ALLEN MATKINS LECK GAMBLE
  MALLORY & NATSIS LLP
DAVID R. ZARO (BAR NO. 124334)
865 South Figueroa Street, Suite 2800
Los Angeles, California 90017-2543
Phone: (213) 622-5555
Fax: (213) 620-8816
E-Mail: dzaro@allenmatkins.com

ALLEN MATKINS LECK GAMBLE
  MALLORY & NATSIS LLP
EDWARD G. FATES (BAR NO. 227809)
One America Plaza
600 West Broadway, 27th Floor
San Diego, California 92101-0903
Phone: (619) 233-1155
Fax: (619) 233-1158
E-Mail: tfates@allenmatkins.com

Attorneys for Receiver
THOMAS HEBRANK

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

SECURITIES AND EXCHANGE COMMISSION,
 	
        Plaintiff,
 	
        v.
 	
PACIFIC WEST CAPITAL GROUP, INC.; ANDREW B CALHOUN IV; PWCG TRUST; BRENDA CHRISTINE BARRY; BAK WEST, INC.; ANDREW B CALHOUN JR.; ERIC CHRISTOPHER CANNON; CENTURY POINT, LLC; MICHAEL WAYNE DOTTA; and CALEB AUSTIN MOODY (dba SKY STONE),
 	
        Defendants.
	Case No. 2:15-cv-02563-FMO (FFMx)
	
	NOTICE OF MOTION AND MOTION FOR (A) APPROVAL OF POOLING OF RECEIVERSHIP ASSETS, (B) AUTHORITY TO PAY POLICY PREMIUMS FROM POOLED FUNDS, AND (C) AUTHORITY TO SELL OR SURRENDER CERTAIN POLICIES
	
	Date: December 13, 2018
	Time: 10:00 a.m.
	Ctrm.: 6D
	Judge: Hon. Fernando M. Olguin

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1   **TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:**

2   **PLEASE TAKE NOTICE** that on December 13, 2018, at 10:00 a.m. in

3   Courtroom 6D of the above-entitled Court, located at 350 W. 1st Street, 6th Floor,

4   Los Angeles, California 90012, Thomas Hebrank ("Receiver"), the Court-appointed

5   receiver for the PWCG Trust, will and hereby does move the Court for Approval of

6   Pooling of Receivership Assets, Authority to Pay Policy Premiums from Pooled

7   Funds, and Authority to Sell or Surrender Certain Policies ("Motion").

8   This Motion is based on this Notice of Motion and Motion, the attached

9   Memorandum of Points and Authorities, the documents and pleadings already on file

10   in this action, and upon such further oral and documentary evidence as may be

11   presented at the time of hearing.

12   **Procedural Requirements:** If you oppose this Motion, you are required to

13   file your written opposition with the Office of the Clerk, United States District Court,

14   350 W. 1st Street, Suite 4311, Los Angeles, California 90012-4565, and serve the

15   same on the undersigned not later than 21 days prior to the hearing.

16   IF YOU FAIL TO FILE AND SERVE A WRITTEN OPPOSITION by the

17   above date, the Court may grant the requested relief without further notice. This

18   Motion is made following the conference of counsel pursuant to L.R. 7-3.

19

20   Dated: November 15, 2018   ALLEN MATKINS LECK GAMBLE
                                                MALLORY & NATSIS LLP
21
                                         By: */s/ Edward Fates*
22   EDWARD G. FATES
                                                Attorneys for Receiver
23   THOMAS HEBRANK

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MEMORANDUM OF POINTS AND AUTHORITIES

I.   INTRODUCTION

After completing the analysis of the PWCG Trust assets, the Receiver proposes that all assets of the receivership estate, including the remaining cash reserves, the policies held by PWCG Trust ("Policies"), and all death benefits from the Policies, be pooled into a common fund that will be used to support and maintain all Policies for the benefit of the investors and creditors. This relief will stabilize the portfolio of Policies and maximize the recovery for investors and creditors. It also provides the most fair and equitable treatment of all investors, who would otherwise obtain vastly different outcomes from their investments based entirely on the prior actions of Pacific West Capital Group, Inc. ("Pacific West") and Andrew B. Calhoun, IV ("Calhoun").

The Receiver also requests authority to sell or surrender to the insurers 34 Policies which, based on the analysis provided by the Receiver's consultant ITM Twentyfirst ("21st"), are projected to have a no value to the receivership estate ("Negative Value Policies").[1] Receivership estate funds should not be used to pay premiums for Negative Value Policies. Surrendering these Policies for their cash value will generate approximately $800,000 and it is possible that a greater return may be achieved by selling them.

II.   BACKGROUND FACTS

A.   Establishment of Policy Reserves and the Shortfalls.

When fractionalized interests in the Policies were sold to investors by Defendants Pacific West and Calhoun, Pacific West and Calhoun calculated a specific amount of the total sale proceeds that was allocated as the reserve to be used to fund premium payments for a specific period of time. Unfortunately, Calhoun did not use policyholder life expectancies ("LE's") in calculating reserves

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[1]   The projected premiums required to maintain these Negative Value Policies until maturity will exceed the death benefit received.

1 and instead focused on achieving an immediate return to Pacific West. As a result,

2 Calhoun and Pacific West purchased policies in which life expectancies were well

3 beyond the 5 to 7 years used to establish the policy premium reserves. Declaration

4 of Thomas Hebrank filed herewith ("Hebrank Decl."), ¶ 2.

5 　　　　As such, the reserves set aside for the Policies were insufficient because the

6 reserve periods calculated by Pacific West and Calhoun were too short and therefore

7 most Policy reserves have been exhausted notwithstanding the fact that premium

8 payments continue to come due. As detailed below, the LE and cash flow analysis

9 commissioned by the Receiver show that, in light of Pacific West's failure to set

10 aside adequate reserves based on realistic life expectancies, the total reserves are not

11 adequate as to virtually all of the Policies. The Receiver's work with 21st and its

12 initial LE and valuation work have validated the importance of the LE Reports and

13 the impact upon the reserves of Calhoun's failure to use them. Hebrank Decl., ¶ 3.

14 　　　　**B.**　　　**Pacific West's Methods of Addressing Shortfalls**

15 　　　　Starting in 2012, Defendants Pacific West and Calhoun commenced funding

16 the reserve shortfalls with funds raised from investors. By doing so, they were able

17 to avoid (a) using the Secondary Reserve and Tertiary Reserve, which they had

18 represented to investors had never been touched, and (b) making "cash calls" to

19 investors to fund their shares of the shortfalls. SEC Complaint, Dkt. No. 1, ¶¶ 62-

20 64. Accounting records provided by the Trustee, Mills Potoczak & Company

21 ("MPC"), reflect that Pacific West transferred approximately $5 million of proceeds

22 from the sale of new policies to PWCG Trust to be used to pay premiums between

23 2012 and 2017. Hebrank Decl., ¶ 4.

24 　　　　Shortly after the SEC filed its Complaint, Pacific West and Calhoun

25 instructed PWCG Trust, through MPC as Trustee, to make cash calls on investors to

26 contribute funds necessary to cover the shortfalls. Some investors paid cash calls

27 and some did not. Pacific West and Calhoun continued to fund the shortfalls from

28 cash calls. They also treated the fractionalized interests of investors who did not

1 pay in response to cash calls as "forfeited," resulting in the investor's interests

2 reverting to Pacific West with no compensation paid to investors. Hebrank Decl.,

3 ¶ 5.

