CODE OF PRACTICE

Suggested Standards for Product Designers, Managers and Distributors

May 2018

Edition 5.0

PURPOSE AND USAGE

ELSA's Code of Practice (the "Code") was introduced to establish common standards of best practice within the European life settlement industry and protect the interests of Investors in the asset class.

ELSA members that are Product designers, Managers or Distributors must comply with the required elements of the Code (denoted "R") and are expected to comply with its guidance (denoted "G"). ELSA members that are not Product designers, Managers or Distributors are expected to encourage the Code's use in the Products with which they are associated.

ELSA members certify their compliance with the Code when they apply for membership and annually thereafter. Failure to comply with the Code will result in suspension and ultimately expulsion from the association.

In the event that the Code conflicts with any existing or future national or European general investment or life settlement regulation, that regulation will take precedent.

EDITION HISTORY

Edition	Date	Key Features
1.0	Oct 2009	First draft. Organised into general provisions and sections on education, transparency, Policy origination, competition, consumer choices, suitability, conflicts of interest and priority of clients' interest.
1.1	May 2010	Second draft. Reorganised into asset management and disclosure, risk mitigation, suitability, and transparency.
1.2	Jun 2010	Third draft. Reorganised into asset origination, asset and risk management, and managing the investor relationship.
1.3	Jul 2010	First published edition. Page of contents added. Minor textual changes.
2.0	Sep 2012	Reorganised into product design, disclosure and reporting, and sales and marketing.
3.0	May 2013	Separated into requirements and guidance. Additional standards added reflecting "Big 4" auditing practice.
4.0	Nov 2016	Introductory sections revised. Additional standards added relating to COI increases, valuation, performance attribution, performance fees, data security, medical record updates, external data sources, and overhead and leverage disclosure.
5.0	May 2018	Performance attribution and loan/(re)insurance disclosure reworded. Key portfolio information and portfolio breakdown reporting revised.

SUMMARY OF CONTENTS

Section A covers Product Design. Purchasing should be compliant with established laws, including those on insurable interest and contestability. Investors' returns should not be dependent on sources of capital yet to be established and Products' risk mitigation features should match their stated objectives. Policies and Products should be valued as closely as possible to their fair value and performance fees should be based on actual performance. Products should conform to best practice in asset custody, service provider due diligence, information confidentiality, auditing and life expectancy updating.

Section B deals with Disclosure and Reporting. Disclosure at the point of sale and thereafter should include Product structure, the purchasing, servicing and medical underwriting processes, pricing and valuation methodologies, details of any liquidity facility, term facility or (re)insurance, all fees and commissions paid by Investors, potential conflicts of interest and all other risk factors. Sensitivity analyses should highlight the impact that changes in model assumptions have on Investors' cash flow and returns. Reporting requirements include key portfolio information, Products' status in respect of liquidity and COI increases, actual to expected performance, updates to the sensitivity analyses and any changes in service providers, operational risks or market developments.

Section C focuses on Sales and Marketing. Managers and Distributors should promote Products as part of a well-balanced portfolio to Investors with sufficient knowledge to interpret and understand them. Managers should ensure that Distributors provide Investors with the material, information, education and answers necessary for them to make an unpressured, fully informed investment decision.

TABLE OF CONTENTS

A PRODUCT DESIGN

A1 Purchasing

A1.1 [R] Policies should be purchased in compliance with all applicable laws and regulation and, in respect of secondary market purchases in those U.S. states that require licensing, from a Provider licensed in those states.

A1.2 [R] Policies should not be purchased if the Provider or Manager reasonably believes that they may have been issued without a valid insurable interest or on the basis of false or misleading information.

A1.3 [R] Policies should not be purchased if they were directly or indirectly transferred from the original policy owner to a third party during their contestability period, and such transfer was in violation of the laws of the state in which such owner resided at the time of transfer.

A1.4 [G] Policies should not be purchased if the life settlement broker has not disclosed to the policy owner or his/her appointed representative, prior to purchase, the total of any and all commissions or fees it expects to receive in connection with the purchase.

A2 Risk Mitigation

A2.1 [R] Products should be designed with risk mitigation appropriate to the stated objectives and risk profile of the Product such that the Product meets the expected risk appetite of the investors.

