



AA
08/2010

This rating is currently under revision.

Traded Policies Fund

Product Profile

<i>Fund Name</i>	Traded Policies Fund	
<i>ISIN</i>	This report refers to the Dollar Institutional class KYG899161114	
	Other share classes are available:	
	Dollar Institutional class KYG899161114	Swedish Krona Growth class KYG899161940
	Euro Institutional class KYG899161296	Japanese Yen Growth class KYG899162104
	Sterling Institutional class KYG899161031	Dollar Recovery class KYG899161601
	Jap Yen Institutional class KYG899162286	Euro Recovery class KYG899161783
	Dollar Growth class KYG899161452	Sterling Recovery class KYG899161866
	Euro Growth class KYG899161528	Swedish Krona Recovery class KYG899162021
	Sterling Growth class KYG899161379	Sterling Income class KYG899162369
<i>Investment universe</i>	Majority: Traded Life Policies/Life Settlements; the funds may hold other investments including cash and near-cash assets, notes or shares in other collective investment schemes, securitisations, listed securities, derivatives	
<i>Benchmark</i>	-	
<i>Base Currency</i>	USD	
<i>Earnings</i>	Accumulation	
<i>Inception date</i>	07/06/2004	
<i>Fund Volume</i>	USD 128m per 15/07/2010	
<i>Management Fee</i>	1% p.a. Classes growth, recovery and income; 0.3% p.a. Institutional class	
<i>TER</i>	1.24% p.a. (Dollar Institutional class)	
<i>Fund Manager</i>	Jeremy Leach	
<i>Company</i>	Managing Partners Limited	
<i>Internet</i>	www.managing-partners.com	

Investor's Profile

<i>Investment horizon</i>	For investors: Long-term
<i>Risk classification</i>	Medium
<i>Return expectations</i>	Target-return: 7 – 9 % p.a.
<i>Loss Tolerance</i>	Losses are possible

TELOS Comment

The *Traded Policies Fund* is an actively managed fund, which focuses on US life insurance policies that are traded on the secondary market. This asset class is distinguished by its low correlation with traditional investment categories such as equities and bonds. The fund manager seeks to generate a steady return, subject to the lowest possible risk, based on a well diversified portfolio of life insurance policies. The investment goal is to realise an average annual return of 7-9% over a long investment horizon. In principle, the fund manager aims to invest the greater part of the fund volume in life policies, which pay out only following the death of the original policyholder. It may also however hold an increased volume of cash on a temporary basis, or may invest in companies which themselves invest in life insurance policies. It adopts this approach in particular when the fund has cash in hand, but the fund manager is unable to identify any US life insurance policies which they deem to present a favourable risk/return profile. Life insurance policies are generally designed in such a way that the policyholder retains them until his death. If a policyholder wishes to surrender his policy early in order to obtain a payout prior to death, he may do so via the secondary market. When the original policyholder dies, the death benefit is collected by the Traded Policies Fund. In return, the Traded Policies Fund takes over responsibility for payment of the premiums until that time. Therefore,

the longevity of the original policyholder represents an important risk factor for the Traded Policies Fund. The investment success thus depends decisively on the future payment flow and the current market value of the policies being calculated on the basis of realistic assumptions. The fund manager endeavours to hold the policies in the Traded Policies Fund portfolio to maturity, i.e. until the policyholder dies and the sum assured is paid. In the interim, the fund management process involves regular monitoring of the policies in the fund. If cash is required at any point, for example in order to service regular premium payments, early sales are an option. Given the long investment horizon and the buy-and-hold strategy, the fund manager reports that the day-to-day investment process takes relatively little time. The Traded Policies Fund has a number of classes of shares, which are aimed at both institutional and private long-term investors. This report relates to the dollar tranche for institutional investors. The *Traded Policies Fund* is rated **AA**.