4   Then, in July 2017, Pacific West purportedly sold certain of the alleged

5 forfeited fractionalized interests to Cook Street Master Trust, which is managed by

6 an investment firm called BroadRiver Asset Management ("BroadRiver"). Under

7 the Agreement, BroadRiver paid $1.5 million to Pacific West to acquire the

8 fractionalized investor interests, which Pacific West acquired after investors failed

9 to meet cash calls. BroadRiver has indicated that it paid an additional

10 approximately $875,000 to fund premium payments for the forfeited interests it

11 acquired in July 2017. The Receiver is reviewing BroadRiver's claims to the

12 fractionalized interests. Hebrank Decl., ¶ 6.

13   As noted above, the failure of Pacific West and Calhoun to use timely LE's

14 for their original selection of Policies and the setting of inadequate reserve amounts

15 with no relationship to life expectancies predestined the shortfalls in reserve

16 amounts for each of the Policies. This problem was then exacerbated by their

17 failing to engage in the high level of management required to maintain the Policies.

18 On an ongoing basis, Pacific West and Calhoun failed to obtain timely updated LE

19 Reports, develop and update realistic cash flows for the Policies, optimize premium

20 payments based on concrete data, or assess the adequacy of the reserves. Hebrank

21 Decl., ¶ 7.

22   The Receiver's analysis of the appropriate path forward with regard to the

23 ongoing management, servicing and possible sale of this complex portfolio has been

24 significantly impacted by Pacific West's and Calhoun's failure to complete the many

25 tasks required to create a portfolio of self-sustaining valuable Policies. For example,

26 21st had to start from scratch with regard to LE Reports, which are the basis for

27 valuation and cash flow calculations. The lack of reserves has led to some further

28 complexities with regard to the cash flow analysis necessary to assess the overall

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1 portfolio, analyze the economics of particular policies, and develop a program for

2 managing the portfolio, including considerations such as short term borrowing and

3 sale/surrender of Negative Value Polices. Hebrank Decl., ¶ 8.

4 **C.   The SEC Complaint**

5   The SEC's Complaint alleges that Pacific West and Calhoun, in selling

6 fractionalized interests in insurance policies, told investors that (a) in the three-tiered

7 reserve system established by Pacific West, the second and third tiers of reserves

8 had never been touched, (b) cash calls had never been made for investors to fund

9 premium payments, and (c) insurance policies in PWCG Trust were selected

10 because, in Pacific West and Calhoun's estimation, they would mature in four to

11 seven years, despite the fact that life expectancies of the insureds were years longer.

12 SEC Complaint, Dkt. No. 1, ¶¶ 16-46, 61-92. The Complaint alleges that

13 approximately 45% of the funds raised from investors through the sale of

14 fractionalized interests in insurance policies went directly to Pacific West. *Id.*

15 at ¶ 21. The SEC further alleges that Pacific West and Calhoun misrepresented and

16 omitted material facts in selling fractionalized interests to investors, including

17 failing to disclose that Pacific West had funded premium payments for policies

18 where the primary reserve had been exhausted, misrepresenting the amount of

19 policy premiums on the disclosures forms provided to investors, failing to disclose

20 that such premiums would increase substantially over time, and failing to disclose

21 that only a small percentage of policies held by PWCG Trust had actually matured

22 in the seven years following their purchase. *Id.* at ¶¶ 75-79, 83. The SEC also

23 alleges that Pacific West and Calhoun had no reasonable basis to believe the

24 insurance policies acquired would actually mature in four to seven years. *Id.* at

25 ¶¶ 30, 81.

26   PWCG Trust, Pacific West and Calhoun, as well as Andrew Calhoun, Jr.,

27 have entered into Consents with the SEC and Final Judgments have been entered

28 against them. Dkt. Nos. 145, 165, 166, 168.

D.   **The Receiver's Portfolio Analysis and Cash Flow Projection**

The Receiver recognized at the outset of this matter that there was an immediate problem of insufficient reserves held by PWCG Trust to cover the premium payments due on the Policies. At the time the Receiver took over management, Policies with death benefits exceeding $130 million had exhausted their reserves, and were going to lapse without immediate action. The Receiver's analysis establishes that more Policies are exhausting their reserves. The Receiver has addressed this problem since his appointment by seeking and obtaining authority from the Court to borrow from existing reserves allocated to other policies to make premium payments for which there are no reserves or insufficient reserves ("Unfunded Premium Payments"). Hebrank Decl., ¶ 9. The Court has authorized the Receiver to make Unfunded Premium Payments in this fashion through November 30, 2018. Dkt. Nos. 161, 220.

There are a number of ways in which to analyze the disposition of the portfolio of Policies. As detailed below, one approach would be a sale of the portfolio in the short term, which may yield as much as $36 million. Alternatively, as further discussed below, and as proposed by the Receiver, the portfolio may be managed for a number of years to achieve a projected recovery, discounted to present value, of $41 million to $48 million. Hebrank Decl., ¶ 10.

1.   Methodology for Analysis

The Court authorized the Receiver to engage 21st to provide both portfolio management services and valuation services, including to (a) obtain the necessary medical releases from the insureds, (b) gather the necessary medical records to provide reports showing the life expectancies of each insured under the Policies ("LE Reports"), and (c) analyze the Policies and their payment histories in order to provide new premium optimization schedules. 21st completed the majority of this work within the relatively short time budgeted (June through September 2018). At that time, the preliminary data indicated that the overall PWCG Trust portfolio has

1 positive value. Specifically, based on the LE data provided by 21st, the Receiver

2 ran a simple cash flow simulation of the portfolio (after removing the Negative

3 Value Policies) without factoring in costs of borrowing, servicing costs, or

4 administrative expenses of the receivership. This simple simulation indicated the

5 portfolio could generate as much as $104 million in net cash by the time the last

6 policy matures. The simulation, however, also underscored the need for additional

7 funding to keep the Policies in force. Hebrank Decl., ¶ 11.

8   While a simple cash flow analysis based upon the 21st valuation reports

9 revealed that additional funding would be needed, the Receiver determined that a

10 more complete statistical and probability analysis was required to more precisely

11 forecast these cash flow needs and to assess whether to maintain the portfolio or sell

12 it. This more complete statistical analysis was directed at, among other things:

- Assessing certain Policies which appeared to have no value based upon
  future premiums and the LE reports, the previously described
  "Negative Value Policies";

- Analyzing projected net cash available for distribution if all Policies are
  held to their maturities, after payment of premiums necessary to keep
  the Policies in force and discounting such projected net cash to its
  present value; and

- Projecting net cash available for distribution based upon the immediate
  sale of the Policies.

22 This information would then be used by the Receiver to determine whether the

23 recovery for investors would likely be greater from holding the Policies until their

24 maturities or selling them in the short term, or whether some Policies would simply

25 produce no net recovery whatsoever – the Negative Value Policies. Hebrank Decl.,

26 ¶ 12.

27   With the assistance of 21st, the Receiver obtained a further "Monte Carlo"

28 analysis and projection of the cash flow for the portfolio, including a projection of

1 the cash reserve needs for maintaining (a) all Policies, and (b) all Policies except

2 Negative Value Policies, as well as a projection of the ending net cash at maturity

3 from all Policies except Negative Value Policies. Based on the Monte Carlo

4 analysis and cash flow projection, the consultants, including 21st and another

5 consultant it works with called ClearLife, simulated the net recovery from pooling

6 the Policies and maintaining them until they mature, with a sale of all remaining

7 Policies after ten years. The projected recovery from this simulation, discounted to

8 present value, would be approximately $41 million to $48 million.[2] Hebrank Decl.,

9 ¶ 13.

