ΡΙΜΟΟ

Insurance Company Considerations in Selling Illiquid Assets

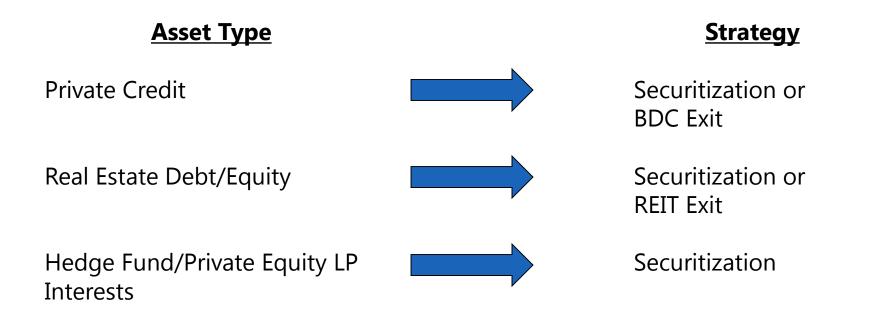
Spectrum of Liquidity

- Securities exist on a spectrum of liquidity
 - There are a number of metrics that facilitate the measurement of transactional liquidity; the ease with which securities can be bought or sold, the size in which they can be bought or sold, or the cost of trading them (bid/offer)
- Liquidity is not a static function. There are a number of reasons that securities may migrate from more liquid to less liquid
 - What are the common causes for securities that should be liquid, or once were liquid, to become illiquid. And how can we facilitate liquidity when these events occur?

Most Liquid			Least Liquid		
 G10 currency Commercial paper Treasuries 	 Exchange traded equities Mutual funds 	 IG corporate bonds 	High yield bondsStructured credit	• Fund interests	 Direct private equity Direct real estate Whole loans

Selling Illiquid Assets

Even for assets that start off on the illiquid end of the spectrum, in addition to running secondary sales processes, there are ways to potentially increase liquidity



<u>The Problem</u>: Securities are too closely held. When all, or a significant majority, of an issue are held by a small number of investors, there is no reason for a broader buyer base to understand or follow them.

Example: Tobacco Securitization CAB's

<u>Solution:</u> Seller engaged a third party bank to develop an independent model of the securities, populate a data room with all the information required to analyze the securities, and to engage in a road show to educate a broader group of potential investors <u>The Problem</u>: Information required for investors to analyze a security isn't widely available.

Example: TRUPS CDO's post financial crisis

<u>Solution:</u> Seller populated a data room with all of the available information on the underlying securities, deal structure etc. They made that information available under a single NDA.

<u>The Problem</u>: Changes to the characteristic of a security (rating, accounting treatment, etc) mean that it is no longer efficient for the historical owners of a type of security to continue to hold.

Example: Many assets which were downgraded during the GFC

<u>Solution:</u> Are there ways that sellers can create structural enhancements that increase the attractiveness of the asset? For example, there were a number of instances where sellers arranged for or provided financing on assets they were selling, or where they securitized the assets for ease of sale.