CORPORATE AMERICA TODAY ANNUAL AWARDS 2021

HPF

High Protection Fund

Making the Switch

Life Settlements Offer Investors an Attractive Alternative to Fixed Income

Introduction

Fixed income has never looked as fully priced in living memory as it is now. Interest rates are at record lows, driven down by central banks that are determined to jump start their domestic economies after the shock of COVID-19. The quantitative easing ("**QE**") that followed the Global Financial Crisis was widely viewed as extraordinarily large, but even that has been dwarfed by the latest round of central bank interventions.

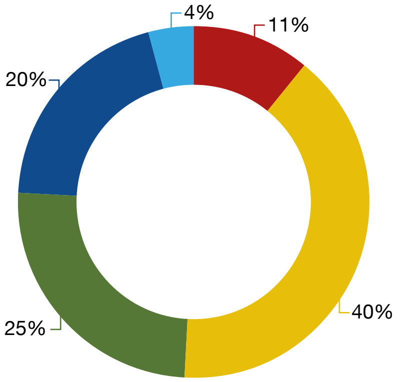
After four decades of a bull run, bonds face the multiple challenges of ultra-low interest rates inevitably rising at some stage and driving down the values of bonds; default risks increasing after the damage COVID-19 has caused to corporate balance sheets; and the threat of rising inflation spurred by colossal QE. If the bull run is over, what alternatives do investors have to bonds?

To understand more about what institutional investors will do with their fixed income exposure, Managing Partners Group ("**MPG**") commissioned global research[1] to gauge their sentiment towards the asset class and the alternatives to it. The findings are outlined below.

Institutional Investors Will Cut their Exposure to Bonds

Given the challenges facing bonds, it is perhaps unsurprising that our research[1] found that 51% of institutional investors plan to cut exposure to them. A quarter (25%) plan to maintain exposure and 24% plan to increase it

Figure 1
How institutional investors plan to change their exposure to bonds in 2021



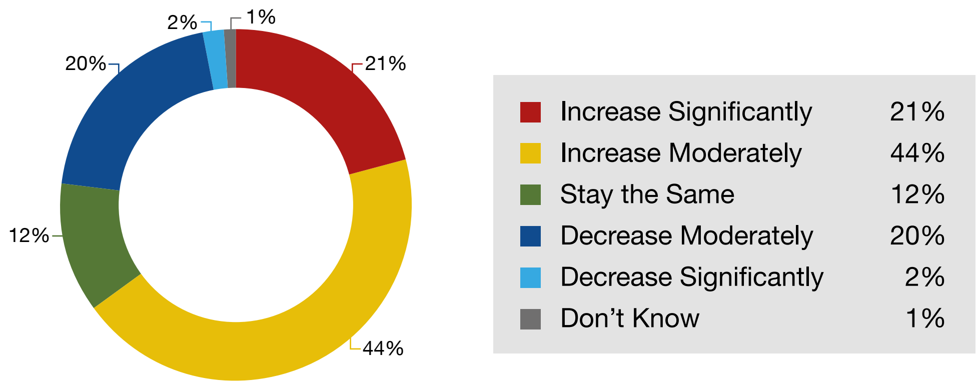
Reduce it Significantly	11%
Reduce it Moderately	40%
Keep it About the Same	25%
Raise it Moderately	20%
Raise it Significantly	4%

The reasons for this are clear: default risk and inflationary headwinds are of significant concern to our respondents.

[1] Source: Survey conducted by Pure Profile among 105 institutional investors globally, 11-19 January 2021