10   This projection makes certain assumptions, including (a) the portfolio is

11 managed for no longer than 10 years and whatever Policies remain at that time are

12 sold, and (b) an appropriate discount rate of between 6% and 8% is used to arrive at

13 a discounted present value. It is important to note that the projected net recovery

14 ***has been discounted to its present value*** so it can be properly compared to the

15 recovery for investors if the portfolio as a whole were to be sold in the short term.

16 Based on the projection, the Receiver would anticipate being able to start

17 distributions to investors in the seventh year (*i.e.* when a substantial amount of death

18 benefits above and beyond what would be required to support the remainder of the

19 portfolio have accumulated), with final distributions likely made at the end of the

20 tenth year. If, however, the circumstances in the future indicate that a greater

21 recovery could be achieved by, for example, selling the remaining Policies in the

22 ninth year or eleventh year as opposed to the tenth year, the plan and schedule of

23 distributions to investors can be adjusted accordingly. Hebrank Decl., ¶ 14.

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26 [2] This is the median or most likely outcome out of the 1,000 simulations run for
      the PWCG Trust portfolio. The report attached as Exhibit A (at Page 6) also
27   shows the low end of the range of recoveries (listed as the 90th Percentile) and
      the high end of the range of recoveries (listed as the Maximum). These amounts
28   have been discounted to present value using the discount rate reflected in the left
      column of the table.

2. Preliminary Conclusions Concerning Portfolio

The above-described $41 million to $48 million projection, when compared to the projected net recovery from a sale of the portfolio in the short term – $36 million – weighs in favor of pooling the Policies, using a line of credit and death benefits received on a rolling basis to pay premiums, and maintaining the Policies until at least the tenth year. The report prepared by consultant ClearLife is attached to the Hebrank Decl. as Exhibit A. Note, this estimate of the net recovery from a sale in the short-term assumes a sale closing within approximately 120-150 days, which would be necessary to prepare the portfolio for sale, market it to potential buyers, negotiate sale terms, document a sale agreement and related documents, and obtain Court approval. Hebrank Decl., ¶ 15.

The Receiver also requested that 21st perform further analysis of the potential Negative Value Policies as part of his analysis of the premium funding. That is, the Receiver explored the optimum balance between borrowing to fund future premiums and selling policies. Presently, the Receiver recommends that a total of 34 such Policies be sold to third parties or surrendered to the insurers for their cash value, whichever yields a greater recovery. These Policies are listed on Exhibit B to the Hebrank Decl. This will not only eliminate the significant drain on cash reserves to pay premiums for these Negative Value Policies, but also generate an estimated $800,000 cash recovery in the short term. Hebrank Decl., ¶ 16.

In considering how to proceed, the Receiver also considered the pre-receivership performance of the reserves, including that, on average, only 28.9% of the Policies have matured within the premium reserve periods. Report of Professor Daniel Bauer, Dkt. No. 106-103, Joint Tab 101 of Evidentiary Appendix, at ¶¶ 12, 99-102. The Receiver's post-receivership analysis shows that this high rate of depletion of reserves will likely continue as to all Policies. Based upon the foregoing analysis, the Receiver requests approval of the proposed pooling of receivership estate assets, authority to pay premiums for all policies from the pooled

1 funds, and authority to sell or surrender the 34 Negative Value Policies in order to

2 maximize the total net recovery from the portfolio. Hebrank Decl., ¶ 17.

3 **E. Interim Relief Granted by the Court**

4 Shortly after his appointment, the Receiver sought immediate, *ex parte* relief

5 to address the issue of premiums coming due in March, April, and May 2018 for

6 which there were no or insufficient cash reserves, *i.e.* the aforementioned Unfunded

7 Premium Payments. The Receiver sought and obtained permission to borrow from

8 existing reserve funds to pay Unfunded Premium Payments coming due during this

9 initial three-month period. Dkt. Nos. 146, 147. The Receiver also sought and

10 obtained permission to engage 21st to, among other things, provide LE Reports and

11 premium optimization schedules. Dkt. Nos. 153, 161. The Court extended the time

12 during which the Receiver could use existing reserves to cover Unfunded Premium

13 Payments through November 30, 2018. Dkt. No. 161, Dkt. No. 220.

14 **F. Current Status of Reserves**

15 At the beginning of the receivership, the balance of existing reserves was

16 approximately $8.6 million. At that time, many of the Policies were in their "grace

17 periods" and MPC had been making the minimum payments to prevent the policies

18 from lapsing. Without the benefit of premium optimization schedules, which

19 Pacific West and Calhoun had not obtained, the Receiver maintained the status quo

20 and continued making grace period payments necessary to keep all Policies in force.

21 In connection with his motion to engage 21st and for authority to use existing

22 reserves to cover unfunded premiums through October 2018 (Dkt. No. 153), the

23 Receiver projected that the existing reserves would cover premiums coming due

24 until approximately March 2019. Hebrank Decl., ¶ 18.

25 Although making grace period payments reduces cash needed on a short-term

26 basis, it increases the cash required to maintain the Policies over the long-term and

27 therefore reduces the net recovery from the Policies. For this reason, obtaining

28 premium optimization schedules is standard in the industry to determine how to

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1 maximize the net recovery from each policy in terms of the cash required for

2 premiums, the cash value in the Policy, and the death benefit at maturity. One of the

3 valuation services 21st was engaged to provide was a new premium optimization

4 schedule for each Policy. These schedules were completed in August and the

5 premium payments pursuant to the schedules were commenced in September.

6 Hebrank Decl., ¶ 19.

7   As noted above, this change will increase the net recovery from the Policies

8 over the long-term (and enhance their value to potential buyers in the short-term),

9 but also increases the cash needed in the short-term. The balance of existing

10 reserves as of October 31, 2018 was approximately $2.86 million. The Receiver

11 now projects the existing reserves will cover premiums coming due for the Policies

12 (based on the new premium optimization schedules provided by 21st) until

13 approximately mid-January 2019. The Receiver is also holding $5,073,730.88 in

14 death benefits received from Policies that have matured since his appointment.

15 Hebrank Decl., ¶ 20.

16   **III.   PROPOSED POOLING OF RECEIVERSHIP ASSETS**

17   Based upon the Receiver's analysis of the Policies, PWCG Trust's records,

18 and the reports from 21st, the Receiver has determined that in order to address the

19 constant cash reserve crisis in the portfolio, maximize the recovery for the benefit of

20 investors, and treat all investors fairly and equitably, all assets of PWCG Trust

21 should be pooled together and distributed to investors, subject to further orders of

22 the Court after a claims process and distribution plan, on a *pro rata* basis. This

23 means the substantial sums needed to cover premiums for the Policies until they

24 mature will be funded primarily from pooled reserves and death benefits, which will

25 be received on a rolling basis as Policies mature. As more Policies mature, the

26 premium requirements of the portfolio will decrease and the death benefits will

27 increase until a substantial cash surplus accumulates and interim distributions can be

28 made to investors. Once all Policies have matured (or in the event it is determined a

1   greater overall recovery can be achieved by selling the remaining Policies before

2   they have all matured), a final distribution can be made and the receivership closed.

