

Peer Insights

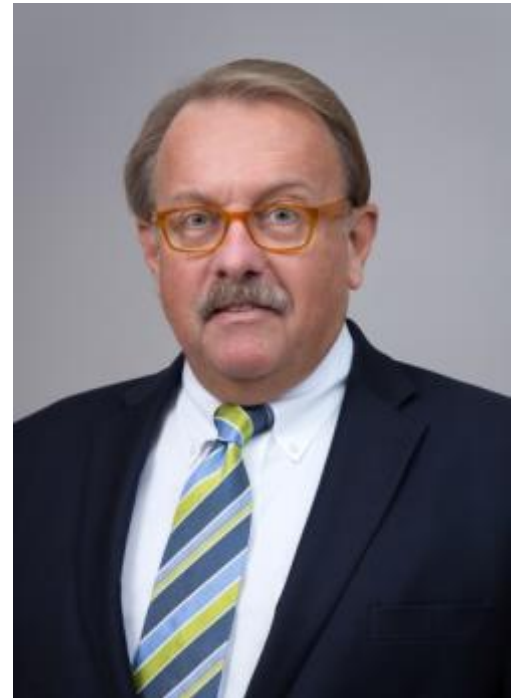
R E P O R T

Q&A with Darryl Glatthorn

CEO and Founder of
RiverRock Funds, LLC.

Principle Series:

Family Office Insights sits down with Darryl Glatthorn to discuss Non-Correlated Alternative Investment in Life Settlements, and how the stabilized and mature life settlement market allows for solid returns.



Family Office Insights is a voluntary, “opt-in” collaborative peer-to-peer community of single family offices, qualified investors and institutional investors.

Learn more at:
FamilyOfficeInsights.com

Q: Tell us about your background and your company, RiverRock Funds.

A: My father changed my life at the age of 10 when he brought me to a Merrill Lynch orientation on equity options. I was good at math, understood the concept of arbitrage and from that point forward I always envisioned myself working on Wall Street. I attended Babson College where I studied accounting, “the language of business” and spent two years after graduation earning my CPA. I was fortunate to have started my institutional sales career at Lehman Brothers in block trading. From there I went to Dean Witter/Morgan Stanley and UBS/PaineWebber where I sold equity derivatives to institutions at UBS/PaineWebber. My timing was good and I had a front row seat on the ascension of hedge funds to the pinnacle of asset managers. After 5 years of selling equity derivatives at UBS/PaineWebber, I left to become the Head Trader and a partner at Zweig DiMenna Associates, a firm that grew to be a seven billion dollar hedge fund dedicated to long/short equity investing. I left Zweig in 2003, after a significant drop in their AUM and started my own securities firm, which I continue to own today. Traders in Wall Street spend most of their time looking for one thing, mispricing. It’s the basis of arbitrage and efficient assets ultimately trade to the ‘risk free’ rate. I’m in the life settlement market because it’s a market that’s massively mispriced and represents one of the best arbitrage opportunities today.

Q: What is a life settlement?

A: Life settlements are financial transactions in which a life insurance policy is sold on the open market for a value greater than the policy surrender value (the cash value of the policy which the insurance company will pay to “repurchase” the policy) but less than the full policy benefit value. In return for a lump sum, the purchaser becomes the new owner and beneficiary of the policy, is subject to paying the premiums and ultimately becomes the collector of the policy death benefit.

A little-known fact is that 88% of all life insurance policies either lapse or are surrendered back to the insurance companies for little or no value. Life insurance is designed with planned obsolescence for the policy holder as they age. Investors like RiverRock provide another option by purchasing life insurance policies from seniors who no longer need, want or can afford their policies. This provides seniors living on a fixed retirement income with a liquidity event that would not otherwise exist in the absence of this secondary market. This money often represents ‘found money’ and comes to them at a time when they need it most. RiverRock Funds helps people recoup the investment they made in insurance during their lives.

Q: Tell us about RiverRock Funds:

A: RiverRock Funds was founded in 2007 by a prominent Houston Family Office that saw a need for non-correlated investments that could generate mid-teen returns with low volatility. Life settlements met all of their criteria along with the advantage of offering a buy-and-hold strategy that required no active trading. RiverRock Funds is a dedicated life settlements investment manager with over nine years of experience in managing pooled investment funds investing in the secondary market for life insurance policies.

Our objective is to generate stable, long-term returns through buying and holding select life settlement policies to maturity. We believe that financial wealth has an impact on mortality and as a result we focus on small face policies with \$1 Million and under in benefit value. We have a selective underwriting that’s focused on the evolution of the insured individual’s medical history. The firm has developed proprietary metrics for policy origination and analytics

to maximize returns and has exceptional deal-flow that allows for the purchase of a large volume of quality assets each month.

