



PDL International

# Investing in Traded Endowment Policies

Capital guarantees • Attractive returns • Low correlation

November 2011



For professional investors only.

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## About PDL International

- PDL International is a global distributor of alternative investment products
- We specialise in investments that are demonstrably “alternative”. They offer:
  - Attractive and consistent annualised returns
  - Little or no correlation with capital markets
  - Low volatility
  - Low or no capital drawdown
- PDL helps institutions achieve their investment targets by offering:
  - a range of risk-managed investments
  - asset classes and products which diversify clients’ portfolios
  - strategies that lower clients’ beta and increase alpha

# PDL International – part of the T.I.S. Group

T.I.S.  
Group

TEPs

Investments

Services



PDL International

T.M.S.

## TEP Policy Trading

- Purchase of £1bn worth of policies to date

## Investment Distribution

- Global Distributor of alternative investments
- Traded Endowment Policies
- Life Settlements
- UCITS alternative funds

## TEP Management

- Strategy & Asset Allocation
- Valuation Services
- £650m AUM

## PDL International – a proven track record

Promoter of The Protected Asset TEP Fund plc (PATF) - an open-ended investment company in to which qualified investors can buy shares

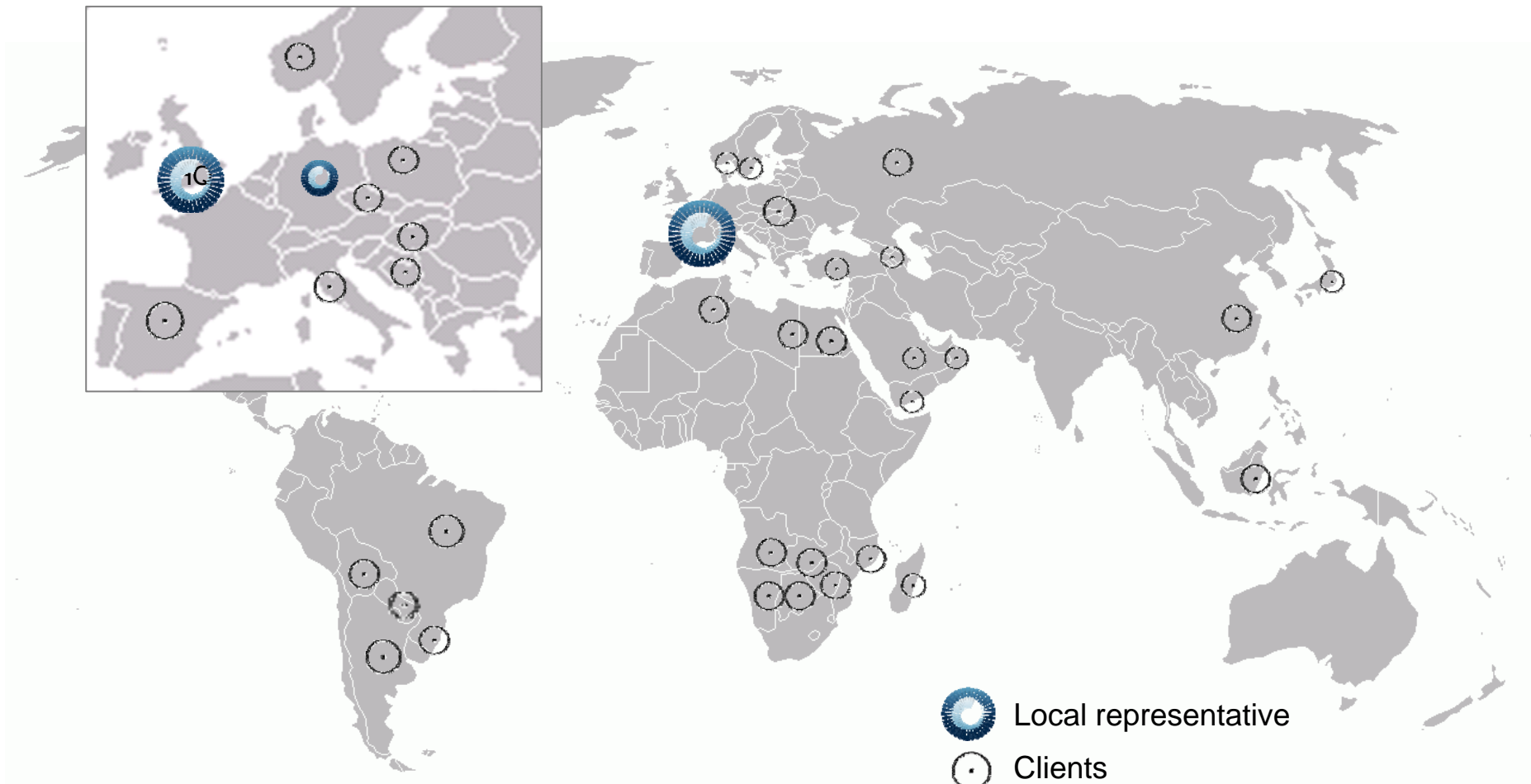
- **Aim:** to provide investors with capital growth and relatively low risk through investment in a diversified portfolio of traded endowment policies
- 6 sub-funds launched between March 2001 and May 2004, incorporating Sterling, Euro and Dollar
- Combined Gross Assets of £353.6m

Performance of PATF Original Sterling

|                 | 2006  | 2007  | 2008    | 2009   | 2010  | YTD    | Since PATF Launch |
|-----------------|-------|-------|---------|--------|-------|--------|-------------------|
| <b>Fund</b>     | 7.80% | 7.39% | -36.09% | 11.00% | 6.62% | 3.40%  | 40.25%            |
| <b>FTSE 100</b> | 9.49% | 2.31% | -30.90% | 18.66% | 7.27% | -6.03% | 3.22%             |

Combined Gross Assets as at 18<sup>th</sup> October 2011

# PDL International - global distribuiton



## Insurance-linked investments explained

- Insurance-linked products all have insurance policies of some kind as the underlying investment
- Insurance-linked investments provide a common benefit sought by many investors - low or no correlation to capital markets
- The two most common insurance-linked investments are CAT-bonds and US life settlements
- In the UK, Traded Endowment Policies are the most widespread insurance-linked strategy

## Key features of with-profits endowment policies

- With-Profit endowment policies are investment based insurance products previously very well established within the UK personal savings market
- Issued by UK Life Offices whose assets and liabilities are monitored by the UK Financial Services Authority (FSA)
- Provide a guaranteed return on the initial sum assured and usually pay annual bonuses, which once declared cannot be removed.
- At maturity, a further bonus (terminal bonus) is usually paid
- Policyholder pays regular premiums to the insurance company for both life cover and an undertaking from the life company to pay a lump sum when the policy matures