3   Hebrank Decl., ¶ 21.

4   Based on the cash flow analysis provided by 21st and ClearLife, it is likely

5   the premium requirements to maintain the Policies will exceed the cash reserves

6   (including death benefits received) at some point in the next 2-3 years. Therefore,

7   with the assistance of 21st, the Receiver has obtained term sheets from potential

8   lenders for a line of credit secured by the Policies that can be drawn on if and when

9   supplemental cash is needed. The Receiver is currently negotiating terms with these

10 potential lenders and plans to file a motion soon seeking authority to set up a line of

11 credit. The Receiver also believes it will be prudent to reevaluate the portfolio after

12 about 3 years (and periodically thereafter) to determine whether holding the

13 remaining Policies until their maturities is still the best course of action or if selling

14 some or all of the portfolio at that time would yield a greater total recovery.

15 Hebrank Decl., ¶ 22.

16   **IV.   PROPOSED SURRENDER OR SALE OF**

17   **NEGATIVE VALUE POLICIES**

18   Based on the LE Reports and premium optimization schedules provided by

19 21st, and after consultation with 21st, the Receiver believes the premiums required

20 to maintain 34 of the Policies (the Negative Value Policies) are likely to exceed the

21 death benefits when the Policies mature. This is primarily due to the longer life

22 expectancies of the insureds, but in some cases is also due to the likelihood that the

23 insureds may live beyond the term of the Negative Value Policies and there would

24 be no death benefit at all. Hebrank Decl., ¶ 23.

25   21st has advised that, despite the projected lack of value of these Negative

26 Value Policies to the receivership estate, some third parties may still be interested in

27 buying them, albeit for deeply discounted amounts. At the Receiver's request, 21st

28 is contacting its network of buyers to assess the level of interest. If there are buyers

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1 willing to pay more for one or more Negative Value Policies than the Receiver can

2 recover from surrendering them to the insurers, then the Receiver will sell those

3 Policies. The Receiver will then surrender the remaining policies for their cash

4 value. 21st estimates that disposing of the 34 Negative Value Policies in this

5 manner will generate approximately $800,000 for the receivership estate. Hebrank

6 Decl., ¶ 24.

7   Currently, the total death benefits for all Policies in the portfolio are

8 $234,290,335. Once the 34 Negative Value Policies are sold or surrendered, the

9 total death benefits will be $165,746,845. Hebrank Decl., ¶ 25.

10   **V.   ARGUMENT**

11   "The power of a district court to impose a receivership or grant other forms of

12 ancillary relief does not in the first instance depend on a statutory grant of power

13 from the securities laws. Rather, the authority derives from the inherent power of a

14 court of equity to fashion effective relief." *SEC v. Wencke*, 622 F.2d 1363, 1369

15 (9th Cir. 1980). The "primary purpose of equity receiverships is to promote orderly

16 and efficient administration of the estate by the district court for the benefit of

17 creditors." *SEC v. Hardy*, 803 F.2d 1034, 1038 (9th Cir 1986). As the appointment

18 of a receiver is authorized by the broad equitable powers of the court, any

19 distribution of assets must also be done equitably and fairly. See *SEC v. Elliot*,

20 953 F.2d 1560, 1569 (11th Cir. 1992).

21   District courts have the broad power of a court of equity to determine the

22 appropriate action in the administration and supervision of an equity receivership.

23 See *SEC v. Capital Consultants, LLC*, 397 F.3d 733, 738 (9th Cir. 2005). The Ninth

24 Circuit explained:

25   A district court's power to supervise an equity receivership
           and to determine the appropriate action to be taken in the
26   administration of the receivership is extremely broad. The
           district court has broad powers and wide discretion to
27   determine the appropriate relief in an equity receivership.
           The basis for this broad deference to the district court's
28   supervisory role in equity receiverships arises out of the
           fact that most receiverships involve multiple parties and

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complex transactions. A district court's decision concerning the supervision of an equitable receivership is reviewed for abuse of discretion.

3 *Id.* (citations omitted); see also *CFTC v. Topworth Int'l, Ltd.*, 205 F.3d 1107, 1115

4 (9th Cir. 1999) ("This court affords 'broad deference' to the court's supervisory role,

5 and 'we generally uphold reasonable procedures instituted by the district court that

6 serve th[e] purpose' of orderly and efficient administration of the receivership for

7 the benefit of creditors."). Accordingly, the Court has very broad discretion in the

8 administration of receivership estate assets.

9 ### A. Pooling of Receivership Assets

10 Starting with the well-established principle that District Courts have very

11 broad discretion in fashioning fair and equitable ways to administer and distribute

12 assets in federal equity receivership matters, numerous courts have determined that

13 pooling assets of entities in receivership is more fair and equitable than allowing

14 investors to trace their investments to specific assets, especially when commingling

15 of funds has occurred. *See e.g. SEC v. Sunwest Management, Inc.*, Case No. 09-

16 6056-HO, 2009 WL 3245879, at *10 (D. Or. Oct. 2, 2009) (citing *CFTC v. Eustace*,

17 2008 WL 471574. at *6 (E.D. Pa. 2008); *Topworth*, 205 F.3d 1007; *SEC v. Forex*

18 *Asset Mgmt. LLC*, 242 F.3d 325 (5th Cir. 2001); *SEC v. Elliott*, 953 F.2d 1560 (11th

19 Cir. 1992)).

20 Moreover, courts have not required extensive or systematic commingling in

21 order to justify alternatives to tracing. *See Eustace*, 2008 WL 471574. at *7.

22 Instead, "[d]ue to the fungibility of money . . . courts have held that any

23 commingling is enough to warrant treating all the funds as tainted." *Sunwest*

24 *Management*, 2009 WL 3245879, at *9 (citing *SEC v. Byers*, 2009 WL 2185491,

25 *15 (S.D.N.Y. 2009); *United States v. Garcia*, 37 F.3d 1359, 1365-66 (9th Cir.

26 1994); *SEC v. Better Life Club of America, Inc.*, 995 F. Supp. 167, 181 (D.D.C.

27 1998); *SEC v. Lauer*, 2009 U.S. Dist. Lexis 23510, at *4 (S.D. Fla. Mar. 25, 2009)).

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1   Another factor courts consider is the disparate impact of tracing on investors

2 due to factors outside their control, such as the actions of the defendants or simple

3 timing or luck. *United States v. Durham*, 86 F.3d 70, 72 (5th Cir. 1996)) (finding

4 that distributing investor funds separately would be inequitable because it would

5 allow greater recovery by certain investors on the arbitrary basis of the actions of the

6 defendants); *Sunwest Management*, 2009 WL 3245879, at *9; *SEC v. Schooler*,

7 Case No. 12-cv-02164-GPC-JMA, 2016 U.S. Dist. Lexis 69354 *48-49 (S.D. Cal.

8 May 25, 2016) (approving pooling where separate distribution of assets would result

9 in vastly different outcomes for investors based primarily on timing or luck).

10   Finally, courts have considered the efficiency of pooling in terms of

11 maximizing the value of receivership estate assets as a whole. *See Schooler*, 2016

12 U.S. Dist. Lexis 69354 *51 (finding that pooling was justified where it would allow

13 the receiver to prevent the receivership entities from going further into arrears on

14 their debts, preserve relationships with service providers, reduce administrative

15 expenses, and enhance the value of assets).

16   1.   Commingling

17   Here, approximately 45% of the funds raised from investors through the sale

18 of fractionalized interests in Policies went directly to Pacific West. SEC

19 Complaint, ¶ 21. Based upon the 21st and ClearLife reports, the reserves

20 established by Pacific West for each of the Policies are woefully insufficient to

21 cover premiums for the individual Policies until each of those policies mature.

