

# US Traded Life Interests Fund

Factsheet January 2010

ALTERNATIVE ASSET OPPORTUNITIES PCC LTD

## Key Information

Net Assets <sup>1</sup>	£35.4m
Gearing <sup>2</sup>	47%
No. of Shares <sup>1</sup>	40,000,000
Share Price <sup>3</sup>	66.5p
Net Asset Value <sup>4</sup>	88.5p
Discount to NAV <sup>5</sup>	24.8%
Next Year End	30th June 2010
Next Continuation Vote	December 2012

<sup>1</sup> Source: RCM (UK) Ltd. /SL Investment Management Ltd as at 30 November 2009.

<sup>2</sup> Source: RCM (UK) Ltd. as at 30 November 2009. The Company's bank borrowings were equivalent to 47% of net asset value at 30 November 2009. In addition the Company had unrealised losses on its forward foreign exchange contracts equivalent to a further 16% of net asset value and related unrealised gains on the Company's US dollar assets. Please also refer to Introduction right, and Gearing, page 2.

<sup>3</sup> Source: RCM (UK) Ltd. as at close of business on 31 December 2009 (mid-price). Please also refer to Introduction right, and Foreign Currency Exposure, page 2.

<sup>4</sup> Source: RCM (UK) Ltd. as at 30 October 2009.

The above NAV includes an unrealised loss to date of 2.9 pence per share as at 30 November 2009 that results from marking to market the Company's foreign exchange positions, these notably being the forward sales of US dollars maturing in 2012.

Alternative Assets Opportunities is listed on the London Stock Exchange. Like other closed-ended companies its share price is determined by factors including the balance of supply and demand for the shares, which means that its shares may trade below (at a discount to) or above (at a premium to) the underlying net asset value.

<sup>5</sup> Foreign currency exposure. The Fund's US dollar exposure is hedged through the forward sale of US dollars into sterling. While this hedge is intended to reduce currency risk it may not do so entirely and there can be no assurance that the value of the portfolio will at any time be fully protected from currency risk or that unrealised losses on the Company's forward currency sales will be recovered in full. In the event of a fall in value of the Fund's assets or loss on the Company's forward currency contracts arising from an increase in the value of the dollar, the Fund might not be able to comply with the borrowing covenants contained in the Credit Facility Agreement and may be required to repay its borrowings through selling policies, potentially at disadvantageous terms.

## Introduction

The US Traded Life Interests Fund is a cell of Alternative Asset Opportunities PCC Ltd, a closed-ended protected cell company incorporated in Guernsey. It was launched on 25 March 2004. Initial gross proceeds of the placing and offer for subscription amounted to £40m. The Fund's investment objective is to provide shareholders with a capital return through investment predominantly in a diversified portfolio of Traded Life Interests (TLIs). TLIs are life insurance policies issued in respect of US individuals by US life insurance companies, which are traded in a secondary market. While the Fund's sterling denominated shares are listed on the London Stock Exchange, its assets will be denominated predominantly in US dollars. The Fund's US dollar exposure is hedged through the forward sale of US dollars into sterling<sup>5</sup>.

**With effect from 1 September 2009 the Company has been resident for tax purposes in the United Kingdom. This enables it to claim relief from US taxes under the UK/US double tax treaty and also to seek approval as an Investment Trust in due course.**

**The Company is now no longer required to be liquidated in 2012. Shareholders will have the opportunity to vote on the continuation of the Company at the AGM in December 2012 and annually thereafter.**

Please refer to the fund commentary overleaf.

## Investment Manager

SL Investment Management Ltd

Adviser on the acquisition, valuation and management of a portfolio of Traded Life Interests.

Ian Cotgias 01244 317999

Patrick McAdams 01244 317999

## Manager

RCM (UK) Ltd

Cash, fixed interest securities and foreign currency management.

Rupert Marlow 020 7065 1485

## Broker

RBS Hoare Govett Ltd, Specialist Fund Sales

Andrew Cade 020 7678 5413

Emmet Pearce 020 7678 5357

## Fund Overview as at 31 August 2009

### Gearing

The Company has a borrowing facility with Allied Irish Banks. The facility enables borrowings of up to \$38 million and expires in March 2010 but is expected to be renegotiated before expiry.

### Foreign Exchange

The Company's policy as regards currency hedging is to hedge the value of the US Dollar portfolio. There have been no further forward sales since the last report. On 30 October 2008 the March 2009 position was closed out by means of a forward purchase of US\$10.5 million. As a result the only remaining open forward position is a forward sale of US\$71 million for March 2012.

### Outlook

As at 31 August 2009 the percentage of the portfolio invested in policies from insurers rated A+ or better by AM Best was 59.1% of the portfolio by value. The board will continue to monitor factors relevant to the valuation of the Company's TLI portfolio, but actual returns will continue to depend principally on the timing and quantum of policy maturities.

### Portfolio Review

No further offers have been placed on behalf of the Fund since the completion of the portfolio in July 2006. As at 31 August 2009, the Fund had 139 policies on 118 separate lives, with a total face amount of \$228m.

The Fund's policies were issued from 34 separate Life Offices. Two policies were issued by Life Offices with ratings below 'A', and the distribution by Life Office as at 31 August 2009 rating was:

Rating	Number of Policies	% Investment Value
A++	16	13.3%
A+	68	45.8%
A	53	40.7%
A-	1	0.1%
B++	1	0.1%
<b>Total</b>	<b>139</b>	<b>100%</b>

Approximately 65% of the remaining policies in portfolio were issued on male lives.