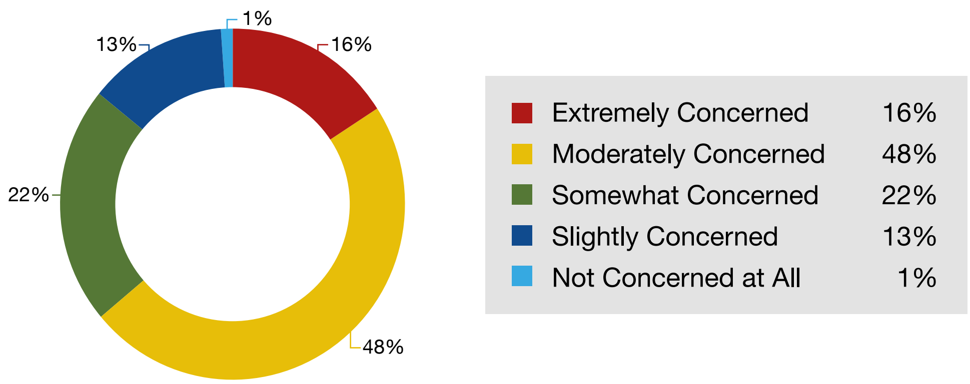
Nearly two in three (65%) see default risk rising this year on corporate bonds in developed economies while only 22% believe it will fall and 12% say it will remain the same.

Figure 2
Expectations of changes in default risk on corporate bonds in US/Europe over 2021



Regarding inflation, 16% are ‘extremely concerned’ that it will reduce the real yields on bonds this year, 48% are ‘moderately concerned’ and 22% ‘somewhat concerned’. Only 14% were ‘slightly’ or ‘not at all’ concerned.

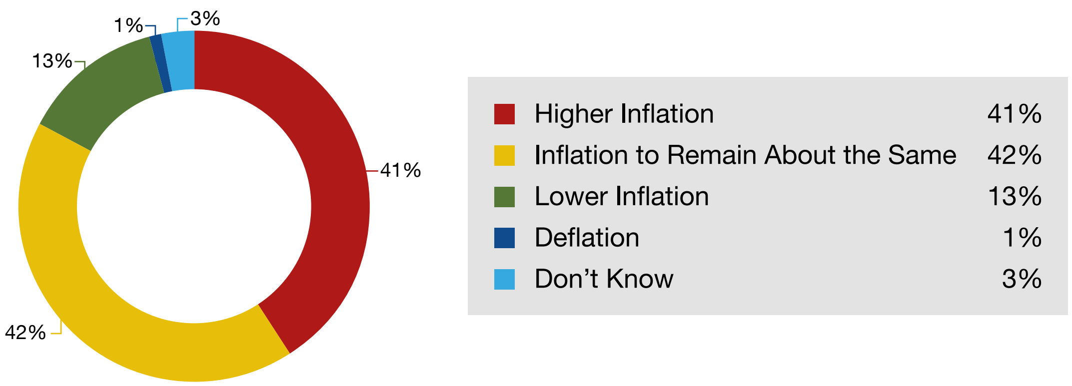
Figure 3
Levels of concern that inflation will reduce the real value of bonds 2021-22



The high number of names that left the high street in 2020 show the current recession is likely to be deeper than many might expect and the risk of more defaults this year is very real. Even just credit downgrades will be enough to make corporate bonds worth less.

The absence of inflation has proved to be an enigma for central banks for some years. Despite large scale QE, inflation has remained subdued. However, when economic recovery does eventually come it will likely spur price rises that will reduce the real value of fixed income streams. Our respondents' views are weighted towards expectations of more inflation, with two in five (41%) anticipating higher inflation this year, 42% expecting it to remain about the same and just 13% seeing lower inflation.