22   As of 2012, certain policy reserves were already exhausted. At that time,

23 Pacific West started using funds taken from investors, transferring them to PWCG

24 Trust, and having PWCG Trust use them to pay Unfunded Premium Payments. In

25 this way, a substantial portion of the funds raised from investors were commingled

26 in Pacific West's account. This applies to all investors as Pacific West took 45% of

27 the funds raised from sales of all Policies. The commingled funds were then used to

28 cover shortfalls as they arose, such that the Policies would not lapse and Pacific

1 West could continue selling fractionalized interests in new Policies. This was done

2 between 2012 and 2015 when the SEC filed this action. Therefore, almost half of

3 the funds raised from investors were commingled and used by Pacific West in an *ad*

4 *hoc* manner that benefitted some investors, but not others. Even after the SEC filed

5 this action, Pacific West continued to use money raised from investors to cover

6 shortfalls from cash calls sent to investors. In total, approximately $5 million in

7 funds raised from investors was transferred to PWCG Trust to cover shortfalls. This

8 extensive commingling supports pooling of receivership assets over allowing

9 investors to trace their investments to specific policies and death benefits.

10   2.   Disparate Impact on Investors of Tracing

11   If investors were permitted to trace their investments to specific policies/death

12 benefits, the result would be that some investors might receive a substantial gain on

13 their investment and others would lose most, if not all, of their investments.

14 Moreover, because Pacific West used new investor money to pay premiums on

15 some Policies, it is unclear whether those investors should have a claim on death

16 benefits from Policies that their funds helped keep in force. To the extent, some

17 Policies may mature within their reserve period (as Professor Bauer noted, 28.9% of

18 the PWCG Trust policies have matured within their reserve period), then investors

19 in those Policies would be treated differently than investors in Policies that have a

20 negative value, who would lose everything. Additionally, investors in Policies that

21 mature after their reserve has been exhausted, requiring the Receiver to borrow

22 against the Policy or possibly even sell Policies at a substantial discount, would also

23 receive disparate recoveries.

24   All investors relied on Pacific West and Calhoun to select which Policies to

25 purchase and set the reserve amount, so the disparate impact on investors from

26 tracing would be based entirely on the actions of Pacific West/Calhoun. Again, this

27 supports pooling of receivership assets over tracing.

28

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3. Maximizing the Value of Receivership Assets

If the Policies, reserves and death benefits are not pooled, the portfolio will have to be sold rapidly at a substantial discount to prevent Policies from lapsing. The discount accounts for not only the fees and costs of the transaction, but also the buyer's need to secure a positive recovery from the Policies based on the LE Report for the insured. Based on the valuation analysis provided by 21st and ClearLife, the Receiver believes the net recovery from a sale of the portfolio in the short term would be about $36.44 million, including the cash reserves and death benefits already in hand.

By comparison, the projections indicate that pooling and holding the Policies until they mature will yield a substantially higher recovery, albeit over about 10 years. Based on the statistical and probability analysis provided by 21st and ClearLife, the Receiver believes the net recovery from pooling and holding the Policies, discounted to present value, would be approximately $41.5 million to $48.1 million, and possibly greater. Note, these estimates factor in projected portfolio servicing fees and administrative costs of the receivership, as well as anticipated costs of setting up a line of credit to be used if and when cash reserves (including death benefits received on an ongoing basis) are exhausted. Therefore, even factoring in the time value of money, pooling and holding the Policies until maturity will likely produce a substantially greater recovery for investors.

B. Sale or Surrender of Negative Value Policies

As noted above, the Court has very broad discretion in the administration of receiverships, including in approving sales of receivership assets. *Capital Consultants, LLC*, 397 F.3d at 738; *SEC v. American Capital Invest., Inc.*, 98 F.3d 1133, 1144 (9th Cir. 1996), *cert. denied* 520 U.S. 1185 (decision abrogated on other grounds). Sales of personal property in receiverships are governed by 28 U.S.C. § 2004. Section 2004 leaves it to the Court's discretion whether to require formal procedures such as appraisals, publication of notice, or a public auction and allows

1 the Court to waive such steps when they are unlikely to provide any material benefit

2 to the receivership estate. *See SEC v. Wilson*, 2013 WL 1283437 *1 (E.D. Mich.

3 2013); *SEC v. T – Bar Resources LLC*, 2008 WL 4790987 *3 (N.D. Tex. 2008).

4   Here, the 34 Negative Value Policies do not have significant value other than

5 their cash surrender value. Although there may be interested third party buyers for

6 some of them, the likelihood is that the majority of the Negative Value Policies will

7 be surrendered to the insurer for their cash value. Moreover, the Negative Value

8 Policies have already been appraised in that 21st has provided an LE Report and

9 valuation for each of them.

10   21st will broadcast the opportunity to its database of likely purchasers in the

11 life settlements industry and promptly respond to any and all interested parties.

12 Therefore, requiring appraisals, publication of notice or an auction would impose

13 significant costs on the receivership estate with little or no corresponding benefit.

14 21st will charge a commission of only 1% of the purchase price for any and all sales

15 of Policies, which is considerably less than an outside broker would charge.

16 Accordingly, the Receiver requests authority to sell or surrender the 34 Negative

17 Value Policies in his business judgment without further order of the Court.

18   **C.**   **Claims Process**

19   In the near future, the Receiver plans to seek approval of procedures for the

20 efficient submission, review, and approval of investor claims. The Receiver will

21 propose to have investors submit claims directly to him such that they can be

22 reviewed and any disputes resolved. The Receiver will then seek approval of

23 investor claim amounts in a noticed motion filed with the Court. *See SEC v.*

24 *Elliott***Error! Bookmark not defined.**, 953 F.2d 1560, 1567 (11th Cir. 1992)

25 (summary proceedings are an appropriate and efficient mechanism for allowing,

26 disallowing, and subordinating claims, provided claimants are afforded an

27 opportunity to be heard and present claims).

28

VI. CONCLUSION

For the foregoing reasons, the Receiver requests an order approving the pooling of receivership assets into one common fund, authorizing him to pay premiums for all Policies from the pooled funds, and authorizing him to sell or surrender the 34 Negative Value Policies for their cash value.

Dated: November 15, 2018

ALLEN MATKINS LECK GAMBLE
MALLORY & NATSIS LLP

By: _/s/ Edward Fates_
EDWARD G. FATES
Attorneys for Receiver
THOMAS HEBRANK

1 ALLEN MATKINS LECK GAMBLE
     MALLORY & NATSIS LLP
2 DAVID R. ZARO (BAR NO. 124334)
   865 South Figueroa Street, Suite 2800
3 Los Angeles, California 90017-2543
   Phone: (213) 622-5555
4 Fax: (213) 620-8816
   E-Mail: dzaro@allenmatkins.com

5
   ALLEN MATKINS LECK GAMBLE
6   MALLORY & NATSIS LLP
   EDWARD G. FATES (BAR NO. 227809)
7 One America Plaza
   600 West Broadway, 27th Floor
8 San Diego, California 92101-0903
   Phone: (619) 233-1155
9 Fax: (619) 233-1158
   E-Mail: tfates@allenmatkins.com

