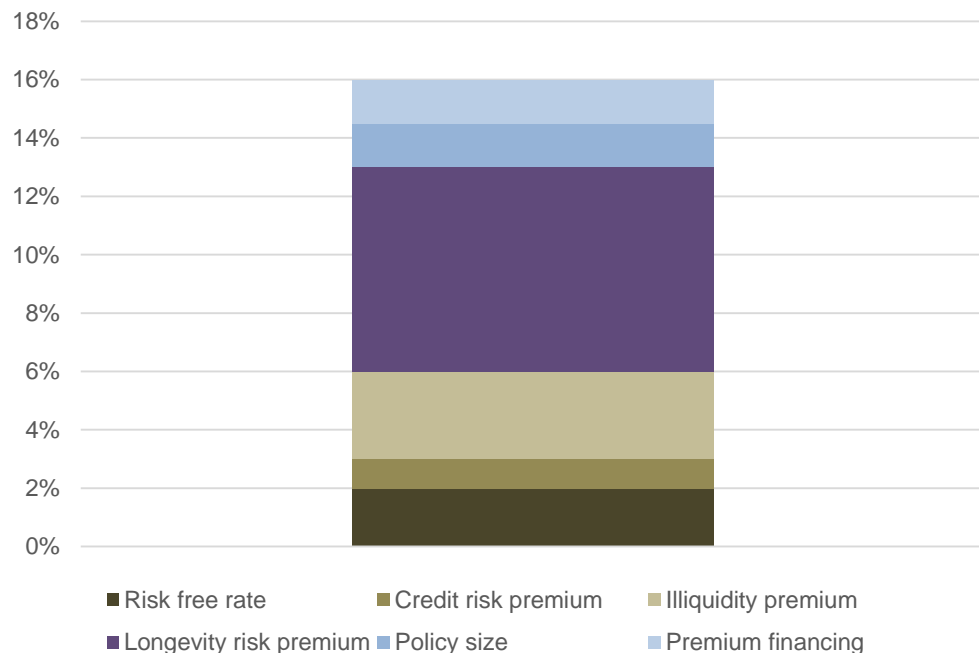




Split out of projected IRR brackets

The risk premiums of the gross market return

- The gross market return of a plain vanilla life settlement (male non-smoker, 80 years, LE of 96 months, UL policy with USD 2 Mio face amount; 'realized basis') can be estimated at about 13%*.
- The 13% gross return can be split into different risk premiums.



* ELSA, April 2014: An approach for estimating gross market return for life settlements.



Risk factors and risk premiums

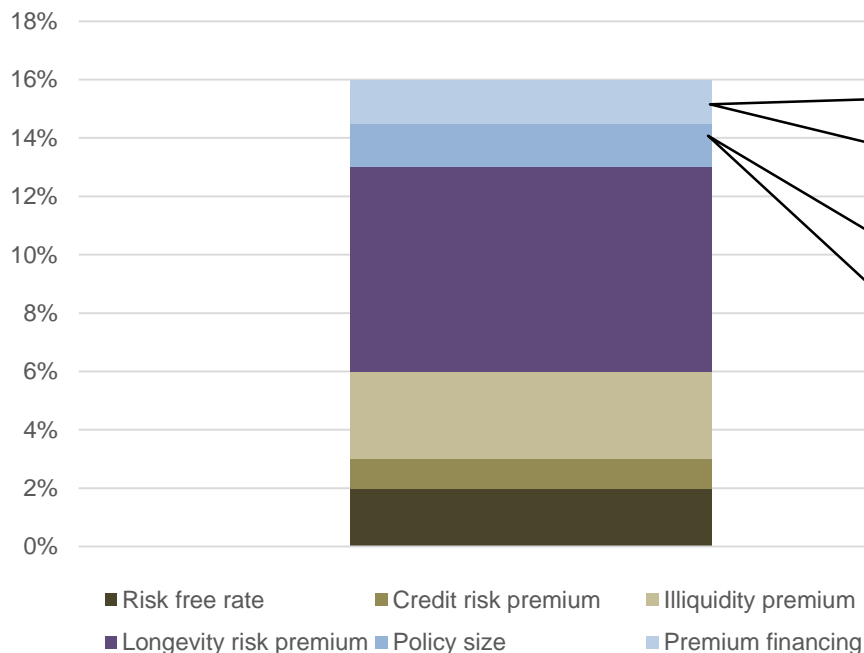
Risk Factor	Premium	Ref to LS/ projected IRR	Drivers/ influencing factors
Risk free rate	2%	Average LE about 7-8 years	
Credit risk	1%	Average carrier rating 'A'	Market data imply no impact which might be reasonable due to the super senior status of life settlements, therefore eventually lower than 1%
Illiquidity risk	3%	'Semi liquid' (tertiary market)	Depends on marketability of policies respective policy characteristics; stress level/ spill-over effects from other markets, (in)transparency
Longevity risk	7%	Compensation for stochastic and longevity risk	Medical underwriters, policy size/ socio economic status of insured etc.; may be much higher than 7% with actual transactions (10%, 20% etc.)
Various	0-?%	Policy size, underwriting standard, premium finance status, COI increase etc.	Various



