

How will the raising interest rates impact projected IRR?

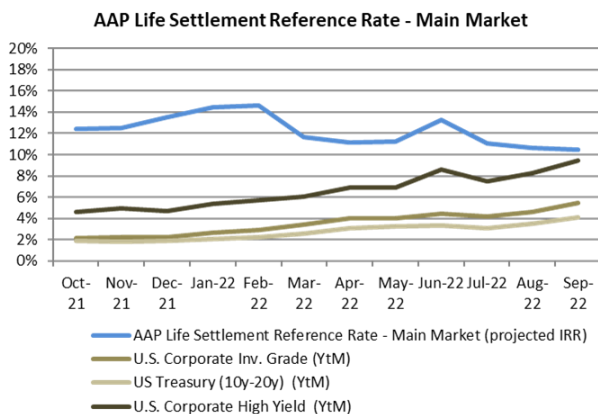
It is common sense that risk and return are linked. Higher risk needs to be compensated with higher return, otherwise investors would be unwilling to make riskier investments. So, lower risk goes hand in hand with lower return on average, and higher risk goes with higher return on average.

The general concept of a relationship between risk and return allows to establish an idea which part of the return compensates for which risks. The allocation of the return to particular risks is usually not 'precise' in a scientific sense but more a rough allocation of yield to various risk buckets. This is due to the fact that single risks often can't be segregated and that many risks interrelate to each other.

There are several take aways of such a risk-reward split. A major advantage of this concept is that it allows to assess how the return level of an asset class may develop under certain scenarios.

How will the interest rate increase impact the life settlement markets?

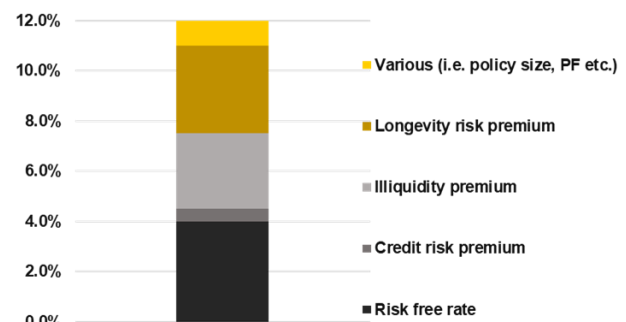
We saw a pronounced increase of the interest rates since the beginning of the year, compare the following chart. Our AAP Life Settlement Reference Rate—Main Market, however, does not mirror so far the shifts on the interest rate side, the yield gap between fixed income securities and the Reference Rate conse-



quently narrowed considerably. And it is therefore a question how the level of projected return in our markets may be impacted. And for this question a risk-reward split of the projected IRR is helpful.

The projected IRR of life settlements can be roughly allocated to the following risks, compare the following chart:

- **Risk free rate:** we use here the 10 years US Gov Bond yield.
- **Credit risk premium:** is linked to a potential default of the insurance carrier; we consider this risk premium to be very low.
- **Illiquidity premium:** life settlements are rather illiquid, and we estimate this premium to be about 3% on average.
- **Longevity risk premium:** remunerates an investor for the risk that the life expectancies are too short on average.
- **Various:** for instance the size of a policy, the premium financing status and so forth.



The increase of the risk free rate from about 1.5% to roughly 4% since beginning of the year compressed the compensation of the investors for the longevity risk since the remuneration of the other risk pockets remained stable. And it is an open question whether investors will require a similar reward for taking longevity risk in the future as in the past, which would consequently lead to an increase of the projected IRRs in our market.

Data Sampling and Data Provider

The information in this report is based on data which is collected by AAP on a multi provider basis. The transparent life settlement providers are (in alphabetical order):

- FairMarket Life Settlements
- Habersham Funding LLC
- Life Capital Group
- Life Equity
- Life Policy Traders
- Life Settlement Solutions
- LifeTrust, LLC
- Q Capital Strategies
- RiverRock Partners, LLC
- Settlement Group, Inc.

Life Settlement Market Activity

Mth to Mth

Secondary Market	Proj. Ret.	Volume
Main Market (Age 75-86)	↑	↓
Tail Market (Age < 75)	↑	→
Tail Market (Age > 86)	↑	→
Tertiary Market		
Tertiary Market All	↓	↑
Total Market		
Sec. and Tert. Market	↓	↑

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AA—Partners Ltd.

Witikonstrasse 36
CH-8032 Zurich
Switzerland
Tel. +41 76 414 42 29

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www.aa-partners.ch

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