A2.2 [R] Product structures should demonstrate with a high degree of certainty that the interest and principal (re)payments presented to Investors can be supported by the cash flow from the underlying portfolio of Policies, and that they do not rely on cash flow generated from sources of capital (including borrowing, incremental investment, or re-investment) that have not yet been contractually established.

A2.3 [G] In addition, Products structured as notes, bonds or similar investments that offer a specified rate of interest and/or the repayment of principal on a specified date should include features that help assure that these specified (re)payments will be met.

A2.4 [G] Product structures should include features designed to mitigate longevity risk, such as a Policy selection methodology that ensures a level of diversification which is appropriate for the stated objectives and risk profile of the Product.

A2.5 [G] Product structures should include features designed to mitigate cash flow risk resulting from unexpected longevity or cost of insurance (COI) increases, such as a liquidity facility, a cash reserve or a third-party guarantee or (re)insurance.

A3 Valuation

A3.1 [R] Policies and Products should be valued as closely as possible to their fair value. Fair value is defined by the Financial Accounting Standards Board (FASB) in Accounting

Standards Codification Topic 820 (ASC 820) as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The equivalent IFRS rule is set out in IFRS 13 as follows: *"… the objective of a fair value measurement … is … to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (ie an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability)."*

A3.2 [R] Performance attribution: Changes in the value of Products from one period to the next should be broken out into:

A3.2.1 Realised gains and losses related to Policies. For example, gains and losses from Policy maturities and Policies sold, purchased or traded;

A3.2.2 Unrealised gains and losses related to Policies. For example, gains and losses due to value "accretion", life expectancy updates, premium optimisation, COI increases and changes in the Product's valuation methodology or assumptions; and

A3.2.3 Cash receipts and payments not directly related to Policies. For example, interest receipts, interest payments, fees, commissions, expenses, foreign exchange costs and other costs.

A3.3 [R] Managers should recognise and be able to quantify the impact on the value of Policies resulting from:

A3.3.1 A material change in the underwriting methodology of any medical underwriter used; and

A3.3.2 A material change in the mortality table(s) used.

[G] In addition, Managers should disclose the impact of the changes above to Investors, even if the Policies' values have yet to be formally changed.

A3.4 [G] In determining the value of Policies, the discount rate applied should demonstrate an appropriate link to market conditions. For example:

A3.4.1 Using appropriate current market internal rate(s) of return (IRR(s)); or

A3.4.2 Deriving a discount rate using current market data as a build up from first principles.

A3.5 [G] An "orderly transaction" implies that normal market conditions apply, i.e., that the valuation should not assume a "fire sale" of assets. But note that A3.4 above still requires a link to market conditions.

A3.6 [G] In determining the value of Policies, a discounted cash flow model should be used with either a probabilistic or stochastic methodology. A deterministic methodology is inappropriate and should not be used.

A3.7 [G] The value of Policies at purchase should be their purchase price. Generally, there should be no write-up in the value of Policies at purchase. Exceptionally, an increase in the value of a Policy may be justified if it can be demonstrated that a "bargain purchase" was

made at a time of market dislocation, and this increase should be determinable from the Product's financial statements.

A3.8 [G] In open-ended Products where Investors' subscriptions and redemptions are made on the basis of a net asset value (NAV), that NAV should be highly correlated with, and reconcilable to, the fair value of the Policies.

A3.9 [G] The valuation of Policies and Products should be undertaken or reviewed by a qualified independent third party, remunerated on a basis unrelated to the valuation.

A4 Other

A4.1 [R] Managers' performance fees should be based on realised portfolio gains, distributable proceeds, actual cash distributions or another similar measure of actual performance. They should not be based on a mark-to-model valuation of the Product or any other measure of expected performance. Nor should they be based on Policy-by-Policy gains or proceeds if such proceeds are, or are intended to be, reinvested in the Product rather than distributed to Investors.

A4.2 [R] Product structures should include custody arrangements that ensure the isolation and protection of Investors' assets. Other than the contractual relationship necessary to undertake the transactions referred to herein, there should be no other relationship between the custodian(s) and the Manager, any other service provider or any other third party associated with the Product.

