

Life Settlements as an Alternative to Bonds and Equities

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Recession, the sub-prime crisis and credit crunch – these are all causes for concern this year and deeply unsettling for the financial markets, which are set to suffer even more volatility this year. But in such conditions, life settlement and traded life policy funds have never looked more appealing to investors.

This is because traded policy funds represent a safe haven for investors. Equities, bonds and property are all under pressure to perform but continued turbulence in these markets is set to continue. Now is a good time for investors to head for cover to an asset class that is not impacted by the global market turbulence. And with interest rates falling on cash deposits, traded life policies become even more attractive.

For many investors, both retail and institutional, direct investment in life settlements is too complicated and speculative for them to manage themselves as it is necessary to accumulate sizable portfolio of policies for the life expectancy predictions to deliver upon an investor's expectations. But by investing in mutual funds, they can have their investments managed by professional managers who, with prudent actuarial analysis and diversification, can deliver steady, incremental returns, year in, year out. These returns can be highly predictable and in the region of 10% per annum. What is more, the returns are uncorrelated to what is going on in the financial markets and as an asset manager we are able to hedge currency risk to deliver smooth return in Euros and Sterling as well as Dollars, a proposition that is extremely attractive in the current market conditions.

The demand for life settlements is not just growing in the US – there is rapidly increasing demand for them in Europe and the Far East also as a growing band of investors are responding to the appeal of steady, predictable investment returns.

Occupational pension funds offering retirement schemes linked to employee final salaries appreciate the qualities of traded policy funds too. Many of them suffered greatly in the bear market that followed the TMT bubble burst in 2000 and now fully

understand the importance of being able to predict with more certainty what their investments will deliver, in order to match their assets with their future liabilities. For them, the prospect of steady, predictable returns is a massive benefit.

One might regard it an investment sin to ignore an asset that is yielding 8-10% in the current environment. Yet that is exactly what life settlement funds are yielding at present, giving returns several percentage points above cash with a very low level of risk. As an example of this performance, the US dollar institutional share class in Traded Policies Fund, an open-ended investment company managed by MPL, recorded its first three-year track record in 2007. It returned 28.35% in the three years to 1 July, 2007, significantly outperforming its benchmark, the 10-Year US Government Bond Index, which returned 8.54% over the period, and the Fed Funds Effective Rate, which returned 12.77%.* The \$60m fund's return represents an annualised return of 8.78%, net of all charges. What is more, the fund did not suffer a single negative return in any quarter during that period.

Traded Life Policies are not yet widely regarded as an asset class in their own right in the same way as equities, bonds or cash. But they should be. The issue is not that TLPs are superior to bonds or equities, any more than the claim is valid that bonds are better than equities, or vice versa. It is merely that in a volatile market situation with a great deal of uncertainty, there is a compelling argument to reduce the weightings in these particular asset classes. As increasing numbers of investors around the world start to appreciate this – and the financial market conditions of 2008 only look likely to encourage this – we can expect a very buoyant market for TLPs going forward.

*Source: Thomson, including reinvestment of dividends.