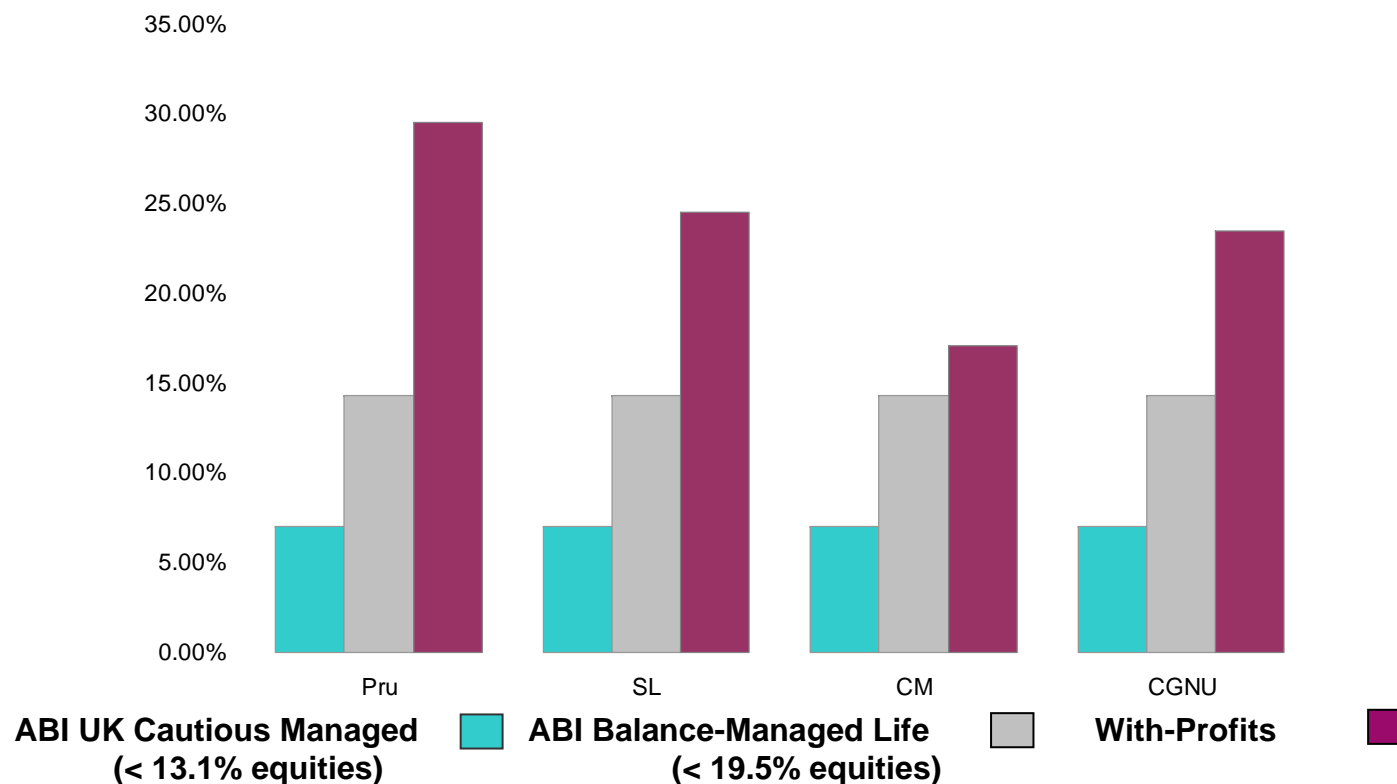


Policies are issued by companies with high credit ratings



# Life company with-profits endowment policies outperform ABI Cautious Managed & ABI Balanced Managed funds

Life company with-profits endowment policies vs ABI Cautious Managed & ABI Balanced Managed funds



5 year performance of life office with-profit policies. All figures to December 2010, Returns over 5 years, gross of tax and charges, except Clerical Medical which is Gross of tax but not charges . Source: Prudential, Lipper Hindsight and Clerical Medical.

# Returns on endowment policies

## Yields on Policies as at February 2011

| <b>Term</b>    | <b>25 years</b> | <b>20 years</b> | <b>15 years</b> |
|----------------|-----------------|-----------------|-----------------|
| <b>Highest</b> | 16.7%           | 12.6%           | 17.0%           |
| <b>Average</b> | 6.3%            | 5.1%            | 3.5%            |
| <b>Lowest</b>  | 3.3%            | 2.0%            | -0.6%           |

Source:- Money Management April 2011

## How TEPs emerged as an asset class

- The **majority of with-profit policies were sold in the 1980s and 1990s** alongside a mortgage loan. Policy holders wanted to ensure the mortgage could be paid off by the surviving partner in case of their death and also, crucially, in the case of the policy maturing
- While many **with-profits policies** have performed better than other multi-assets investments such as balanced funds (see Page 10) they **have not achieved their initial performance objective** to pay out a lump sum equal to the outstanding mortgage balance
- For this reason **many consumers opted to sell their policies**. Other reasons include cash-flow problems or the early repayment of the mortgage loan

## How do TEPs work as an investment?

- **TEP** - is a with-profit endowment that has been sold at a discount to its intrinsic value to a market-maker part way through its term
- All beneficial rights on the policy are transferred to the new owner who takes on responsibility for future premium payments
- The new owner collects the maturity value when the policy matures or the death benefit when the original life assured dies
- The investment return is the difference between the *'purchase price'* and the *'maturity value'* less *'premiums'*.
- Policies traded by TIS for its clients are 100% with-profits. Performance of a policy is linked to the capital markets as with-profit funds invest in a variety of asset classes.

# Case Study of a TEP Investment

An example of the return achieved on a traded endowment policy. *(For illustrative purposes only and may not be typical of policies included in the portfolio.)*

- **Endowment Details (at 27 April 2005)**

|                            |                               |
|----------------------------|-------------------------------|
| • Maturity Date            | 01 August 2011 (25 yr policy) |
| • With-Profits Sum Assured | £13,031                       |
| • Accrued Annual Bonuses   | + £11,807                     |
| • Capital Guarantee Value  | £24,838                       |

- **Investment Details (at 27 April 2005)**

|                              |           |
|------------------------------|-----------|
| • 'Purchase Price' paid      | £18,484   |
| • Surrender Value            | £16,207   |
| • Policy Term remaining      | 6.3 years |
| • Total remaining 'Premiums' | £ 4,553   |

- **Maturity Details (at 01 August 2011)**

|   |         |
|---|---------|
| • 'Maturity Value'  | £34,613 |
| • Annualised return to TEP Investor<br>(based on policy being held for 6.3 years) | 7.38%   |

## Consistent returns, deep markets

- TEPs are bought by investors as a medium - to long-term investment
- They offer low volatility due to actuarial smoothing by the life companies
- They provide competitive and consistent returns as the asset is acquired at a discount to its intrinsic value
- It is a deep market: there were over 3.1 million policies still in force (Source: ABI June 2011). The number is high because policyholders prefer to sell their policies rather than surrendering them. The life industry encourages this because life companies can continue to manage the assets.