10
   Attorneys for Receiver
11 THOMAS HEBRANK

12   **UNITED STATES DISTRICT COURT**

13   **CENTRAL DISTRICT OF CALIFORNIA**

14

15 SECURITIES AND EXCHANGE   Case No. 2:15-cv-02563-FMO (FFMx)
   COMMISSION,
16   **DECLARATION OF THOMAS C.**
             Plaintiff,   **HEBRANK IN SUPPORT OF**
17   **MOTION FOR (A) APPROVAL OF**
         v.   **POOLING OF RECEIVERSHIP**
18   **ASSETS, (B) AUTHORITY TO PAY**
   PACIFIC WEST CAPITAL GROUP,   **POLICY PREMIUMS FROM**
19 INC.; ANDREW B CALHOUN IV;   **POOLED FUNDS, AND (C)**
   PWCG TRUST; BRENDA CHRISTINE   **AUTHORITY TO SELL OR**
20 BARRY; BAK WEST, INC.; ANDREW B **SURRENDER CERTAIN**
   CALHOUN JR.; ERIC CHRISTOPHER   **POLICIES**
21 CANNON; CENTURY POINT, LLC;
   MICHAEL WAYNE DOTTA; and   Date: December 13, 2018
22 CALEB AUSTIN MOODY (dba SKY   Time: 10:00 a.m.
   STONE),   Ctrm.:   6D
23   Judge: Hon. Fernando M. Olguin
             Defendants.
24

25

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Mallory & Natsis LLP**

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1   I, Thomas C. Hebrank, declare:

2   1.   I am the Court-appointed receiver for PWCG Trust. I make this

3 declaration in support of my Motion for (A) Approval of Pooling of Receivership

4 Assets, (B) Authority to Pay Policy Premiums from Pooled Funds, and (C)

5 Authority to Sell or Surrender Certain Policies ("Motion"). I have personal

6 knowledge of the facts stated herein, and if called upon to do so, I could and would

7 personally and competently testify to them.

8   **A.   Establishment of Policy Reserves and the Shortfalls**

9   2.   When fractionalized interests in the life insurance policies held by

10 PWCG Trust ("Policies") were sold to investors by Defendants Pacific West Capital

11 Group, Inc. ("Pacific West") and Andrew B. Calhoun, IV ("Calhoun"), Pacific West

12 and Calhoun calculated a specific amount of the total sale proceeds that was

13 allocated as the reserve to be used to fund premium payments for a specific period

14 of time. Unfortunately, Pacific West and Calhoun did not use policyholder life

15 expectancies ("LE's") in calculating reserves and instead focused on achieving an

16 immediate return to Pacific West. As a result, Pacific West and Calhoun purchased

17 policies in which life expectancies were well beyond the 5 to 7 years used to

18 establish the policy premium reserves.

19   3.   As such, the reserves set aside for the Policies were insufficient

20 because the reserve periods calculated by Pacific West and Calhoun were too short

21 and therefore most Policy reserves have been exhausted notwithstanding the fact

22 that premium payments continue to come due. As detailed below, the LE and cash

23 flow analysis commissioned by me show that, in light of Pacific West's failure to set

24 aside adequate reserves based on realistic life expectancies, the total reserves are not

25 adequate as to virtually all of the Policies. My work with 21st and its initial LE and

26 valuation work have validated the importance of the LE Reports and the impact

27 upon the reserves of Calhoun's failure to use them.

28

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B.   Pacific West's Methods of Addressing Shortfalls

4.   Starting in 2012, Defendants Pacific West and Calhoun commenced funding the reserve shortfalls with funds raised from investors. By doing so, they were able to avoid (a) using the Secondary Reserve and Tertiary Reserve, which they had represented to investors had never been touched, and (b) making "cash calls" to investors to fund their shares of the shortfalls. SEC Complaint, Dkt. No. 1, ¶¶ 62-64. Accounting records provided by the Trustee, Mills Potoczak & Company ("MPC"), reflect that Pacific West transferred approximately $5 million of proceeds from the sale of new policies to PWCG Trust to be used to pay premiums between 2012 and 2017.

5.   Shortly after the SEC filed its Complaint, Pacific West and Calhoun instructed PWCG Trust, through MPC as Trustee, to make cash calls on investors to contribute funds necessary to cover the shortfalls. Some investors paid cash calls and some did not. Pacific West and Calhoun continued to fund the shortfalls from cash calls. They also treated the fractionalized interests of investors who did not pay in response to cash calls as "forfeited," meaning ownership of the interests reverted to Pacific West with no compensation paid to investors.

6.   Then, in July 2017, Pacific West purportedly sold certain of the alleged forfeited fractionalized interests to Cook Street Master Trust, which is managed by an investment firm called BroadRiver Asset Management ("BroadRiver"). Under the Agreement, BroadRiver paid $1.5 million to Pacific West to acquire the fractionalized investor interests, which Pacific West acquired after investors failed to meet cash calls. BroadRiver has indicated that it paid an additional approximately $875,000 to fund premium payments for the forfeited interests it acquired in July 2017. I am reviewing BroadRiver's claims to the fractionalized interests.

7.   As noted above, the failure of Pacific West and Calhoun to use timely life expectancies for their original selection of Policies and the setting of inadequate

1 reserve amounts with no relationship to life expectancies predestined the shortfalls

2 in reserve amounts for each of the Policies. This problem was then exacerbated by

3 their failing to engage in the high level of management required to maintain the

4 Policies. On an ongoing basis, Pacific West and Calhoun failed to obtain timely

5 updated LE Reports, develop and update realistic cash flows for the Policies,

6 optimize premium payments based on concrete data, or assess the adequacy of the

7 reserves.

8   8.   My analysis of the appropriate path forward with regard to the ongoing

9 management, servicing and possible sale of this complex portfolio has been

10 significantly impacted by Pacific West's and Calhoun's failure to complete the

11 complex tasks required to create a portfolio of self-sustaining valuable Policies. For

12 example, 21st had to start from scratch with regard to LE Reports, which are the

13 basis for valuation and cash flow calculations. The lack of reserves has led to some

14 further complexities with regard to the cash flow analysis necessary to assess the

15 overall portfolio, analyze the economics of particular policies, and develop a

16 program for managing the portfolio, including considerations such as short term

17 borrowing and sale/surrender of Negative Value Polices.

18   **C.   Portfolio Analysis and Cash Flow Projection**

19   9.   I recognized at the outset of this matter that there was an immediate

20 problem of insufficient reserves held by PWCG Trust to cover the premium

21 payments due on the Policies. At the time I took over management, Policies with

22 death benefits exceeding $130 million had exhausted their reserves, and were going

23 to lapse without immediate action. My analysis establishes that more Policies are

24 exhausting their reserves. I have addressed this problem since his appointment by

25 seeking and obtaining authority from the Court to borrow from existing reserves

26 allocated to other policies to make premium payments for which there are no

27 reserves or insufficient reserves ("Unfunded Premium Payments").

28

10.   There are a number of ways in which to analyze the disposition of the portfolio of Policies. As detailed below, one approach would be a sale of the portfolio in the short term, which may yield as much as $36 million. Alternatively, as further discussed below, and as I propose, the portfolio may be managed for a number of years to achieve a projected recovery, discounted to present value, of $41 million to $48 million.