Investment Process

The *Traded Policies Fund* is managed by the owner-managed company Managing Partners Limited (MPL), an internationally active asset manager focussing on alternative investment categories. A total of five people at MPL are involved in the investment process and in portfolio construction. The Managing Director Jeremy Leach carries overall responsibility for all the fund's investment decisions. The investment universe primarily involves US life insurance policies that are traded on the secondary market. If no suitable investment opportunity is found on that market, the fund may also invest in other policies on the secondary market. It may also invest in companies that themselves invest in the secondary market for insurance policies. The fund may also invest on the money market and in other liquid asset classes. Derivatives such as futures and options are used to hedge currency risks. This fund is targeted at investors with a long-term investment horizon which is reflected in the fact that the fund levies exit charges for investment periods of less than five years. The fund management has defined certain criteria that a policy must fulfill before it can even be considered as a potential investment. For example, the insurance company must have a rating of at least B++ and the policyholder must be 65 or over. In addition, the two year period during which the insurance company may rescind the policy must have expired. Furthermore, no more than 20% of the current market value of the Traded Policies Fund may relate

to policies of a single insurance company. The policies, and consequently the potential investment opportunities, are offered to the fund manager by specialist providers who analyse and trade in US life insurance policies. MPL itself then analyses policies of potential interest, using a special valuation model. The fund manager calculates fair market values. The fund invests in policies that meet all the defined criteria and that the fund manager considers attractively priced. The anticipated payment flows for policies already in the portfolio are valued monthly by specialist valuation agents. They examine in particular the assumptions made as regards the anticipated residual life expectation of the individual policyholders and make any necessary adjustments. There is process in place to identify the purchase price, however the policy is initially valued on the same basis as it is throughout the time it is held by the fund. The fund manager focuses on policies with below-average face value, on the assumption that such policyholders are generally below-average earners, and that the life expectation of this social group is below-average. Cluster risks, for example in relation to the regional distribution of the policyholders, are not relevant for portfolio construction purposes. Investment decisions up to a certain volume may be implemented by the Administrator, which is as of 13 May 2010 Custom House in Luxembourg, but only MPL may execute large volume orders.

Quality Management

The performance and risk profile of the portfolio is analysed and valued during the monthly meetings of the MPL Investment Strategy Committee. Particular attention is paid to the estimation of the residual lives of policyholders:

the policies already held in the portfolio and their payment flows are analysed and they are valued using actuarial methods. The criteria defined for new policies are also examined and adjusted if necessary.

Team

Jeremy Leach has been the fund manager responsible for the Traded Policies Fund since the first share class was launched in 2004. He has many years of experience in the management and valuation of the life insurance poli-

cies available for purchase on the secondary market. Four additional MPL employees are also involved in the investment process of the Traded Policies Fund, some of whom are MPL's partners and managers.



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Investment Characteristics

Important external factors	Important control factors
Liquidity	Credit-worthiness
Economic environment	Maturity allocation
Sector development	Liquidity allocation
Equity Market (level)	-
Short term interest rates (level)	-

Product History (these numbers are for USD Institutional Class)