## Management of our TEP portfolios via TMS

- TMS, a wholly owned subsidiary of TIS, manages portfolios of TEPs on our behalf
- TMS provides valuation, strategic advice and asset allocation services (including net asset value (NAV) calculations) to institutional clients
- It provides ad-hoc technical support to clients
- It identifies trading opportunities
- It has AUM in excess of £650m





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## PDL International TEP Portfolio



## Key features of TEP portfolios

- Flexible term
- Annualised target return of between 4% - 8%
- 77% Minimum capital guarantee
- Regular draw downs through maturities
- 25% Maximum exposure to any one Life Company
- Minimum Investment: £100,000
- Annual management fee: 0.30%

## TEP Portfolio – Overview

| <b>Model Portfolio</b> | <b>Capital Guarantee</b> | <b>Date of when Capital Guarantee is 100%</b> | <b>Annualised Return at Current Bonus Rates</b> | <b>Term</b>          | <b>Capacity</b> |
|------------------------|--------------------------|---|---|----------------------|-----------------|
| A                      | 81%                      | August 2014                                   | 4.1%  | 3 Years to Dec 2014  | £14m            |
| B                      | 85%                      | August 2015                                   | 5.8%  | 5 Years to Dec 2016  | £36m            |
| C                      | 92%                      | October 2015                                  | 6.9%  | 10 Years to Dec 2021 | £19m            |

*These are the indicative portfolios and the actual portfolios may differ*

# TEP Portfolio – Overview

| Model Portfolio | Liquidity Profile % |        |        |                       |        |                       |        |        |        |         |
|-----------------|---------------------|--------|--------|-----------------------|--------|-----------------------|--------|--------|--------|---------|
|                 | Year 1              | Year 2 | Year 3 | Year 4                | Year 5 | Year 6                | Year 7 | Year 8 | Year 9 | Year 10 |
| A               | 19%                 | 26%    | 55%    | N/A PORTFOLIO MATURED |        |                       |        |        |        |         |
| B               | 6%                  | 9%     | 20%    | 12%                   | 53%    | N/A PORTFOLIO MATURED |        |        |        |         |
| C               | 2%                  | 0%     | 0%     | 31%                   | 13%    | 18%                   | 12%    | 9%     | 8%     | 7%      |

These are the indicative portfolios and the actual portfolios may differ.

# PDL International TEP Portfolio – Model B Sample

| Life Insurance Company | Maturity Date | Policy Term | Basic Sum Assured | Attaching Bonuses | Premiums to maturity | Amount payable at Maturity | Purchase Price | Expected annual rate of return | Capital guarantee % |
|------------------------|---------------|-------------|-------------------|-------------------|----------------------|----------------------------|----------------|--------------------------------|---------------------|
| Sun Life               | 16-Apr-2012   | 25          | £10,244           | £10,151           | £432.74              | £26,473                    | £25,096        | 6.01%                          | 79.89%              |
| Windsor Life (Gresham) | 06-May-2012   | 30          | £8,000            | £10,923           | £191.68              | £27,633                    | £26,203        | 6.98%                          | 71.69%              |
| Crusader Insurance     | 30-Jun-2012   | 25          | £4,872            | £2,652            | £192.42              | £7,938                     | £7,308         | 7.15%                          | 100.32%             |
| Equity & Law           | 26-Aug-2012   | 34          | £1,027            | £2,180            | £0.00                | £5,029                     | £4,717         | 6.68%                          | 67.98%              |
| Royal London           | 01-Sept-2012  | 30          | £15,000           | £21,030           | £530.04              | £50,775                    | £47,083        | 6.64%                          | 75.67%              |
| Britannic Assurance    | 01-Aug-2013   | 27          | £2,600            | £2,536            | £103.76              | £7,764                     | £6,762         | 6.66%                          | 74.81%              |
| Commercial Union       | 28-Oct-2013   | 25          | £9,940            | £9,726            | £1,062.75            | £20,073                    | £16,839        | 5.61%                          | 109.86%             |
| Co-operative           | 15-Dec-2013   | 23          | £21,667           | £10,774           | £2,368.44            | £41,185                    | £33,978        | 5.79%                          | 89.26%              |
| London & Manchester    | 01-Sept-2014  | 25          | £24,700           | £17,913           | £3,784.68            | £64,232                    | £51,749        | 5.13%                          | 76.73%              |
| Provident Life         | 01-Jun-2015   | 30          | £8,244            | £9,772            | £1,428.75            | £24,322                    | £18,123        | 6.21%                          | 92.15%              |
| Liverpool Victoria     | 01-Aug-2015   | 25          | £6,825            | £5,962            | £1,261.95            | £21,460                    | £13,004        | 11.44%                         | 89.63%              |
| Friends Provident      | 20-Feb-2016   | 25          | £26,714           | £9,804            | £5,543.80            | £58,325                    | £33,766        | 9.86%                          | 92.90%              |
| Friends Provident      | 02-Sept-2016  | 25          | £5,758            | £2,113            | £1,198.80            | £12,571                    | £6,944         | 9.70%                          | 96.66%              |
| Scottish Amicable      | 11-Oct-2016   | 25          | £18,285           | £8,668            | £4,199.24            | £41,756                    | £28,783        | 5.02%                          | 81.72%              |
| Prudential             | 01-Dec-2016   | 23          | £15,480           | £6,546            | £4,262.58            | £33,135                    | £21,985        | 4.91%                          | 83.91%              |
| Scottish Equitable     | 01-Dec-2016   | 30          | £11,100           | £11,637           | £2,315.25            | £40,769                    | £29,968        | 4.70%                          | 70.43%              |

|          |          |         |          |          |       |        |
|----------|----------|---------|----------|----------|-------|--------|
| £190,456 | £142,388 | £28,877 | £483,438 | £372,309 | 6.46% | 82.97% |
|----------|----------|---------|----------|----------|-------|--------|

Illustration based on snapshot of Model B at total investment of £401,185

Purchase prices, Amount's payable at maturity and expected annual rate of return all based on bonus rates as at 31<sup>st</sup> August 2011

Any changes by life offices of bonus rates and/or surrender values may alter Purchase prices, Amounts payable at maturity, Expected annual rate's of return and/or Capital guarantees