Methodology for Analysis

11.   The Court authorized me to engage 21st to provide both portfolio management services and valuation services, including to (a) obtain the necessary medical releases from the insureds, (b) gather the necessary medical records to provide reports showing the life expectancies of each insured under the Policies ("LE Reports"), and (c) analyze the Policies and their payment histories in order to provide new premium optimization schedules. 21st completed the majority of this work within the relatively short time budgeted (June through September 2018). At that time, the preliminary data indicated that the overall PWCG Trust portfolio has positive value. Specifically, based on the LE data provided by 21st, I ran a simple cash flow simulation of the portfolio (after removing the Negative Value Policies) without factoring in costs of borrowing, servicing costs, or administrative expenses of the receivership. This simple simulation indicated the portfolio could generate as much as $104 million in net cash by the time the last policy matures. The simulation, however, also underscored the need for additional funding to keep the Policies in force.

12.   While a simple cash flow analysis based upon the 21st valuation reports revealed that additional funding would be needed, I determined that a more complete statistical and probability analysis was required to more precisely forecast these cash flow needs and to assess whether to maintain the portfolio or sell it. This more complete statistical analysis was directed at, among other things:

1 • Assessing certain Policies which appeared to have no value based upon

2 future premiums and the LE's, the previously described "Negative

3 Value Policies";

4 • Analyzing projected net cash available for distribution if all Policies are

5 held to their maturities, after payment of premiums necessary to keep

6 the Policies in force and discounting such projected net cash to its

7 present value; and

8 • Projecting net cash available for distribution based upon the immediate

9 sale of the Policies.

10   13.   With the assistance of 21st, I obtained a further "Monte Carlo" analysis

11 and projection of the cash flow for the portfolio, including a projection of the cash

12 reserve needs for maintaining (a) all Policies, and (b) all Policies except Negative

13 Value Policies, as well as projection of the ending net cash from maintain all

14 Policies except Negative Value Policies until their maturities. Based on the Monte

15 Carlo analysis and cash flow projection, the consultants, including 21st and another

16 consultant it works with called ClearLife, simulated the net recovery from pooling

17 the Policies and maintaining them until they mature, with a sale of all remaining

18 Policies after ten years. The projected recovery from this simulation, discounted to

19 present value, would be approximately $41 million to $48 million.[1]

20   14.   The above projection makes certain assumptions, including (a) the

21 portfolio is managed for no longer than 10 years and whatever Policies remain at

22 that time are sold, and (b) an appropriate discount rate of between 6% and 8% is

23 used to arrive at a discounted present value. It is important to note that the projected

24 net recovery ***has been discounted to its present value*** so it can be properly

25

26 [1] This is the median or most likely outcome out of the 1,000 simulations run for
     the PWCG Trust portfolio. The report attached as Exhibit A (at Page 6) also

27 shows the low end of the range of recoveries (listed as the 90th Percentile) and
     the high end of the range of recoveries (listed as the Maximum). These amounts

28 have been discounted to present value using the discount rate reflected in the left
     column of the table.

1 compared to the recovery for investors if the portfolio as a whole were to be sold in

2 the short term. Based on the projection, I would anticipate being able to start

3 distributions to investors in the seventh year (*i.e.* when a substantial amount of death

4 benefits above and beyond what would be required to support the remainder of the

5 portfolio have accumulated), with final distributions likely made at the end of the

6 tenth year. If, however, the circumstances in the future indicate that a greater

7 recovery could be achieved by, for example, selling the remaining Policies in the

8 ninth year or eleventh year as opposed to the tenth year, the plan and schedule of

9 distributions to investors can be adjusted accordingly.

10   *Preliminary Conclusions Concerning Portfolio*

11   15.   The above-described $41 million to $48 million projection, when

12 compared to the projected net recovery from a sale of the portfolio in the short term

13 – $36 million – weighs in favor of pooling the Policies, using a line of credit and

14 death benefits received on a rolling basis to pay premiums, and maintaining the

15 Policies until their maturities. The report prepared by consultant ClearLife is

16 attached as Exhibit A herewith. Note, this estimate of the net recovery from a sale

17 in the short-term factors in a timeline to sale closing of approximately 120-150 days,

18 which would be necessary to prepare the portfolio for sale, market it to potential

19 buyers, negotiate sale terms, document a sale agreement and related documents, and

20 obtain Court approval.

21   16.   I also requested that 21st perform further analysis of the potential

22 Negative Value Policies as part of his analysis of the premium funding. That is, I

23 explored the optimum balance between borrowing to fund future premiums and

24 selling policies. Presently, I recommended that a total of 34 such Policies be sold to

25 third parties or surrendered to the insurers for their cash value, whichever yields a

26 greater recovery. These Policies are listed on Exhibit B attached hereto. This will

27 not only eliminate the significant drain on cash reserves to pay premiums for these

28

1 Negative Value Policies, but also generate an estimated $800,000 cash recovery in

2 the short term.

3   17.   In considering how to proceed, I also considered the pre-receivership

4 performance of the reserves, including that, on average, only 28.9% of the Policies

5 have matured within the premium reserve periods, as Professor Daniel Bauer found

6 in his report. My post-receivership analysis shows that this high rate of depletion of

7 reserves will likely continue as to all Policies. Based upon the foregoing analysis, I

8 request approval of the proposed pooling of receivership estate assets, authority to

9 pay premiums for all policies from the pooled funds, and authority to sell or

10 surrender the 34 Negative Value Policies in order to maximize the total net recovery

11 from the portfolio.

12   **D.**   **Current Status of Reserves**

13   18.   At the beginning of the receivership, the balance of existing reserves

14 was approximately $8.6 million. At that time, many of the Policies were in their

15 "grace periods" and MPC had been making the minimum payments to prevent the

16 policies from lapsing. Without the benefit of premium optimization schedules,

17 which Pacific West and Calhoun had not obtained, I maintained the status quo and

18 continued making grace period payments necessary to keep all Policies in force. In

19 connection with my motion to engage 21st and for authority to use existing reserves

20 to cover unfunded premiums through October 2018 (Dkt. No. 153), I projected that

21 the existing reserves would cover premiums coming due until approximately

22 March 2019.

23   19.   Although making grace period payments reduces cash needed on a

24 short-term basis, it increases the cash required to maintain the Policies over the

25 long-term and therefore reduces the net recovery from the Policies. For this reason,

26 obtaining premium optimization schedules is standard in the industry to determine

27 how to maximize the net recovery from each policy in terms of the cash required for

28 premiums, the cash value in the Policy, and the death benefit at maturity. One of the

1 valuation services 21st was engaged to provide was a new premium optimization

2 schedule for each Policy. These schedules were completed in August and the

3 premium payments pursuant to the schedules were commenced in September.

4   20.   As noted above, this change will increase the net recovery from the

5 Policies over the long-term (and enhance their value to potential buyers in the short-

6 term), but also increases the cash needed in the short-term. The balance of existing

7 reserves as of October 31, 2018 was approximately $2.86 million. I now project the

8 existing reserves will cover premiums coming due for the Policies (based on the

9 new premium optimization schedules provided by 21st) until approximately mid-

10 January 2019. I am also holding $5,073,730.88 in death benefits received from

11 Policies that have matured since his appointment.

12 **E.**   **Proposed Pooling of Receivership Assets**

13   21.   Based upon my analysis of the Policies, PWCG Trust's records, and the

14 reports from 21st, I have determined that in order to address the constant cash

15 reserve crisis in the portfolio, maximize the recovery for the benefit of investors,

16 and treat all investors fairly and equitably, all assets of PWCG Trust should be

17 pooled together and distributed to investors, subject to further orders of the Court

18 after a claims process and distribution plan, on a *pro rata* basis. This means the

19 substantial sums needed to cover premiums for the Policies until they mature will be

20 funded primarily from pooled reserves and death benefits, which will be received on

21 a rolling basis as Policies mature. As more Policies mature, the premium

22 requirements of the portfolio will decrease and the death benefits will increase until

23 a substantial cash surplus accumulates and interim distributions can be made to

24 investors. Once all Policies have matured (or in the event it is determined a greater

25 overall recovery can be achieved by selling the remaining Policies before they have

26 all matured), a final distribution can be made and the receivership closed.