Figure 4
Expectations of inflation over 2021/22

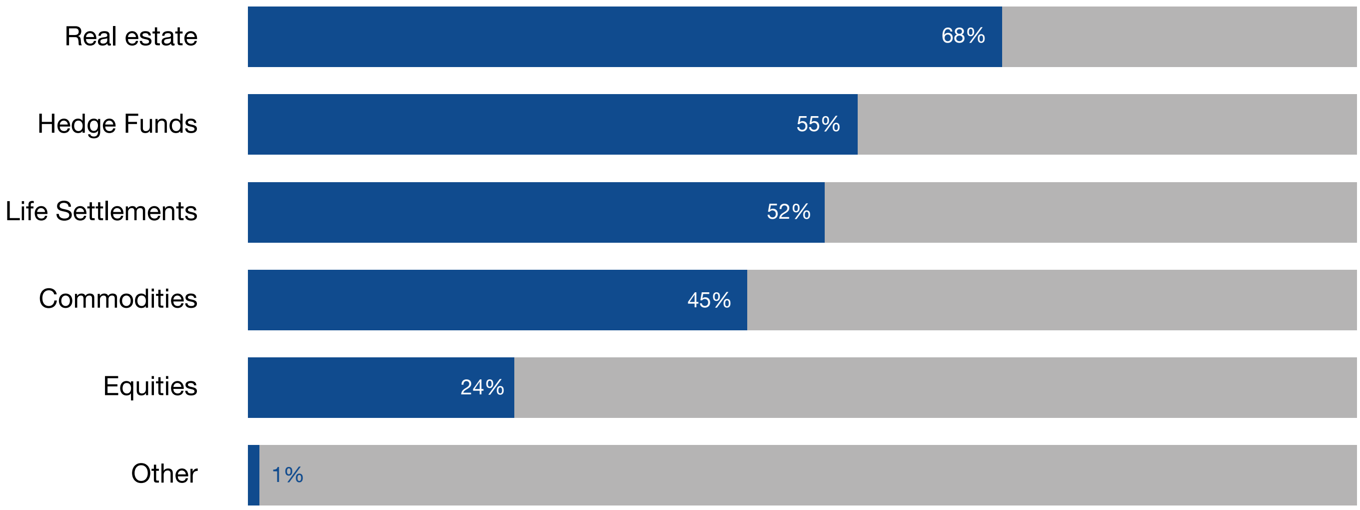


Increasing Exposure to Alternatives

Bonds and indeed equities have offered easy pickings for investors for some years. So much so, it has been easy to ignore the virtues of other asset classes. Now, the incentive to switch exposure out of bonds is very strong - but to which assets?

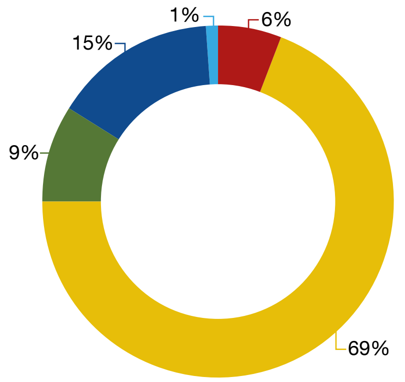
Our research shows that of those planning to reduce their exposure to bonds, 68% plan to redirect their investments into real estate, 55% to hedge funds, 52% to Life Settlements, 45% to commodities and 24% to equities.

Figure 5
Asset classes to which investors will switch their bond exposure



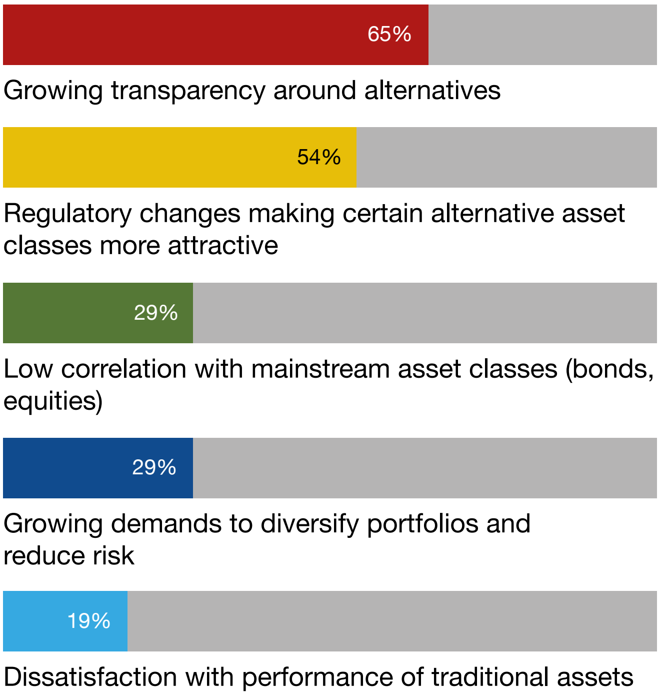
Three quarters (75%) of our respondents expect institutional investors generally will increase their exposure to alternative assets over the next three to five years (Fig 6). The most common reason for this expectation is the growing transparency around alternatives, which is cited by 65% (Fig 7). Other reasons include regulatory changes (54%); low correlation with mainstream asset classes (29%); diversification benefits (29%) and dissatisfaction with traditional asset classes (19%).