A4.3 [R] Products structures should include the use of an independent fund administrator or a similar facility to handle subscriptions, capital calls and distributions. This will ensure that there is independent verification of the existence of the Investors' assets and the cash reported to the Investors.

A4.4 [R] Managers should perform due diligence on all service providers and other third parties associated with the Product prior to its inception, monitor their performance closely during the term of the Product, document this monitoring and update this documentation at regular intervals, at least annually.

A4.5 [R] Product structures should include procedures that prevent the inappropriate disclosure of individually-identifying and other confidential information. All service providers and other third parties associated with the Product should follow the current laws and regulation in their local jurisdiction in respect of data, or "cyber", security. The terms of confidentiality agreements, for example between participants in Policy auctions, should be strictly adhered to.

A4.6 [R] Product structures should be subject to independent audit from a third party at regular intervals, at least annually, to confirm the existence and maintenance of proper records and the safe custody of the Investors' assets.

A4.7 [R] Products should be structured such that life expectancy estimates will be updated regularly, so that new estimates are developed or updates are obtained at least biennially. Whenever possible, such newly-developed or updated life expectancy estimates should be based on updated medical records.

A4.8 [G] Medical underwriters' databases and other external sources of data can help inform the usage of, and possibly support adjustments to, medical underwriters' life expectancy estimates, and their purchase, if affordable, is encouraged.

A4.9 [G] Liquidity facilities available to the Product should be used to ensure the best interests of Investors. For example, they should:

A4.9.1 Avoid any conflict of interest or appearance thereof;

A4.9.2 Avoid interest accumulation rates which are out of line with market rates; and

A4.9.3 Avoid any assumption that the Product can use prospective incremental Investor funds.

B DISCLOSURE AND REPORTING

B1 General

B1.1 [R] All promotional material and reports should:

B1.1.1 Be fair, clear and not misleading;

B1.1.2 Be written in plain language;

B1.1.3 Be consistent in language and tone; and

B1.1.4 If appropriate, use consumer-friendly formats such as FAQs, charts and diagrams.

B1.2 [R] If appropriate given its content, promotional material and reports should:

B1.2.1 Give appropriate prominence to, and ensure appropriate placement of, risk factors;

B1.2.2 Present risk factors using a consistent font size, at least equal to that prescribed by regulation; and

B1.2.3 Make a clear distinction between Policy and Product returns and specify what is, and isn't, assumed to be included in any return presented.

B2 Disclosure

Documents included at point of sale by Distributors and, where applicable, as part of communications by Managers to Investors (e.g., within the company's annual report and accounts) should disclose:

B2.1 [R] The Product structure, including the mechanics of, and charges related to, early redemptions, where these are possible.

B2.2 [R] The purchasing process, i.e., the steps and procedures used to purchase Policies in the secondary and, if applicable, tertiary market.

B2.3 [R] If applicable, the incremental risks associated with:

B2.3.1 Purchasing contestable Policies;

B2.3.2 Purchasing fractional interests in Policies; and

B2.3.3 Purchasing premium financed Policies.

B2.4 [R] The servicing process, including the facilitation of ongoing premium payments and the tracking of insureds.

B2.5 [R] The medical underwriting process, including:

- B2.5.1 The medical underwriter(s) used;
- B2.5.2 The mechanism by which life expectancies are averaged or otherwise combined;
- B2.5.3 Other considerations used to adjust or rank life expectancies;
- B2.5.4 The planned frequency of updates to medical records and life expectancies; and
- B2.5.5 Any circumstances in which exceptions to the process may be made, for example, as a result of public disclosures from medical underwriters or medical underwriters' databases having been purchased.

B2.6 [R] The pricing and valuation methodology, the rationale behind it, the factors that influence it and the basis for establishing and maintaining the values of these factors. These may, among others, include:

- B2.6.1 The projected future net death benefits;
- B2.6.2 The projected future premiums;
- B2.6.3 The death benefit collection delay;
- B2.6.4 The medical underwriting process, as outlined in B2.5 above;
- B2.6.5 The mortality table(s) used;
- B2.6.6 The mortality improvement factor(s) used;
- B2.6.7 Any other adjustments made to those mortality table(s); and
- B2.6.8 The present value discount rate(s) applied to the mortality-adjusted projected future net cash flows.

