



RELIANT Life Shares

Institutional Profitability Brought to the Individual Investor™

Reliant Life Shares White Paper

June 1, 2015

The Investment:

Fractional life shares are a relatively new development in the life settlement space. With the emergence of these vehicles, individuals can now gain exposure to an asset class traditionally reserved for institutional investors.

A life settlement is a transaction where a policy owner, usually age 75 or older, sells their policy to a third-party investor for a sum of money greater than the cash surrender value but less than the policy's face amount. The seller receives more than he would have received from the insurance company, and the investor receives a fixed return on his investment.

For an institutional investor, life settlements are a compelling buy and hold proposition. Life settlements offer double-digit return potential with low risk to principal and no correlation to capital markets. According to an 11-year empirical study by The London Business School, purchasers of life settlements across their sample could have expected to earn annual returns of 12.5% from 2001-2011, with a low of 11% per annum from 2005-2007 and as much as 18.3% in 2011.¹

Since 2001, banks have committed capital in excess of \$35 billion to the asset class, with another \$65 billion expected by 2016.² Citing baby boomer population growth, interest-rate driven cash values, and growing awareness in the financial community, Bernstein Research predicts that the industry could reach \$160 billion by 2030.³

Unfortunately for the small investor, the process of finding, purchasing, and servicing life policies is complex and highly regulated. As a result, the general public has missed out on this opportunity. With the emergence of fractional life shares, however, qualified investors can now realize the superior risk-adjusted returns that institutions have enjoyed for years.

¹ Afonso V. Januario and Narayan Y. Naik, "Empirical Investigation of Life Settlements: The Secondary Market for Life Insurance Policies," *The London School of Business*, May 29, 2013, 1-2.

² Conning Research, "2012: Life Settlements – Weak Investor Supply Despite Growing Consumer Demand," 2012.

³ Suneet Klamath, CFA and Andrew Fernandez, CFA, *Bernstein Research Call*, May 19, 2006, 1.

Risks and Benefits:

No investment is without risk. Although life settlements are insulated from risks intrinsic to conventional investments, there are unique considerations specific to the asset class. These include:

Risk	Commentary
lack of liquidity	funds are committed until policy maturity, and cash outflows must be managed to prevent liquidity shortages
counterparty insolvency	default risk of the insurance carrier
longevity risk	inaccurate life expectancy projections may impact returns
policy rescission	courts have held that lack of insurable interest may void a policy's incontestability clause ⁴

These risks can be mitigated through adequate capitalization, diversification, and a thorough due diligence process. Institutions purchase pools of life policies, laddering assets by dates of expected maturity. By structuring their portfolios in tranches, institutions can manage and optimize cash flows while taking advantage of the distinct benefits of longevity investing, including:

Benefit	Commentary
potential for above-average returns	with respect to their July 2013 life settlement portfolio purchase, Berkshire Hathaway anticipates earning an IRR of "less than 20%" ⁵
fixed maturity value	sum---certain payouts are provided by highly---rated U.S. life insurance carriers such as John Hancock, Mass Mutual, and New York Life
true portfolio diversification	life policy maturities are uncorrelated to movements across all other asset classes, offering immunity from market and geopolitical risk
legal protections	in addition to being highly regulated, Legal Reserve life insurance companies enjoy statutory safeguards unavailable to traditional asset classes

⁴ Michael G. Koutnik, "Long Live Life Settlements: The Current Status and Proposed Direction of the Life Settlement Market," *Marquette Law Review*, Volume 96, Issue 3, Article 6 (Spring 2013), 934---940.

⁵ Donna Horowitz, "Berkshire Hathaway Confirms it Bought \$300M Coventry Portfolio," *The Deal's Life Settlements Report*, Vol. VII, No. 14 (August 15, 2013), 4.

The Company:

Reliant Life Shares is a California LLC formed on January 18, 2011 to offer fractionalized life shares to qualified investors in its state of domicile. Reliant is fully compliant with all federal, state, and local laws, including the Corporate Securities Law of 1968 and Senate Bill 1837, the California statutes that regulate fractional or pooled interests in viatical and life settlement contracts.

The company's mission is to provide qualified and accredited investors with the framework to successfully invest in the life settlement market.

The owners of the company are industry pioneers, having sold and settled more than \$2 billion of life insurance face amount since 2004. Recognizing the widespread lack of life settlement awareness, they decided to leverage their experience to introduce the asset class on a broad scale. By helping clients diversify and enhance returns, they hope to realize their vision to bring this favored investment vehicle from Wall Street to Main Street.

With more than 60 years of combined experience in life settlements, the Reliant team has built strong relationships with some of the industry's largest and most stable brokers, providers, and funding entities. As a result of these relationships, Reliant has access to pools of diverse life assets for the evaluation and selection of ideal policies.

Reliant also provides financial advisors with a unique opportunity.