Figure 6
How institutional investors generally are expected to change their allocation to alternative assets over next three to five years



■	Increase Dramatically	6%
■	Increase Slightly	69%
■	Keep It About The Same	9%
■	Decrease Slightly	15%
■	Decrease Dramatically	1%

Figure 7
Factors driving switches to alternatives



Life Settlements Offer a Realistic Alternative

One asset class that is attracting increasing attention from institutional investors worldwide is Life Settlements.

Life Settlements are US-issued life insurance policies that have been sold by the original owner at a discount to their future maturity value and are institutionally traded through a highly regulated secondary market. They can deliver steady, incremental returns that are uncorrelated with bond and equity markets when managed prudently in a diversified portfolio.

Analysis in the latest Conning report[2] on the Life Settlements market shows that the volume of new policies coming on to the market has risen annually since 2016 by a staggering $2.1bn per annum and that including tertiary market MPG now estimates the annual volume to be $8.5bn and that there are favourable drivers for its continued growth. The report adds: “Life Settlements remain an appealing alternative asset class to investors seeking above average returns relative to the current low interest rate environment. The increased supply of investors is met with the increasing number of retiring Baby Boomers seeking ways to increase their retirement income or pay for long-term care.”

The market increasingly includes high profile institutional investors and service providers, including Apollo Global Management, GWG Life, Vida Capital, Broad River Asset Management, Red Bird Capital Partners, Partner Re, SCOR, Berkshire Hathaway, Coventry First, Wells Fargo, Bank of Utah, Wilmington Trust and Credit Suisse Life Settlements LLC.

More than four in five (83%) of our respondents say they would be happy to invest in Life Settlements (Fig 8), and 75% expect institutional investors generally will increase exposure to the asset class over the next three to five years (Fig 9).

[2] Source: Conning, Life Settlements – The COVID-19 Impact on Life Settlements 2020

