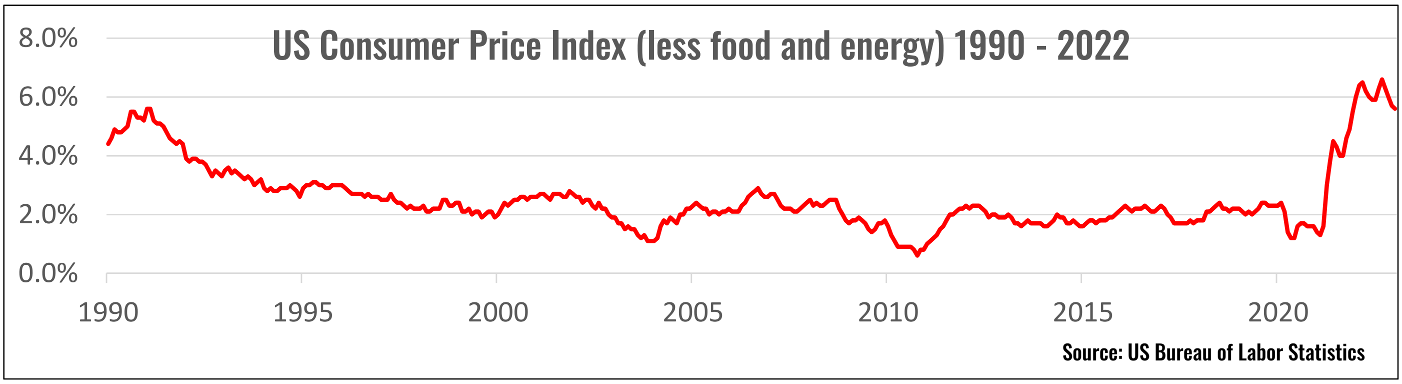
RESS CAPITAL

Considering the high inflation rate we have witnessed in the last 18 months in most developed countries, we would like to give our view on how this development is likely to affect the market for US life insurance policies and Ress Life Investments

EXECUTIVE SUMMARY

- **The surge in US inflation starting in the middle of 2022 have had a negative effect on real returns of most financial assets**
- **The secondary market for US life insurance policies is only marginally influenced by price movements in liquid asset classes. Longevity, the main return driver, has no correlation to underlying economic factors**
- **Ress Capital's analysis indicates that policy returns is expected to have low correlation to inflation and bond yields**
- **Therefore, investing in US life insurance policies will continue to be beneficial for investors seeking a more diversified and resilient portfolio**



US INFLATION IN THE LAST 34 YEARS

US inflation was trending downwards from 1990 to 2011, as can be seen in the graph above. From 2012 until spring 2021, the consumer price index (CPI) increased by approximately 2% per year, even though the Federal Reserve committed to an extremely expansionary monetary policy. The decrease in inflation for 32 years can be attributed to several factors: the internationalisation of production of both goods and services, an increase in productivity, and a relatively low nominal wage growth. The low inflationary pressure in the period had major consequences for financial markets. From 2010, the demand for investment returns increased dramatically, resulting in surging equity valuations and extremely low returns for fixed income investors.

In April 2021, the period of low and stable inflation ended. In the last quarter of 2021, inflation was for the first time since 1991 above 5%. Since then, inflation has stayed 2-3 percentage points above the Federal Reserve's target. Three explanations to the strong increase can be noted. Firstly, higher costs for input material caused by production interruptions during the pandemic. This affected prices already in the spring of 2020. Secondly, an abrupt rise in oil and gas prices caused by low capital expenditure in the oil and gas industry. Thirdly, price increase for energy, raw materials, and food, after Russia's attack on Ukraine. Higher energy and raw material prices have led to strong secondary effects on the price of almost all goods and services when producers have been forced to compensate for higher input prices.

Inflation numbers has also been affected by increased nominal wage growth. In 2022, US wage growth was 5.1%. This is another source of secondary effects since companies most likely will increase prices to compensate for higher labour costs. Given the secondary effects, the most likely scenario is that inflation will remain above central banks' targets in 2023, motivating more tightening policies. However, interest rates are expected to increase less in 2023 than what we saw in 2022.

THE EFFECT ON ASSET RETURNS

The real return of assets, defined as the observed nominal return minus inflation, has of course been negatively affected by the rise in consumer prices since 2021. Only index-linked bonds and shares in companies that can fully compensate for the rise in input prices have remained unaffected.

To determine how the future performance of different financial assets will be affected by a period of elevated inflation, it is necessary to analyse how the valuation of assets is linked to two factors. Firstly, the direct effect of higher interest rates. Secondly, the indirect economic effects of higher inflation for the asset class in question. Central in this analysis is how bond yields have reacted to globally tighter monetary policy.

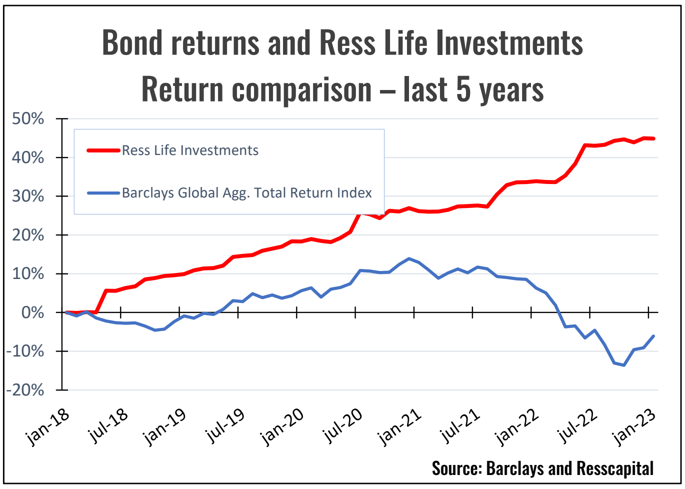
Ress Capital's view is that the Federal Reserve, as well as other central banks, will communicate and act with determination against the risk of a continued high level of inflation. This kind of responsible policy will most likely be viewed positively by bond investors, and the risk of higher bond yields will be limited.

A modest rise in bond yields should already be priced into today's equity valuations, but a margin squeeze for companies could very well upset markets. Our view is that the investment environment in 2023 will be demanding.

EFFECTS ON THE MARKET FOR US LIFE INSURANCE POLICIES

Ress Capital has since the period of elevated inflation started 2021, seen only minor changes in expected gross returns for US life insurance policies. Currently, gross yields are around 12%, based on conservative longevity assumptions. Our internal data analysis shows exceptionally low correlation between bond returns and changes in the US CPI, relative to the performance of Ress Life Investments.

One explanation to this is that the secondary market for US life insurance policies is a niche market, thus less influenced by other segments of the financial market. Another important explanation is the fact that the return of a life insurance fund is primarily driven by the compensation investors receive for taking longevity risk. The longevity risk is fundamentally uncorrelated to the two factors that primarily drive returns in financial markets - economic growth and inflation.



CONCLUSION

The world is clearly in a period of large uncertainty as regards the inflation outlook. Ress Capital's view is that 2023 will be demanding for financial markets participants, since global bond and equity markets valuations will be affected by both monetary policy responses, as well as households' and companies' ability to cope with higher inflation.

The secondary market for US life insurance policies is only marginally influenced by price movements in liquid asset classes. Furthermore, longevity, the main factor driving the return, has no correlation to underlying economic factors. Therefore, Ress Capital's view is that the elevated inflation globally will not have a significant negative effect on the asset class, or the fund Ress Life Investments.

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