The California Corporate Securities Law of 1968 classifies life settlement investments as securities.⁶ The law prohibits the offer or sale of such securities unless the sale has been "qualified," or an exemption from qualification exists.⁷

An exemption from qualification exists under Senate Bill 1837, which amends the Corporate Securities Law of 1968.⁸ Under Senate Bill 1837, California---DOI---licensed life agents in can lawfully engage in fractional life settlement sales, and are exempt from broker---dealer licensing requirements for these securities.⁹

With respect to regulation, Reliant has always taken a proactive approach, working closely with the California Department of Business Oversight and other regulatory bodies to ensure compliance with the letter and spirit of the law.

⁶ <http://www.leginfo.ca.gov/cgi-bin/displaycode?section=corp&group=24001---25000&file=25000---25023>, (§ 25019)

⁷ <http://www.leginfo.ca.gov/cgi-bin/displaycode?section=corp&group=25001---26000&file=25110---25118>, (§ 25110)

⁸ http://www.leginfo.ca.gov/pub/99---00/bill/sen/sb_1801---1850/sb_1837_bill_20000927_chaptered.html

⁹ Ibid.

Additional Investor Protections:

As a result of their reputation in the industry, Reliant has secured key strategic partnerships for the protection of its agents and investors. Reliant works only with firms who match their high ethical standards and mirror their commitment to transparency.

UMB Bank – Independent Escrow Agent and Trustee (www.UMB.com)

UMB Bank was founded in 1913 and is ranked as one of Americas Best Banks based on eight financial measures of asset quality, capital adequacy, and profitability according to studies by Forbes and SNL Financial. They are publicly traded on the NASDAQ (UMBF) and have Assets under Management of \$41.4 Billion Dollars. Since 2007 UMB Corporate Trust and Escrow services has ranked as the Fourth largest trustee and paying agent nationally primarily due to their business as a municipal bond trustee and paying agent.

Erwin Legal – Corporate Counsel (www.erwinlegalpc.com)

Erwin Legal is the leading law firm specializing in trustee, escrow, and transactional structuring services for the life settlement industry. The firm has played a significant role in pioneering and developing cutting edge financial strategies using life settlements, including collateral asset financing structures and private offerings and placements. With decades of experience and hundreds of millions of dollars of assets under trustee supervision, Erwin Legal has built a solid reputation in the life settlement industry.

Third Party Administrators and Qualified Plan Custodians

www.trustprovident.com www.theentrustgroup.com www.accuplan.net

Reliant uses the services of multiple Third Party Administrator and Qualified Plan Custodians. As secure retirement becomes increasingly challenging, investors are demanding a wider range of options to attain their goals. Our service providers are leaders in the field of self-directed IRAs, helping clients build wealth with investments they understand and control.

Actuarial Expertise – Life Expectancy Providers

As the definitive metric in the life settlement industry, life expectancies are used to evaluate risk and investment performance. Because Life Expectancies are such an important part of a life settlement transaction Reliant uses multiple life expectancy reports from various laboratories. As of June 1, 2015 we utilize a minimum of three Life Expectancies and use the median estimate for pricing. Reliant considers only proven, third-party life expectancy reports from industry leaders including 21st Services, EMSI, AVS, Focus, Clarity Convergence and Fasano Associates. As the industry has matured, methodologies have improved and more data has become available to assess mortality experience, with independent actuarial studies confirming life expectancy accuracy rates of well over 90%.^{11, 12}

In-House Compliance Attorney

Reliant has gone above and beyond the legal protections afforded to investors under Senate Bill 1837 by retaining an in-house compliance attorney.

¹⁰ <http://investors.wsfsbank.com/releasedetail.cfm?ReleaseID=811650>

¹¹ <http://www.fasanoassociates.com>

¹² <http://www.prweb.com/releases/2010/04/prweb3935454.htm>

Market Forecast:

Recent market activity confirms institutional commitment to the asset class. Some of the more noteworthy trades in the second half of 2013 included:

- Berkshire Hathaway (NYSE: BRK---A), Warren Buffett's company, added to their holdings by purchasing a \$300 million life settlement portfolio in July.¹³
- Private equity firm Apollo Global Management (NYSE: APO) is raising another \$700 million to invest in life settlements¹⁴ following their \$600 million portfolio purchase in August.¹⁵ Apollo also reported in Q4 that it has deployed more than \$443 million in its first life settlement fund.¹⁶
- Bridge Exchange, an electronic platform for policy trades between institutions, opened its first auction on August 30.¹⁷
- Limited Life Assets, Ltd., the U.K. entity of McKinsey & Co., beat out hedge fund Silver Point Capital LP for the \$135 million Quality Investments BV portfolio in September.¹⁸

In addition to hedge funds and private equity firms, pension fund managers are also starting to pay attention, ^{19, 20} recognizing life settlements as powerful tools to hedge both macroeconomic and longevity risk. As buy---side appetites grow, consulting firms are ramping up to provide life settlement advisory services to a wide variety of institutional investment firms.^{21, 22}

¹³ Horowitz, *supra* note 4.