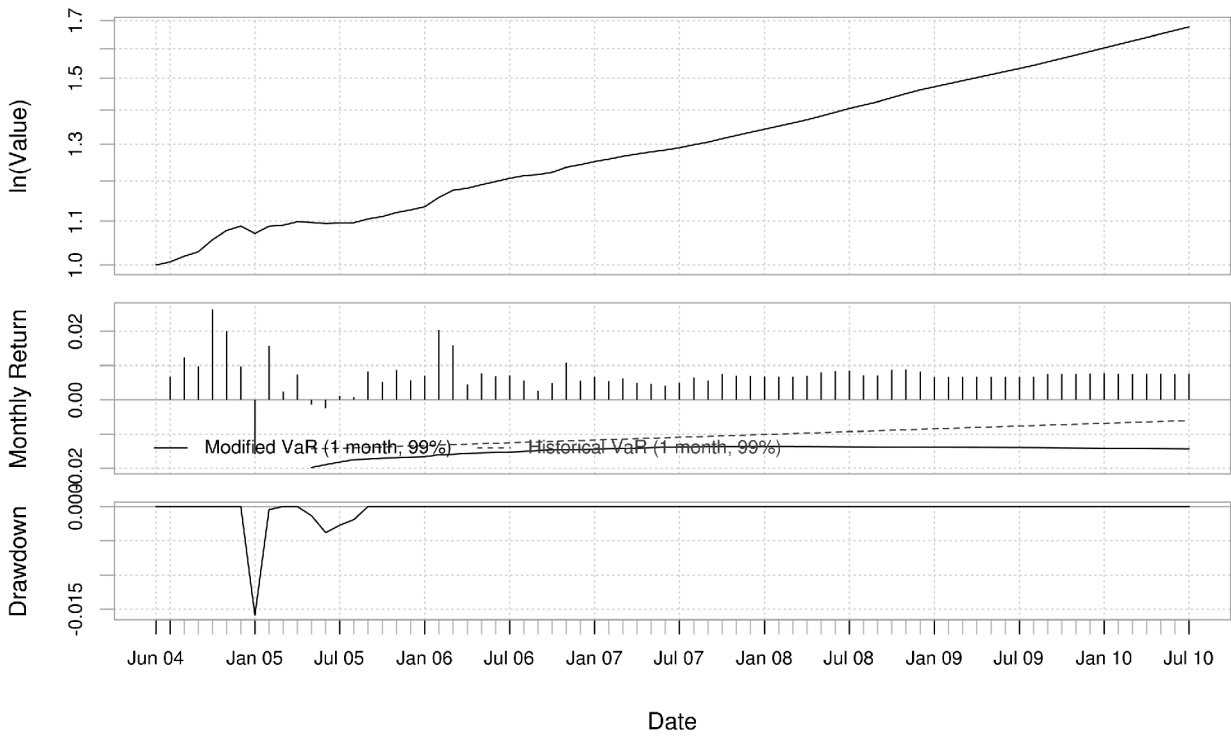
Monthly Returns

	2004	2005	2006	2007	2008	2009	2010
Jan	-	-1.6	0.7	0.7	0.7	0.7	0.8
Feb	-	1.6	2.0	0.5	0.7	0.7	0.8
Mar	-	0.2	1.6	0.6	0.7	0.7	0.8
Apr	-	0.7	0.4	0.5	0.7	0.7	0.8
May	-	-0.1	0.8	0.5	0.8	0.7	0.8
Jun	-	-0.2	0.7	0.4	0.8	0.7	0.8
Jul	0.7	0.1	0.7	0.5	0.8	0.7	0.8
Aug	1.2	0.1	0.6	0.7	0.7	0.7	-
Sep	1.0	0.8	0.3	0.6	0.7	0.8	-
Oct	2.6	0.5	0.5	0.8	0.9	0.8	-
Nov	2.0	0.9	1.1	0.7	0.9	0.8	-
Dec	1.0	0.6	0.6	0.7	0.8	0.8	-
Product	8.8	3.6	10.3	7.3	9.6	8.7	5.5