# PDL International TEP Portfolio – Model B Sample

## Capital Guarantee vs Initial investment

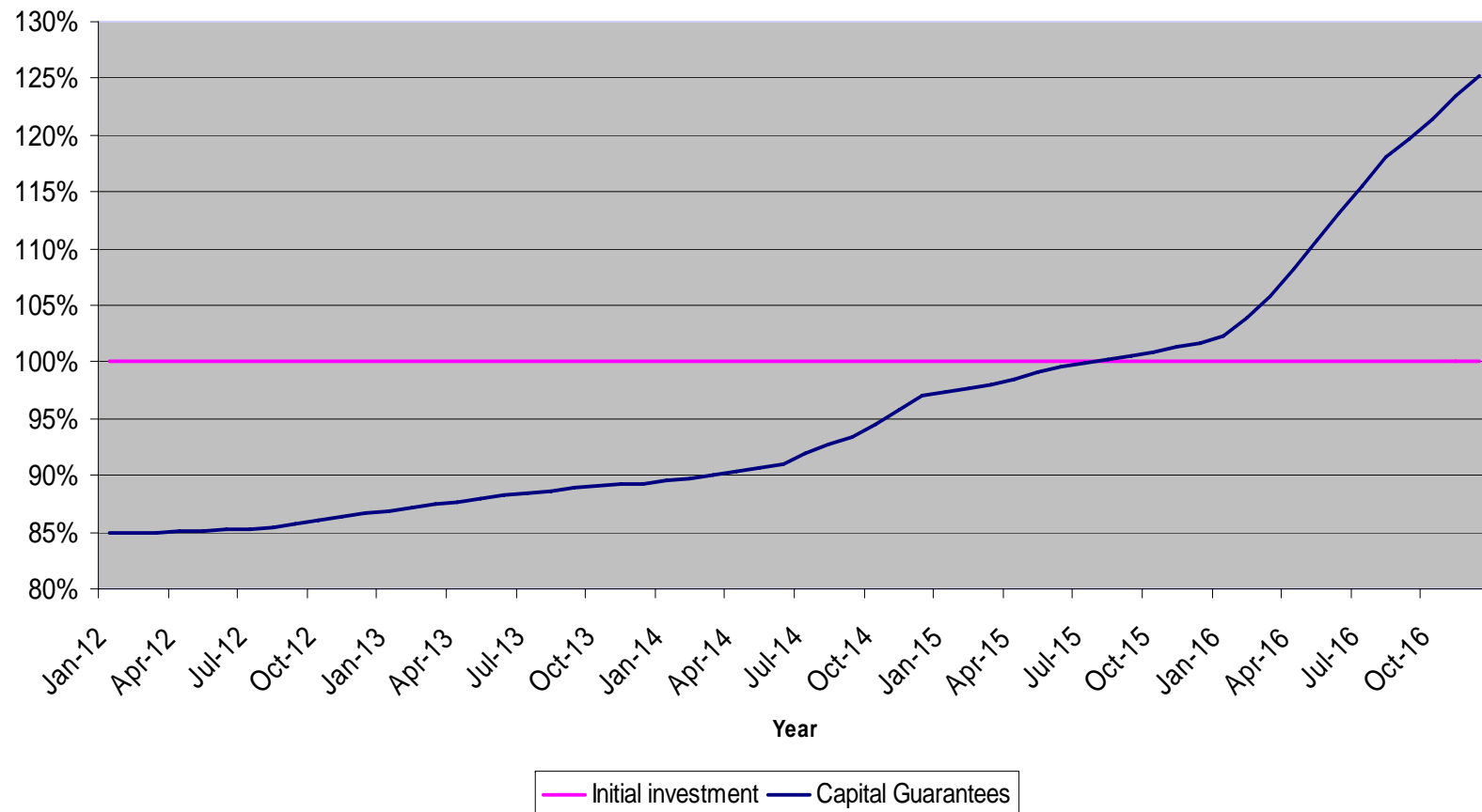


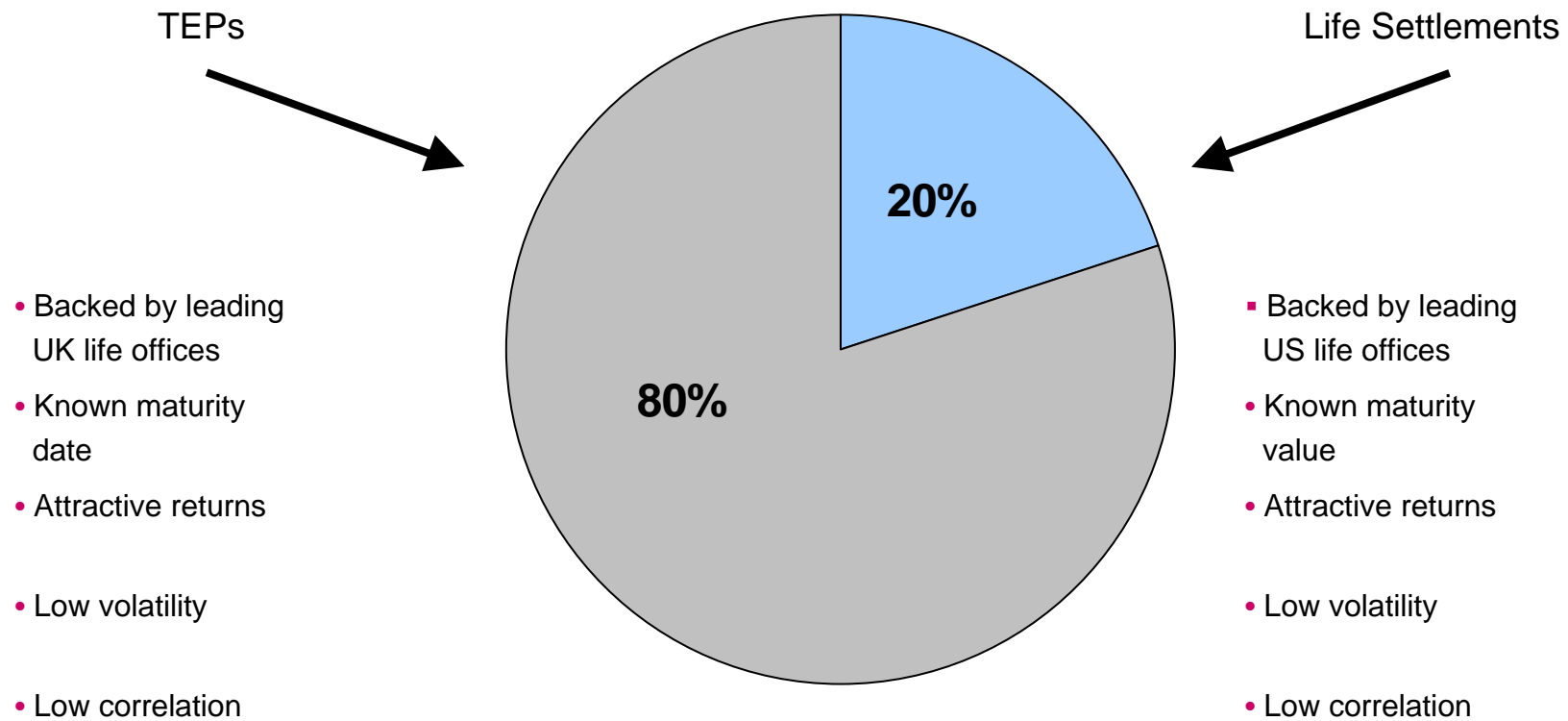
Chart based on Model B and shows capital guarantees growing based on bonus rates as at 31<sup>st</sup> August

Chart is indicative. Actual chart may differ.

# Hybrid Portfolio

- Flexible expected term
- Annualised target return of between 3% - 8%
- 85% Minimum capital guarantee
- Regular draw downs through maturities
- Minimum Investment: £150,000

# Hybrid Portfolio





# Model Portfolios - Overview

| Model Portfolio | Capital Guarantee | Target Annualised Return | Expected Term        | Capacity |
|-----------------|-------------------|--------------------------|----------------------|----------|
| A               | 80%               | 3.3%                     | 3 Years to Dec 2014  | £22m     |
| B               | 83%               | 5.8%                     | 5 Years to Dec 2016  | £45m     |
| C               | 89%               | 7.5%                     | 10 Years to Dec 2021 | £24m     |

These are the indicative portfolios and the actual portfolios may differ.

