

# US Traded Life Interests Fund

Factsheet April 2010

ALTERNATIVE ASSET OPPORTUNITIES PCC LTD

## Key Information

|                              |                |
|------------------------------|----------------|
| Net Assets <sup>1</sup>      | £34.4m         |
| Gearing <sup>2</sup>         | 48.1%          |
| No. of Shares <sup>1</sup>   | 40,000,000     |
| Share Price <sup>3</sup>     | 67.5p          |
| Net Asset Value <sup>4</sup> | 86.0p          |
| Discount to NAV <sup>5</sup> | 21.5%          |
| Next Year End                | 30th June 2010 |
| Next Continuation Vote       | December 2012  |

<sup>1</sup> Source: RCM (UK) Ltd. /SL Investment Management Ltd as at 31 March 2010.

<sup>2</sup> Source: RCM (UK) Ltd. as at 31 March 2010. The Company's bank borrowings were equivalent to 48.1% of net asset value at 31 March 2010. In addition the Company had unrealised losses on its forward foreign exchange contracts equivalent to a further 25.4% 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 March 2010 (mid-price). Please also refer to Introduction right, and Foreign Currency Exposure, page 2.

<sup>4</sup> Source: RCM (UK) Ltd. as at 31 March 2010.

The above NAV includes an unrealised loss to date of 2.4 pence per share as at 31 March 2010 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 and/or a 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.**

**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

Emmet Pearce 020 7678 5357

## Fund Overview - extract from interim accounts to 28 February 2010

### Gearing

The Company has a borrowing facility with Allied Irish Banks. On 24 February 2010 the company renewed its loan agreement with AIB until 31 January 2011; under this agreement the company may borrow up to \$38 million.

### 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. As a result the open forward position is a forward sale of US\$71 million for March 2012.

### Outlook

As at 28 February 2010 the percentage of the portfolio invested in policies from insurers rated A+ or better by AM Best was 59.2% 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 28 February 2010, the Fund had 136 policies on 115 separate lives, with a total face amount of \$221m.

The Fund's policies were issued from 32 separate Life Offices. Two policies were issued by Life Offices with ratings below 'A', and the distribution by Life Office as at 31 December 2009 rating was:

| Rating       | % Investment Value |
|--------------|--------------------|
| A++          | 12.6%              |
| A+           | 43.5%              |
| A            | 43.8%              |
| A-           | 0.1%               |
| B++          | 0.0%               |
| B+           | 0.1%               |
| <b>Total</b> | <b>100%</b>        |

Approximately 64% 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-<br>30.06.07 | 1.07.07-<br>30.06.08 | 1.07.08-<br>31.08.09 | 1.09.09-<br>28.02.10 |
|---------------------------------|------------------------|----------------------|----------------------|----------------------|
| Number of policies matured      | 7                      | 6                    | 7                    | 3                    |
| Value of policies matured (\$m) | 9.3                    | 3.9                  | 14.8                 | 7.6                  |
| Premiums paid (\$m)             | 18.8                   | 9.0                  | 10.5                 | 4.4                  |

**Valuation - Range of Possible Outcomes** (based on the portfolio as at 28 February 2010)

The table of predicted yields set out below gives shareholders the opportunity to see the effect on portfolio returns of a wide range of mortality assumptions. The Board will continue actively to monitor market information and to keep the valuation assumptions under review.

| 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> |
| 100%                                    | 0.00                           | 64.4%   | 96.4%                                  | 11.73%            | -1.48%           | 29.5%                           | 33.2%                                  | 9.55%             | 3.98%            |
| 80%                                     | 1.20                           | 70.0%   | 100.0%                                 | 7.02%             | -5.64%           | 36.6%                           | 55.7%                                  | 4.94%             | -0.40%           |
| 50%                                     | 4.12                           | 79.7%   | 100.0%                                 | -1.68%            | -13.31%          | 51.7%                           | 100.0%                                 | -3.84%            | -8.73%           |
| 30%                                     | 8.00                           | 87.1%   | 100.0%                                 | -9.22%            | -19.96%          | 66.1%                           | 100.0%                                 | -19.15%           | -23.26%          |

Notes:

1. The central case (100%) assumes that claims experience matches the valuation basis in force at 28 February 2010. The other scenarios assume 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 expectation (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 28 February 2010. 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 28 February 2010 and the relevant date (31 December 2012 or 31 December 2016) based on the growth in the NAV per share. The NAV at that date was 84.3 pence per share.
6. Return based on growth in NAV per share assuming valuation at the relevant date using the valuation basis in force at 28 February 2010.
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 28 February 2010.

In addition, the Board is providing similar information on two further bases (see the notes above for explanation of table headings):

- A. Assume all lives are "normal" from the point of view of mortality expectations and ignore the implied relative health from medical underwriting. In common with the above figures, results are projected from the NAV per share as at 28 February 2010. Note: the figures on this basis provided in the annual report were projected from the NAV per share calculated using the revised assumptions and are thus not strictly comparable.
- B. Calculate results on the 100% mortality assumption, but projected from the share price at 28 February 2010 of 67.0p per share.

| Base | 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> |
| A.   | 79.1%   | 100%                                   | 0.31%             | -11.55%          | 43.0%                           | 84.0%                                  | 2.28%             | -2.92%           |
| B.   | 64.4%   | 96.4%                                  | 21.16%            | 6.83%            | 29.5%                           | 33.2%                                  | 13.30%            | 7.53%            |

Source: SL Investment Management Ltd.

## 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 31 December 2009, no shares have been repurchased for cancellation.

## Principal Risk Factors

### Gearing

The Company uses bank borrowings and it is the intention of the Board that, as policies mature, the level of gearing will be reduced 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 and/or a 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.

### Longevity Risk

Future returns are sensitive to mortality, as illustrated in the table overleaf. The level of maturities also affects cash flow from the portfolio and consequently the level of gearing.

## Valuation

As there is no liquid or transparent central market for trading TLIs, the Board's valuation of the portfolio is based on an IRR which uses estimated life expectancies and a discount rate applied to future cash flows. The valuation may not reflect the underlying value of the TLIs in the event of forced sales.

The price achieved for the sale of the remaining portfolio of TLIs at the Company's winding up will also be an important factor in determining future returns as set out in note 7 overleaf.

## Counterparty Risk

Future maturity payments are dependent upon the future solvency of the life company issuers.

Further risks are set out in the Annual Report and Audited Financial Statements.

## 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')

## Bloomberg Ticker

"TLI LN"

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