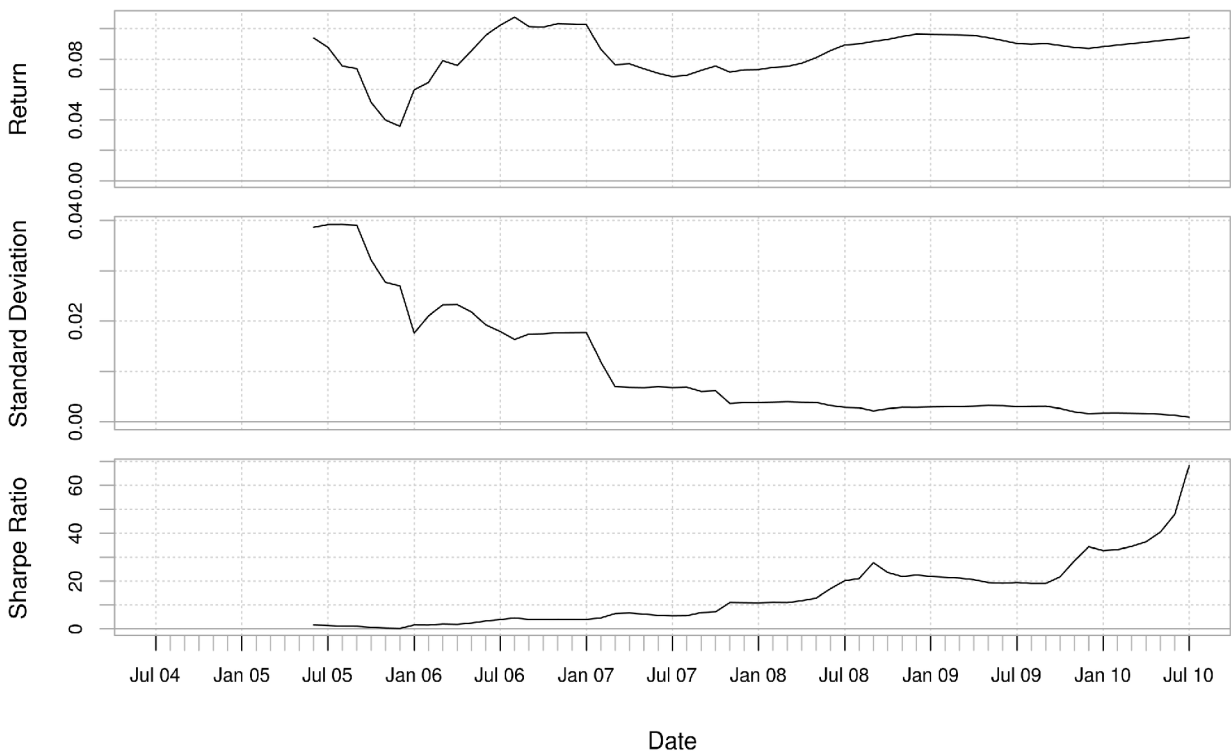
Statistics per end of Jul 10	6 M	1 year	2 years	3 years	5 years	-
Performance (annualised)	9.52%	9.44%	9.24%	9.14%	8.89%	-
Volatility (annualised)	0.01%	0.09%	0.22%	0.24%	0.90%	-
Sharpe-Ratio	581.43	70.66	27.85	25.08	6.55	-
Best monthly result	0.76%	0.77%	0.88%	0.88%	2.04%	-
Worst monthly result	0.76%	0.67%	0.66%	0.56%	0.08%	-
Median of monthly results	0.76%	0.76%	0.76%	0.74%	0.70%	-
Best 12-month result		9.44%	9.44%	9.65%	10.77%	-
Worst 12 month result		9.44%	8.71%	8.71%	6.84%	-
Median of 12-month results		9.44%	9.03%	9.18%	9.01%	-
Maximum loss period	-	-	0	0	0	-
Maximum loss	-	-	0.00%	0.00%	0.00%	-

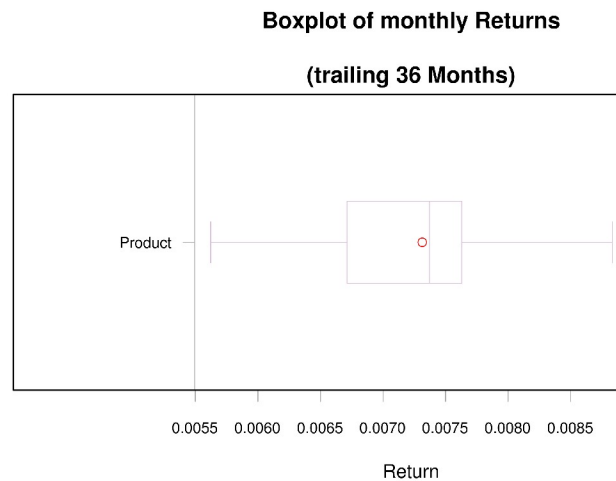
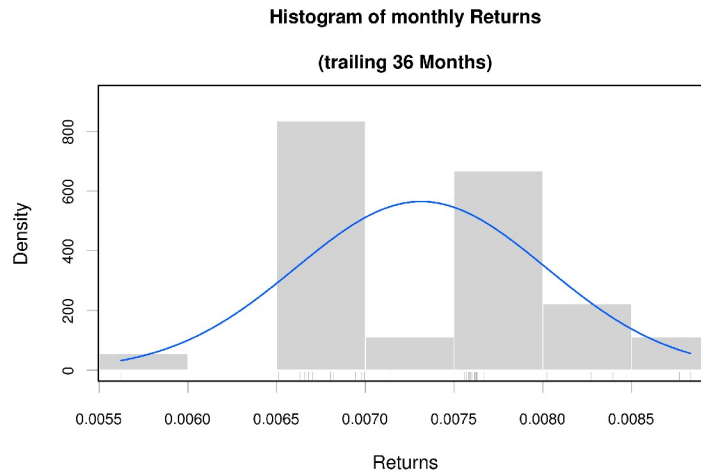
	Fund vs. Benchmark (trailing 12 Months)
Alpha	-
Annualized Alpha	-
Beta	-
R-squared	-
Correlation	-
Tracking Error	-
Active Premium	-
Information Ratio	-
Treynor Ratio	-