Capacity as at 31<sup>st</sup> August 2011; Annual Returns assume Current Bonus Rates and Life Settlements mature at Life Expectancy  
Quoted returns account only for 6% initial commission on TEP Element and 9.4% initial commission on Life Settlement Element

# PDL International TEP & Life Settlement Portfolio - Sample

## TEP Portfolio

| Life Insurance Company | Maturity Date | Policy Term | Basic Sum Assured | Attaching Bonuses | Premiums to maturity | Amount payable at Maturity | Purchase Price | Expected annual rate of return | Capital guarantee % |
|------------------------|---------------|-------------|-------------------|-------------------|----------------------|----------------------------|----------------|--------------------------------|---------------------|
| Sun Life               | 16-Apr-2012   | 25          | £10,244           | £10,151           | £432.74              | £26,473                    | £25,096        | 6.01%                          | 79.89%              |
| Windsor Life (Gresham) | 06-May-2012   | 30          | £8,000            | £10,923           | £191.68              | £27,633                    | £26,203        | 6.98%                          | 71.69%              |
| Crusader Insurance     | 30-Jun-2012   | 25          | £4,872            | £2,652            | £192.42              | £7,938                     | £7,308         | 7.15%                          | 100.32%             |
| Equity & Law           | 26-Aug-2012   | 34          | £1,027            | £2,180            | £0.00                | £5,029                     | £4,717         | 6.68%                          | 67.98%              |
| Royal London           | 01-Sept-2012  | 30          | £15,000           | £21,030           | £530.04              | £50,775                    | £47,083        | 6.64%                          | 75.67%              |
| Britannic Assurance    | 01-Aug-2013   | 27          | £2,600            | £2,536            | £103.76              | £7,764                     | £6,762         | 6.66%                          | 74.81%              |
| Commercial Union       | 28-Oct-2013   | 25          | £9,940            | £9,726            | £1,062.75            | £20,073                    | £16,839        | 5.61%                          | 109.86%             |
| Co-operative           | 15-Dec-2013   | 23          | £21,667           | £10,774           | £2,368.44            | £41,185                    | £33,978        | 5.79%                          | 89.26%              |
| Provident Life         | 01-Jun-2015   | 30          | £8,244            | £9,772            | £1,428.75            | £24,322                    | £18,123        | 6.21%                          | 92.15%              |

## Life Settlements Portfolio

| Life Insurance Company | Policy Issue Date | Age of Life Assured | Sex of Life Assured | Life Expectancy (months) | Date of Life Expectancy Estimate | Source of Life Expectancy | Face Value  | Purchase Price | Expected annual rate of return |
|------------------------|-------------------|---------------------|---------------------|--------------------------|----------------------------------|---------------------------|-------------|----------------|--------------------------------|
| Mass. Mutual           | 14-May-2007       | 79                  | M                   | 20                       | 1-Apr-2010                       | EMSI                      | \$4,000,000 | \$3,450,656    | 14.13%                         |
| John Hancock           | 25-Feb-2004       | 88                  | M                   | 42                       | 3-May-2011                       | ISC                       | \$5,000,000 | \$3,690,309    | 9.53%                          |
| Mass. Mutual           | 9-Jun-2006        | 81                  | M                   | 68                       | 26-May-2011                      | 21st                      | \$2,500,000 | \$1,553,599    | 8.96%                          |

Illustration based on snapshot of currently available policies. Returns/Capital Guarantees do not account for payment of commissions. For TEP Portfolio, Purchase prices, Amount's payable at maturity and expected annual rate of return all based on bonus rates as at 31<sup>st</sup> August 2011. Any changes by life offices of bonus rates and/or surrender values may alter Purchase prices, Amounts payable at maturity, Expected annual rate's of return and/or Capital guarantees For Life Settlement Portfolio, fractional policies are purchased