Q: How does the fund work?

A: RiverRock Funds is a private equity firm that works under a classic PE distribution waterfall. Distributions are made as mortalities occur each quarter and invested capital is projected to be returned within the first five to six years with an ultimate goal of a 2X+ return. Investors first receive 100% of their investment followed by an 8% preferred return. The GP receives a catch-up and the back end split is shared 85% to the LPs and 15% to the GP. We believe our alignment is correct in that we work for our LP investors and only participate in profits after they've realized a full return of their capital as well as a significant return.

Q: How do investors and sellers benefit?

A: Both investors and sellers of policies benefit in this transaction. An investor benefits by investing in a non-correlated asset class with attractive returns. Premium requirements decline with fewer policies in the portfolio and LP distributions grow beyond a 2x return. This is possible, because we have structured the fund as a private equity fund with a seven-year term with an option to extend for 3 years. We provide stable cash returns with a built-in exit strategy that has little exposure to credit cycles or market risks. RiverRock Fund VI projects a 12%-14% net return with low volatility, supported by our buy-and-hold strategy. We believe our fund represents one of the best credit arbitrage opportunities available today. We buy policies at gross returns of 15 to 17% that are supported by the underlying credit of US based life insurance companies. Ask yourself if an insurance carrier has every defaulted on a valid death claim? It doesn't happen and would be front page news if it ever did and yet the market completely misprices that value of those claims because of the difficulty of pricing mortality.

Q: How do life settlements serve seniors in a positive way?

A: The public perception of investing in mortality is something that we need to address with many prospective investors. We're taking the other side of insurance company's trade. What most investors don't realize is that this market has been actively traded and recognized by people like Warren Buffett (Berkshire Hathaway) and Hank Greenberg (AIG), amongst other heavyweights. What is key here is not just the excellent mid-teen returns, but the fact that we are actually performing a socially responsible service for seniors while still generating excellent returns for our investors. Mortality is inevitable, and giving seniors a second chance at liquidity is key in providing this positive social impact.

Q: Who are your main competitors?

A: There are major investors in the life settlements market including AIG, Apollo, Berkshire Hathaway, Blackstone, Credit Suisse, Flexpoint Ford, Fortress, Franklin Templeton, Oak Tree, Red Bird and TPG. Each investor has their own approach but the major difference with RiverRock Funds is structural. Private equity is the correct alignment between the LP and GP to generate the best returns, not an open-ended hedge fund. The open-ended hedge fund structure has un-quantified longevity risk, and the average age of insureds in their pool of seniors does not progress with time as does ours.

Q: What differentiates RiverRock Funds from others in the market?

A: Our concentration in the market is small face policies. We are focused on acquiring policies at \$1 Million and below in face value for greater portfolio diversification, more stable cash flow, and easier tracking of the general population's life expectancy. As a non-correlated investment, our fund is not affected as those that invest in real estate, fixed income, currency or equity markets.

Q: Tell us about the team at RiverRock Funds.

A: Our nine-person team is comprised of investment, insurance and life settlement professionals. Our company is led by a board of advisors, our CEO, CIO and our staff which includes a General Counsel, Chief Compliance Officer, Director of Investor Relations and CFO.

Q: Who is your ideal investor and how much capital are you looking to raise?

A: We were founded by a Family Office and we feel that Family Offices are the ideal investor for us—they're independent thinkers looking to move away from correlated assets and into more innovative opportunities. They are investors who are not scared off by the subject matter of the fund, but rather see the opportunity to invest in an asset that has a positive impact with secure and profitable returns. We do well with family office and multi-family office advisors that are looking for portfolio diversification.

We have a history of success across five previous life settlement funds and Fund VI, our largest fund to date, is a \$200 million raise with \$65 million in commitments currently. We expect to complete our capital raise for Fund VI by December 31, 2017.

Q: What's your mission?

A: I love telling our story. I've watched the financial markets all my professional life and life settlements is such an innovative space. As people get older, they need options. I believe that we are doing social good by helping the aging population benefit from the monetization of their life insurance policies. We're in the process of getting accredited as an Impact Fund in the emerging market for ESG investing, which we see as an important development.

Q: What's next for you and RiverRock Funds?

A: As I mentioned, our goal is to complete our raise of the \$200 Million for Fund VI by the end of 2017. Then we will take 3-6 months off from raising capital, and dive back in to raise \$300 Million for Fund VII.

