Managing Partners Limited

REPORT SEES NEW WAVE OF TLP INVESTMENT PRODUCTS

*** Report warns 'unwitting' investors to beware of products with inadequate risk controls**

LONDON, 02.08.2010 – The potential for traded life policies (TLPs) to deliver resilient returns during the financial crisis attracted the interest of key large players – but increasing focus on this relatively new asset class is also creating several dangers for unwitting investors, according to Professor Merlin Stone in his 2010 report on TLPs.

Managing Partners Limited, the boutique fund manager that commissioned the report, has seen assets under management in its Traded Policies Fund rise from **$176m** in June 2009 to **$190m** in June 2010 in terms of the gross value of policies held within the Fund, which now has five of the world's top 20 banks as investors. Research* commissioned by MPL also found that seven out of 10 life settlement brokers in the US said they expected to see more policies being sold on the market over the next five years, fuelling growth in investment products.

Professor Stone's report, entitled *The Market for traded life policies*, says that increasing interest in TLPs has even attracted global brand names such as Citibank, BNY Mellon, Credit Suisse, Commerzbank, Deutsche Bank, HSBC, Allied Irish Bank, Wells Fargo, Dresdner Kleinwort, Cantor Fitzgerald and Citibank to the market. He also anticipates that boutique product providers could also be taken over by larger fund managers seeking to buy up expertise on TLPs.

But Professor Stone warns that going forwards, investors must safeguard themselves against the potential onset of a wave of products carrying high risks, especially those using TLPs within securitisations and those that fail to use the right actuarial investment process.

Professor Stone, who is Visiting Professor at Oxford Brookes, De Montfort and Portsmouth Universities, commented: "While the TLP sector could still be seen to be in its infancy, one of the signs of growing maturity is the growing range and sophistication of products that use TLPs as an underlying asset. These include the longevity derivatives linked to indexes based on portfolios of life policies but another, more notable example that has attracted a great deal of publicity – often adverse – is securitisations. Unfortunately, TLPs are still misunderstood, even by institutions. The growing use of securitisations is a concern because of the ways in which they are put together and the motivation for originators to offer them. Investors must scrutinise these securitisations very closely. The horrific fallout from the securitisations of mortgages seen in the US is a clear warning of the risks."

Managing Partners Limited
2nd Floor, 4 Broadgate, London EC2M 2QY

Tel: +44 203 397 0525   Fax: +44 203 3970526
info@managing-partners.com   www.managing-partners.com

Jeremy Leach, Managing Director of MPL, commented: "The performance of our Traded Policies Fund and some other notable performers shows that portfolios of traded life policies can indeed deliver steady, incremental returns, even throughout the financial crisis.

"But not every fund manager can deliver the full potential of TLPs. They have to be managed in a prudent manner, using the right actuarial analysis of the underlying policies and the right controls on risk. The challenges posed by currency hedging are particularly difficult given the ongoing volatility we are seeing between exchange rates. Failure to put the right management processes in place adds risk to what should be a low volatility investment if handled in the right way."

Professor Stone points to a six-point check list drawn up by Managing Partners Limited as a guide for investors on what to look out for in TLP products and providers. The list says investors should avoid:

1. Higher risk funds that invest in viaticals, contestables or other types of life settlement where longevity risk is much harder to manage
2. Funds with high charges because the only way to gain alpha is by lower charges when there is a competitive market for the purchase of policies
3. Funds that charge performance fees. The higher the fees, the lower the investment return is but there is also a significant moral hazard in financially incentivising a fund manager to achieve higher returns when it is using a valuation model to achieve them
4. Financial products offered by organisations that avoid seeking FSA regulation. The FSA has a strict code of practice that requires regulated parties to give a high level of disclosure and to accept responsibility for providing investment professionals with sufficient information to identify the risks associated with an investment opportunity and be equipped to assess its suitability for an investment client or portfolio
5. Funds that do not have critical mass or a reasonable track record that enables an investment professional to judge on its own merits
6. Funds that do not have a good track record in managing currency risk

The size of policies is also an important consideration, Mr Leach added: "The average face value of policies in the traded Policies Fund is $680,000 but in some funds the average policy size is several million dollars and written on lives assured who are very wealthy individuals with greater access to healthcare. It is more appropriate to invest in policies with lower face values that are issued to ordinary individuals as the mortality expectations of Middle Americans are much more likely to reflect the population mortality data that is relied upon to value the policies in a fund. Also, the fewer policies there are in a fund the less diversified the counterparty risk is likely to be."

MPL's Traded Policies Fund's US dollar-denominated Institutional share class returned **66.41%** net of all charges over the six years to 30 June, 2010, having never delivered a negative return in any single quarter over that period. The Fund also compared very favourably to the AAP Life Settlement Index, which rose 8.73% throughout 2007and 3.99% in 2008 and fell 0.88% in 2009. The Fund returned 7.30% in 2007, 9.64% in 2008 and 8.72**%** in 2009. The index tracks the performance of funds implementing an investment strategy in the US life insurance sector and serves as a benchmark for investments in traded US life insurance.

The Fund's GBP Growth share class, which is suitable for UK retail investors, returned **8.87%** over the 12 months to 30 June and **31.13**% over the three years to that date, net of all charges. Its performance makes the Fund one of the outstanding performers over a period that has seen many investment funds suffer substantial losses as a result of the global financial crisis, which impacted all of the main asset classes.

The Fund, which also offers institutional and retail share classes denominated in Sterling, Euro, Yen and Swedish krona, invests in traded life policies (TLPs), which are US-issued whole of life sold before their maturity date to allow the original owners to enjoy some of the benefits during their own lifetimes. TLPs can be used to deliver steady, incremental returns that are uncorrelated to other asset classes.

The Traded Policies Fund is a fully-regulated Cayman Islands mutual fund that can be included in personal portfolio bonds, wraps and SIPPs. The minimum direct investment in the fund is £35,000 (or currency equivalent) but the fund can also be accessed via insurance bonds or SIPPs for £2,500.

MPL's Traded Policies Fund is available as institutional share classes in US dollar, Euro, Sterling and Japanese Yen denominations. Growth share classes, which are suitable for retail investors, are available in US dollar, Euro, Sterling, Swedish Krona and Japanese Yen. The Fund is fully hedged in these currencies.

For further information on Managing Partners Limited range of funds, call +44 (0)203 397 0525 or visit (www.managing-partners.com).

*Source: Research carried out in October 2009 among 30 leading life settlement brokers in the US by Life Settlement Leads, a US-based intermediary firm between buyers and sellers of TLPs