B2.7 [R] Subject to any confidentiality provisions with the lender, details of any liquidity or term facility available to the Product, including:

- B2.7.1 Structure (for example, revolving or term);
- B2.7.2 Tenor;
- B2.7.3 Maximum amounts and loan-to-value limits;
- B2.7.4 Commitment fees, interest rates, and non-utilisation costs;
- B2.7.5 Repayment provisions (timing and seniority); and
- B2.7.6 Key conditions of default.

Details of any liquidity or term facility available to the Product should also be disclosed within the company's annual report and accounts.

B2.8 [R] Subject to any confidentiality provisions with the counterparty, details of any longevity (re)insurance available to the Product, including:

- B2.8.1 Identity and credit rating of the counterparty providing the (re)insurance;
- B2.8.2 Maturity date;
- B2.8.3 Maximum claim amount;
- B2.8.4 Claims experience; and
- B2.8.5 Key exclusions.

B2.9 [R] All fees and commissions payable to the Manager, all service providers and other third parties associated with the Product. Such fees should be expressed in relation to Investors' investment or the NAV or annual operating revenues of the Product, rather than the net death benefit of the Policies in the portfolio. If the basis, expected size or expected timing of any fee is not obvious, it should be illustrated by way of example.

B2.10 [R] All potential conflicts of interest, or potential misalignments of interest, between the Investor and the Manager, any service provider or any other third party associated with the Product.

B2.11 [R] To the extent they exist in the Product, all other risk factors and their potential impact on the Investors' investment. These may, among others, include:

B2.11.1 Longevity;

B2.11.2 Valuation;

B2.11.3 Product liquidity, i.e., cash flow;

B2.11.4 Policy liquidity, i.e., market;

B2.11.5 Investment liquidity, i.e., unit;

B2.11.6 Financing;

B2.11.7 Expense;

B2.11.8 COI;

B2.11.9 Credit;

B2.11.10 Currency;

B2.11.11 Ramp-up;

B2.11.12 Diversification;

B2.11.13 Operational;

B2.11.14 Conduct;

B2.11.15 Service provider;

B2.11.16 Legal;

B2.11.17 Regulatory;

B2.11.18 Tax;

B2.11.19 Accounting; and

B2.11.20 Investment.

Design features included in the Product structure to mitigate these risks may also be highlighted.

B2.12 [R] If the Product is synthetic, e.g., a swap or note linked to the performance of a portfolio of Policies or an index of reference lives, the incremental risks associated with the credit of the counterparty and any supporting collateral.

B2.13 [R] The impact that changes in key pro-forma model assumptions have on the average portfolio life expectancy, net Product cash flow (including fees, commissions, expenses, interest and leverage) and Investors' returns. Such sensitivity analyses should include:

B2.13.1 A series of unitary increases and reductions in life expectancies or percentage reductions and increases in mortality ratings;

B2.13.2 A reversion of all insureds to "standard", i.e., without any impairments;

B2.13.3 A series of unitary increases and reductions in the discount rate applied;

B2.13.4 A series of unitary increases and reductions in the credit risk adjustment within the discount rate applied; and

B2.13.5 COI increases and decreases in all, or a certain number of, the Policies.

B2.14 [G] All service providers and other third parties associated with the Product. These may, among others, include:

B2.14.1 Medical underwriter(s);

B2.14.2 Provider(s);

B2.14.3 Servicer;

B2.14.4 Administrator;

B2.14.5 Custodian(s);

B2.14.6 Actuarial consultant;

B2.14.7 Auditor; and

B2.14.8 Distributor(s).

Disclosure should include their names, roles, responsibilities, experience, formal or informal connections with each other and with the Manager, and the Manager's rationale for choosing them.