# PDL International Hybrid Portfolio - Sample

## Cash Flow & Capital Guarantee vs Initial Investment

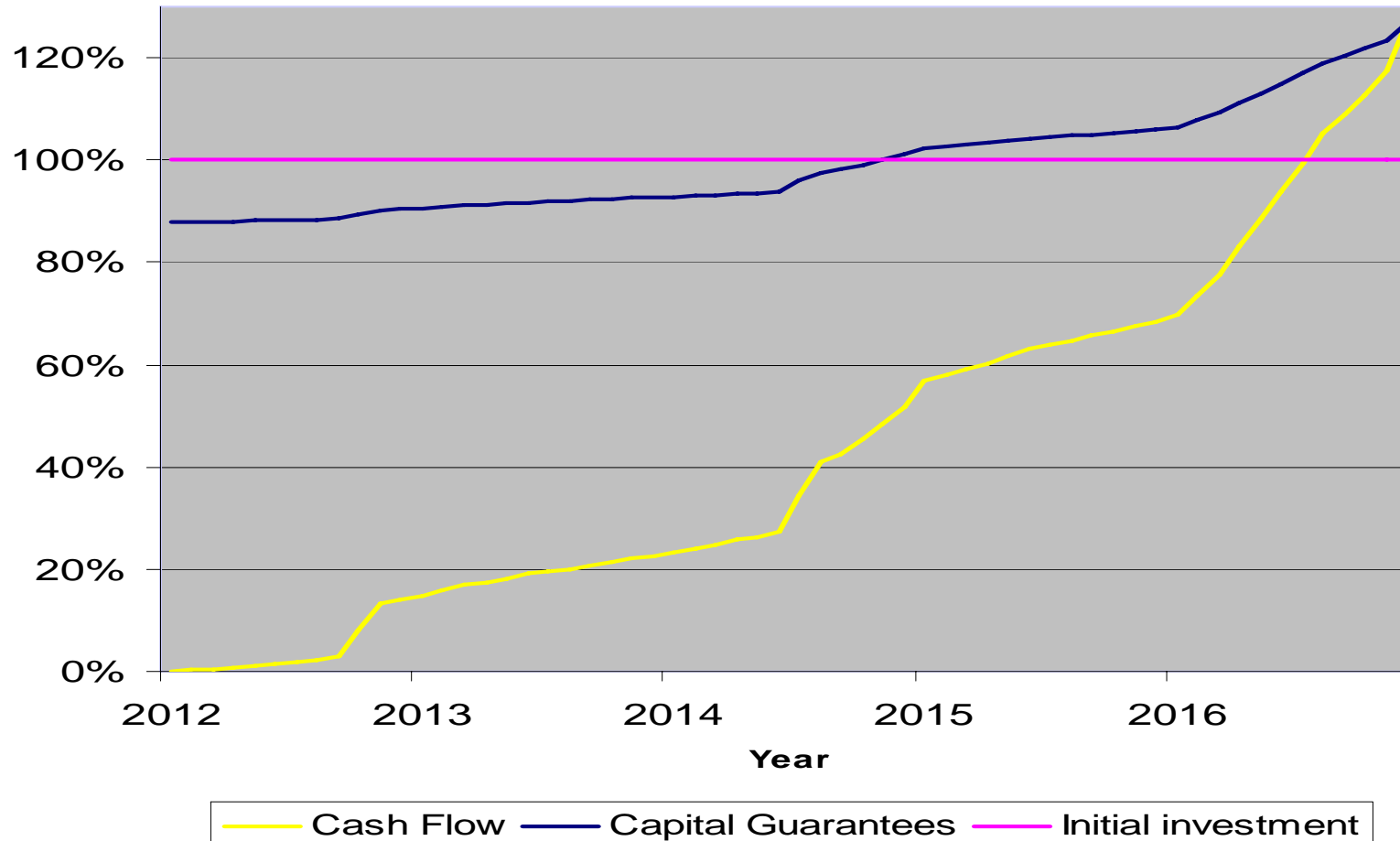


Chart based on Model B of TEP Portfolio and currently available life settlement policies (as at 19<sup>th</sup> September 2011) and shows capital guarantees growing based on bonus rates as at 31<sup>st</sup> August. Illustration does not account for payment of commissions. Chart is indicative. Actual chart may differ.

# Summary

The PDL International Hybrid Portfolio offers:

- a high level of capital guarantee between 85% and 94%, underwritten by life offices
- attractive annualised returns of between 3% and 8%
- liquidity throughout term
- low correlation to capital markets



PDL International

## The Protected Asset TEP Fund



## The Protected Asset TEP Fund (PATF)

- The Protected Asset TEP Fund plc (PATF) is an open-ended investment company in which qualified investors can buy shares
- The fund's aim is medium- to long-term capital growth through investment in a diversified portfolio of traded endowment policies. It provides:
  - Competitive returns\*
  - Guarantees
  - Consistency of returns
  - Low volatility, low correlation
- PATF has combined assets of over £353.6 million (*18 September 11*)

\* See Notes on Page 29

# PATF (Sterling) – Key features

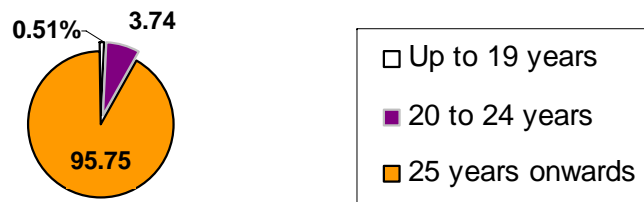
## Top 5 life companies by policies held in the Fund

| Top 5 Life Offices | Standard & Poor's Financial Strength Rating | Proportion of Fund's assets |
|--------------------|---|-----------------------------|
| Standard Life      | A+  | 29.5%                       |
| Prudential         | AA  | 11.8%                       |
| Norwich Union      | AA -  | 19.7%                       |
| General Accident   | AA -*                                       | 12.5%                       |
| Clerical Medical   | A +   | 9.7%                        |

As at 03 October 2011

\* Parent company rating

## Distribution of Assets by Policy Term



As at 03 October 2011

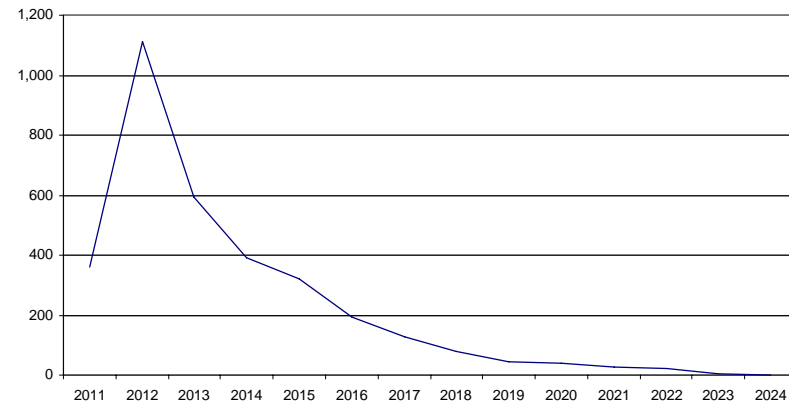
## Policy Investments by Asset Class

| Assets                                   | Range for Top 5 Life Offices |
|--|------------------------------|
| Equities                                 | 34.8% - 48.1%                |
| Property                                 | 12% - 20.1%                  |
| Fixed Interest Securities/<br>Cash/Other | 33.3% - 52.5%                |

## Assets

Range for Top 5 Life Offices  
As at 31 December 2010. Source: Prudential, Standard Life, Clerical Medical, Money Management 2011

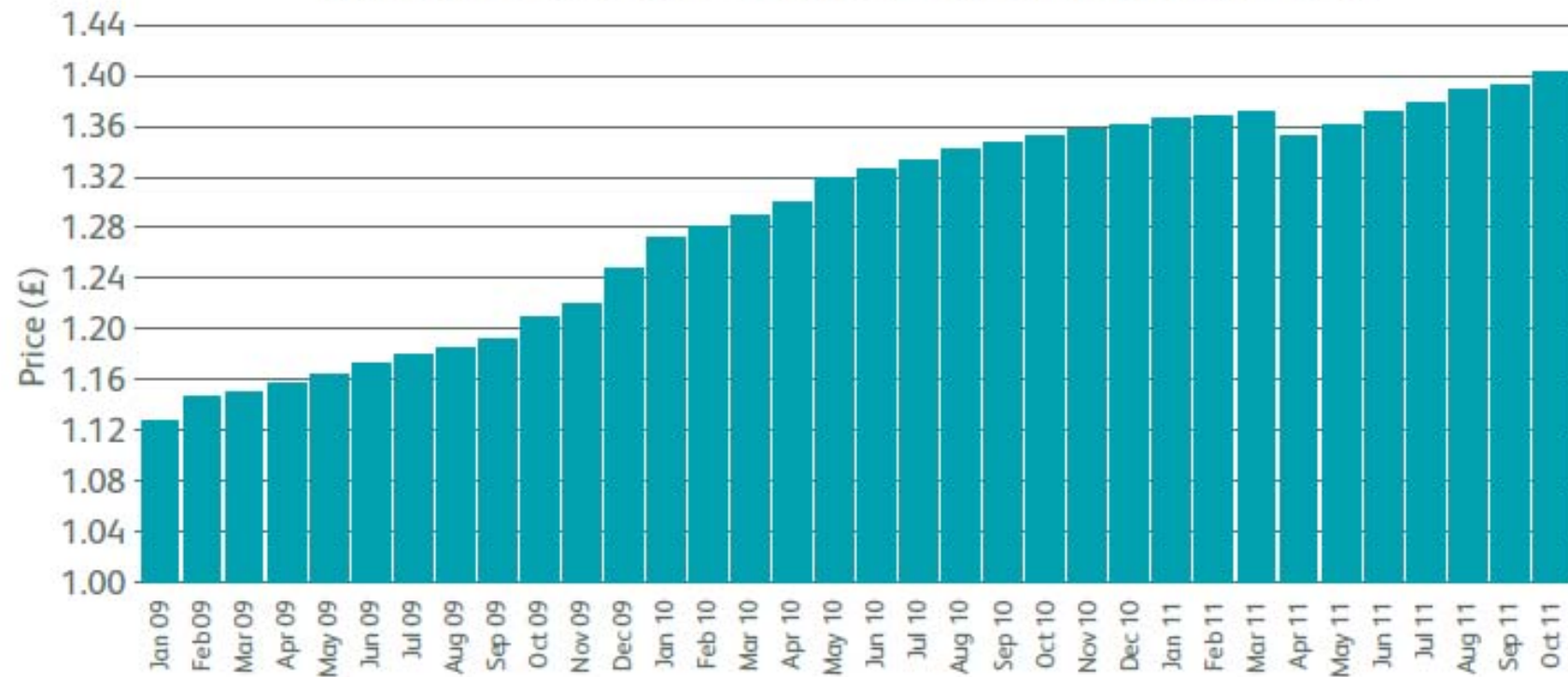
## Distribution of Policies by Maturity Year



