

US Traded Life Interests Fund

Factsheet December 2011

ALTERNATIVE ASSET OPPORTUNITIES PCC LTD

Key Information

Net Assets ¹	£30.2m
Gearing ²	53.7%
No. of Shares ¹	40,000,000
Share Price ³	33.5p
Net Asset Value ⁴	75.4p
Discount to NAV ⁵	55.6%
Next Year End	30 June 2012
Continuation Vote	November 2012

¹ Source: RCM (UK) Ltd. /SL Investment Management Ltd as at 31 December 2011.

² Source: RCM (UK) Ltd. as at 31 December 2011. The Company's bank borrowings were equivalent to 53.7% of net asset value at 31 December 2011. In addition the Company had losses of US\$11.8m on its forward foreign exchange contracts that are due for settlement on 30 March 2012. Please also refer to Introduction right, and Gearing, page 2.

³ Source: RCM (UK) Ltd. as at close of business on 31 December 2011 (mid-price). Please also refer to Introduction right.

⁴ Source: RCM (UK) Ltd. as at 31 December 2011.

Alternative Asset 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.

⁵ Foreign currency exposure. Following the passing of a special resolution at an Extraordinary General Meeting on 20th September 2011 the company's investment policy was changed, and the company's currency exposure to the US Dollar is now unhedged.

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 dollars⁵.

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 continue to seek approval as an Investment Trust.

Shareholders will have the opportunity to vote on the continuation of the Company at the AGM in November 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.

Daniel Johnston 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

Tom Harris 020 7678 5413

Fund Overview

Portfolio Review - extract from the Annual Financial Report for the year ended 30 June 2011

No further offers have been placed on behalf of the Fund since the completion of the portfolio in July 2006. As at 30 June 2011, the Fund had 129 policies on 108 separate lives, with a total face amount of \$204.7m.

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

Period	Inception- 30.06.07	01.07.07- 30.06.08	01.07.08- 31.08.09	01.09.09- 30.06.10	01.07.10- 30.06.11
Number of policies matured	7	6	7	4	6
Value of policies matured (\$m)	9.3	3.9	14.8	10.7	12.9
Premiums paid (\$m)	18.8	9.0	10.5	7.3	8.0

As at 30 June 2011 the percentage of the portfolio invested in policies from insurers rated A+ or better by AM Best was 71% of the portfolio by face 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.

The Fund's policies were issued from 30 separate Life Offices. The distribution by Life Office as at 30 June 2011 rating was:

Rating	% Investment Value
A++	13.8%
A+	53.3%
A	32.4%
A-	0.4%
B+	0.1%
Total	100%

Approximately 62% of the remaining policies in portfolio were issued on male lives.

Gearing

The Company has a borrowing facility with Allied Irish Banks. The facility was renewed on 28 September 2011 to cover the necessary funding up to the end of March 2012.

Foreign Exchange

Following the passing of a special resolution at an Extraordinary General Meeting on 20 September 2011 the Company's investment policy was changed, and the company's currency exposure to the US Dollar is now unhedged.

Outlook

The high level of volatility recently witnessed in traditional capital markets reinforces the benefits of life settlements as an asset class. With low correlation to the prevailing economic and political uncertainty, life settlements offer a less volatile alternative to equities and bonds in the current financial climate.

Policy Sales

As announced on 12 January 2012 and as noted in the latest Annual Report it is the Board's intention to dispose of some policies as and when suitable opportunities arise. To date, sale contracts have been exchanged with two counterparties for the sale of five policies, which upon completion will realise some \$6 while negotiations are at an advanced stage with a third counterparty over the sale of policies with a value of approximately \$1 million. A further batch of policies is currently being offered to the market.

Sensitivity Matrix

Net Asset Value in pence per share on various assumptions as at 30 June 2011.

In previous reports, the Board has, attempted to give investors an appreciation of the effects on valuation of differing assumptions as to both LE and IRR. These tables have tended to become quite complex, and the Board has been considering how best to improve them. The new, simplified 'Sensitivity Matrix' set out below is, in the first place, now expressed in terms of NAV per share, an easier concept to understand than that previously used (based on IRR to an assumed maturity date). Secondly, the tables now enable the Board to show the effect of differing market IRR assumptions.

- The first line of NAVs in the new table uses the 'Latest LE' assumption, that is to say either an LE based on a recently updated assessment or, for the remaining 38% of the portfolio by face value (the 'non-updated policies'), based on the original LE assessed at the time of purchase. The average LE (weighted by policy value) is shown for reference (4.7 years). NAV is then shown at four different discount rates, ranging from 10% to 20%. This shows the effect of IRR on current value, but it also allows investors to assess the effects of forced sales if, for example, the portfolio was to be liquidated before 31 December 2016.
- The second line uses the assumption that updated LEs obtained for the non-updated policies would broadly follow those already obtained for other policies, resulting in an LE increase of 20% on the non-updated policies. In practice, the LE changes exhibited by actual revised assessments vary widely and the Board does not feel it is necessarily correct to extrapolate the changes for the non-updated policies. The overall effect is to increase average LE by 0.3 years.
- The third line assumes an increase in LE of 40% on the non-updated policies. The effect on NAV is roughly proportionate to that shown in the second line, but the increase in LE is only 0.1 years because of the fact that policies are weighted by value – such an extension to LE of course has significant impact on the values of some of these policies.
- Finally, the fourth line shows the outcome of assuming LEs are simply based on the current table of life expectancies for the general population, the 2008 Valuation Basic Table (Ultimate), i.e. ignoring LE assessments. The Board does not suggest that this is a realistic assumption, but it gives a measure of the degree to which the portfolio is dependent on assessed LEs being shorter than for the population as a whole.

Mortality Assumptions	Weighted Average LE*	Discounted Rates Applied to Cash Flows			
		10%	Current (12%)	16%	20%
Latest	4.7	85.8	77.2	63.4	52.3
+20% for LE dates before 01/11/2008	5.0	74.7	66.5	53.3	42.8
+40% for LE dates before 01/11/2008	5.1	64.9	57.1	44.6	34.8
No underwriting	5.7	63.1	54.4	41.0	30.3

* The weighted average LE (in years) is calculated by reference to the policy values obtained.

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 2011, 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.

Longevity Risk

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

Foreign Currency Risk

Foreign currency risk arises from the potential movements in the values of the company's assets and liabilities denominated in US Dollars.

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.

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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