¹⁴ "Apollo Begins Raising \$700M for New Investment in Life Settlements," *The Deal's Life Settlements Report*, Vol. VII, No. 14 (August 15, 2013), 8---9.

¹⁵ Zachary Tracer, "Apollo Said to Acquire \$600 Million of Life Policies From RBS," *Bloomberg*, August 8, 2013.

¹⁶ Apollo Global Management LLC, September 30, 2013 Form 8---K (filed November 7, 2013), <http://www.sec.gov/Archives/edgar/data/1411494/000141149413000007/agmearningsrelease3q13.htm>, accessed December 2013.

¹⁷ "New Life Settlement Trading Platform Bridge Exchange Holds First Auctions," *The Deal's Life Settlements Report*, Vol. VII, No. 16 (September 19, 2013), 9.

¹⁸ *Ibid.*

¹⁹ Michael Giardina, "Pittsburgh County Counts on Second Life Settlement Fund," <http://www.mandatepipeline.com/news/allegeny---county---counts---on---second---life---settlement---fund---238792---1.html>, (March 21, 2013).

²⁰ CalPERS, *Annual Investment Report: Fiscal Year Ended June 30, 2012*, Sacramento, CA: CalPERS, 2012, 25.

²¹ KPMG, "Walking a Thin Line: Opportunities and Hidden Dangers of Life Settlements," July 30, 2013.

²² Sabrina Willmer, "Houlihan Lokey to Double Team Focused on Illiquid Sales," *Bloomberg*, September 23, 2013.

Trends are also converging at the retail level to fuel awareness of life settlements and their viability as an investment:

- **favorable legislation** – lawmakers continue to advocate a free market for seniors, with 42 states now regulating life settlements. Other initiatives supporting the settlement option include ATRA 2012 and state efforts encouraging seniors to sell policies to pay for long-term care.^{23, 24}
- **financial uncertainty** – financial experts are divided on the direction of interest rates, the stock market, and the economy. With distressed municipalities and the threat of federal default, retail investors are placing a premium on certainty.
- **demand for alternative investments** – by 2015, retail alternatives are expected to account for one-quarter of retail revenues and a majority of revenue growth as retail investors, confronted with volatile financial markets and the underfunding of their own retirements, follow the path blazed by institutional investors.²⁵

On the policy supply side, the economic benefit of the settlement transaction will continue to drive volume, with seniors receiving as much as four times the cash surrender values offered by insurance companies.^{26, 27} When considering senior lapse rates of more than 74%,²⁸ it's easy to see why market projections are so staggering. The number of Americans age 75 and over will increase to 22 million by 2020, a 19.8% increase over 2010 levels.²⁹ By 2040, that number will double to 44 million.³⁰ Given these dynamics, industry experts conclude that the secondary market for life policies will grow to between \$136 billion (by 2021)³¹ to \$144 billion,³² projections consistent with the Bernstein study.

²³ Kelly Greene, "States Ease Use of Life Policies for Elder Care," *The Wall Street Journal*, June 17, 2013, C1.

²⁴ Weigang Bo, "Texas Law Promoting Life Settlements to Pay for Health Care Is Credit Negative for Insurers," *Moody's Credit Outlook*, June 20, 2013, 13.

²⁵ McKinsey & Company, "The Mainstreaming of Alternative Investments: Fueling the Next Wave of Growth in Asset Management," *Financial Services Practice*, June 2012, 2.

²⁶ Neil Doherty and Hal Singer, "The Benefits of a Secondary Market for Life Insurance Policies," *The Wharton Financial Institutions Center*, October 14, 2002, 31.

²⁷ Januario, *supra* note 1 at 1.

²⁸ Daniel Gottlieb and Kent Smetters, "Lapse-Based Insurance," *The Wharton School*, November 17, 2013, 4.

²⁹ Vincent, Grayson K. and Victoria A. Velkoff, 2010, *THE NEXT FOUR DECADES, The Older Population in the United States: 2010 to 2050*, Current Population Reports, P25-1138, U.S. Census Bureau, Washington, D.C., 10.

³⁰ *Ibid.*

³¹ Conning Research, *supra* note 2.

³² Darwin Bayston, CFA, "Life Settlement Market – Lack of Policies, Lack of Capital, or Something Else?," <http://blog.lisainstitute.org/2013/08/20/>, (August 20, 2013).

Conclusion:

For the past 15 years, life settlements have been a privileged investment vehicle. Financial institutions and investment banks have quietly committed more than \$35 billion to the asset class because life policies offer superior returns with no volatility and no correlation to financial markets. Through fractionalized life shares, Reliant Life Shares facilitates the investment process for qualified investors, providing attractive returns and true peace of mind through changing economic and market conditions.

***For more information or to preview policies in our portfolio, please
call us at (818) 788-1904***

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