Figure 8
Positive sentiment towards Life Settlements

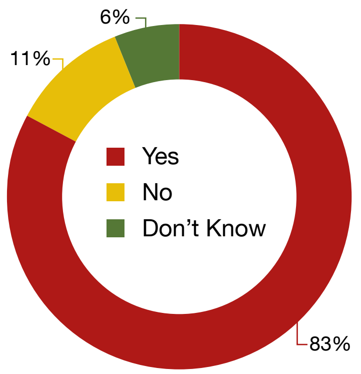
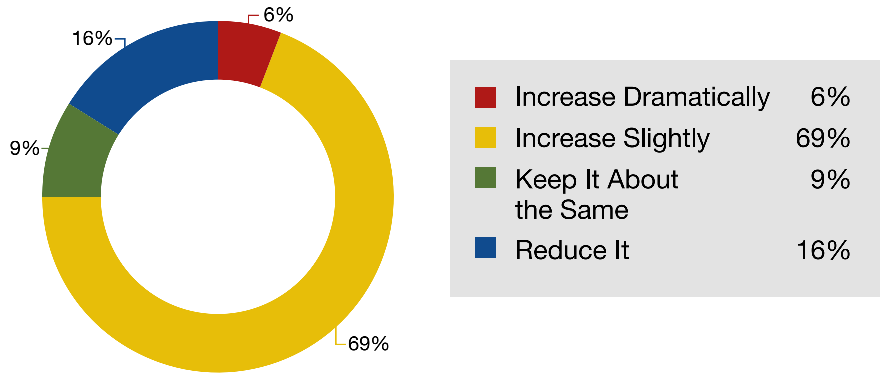
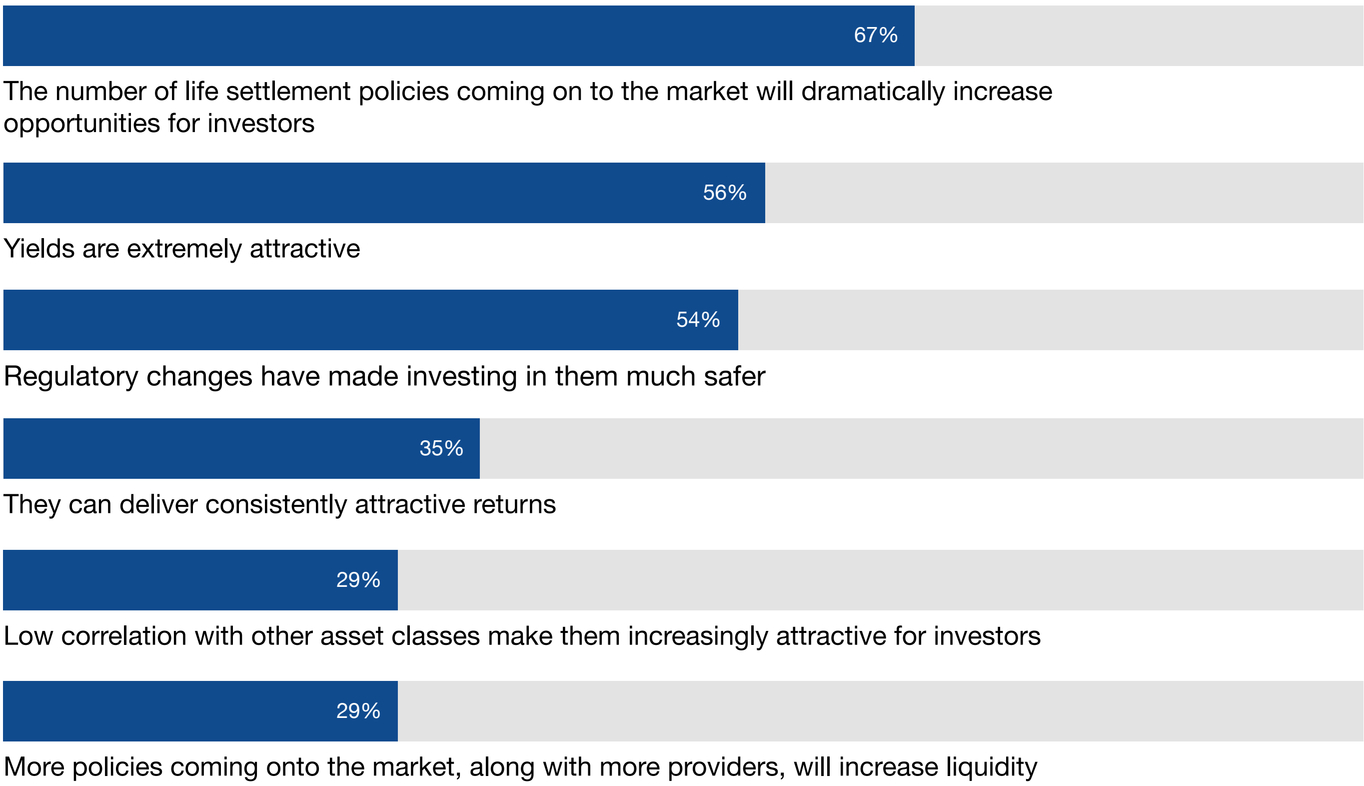


Figure 9
Expectations of how institutional investors' exposure to life settlements will change over the next three to five years



The reasons cited for this increase in exposure include the rising volume of policies on the market increasing investment opportunities (67%); extremely attractive yields (56%); the improving regulatory environment (54%); their potential to deliver consistently attractive returns (35%); low correlation with other asset classes (29%); and increasing liquidity in the market (29%).

Figure 10
Reasons for life settlements becoming attractive to institutional investors



The data highlights a significant improvement in sentiment towards the asset class: research[3] among institutional investors in 2019 found that 36% and 40% expected a similar increase in exposure over three and five years respectively.

MPG is witnessing increasing interest in Life Settlements from institutional investors and wealth managers in the US, Europe – especially Switzerland - and Asia.

[3]Source: Survey conducted by PollRight among 54 institutional investors between 10th June and 15th July 2019.