As at 03 October 2011

# PATF (Sterling) – share price performance – Jan 09 - YTD

Share Prices of The Protected Asset TEP Fund plc (Sterling Class)



As at 03 September 2011 valuation date



# PATF 2 (Sterling) – Key features

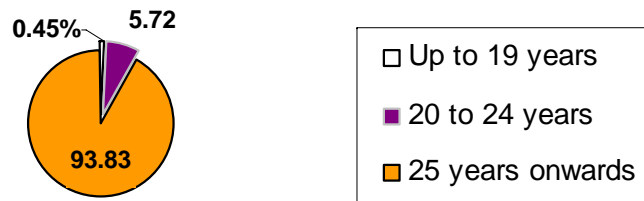
## Top 5 life companies by policies held in the Fund

| Top 5 Life Offices | Standard & Poor's Financial Strength Rating | Proportion of Fund's assets |
|--------------------|---|-----------------------------|
| Standard Life      | A+  | 21.6%                       |
| Prudential         | AA  | 18.4%                       |
| Norwich Union      | AA -  | 11.4%                       |
| General Accident   | AA -*                                       | 9.3%                        |
| Clerical Medical   | A +   | 11.4%                       |

As at 18 October 2011

\* Parent company rating

## Distribution of Assets by Policy Term



As at 18 October 2011

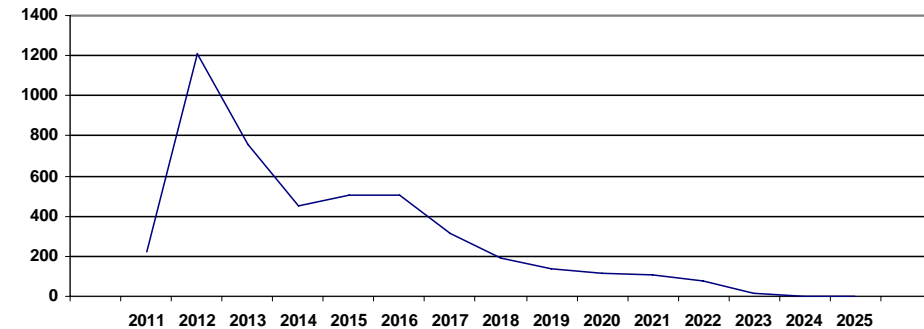
## Policy Investments by Asset Class

| Assets                                   | Range for Top 5 Life Offices |
|--|------------------------------|
| Equities                                 | 34.8% - 48.1%                |
| Property                                 | 12% - 20.1%                  |
| Fixed Interest Securities/<br>Cash/Other | 33.3% - 52.5%                |

## Assets

Range for Top 5 Life Offices  
As at 31 December 2010. Source: Prudential, Standard Life, Clerical Medical, Money Management 2011

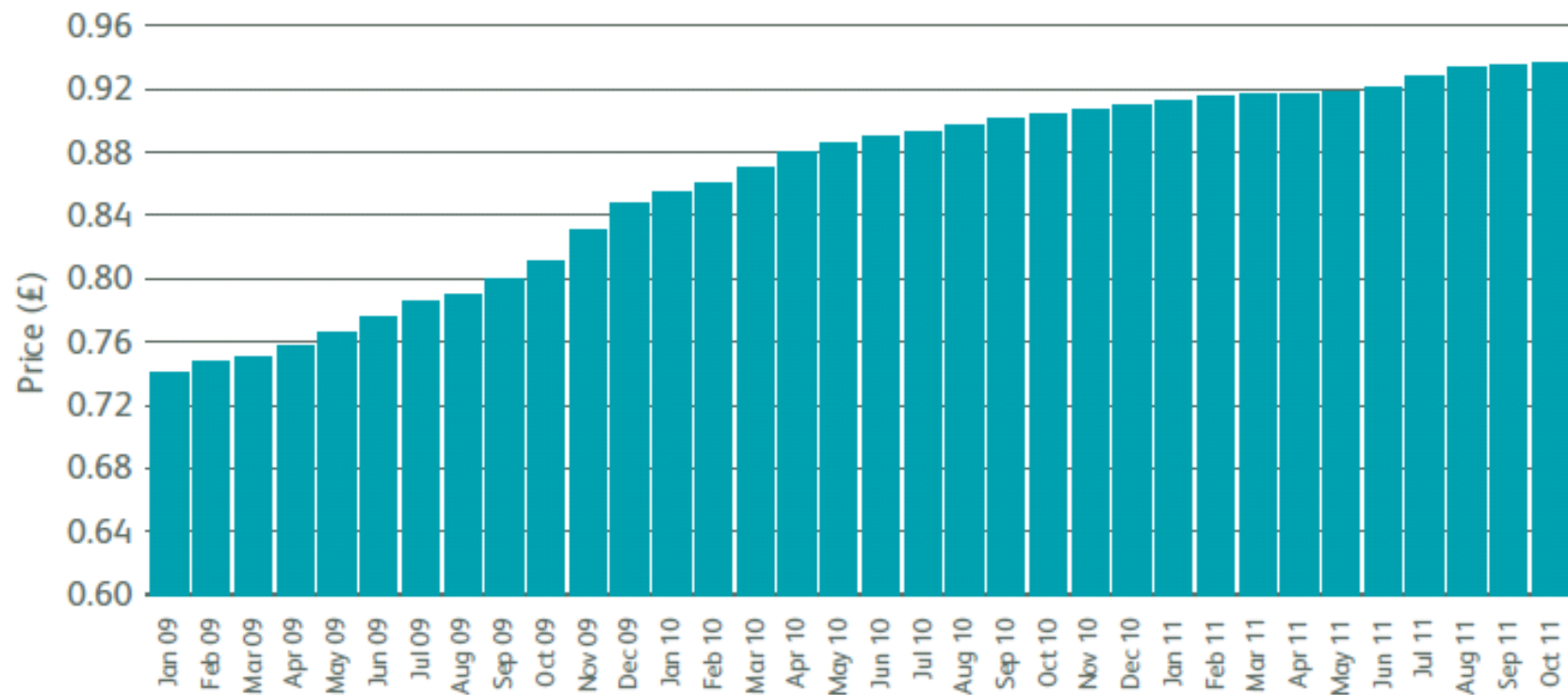
## Distribution of Policies by Maturity Year