B2.15 [G] For each medical underwriter(s) disclosed in compliance with B2.5.1 above, undertake best efforts to facilitate the provision of actual to expected ("A/E") information as an indicator of historical performance. The information should ideally be provided by an independent, reputable actuarial firm based on the following:

B2.15.1 All viatical and life settlement life expectancies calculated by the medical underwriter (no exclusions);

B2.15.2 The actual life expectancy originally reported (as opposed to restated or adjusted); and

B2.15.3 The mortality table used by the medical underwriter, provided reasonable disclosure is made to the user (such as quinquennial values for representative ages), or a table available in the public domain, such as the U.S. Society of Actuaries' 2015 Valuation Basic Table.

All relevant assumptions employed, such as IBNR (incurred but not reported), should be disclosed and explained.

If the information cannot be provided, this should be disclosed and the reasons for it explained.

B2.16 [G] If the present value discount rate(s) referenced in B2.6.8 above is based on the sale IRR(s) of Policies from recent market data, the source and size of the dataset and details of the Policies should be disclosed sufficient to demonstrate the rationale behind their selection and the degree to which they are comparable with the Policies being priced or valued. Sale IRR(s) based on life expectancies provided by specific medical underwriters should not be used in the pricing or valuation of Policies with life expectancies provided by

different medical underwriters without adjustment, or without their applicability having been demonstrated.

B3 Reporting

At regular intervals, at least quarterly, Products should report:

B3.1 [R] Key portfolio information, including:

B3.1.1 Total value;

B3.1.2 Total net death benefit;

B3.1.3 Number of Policies;

B3.1.4 Number of insureds;

B3.1.5 Number of joint Policies;

B3.1.6 Number of insureds with multiple Policies.

[G] In addition, a statement about concentration should be considered if any individual insureds represent a meaningful percentage of the total net death benefit of the portfolio.

B3.2 [R] A breakdown of the portfolio by:

B3.2.1 Policy size;

B3.2.2 Insurer;

B3.2.3 Insurer rating;

B3.2.4 Gender;

B3.2.5 Age; and

B3.2.6 Life expectancy.

[G] Breakdowns by state, smoking status and primary impairment should also be considered.

B3.3 [R] The current liquidity position of the Product, including:

B3.3.1 [G] A summary of future net Product cash flow (including fees, commissions, expenses, interest and leverage) under both best estimate and stressed assumptions; and

B3.3.2 [G] The time until insolvency assuming no future cash inflows from either the portfolio or Investors and no Policies are lapsed, surrendered or sold.

B3.4 [R] The status of the Product in respect of COI increases, including:

B3.4.1 [G] A summary of the Policies in the portfolio where (i) the servicer has actually received notice of changes, (ii) the insurer has announced changes, (iii) the insurer has announced that they are considering making changes, (iv) the insurer has not announced changes but, with reference to the breadth of the COI language in the original contract, has the capacity to do so in the future; and

B3.4.2 [R] A statement of the impact of the COI increases that have actually been received. This could take the form of, or include, a summary of future net Product cash flow (including fees, commissions, expenses, interest and leverage) both with, and without, these increases.

At regular intervals, at least annually, Products should report:

B3.5 [R] The actual performance of the portfolio, and statements relating this performance to the originally expected, current and anticipated future performance of the Product.

B3.6 [R] An update to the sensitivity analyses, as outlined in B2.13 above.

B3.7 [R] If structured as a tax-efficient investment, a statement confirming the appropriate handling of the Product for tax purposes.

B3.8 [R] Details of and updates to the operational risks of the Product and their mitigants, including the monitoring of grace notices to guard against unintended Policy lapses.

As the events occur, Products should report:

B3.9 [R] Any change of, or change in the disclosure related to, service providers and other third party associated with the Product.

B3.10 [R] Market developments that impact the Product's Investors, either directly or indirectly. Examples of such developments include, but are not limited to, announcements by medical underwriters regarding changes in their methodologies, and announcements by insurers of COI increases.

C SALES AND MARKETING

C1 General

C1.1 [R] Managers and Distributors should promote Products as part of a well-balanced investment portfolio and with appropriate consideration of the risk/return profile of Investors.

C1.2 [R] Managers and Distributors should not knowingly accept Investors who cannot be considered as having sufficient knowledge to fully interpret and understand all of the risks associated with investing in the Product. In particular, unsophisticated retail investors are unlikely to have sufficient knowledge in this regard.