There are several key drivers of growth in supply in the US Life Settlement market, including:

- Investors are seeking above-average returns in the current low interest rate environment
- The regulatory environment governing Life Settlements is established now and new legislation continues to support market growth. Several states are making it compulsory for insurers to inform policyholders wishing to lapse their policies that there are more lucrative opportunities to settle instead, for example
- An increasing number of baby boomers are seeking ways to pay for retirement or care. The US Census Bureau predicts a 37% increase in those aged 65 years and older to 78m by 2035, for example
- Retirees relying on income from savings have been badly affected by low interest rates that have depleted income and caused erosion of capital
- The increase in unemployment and negative impact on retirement funds caused by the COVID pandemic will spur more policyholders to sell their policies

A Great Time to Buy Life Settlements

Policymakers around the world must navigate very tricky economic waters over the next few years.

The COVID-19 pandemic has caused the sharpest recession since the Second World War and governments must pull out the stops to reflate the economy. Interest rates will have to rise to tackle the inevitable inflation and even a few nominal quarter-point rises would represent a multiplying of rates and therefore impact bond prices significantly.

However, interest rates are still likely lag behind the rate inflation because of central banks' aims to let inflation reduce the real value of their debts and to avoid the increased cost of servicing debt that higher interest rates would cause, choking off economic recovery. This situation, unconducive to bonds, could last several years.

Essentially, the bull run in bonds looks to be over.

As investors seek alternatives to bonds, they would do well to consider the benefits that Life Settlements could bring to their portfolios.

Life Settlements are already seeing strong demand from institutional investors who are attracted by the steady, incremental returns they offer at a time when equities are looking volatile and bonds fully priced.

Now is also looking like a great time to buy Life Settlements. The market in the US is currently offering internal rates of return on policies of around 13%.

This pricing level is creating a sweet spot in terms of demand and supply because it represents an extremely attractive level for both buyers and sellers and is therefore a potent market driver. The current pricing range is optimal to generate stronger values for policy sellers than we have seen for some years, which is set to increase market supply, while IRRs of 13% give Life Settlement funds the opportunity to deliver significantly higher returns than the risk-free rate, which in turn will continue to increase investor appetite for the asset class.

The combination of inflation-beating returns uncorrelated with other asset classes and a strengthening market make Life Settlements an attractive alternative for any institutional investor or wealth manager who might be questioning their allocations to bonds.

MPG's solution

MPG's High Protection Fund, an absolute return vehicle that invests in Life Settlements, recorded its best year in 2020, delivering **9.91%** net of fees over the calendar year with no drawdowns in any month.[4] It has returned **148%** since it was launched in July 2009. The standard deviation in its performance has been 0.18% since launch and its Sharpe Ratio of 2.7 reflects its excellent consistency in outperforming the risk-free rate. The fund has no initial or performance fees, which has given it a performance edge on competing funds within the Life Settlement sector.

[4] Source: MPG monthly factsheet, January, based on performance of the HPF's USD Growth Share Class

High Protection Fund

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List of Honours

Corporate America Today Annual Awards
Best Diversified Fund (Five Years) and Best in Insurance-Linked Investments 2018,2019,2020,2021 - **HPF**

ACQ5 Global Awards
Asset Management Company of the year 2019,2020 – UK and Europe - **MPG**

Corporate Vision Magazine Corporate Excellence Awards
Best Alternative Asset Management Firm 2021 Switzerland - **MPG**
Most Influential Leader in Asset Management 2019 Switzerland - **MPG**

Global 100 Awards
Best in Insurance-Linked Investments & Best Diversified Fund (five years) 2018,2020 – UK - **HPF**

Acquisition International Global Awards
Most Outstanding Asset Management Company 2020 – Europe - **MPG**

M&A Today Global Awards
Best in Insurance Linked Investments 2019 - **MPG**
Best Diversified Fund (5 Years) 2019,2021 – UK - **HPF**

Corporate LiveWire Global Awards
Asset Management Group of the Year 2019,2020,2021 – UK - **MPG**

The European Business & Finance Awards
Alternative Investment Firm of the Year 2018 – Europe - **MPG**

Global CEO Excellence Awards
Asset Management CEO of the Year 2019