Performance



Rolling 12-month- Performance





Explanations

TELOS Rating Scale

AAA	The fund complies with highest quality standards
AA	The fund complies with very high quality standards
A	The fund complies with high quality standards
N	The fund does currently not comply with the TELOS quality standards
+ / -	further differentiate within a rating level

The **Product Profile** contains general information on the fund, the investment firm, and the responsible fund manager.

The **Investor's Profile** enables the investor to quickly match his or her expectations with the "official" classification of the product by the investment firm.

The **TELOS Comment** section summarises the main insights of the rating and constitutes an important supplement to the rating grade. The subsequent sections contain descriptive information on the investment process, the quality management, and the responsible team.

The **Investment Characteristics** lists – from the point of view of the fund management – the most important ex-

ternal determinants influencing the performance of the fund, as well as the essential factors employed for its control.

The **Product History** presents – by means of graphs and tables – the development of the fund in comparison with the money market and a benchmark (where appropriate) in respect of performance and risk criteria. All calculations are based on month-end data. Fund data and benchmark data are provided by the investment firm.

The **performance** of the fund is calculated based on reinvested prices: profit distributions are being invested in new shares of the fund immediately. Thereby, the performance of distributing and nondistributing funds is mutually



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comparable. This approach corresponds to the “BVI method” of performance calculation, advocated by the association of the German investment fund industry. If the fund management is guided by a *benchmark*, the performance of the latter is shown as well. Otherwise, a suitable comparative index is chosen for illustration purposes – in agreement with the investment firm.

The *Sharpe Ratio* provides information about the “excess return” of the fund with regard to a risk free financial investment – here represented by the money market – as a proportion of the total risk taken. The risk free rate used in this report is 3%, and the *volatility* is the annualised standard deviation of the monthly returns.

The *median of monthly results* is characterised by the fact that half of all monthly returns occurring in the observed period are either at least or at most as large as this value. As a result, this measure is less sensitive to “outlier results” than, for instance, the mean (average) value of monthly returns. In an analogous way, the *median of 12-month results* should be interpreted. The *longest loss period* is the number of months needed by the fund in order to recover losses by reaching or exceeding a level that had been achieved previously in the period under consideration. If this level could not be reached again, the end of the period is used. Accordingly, the *maximum loss amount* is the largest loss which the fund suffered in the period under consideration – starting from the highest value reached earlier during this period.

Jensen Alpha measures the beta-risk-adjusted (cf. beta) outperformance of the fund versus the benchmark

and is calculated using monthly returns. A positive value indicates the generation of added-value by the fund's management.

Beta is a measure of the fund's market risk exposure. A Beta larger (smaller) than one indicates that the fund will be more (less) volatile than the benchmark.

R^2 is the square of the correlation coefficient (cf. correlation). It is the measure of the quality of a linear fit on the fund's vs. the market's returns. It ranges between 0 (bad fit) and 1 (good fit).

Correlation is a measure of how the fund and the market move in relation to each other. Correlation ranges between -1 and +1. The extreme values i.e. -1/+1 indicate that the fund and the market always move in lockstep, for -1 in opposite directions, for +1 in the same direction. 0 indicates there is no clear relationship.

The *tracking error* is the standard deviation of differences between fund and benchmark returns. The lower the tracking error, the more closely the portfolio follows the index.

Active Premium or excess return measures the Out/Underperformance of a fund vs. its benchmark.

The *Information Ratio* is the active Premium divided by the tracking error. The higher the information ratio, the higher the active premium of the fund, given the same level of risk.

The *Treynor Ratio* is the return in excess of the risk-free rate, divided by beta. The Treynor ratio is a beta-risk-adjusted measure of outperformance vs the riskfree rate.

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