Split out of projected IRR brackets

The risk premiums of the gross market return

- Investors ask for higher projected IRR on average for premium financed policies.
- Projected IRR increase with increasing face amount.



Premium financing:

- Adds about 0.5% IRR with a USD 1 Mio policy
- Increases with increasing face amount

Policy size:

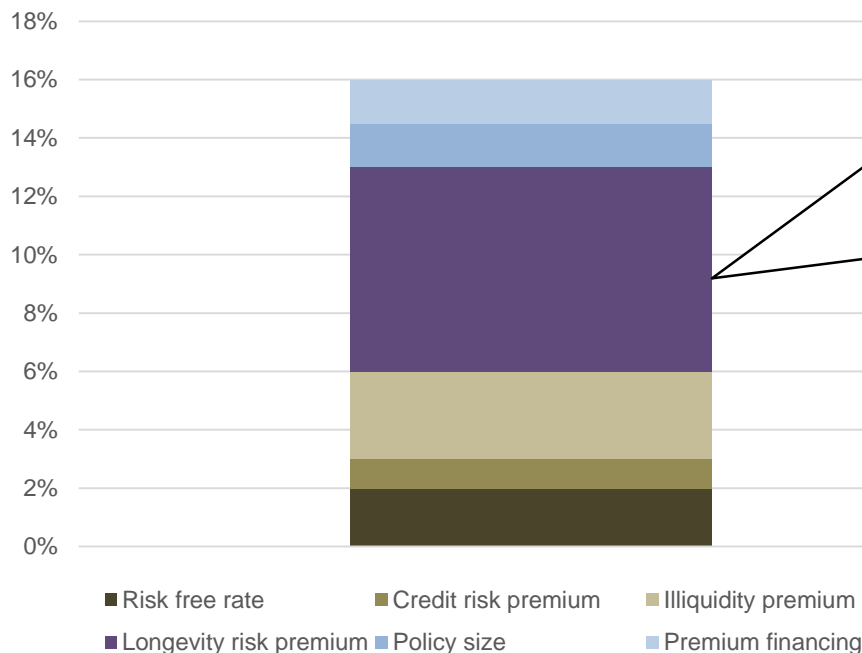
- Average difference between a USD 2 Mio and a USD 10 Mio policy: about 4% IRR.
- **In a portfolio context: can this component be 'cut-out' and allocated to investors which like such an exposure?**



Split out of projected IRR brackets

The risk premiums of the gross market return

- Longevity risk premium increases with decreasing LE.
- Projected IRR depends on medical underwriters since their underwriting is significantly different.



Longevity:

- Strongest drivers: medical underwriters and length of LE
- Re-insurance protection against severe longevity is so far the only way investors can mitigate this risk.
- Are there other ideas to carve out this risk and to allocate it with counterparties?
- Who could have an interest in such a risk/ return profile?



Summary

Which way will life settlements go?

- Trading of single policies: no major changes expected.
- Listed entities, exchange traded funds, traded indices:
 - Small number of listings so far.
 - Listing does not prevent from major issues, compare for instance the valuation of the GWG Holdings portfolio.
 - Possible interaction with cut-out risks (longevity hedged investments may be easier to trade).
 - Significant experience from other asset classes, 'understandable' for investors.
 - Relatively easy to realize.
- Tradability of cut-out risk and return pockets:
 - Largely untapped area.
 - Disappointing history of life settlements a legacy.
 - Hurdles/ issues/ problems:
 - Relatively small size of industry.
 - Define precise risk-return pockets which can be tradable.
 - Find counterparties which have demand for respective pockets.
 - Will ultimately change the face of the industry when it happens!



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Thank you very much

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