As at 18 October 2011

## PATF 2 (Sterling) – share price performance

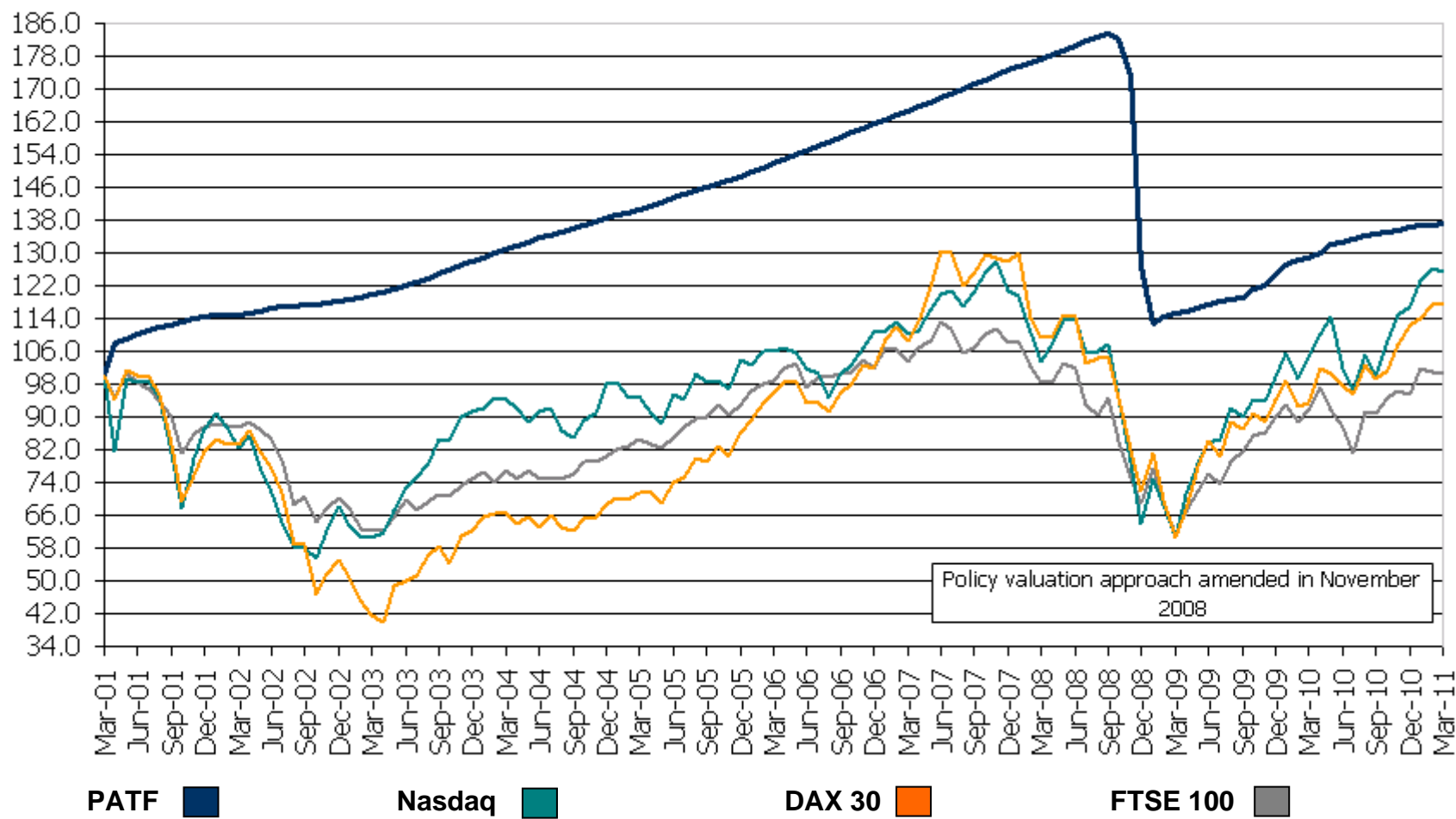
Share Prices of The Protected Asset TEP Fund No.2 (Sterling Class)



As at 18 October 2011 valuation date

# PATF (Sterling Class) against major world indices

The Protected Asset TEP Fund Plc (Sterling Class) Against Major World Indices



## Summary: an investment for today's market

Traded Endowment Policies offer:

- A capital guarantee of between 77% and 120%, underwritten by blue-chip UK life offices and backed by the UK government
- attractive annualised returns of 2% - 8%
- Low correlation to capital markets
- A choice between portfolios or pooled management of assets



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## NOTES FOR PAGE 22

*Please note that w.e.f. 18th April 2011 there are additional redemption penalties in place. For more information please call +44 (0) 20 8282 8080.*

A recent report by Money Management showed that with-profits endowments have performed better than other alternative investments: Balanced Managed and cash accounts (90 Deposit / Instant Access Accs) over 25 years. The average endowment over 25 years has produced a 6.3% Average Gross Return (AGR). The Balanced Managed sector has returned an AGR of only 6.0%.

Source: Money Management April 2011

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**IMPORTANT INFORMATION. The following notes should be read in conjunction with this presentation:**

1. This document, which is issued by PDL International, is intended for professional investors and intermediaries only and does not constitute investment advice or an offer to invest and is for information purposes only. For your protection telephone calls are usually recorded.
2. Full details of PATF and PATFNo.2 can be found in the Scheme Particulars which are available upon request.
3. Past performance is not a guide to future performance.

PATF: Any reference to a guarantee relates to the underlying policies and not to the annualised and/or target return. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Levels and bases of taxation may change from time to time.

TEP Portfolio: Any reference to a guarantee relates to the underlying policies and not to the share price of PATF. An investment in PATF should be regarded as medium to long in nature. If an investor redeems shares in the first five years exit penalties may be applied.

4. Where a Fund has a particularly concentrated portfolio and a particular investment declines or is otherwise adversely affected, it may have a more pronounced effect than if the Fund held a larger number of investments. Any investor of The TEP Portfolio must accept the risks associated with such an investment.
5. An investment in PATF should be regarded as medium to long in nature. If an investor redeems shares in the first five years exit penalties may be applied. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially.
6. The above warnings about PATF are explained in greater detail in the fund specific risks in the current Scheme Particulars and you should read them before investing. Subject to the express requirements of any client specific investment management agreement or relating to the management of a fund, we will not provide notice of any changes to our personnel, structure, policies, process, objectives or, without limitation, any other matter contained in this presentation.

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## IMPORTANT INFORMATION Cont'd...

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# Thank You



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