C1.3 [R] Managers and Distributors should ensure that potential Investors are provided with sufficient information to be able to make a fully informed investment decision.

C1.4 [G] Managers and Distributors should recommend that Investors retain their own independent professional advice in connection with their investment.

C2 Oversight

Managers should implement systems and controls designed to:

C2.1 [R] Ensure that Distributors comply with all applicable laws and regulation, operate ethically and do not abuse the trust placed in them for personal gain.

C2.2 [R] Ensure that Investors are not put under pressure by Distributors that might influence their decision to invest.

C2.3 [R] Ensure that Distributors are provided with adequate material and education to be fully informed and to sell the Products correctly.

C2.4 [R] Ensure that they can respond in an accurate and timely manner to any enquiries for further information from Distributors or Investors.

C2.5 [G] Minimise the risk of the Products being mis-sold, inadvertently or otherwise.

C3 Feedback

Managers should:

C3.1 [G] To the extent such information does not violate Distributors' duty to protect confidential information, gather information from Distributors at regular intervals, at least semi-annually, including:

- C3.1.1 The profile of Investor enquiries;
- C3.1.2 The number and volume of sales;
- C3.1.3 The pattern of sales;
- C3.1.4 The profile of Investors committing funds;
- C3.1.5 Investors' commitments in relation to their other investments and/or their net worth; and
- C3.1.6 The promotional material used in the investment process and the Distributor's view of its effectiveness.

C3.2 [G] To the extent permitted to do so by Distributors, contact Investors directly at regular intervals, at least annually, to assess:

- C3.2.1 Their satisfaction with the investment's performance;
- C3.2.2 Their overall understanding of the Product and its returns, any potential threat to their capital and the risks pertaining to life settlement investments more broadly; and
- C3.2.3 Their view of the effectiveness of the promotional material used in their investment process.

C3.3 [G] Act on the feedback received from Distributors and Investors, especially as it relates to any dissatisfaction, lack of understanding or unusual sales patterns, by updating existing promotional material, developing additional promotional material, enhancing Distributor training and taking all additional measures necessary.

D DEFINITIONS

Policy	A legal contract entered into between an insurer and a policy owner. The agreement provides for the payment of a death benefit by the insurer to a beneficiary, typically the policy owner, when the insured dies. The financial transaction or process in which a policy owner sells a Policy to a third party purchaser for more than the cash value offered by the insurer is known as a life settlement. The third party purchaser is responsible to pay all subsequent premiums and typically becomes the new beneficiary of the Policy. Depending on the context, Policy can refer to this legal contract either before or after it has been subject to a life settlement.
Product	The financial structure through which an Investor becomes an owner, directly or indirectly, in a portfolio of Policies. In the context of this Code of Practice, Products generally refer to managed collective-investment structures such as funds, partnerships, notes and bonds. Other financial structures prevalent in the market include swaps, managed accounts and bilateral purchase agreements.
Provider	Any person or entity that is licensed to process the purchase of a Policy from a policy owner, typically via an agent and/or broker, in accordance with applicable state laws and regulations. Most states with life settlement laws prevent anyone from acting as a Provider without being licensed by the state. A Provider may purchase Policies for its own portfolio or represent Products or Investors seeking to purchase Policies. Providers are paid by the Products or Investors they represent.
Manager	Depending on the context, a company, partner or individual. The Manager is responsible for designing and establishing Products suitable for Investors, and for managing the Products on behalf of their Investors.
Distributor	Depending on the context, a placement agent or financial advisor. The Distributor is responsible for marketing and selling Products to Investors.
Investor	Depending on the context, an institutional or retail investor. Institutional investors include pension funds, hedge funds and investment banks. Retail investors include individuals.
Contestability Period	The initial period of the Policy from the date at which the contract is entered into in which the insurer has the legal right to cancel the Policy based on the information the policy owner provided as part of the application process. This is usually 2 years. After the contestability period, a Policy can only be canceled by the insurer for lack of payment or fraud.
Premium Financed Policies	Premium financed Policies are those which have been purchased where the insurance premiums are covered by borrowed funds.