### Portfolio Maturities

A summary of portfolio maturities since inception is given in the following table:

Period	Inception-30.06.07	1.07.07-30.06.08	1.07.08-31.08.09
Number of policies matured	7	6	7
Value of policies matured (\$m)	9.3	3.9	14.8
Premiums paid (\$m)	18.8	9.1	10.4

Three further policies have matured since 31 August 2009 with a face value of \$7.6m.

## Valuation - Range of Possible Outcomes

The following table gives shareholders a range of possible investment return and other outcomes, all based on the NAV per share as at 31 August 2009. There are three major variables. Firstly, on the left hand side, a range of possible mortality outcomes is shown with 100% being the valuation basis; a final line gives the figures that would apply if no medical underwriting had been applied at purchase. Secondly, the main part of the table gives outcomes based on two possible final redemption dates: 31 December 2012, being the original planned date, and 31 December 2016, a date chosen for illustrative purposes. Finally, for each case the effect of sales of any residual portfolio at below valuation prices is shown. Because a later redemption date of 2016 would involve a lower proportion of surviving lives, it will be noted that the effect of any reduction in sale price is much less marked at this date.

Variation in mortality <sup>1</sup> (%)	LE change (years) <sup>2</sup>	IRR based on growth in NAV per share <sup>5</sup>							
		31 December 2012				31 December 2016			
		Policies surviving <sup>3</sup>	Remaining shares in force <sup>4</sup>	100% <sup>6</sup>	70% <sup>7</sup>	Policies surviving <sup>3</sup>	Remaining shares in force <sup>4</sup>	100% <sup>6</sup>	70% <sup>7</sup>
125%	-1.09	53.0%	61.4%	14.42%	2.81%	20.7%	14.6%	14.07%	8.66%
110%	-0.48	56.9%	72.7%	12.15%	0.77%	24.4%	21.0%	11.13%	5.85%
100%	0	59.7%	78.8%	10.48%	-0.73%	27.3%	26.2%	9.16%	3.97%
80%	1.2	65.8%	100.0%	6.71%	-4.12%	34.4%	45.2%	5.05%	0.06%
50%	4.12	76.4%	100.0%	-0.56%	-10.65%	49.5%	100.0%	-2.26%	-6.90%
30%	8	84.9%	100.0%	-7.15%	-16.57%	64.1%	100.0%	-13.83%	-17.92%
Ignore Medical Underwriting <sup>8</sup>	n/a	61.9%	86.3%	8.77%	-2.26%	26.8%	25.2%	9.53%	4.33%

### Notes:

1. The central case (100%) assumes that claim experience matches the valuation basis in force at 31 August 2009. The other scenarios assume that the mortality experience is higher (e.g. 110% means that if one expects 10 deaths, one instead experiences 11) or lower (e.g. 80% means that if one expects 10 deaths, one instead experiences 8).
2. This shows the effect of the mortality experience on the life expectancy (in years) for an otherwise normal 80-year-old non-smoker.
3. The proportion of policies surviving to the specified date based on the portfolio as at 31 August 2009. No allowance has been made for the policies that have matured after this date.
4. The model assumes that shares are repurchased whenever excess cash beyond that required for premium reserves is available. This column represents the number of shares still in force and not repurchased at the relevant date.
5. This shows how the return varies for a shareholder holding the shares between 31 August 2009 and the relevant date (31 December 2012 or 31 December 2016) based on the growth in the NAV per share.
6. Return based on growth in NAV per share assuming valuation at the relevant date using the valuation basis in force at 31 August 2009.
7. Return based on winding up at the relevant date assuming that the net realised proceeds of assets is 70% of the valuation calculated in accordance with the valuation basis in force at 31 August 2009.
8. Mortality outcome assuming the lives are all "normal" lives from the point of view of mortality expectations and ignoring the implied relative health from medical underwriting.

## Share Buybacks

The Fund has authority to purchase up to 14.99% of its shares in issue for cancellation. Such purchases will only take place at prices below prevailing net asset value, enhancing the net asset value of the remaining shares in issue. As at 30 June 2008, no shares have been repurchased for cancellation.

## Gearing

It remains the intention of the Board that the Company will incur bank borrowings and that, as policies mature, the level of gearing will be reduced as appropriate and ultimately eliminated altogether. Gearing increases returns to the Fund if the Fund earns a greater return on investments purchased with borrowings than the Fund's cost of borrowing. However, the use of gearing exposes the Fund to additional levels of risk, including: (i) greater losses from investments than would otherwise have been the case had the Fund not borrowed to make the investments; and (ii) losses on investments where the investment fails to earn a return that equals or exceeds the Fund's cost of borrowing. In the event of a fall in value of the Fund's assets or loss on the Company's forward currency contracts arising from an increase in the value of the dollar, the Fund might not be able to comply with the borrowing covenants contained in the Credit Facility Agreement and may be required to repay its borrowings through selling policies, potentially at disadvantageous terms.

## Board of Directors

Charles Tracy (Chairman), Ian Reynolds, Saad Zein, John Scott.

## Price Information

Financial Times (under CONVENTIONAL INVESTMENT COMPANIES, listed as 'Alt Asts Ops')

## Shareholder Communications

**Report and Accounts:** Finals for 2009 posted in December 2009

**Next Annual General Meeting:** 24 February 2010

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