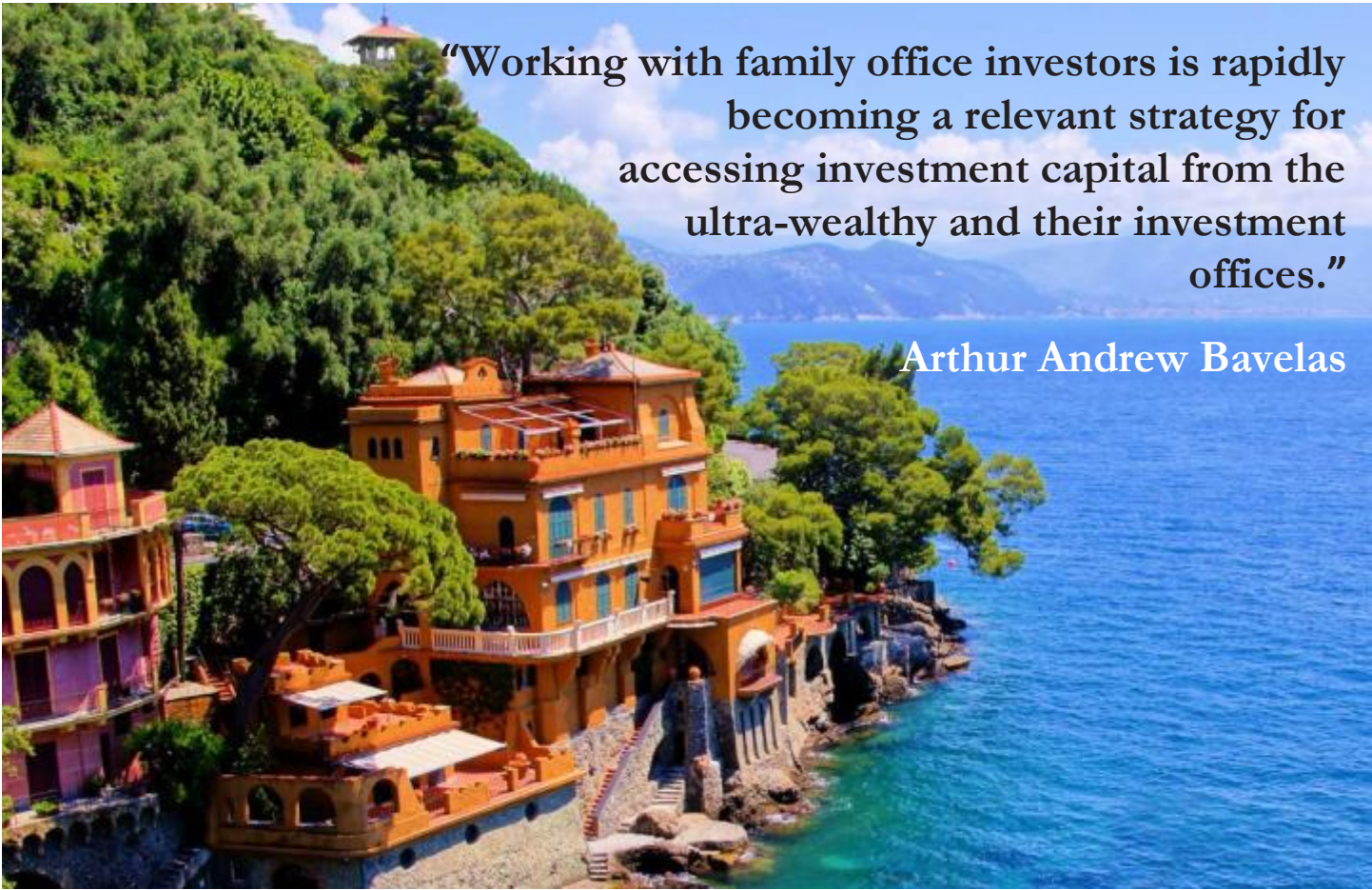


Darryl Glatthorn

Mr. Glatthorn's professional experience includes over twelve years in the life settlement industry in addition to founding Equus Financial Consulting LLC, a SEC registered/FINRA member broker-dealer specializing in private placements and alternative investments. Prior to founding Equus, Mr. Glatthorn spent eight years as a partner and Head Trader at Zweig DiMenna Associates, a multi-billion dollar New York-based hedge fund dedicated to long/short equity investing.

Earlier in his career, Mr. Glatthorn worked as a Senior VP in institutional equity derivatives sales at UBS/PaineWebber and in institutional equity sales at Morgan Stanley / Dean Witter and Lehman Brothers. Mr. Glatthorn is a graduate of Babson College with a BBA in accounting and was a Certified Public Accountant (inactive) and holds the Series 7, 24, 63 and 79 licenses.

For more information, please reach out to Darryl via email at dglatthorn@riverrockfunds.com.



“Working with family office investors is rapidly becoming a relevant strategy for accessing investment capital from the ultra-wealthy and their investment offices.”

Arthur Andrew Bavelas