27   22.   Based on the cash flow analysis provided by 21st and ClearLife, it is

28 likely the premium requirements to maintain the Policies will exceed the cash

1 reserves (including death benefits received) at some point in the next 2-3 years.

2 Therefore, with the assistance of 21st, I have obtained term sheets from potential

3 lenders for a line of credit secured by the Policies that can be drawn on if and when

4 supplemental cash is needed. I am is currently negotiating terms with these

5 potential lenders and plans to file a motion soon seeking authority to set up a line of

6 credit. I also believe it will be prudent to reevaluate the portfolio after about 3 years

7 (and periodically thereafter) to determine whether holding the remaining Policies

8 until their maturities is still the best course of action or if selling some or all of the

9 portfolio at that time would yield a greater total recovery.

10 **F. <u>Proposed Surrender or Sale of Negative Value Policies</u>**

11 23. Based on the LE Reports and premium optimization schedules provided

12 by 21st, and after consultation with 21st, I believe the premiums required to

13 maintain 34 of the Policies (the Negative Value Policies) are likely to exceed the

14 death benefits when the Policies mature. This is primarily due to the longer life

15 expectancies of the insureds, but in some cases is also due to the likelihood that the

16 insureds may live beyond the term of the Negative Value Policies and there would

17 be no death benefit at all.

18 24. 21st has advised that, despite the projected lack of value of these

19 Negative Value Policies to the receivership estate, some third parties may still be

20 interested in buying them, albeit for deeply discounted amounts. At my request,

21 21st is contacting its network of buyers to assess the level of interest. If there are

22 buyers willing to pay more for one or more Negative Value Policies than I can

23 recover from surrendering them to the insurers, then I will sell those Policies. I will

24 then surrender the remaining policies for their cash value. 21st estimates that

25 disposing of the 34 Negative Value Policies in this manner will generate

26 approximately $800,000 for the receivership estate.

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1   25.   Currently, the total death benefits for all Policies in the portfolio are

2   $234,290,335. Once the 34 Negative Value Policies are sold or surrendered, the

3   total death benefits will be $165,746,845.

4   I declare under penalty of perjury under the laws of the State of California

5   that the foregoing is true and correct.

6   Executed this 15th day of November 2018, at San Diego, California.

7

8   THOMAS C. HEBRANK

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EXHIBIT A

PWCG Trust: Cashflow Analysis Update

CLEARLIFE

Disclaimer

The content of this report has been prepared by ClearLife ("us") for the use of ITM TwentyFirst, LLC ("you"), with the understanding that it will be shared with Thomas C. Hebrank, in his capacity as permanent Receiver for the PWCG Trust (in such capacity, the "Receiver") and filed with the Court by the Receiver if he determines such filing to be necessary. Otherwise, this report must not be disclosed to any other party without our prior written consent. In preparing this report, we have assumed that all data provided to us by you, upon which our work has been based, is complete and accurate. This report does not make any recommendations as to the purchase, sale or retention of any securities, nor does it provide advice as to any investment decision. Capitalised terms used and not otherwise defined herein have the same meaning as they do when used in the context of ClariNet LS ("ClariNet"), ClearLife's business management platform for life settlements.

Update

We provided you with a draft of an earlier version of this report on October 16, 2018, which was amended and reissued to you (following your comments) on October 17, 2018. On October 18, 2018, you published a white paper outlining changes made in your 2018 Mortality Tables. On October 23, 2018, you supplied us with a set of updated life expectancy reports (determined based on your 2018 Mortality Tables and updated underwriting procedures). The average extension to the mean LEs in those updated reports is approximately 18%. Figures set out in this report have been determined using those updated life expectancy reports and will therefore differ significantly from the figures in the original report.

Scope of Work

- We understand that you have been engaged by the Receiver to perform servicing and other functions with respect to a portfolio of life settlements (the "Portfolio").
- As of October 10, 2018, the Receiver had approximately $8 million in cash (the "Cash Reserve") available to maintain the Portfolio until maturity. Maintenance costs include premium payments and servicing costs, which are paid to you. Servicing costs equal $81.25 per month per policy (paid monthly).
- You have asked us to consider whether a Cash Reserve of $8 million is sufficient to maintain the Portfolio until maturity and, if not, to consider possible courses of action for the Receiver.
- You have provided us with basic data on the policies in the Portfolio, including Premium Schedules, maturity dates, life expectancy reports and cash surrender values (CSV).

Methodology

In order to assess the probability that a given Cash Reserve will carry a Portfolio to maturity, we ran it through the Monte Carlo model included in the Portfolio Management module of ClariNet LS. This process randomises the time to death for each Policy in the Portfolio (with the distribution of outcomes determined by the life expectancy report for each surviving Insured). Insureds that are referenced by more than one Policy are linked in ClariNet LS to ensure consistency of results. The results of the Monte Carlo model include a distribution analysis, which includes an assessment of the Cash Reserve required to maintain the Portfolio in each simulation[1]. We consider the mean and 95% confidence interval values from this distribution in our commentary below. We also report on the net present value ("NPV") of the Portfolio.

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[1] The calculation of the Cash Reserve for each simulation takes into account both premium payments and servicing fees.

PWCG Trust: Cashflow Analysis Update

CLEARLIFE

Results Summary

	Starting Portfolio	After Surrender/Sale
Portfolio Face Amount	$234,290,335	$165,746,845
Portfolio NPV (Probabilistic)[2]	$27,249,167	$36,443,288
Portfolio NPV (Monte Carlo)	$27,295,579	$36,490,695
Cash Reserve (Mean)[3]	$16,341,875	$8,097,937
Cash Reserve (95%)	$28,560,530	$14,951,447
Cash Reserve Month (Mean)[4]	31	21
Cash Reserve Month (95%)	66	41

The value date used for these calculations (both probabilistic and Monte Carlo) is March 31, 2019 (so the Cash Reserve Month is expressed by reference to that date, not by reference to today). This was selected based on discussions with the Receiver to allow sufficient time for the Portfolio to be prepared for sale and for the necessary court proceedings to be completed. NPVs in this table are determined at an annualized discount rate of 12%. The Starting Portfolio includes a number of Policies which have negative NPV. This drags down the value of the Portfolio as a whole and increases the Cash Reserve requirements, such that both the mean and the 95% confidence interval are significantly above the Receiver's holding of $8 million[5]. In order to reduce the Cash Reserve, we considered the impact of surrendering/selling those Policies with a negative NPV. We also considered the possibility of obtaining financing to enhance the availability of cash to pay the expenses associated with maintaining the Portfolio to maturity, based on holding the Portfolio after those surrenders/sales.

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[2] Differences between probabilistic values and Monte Carlo values will arise naturally, as a function of the number of simulations and the Portfolio characteristics.

[3] The Cash Reserve is the amount of cash required to maintain the Portfolio in force until maturity. The calculation of the Cash Reserve takes into account only the payment of premiums and servicing fees and assumes that no interest is credited on the cash amount.

[4] The Cash Reserve Month is the month in which the peak amount of cash reserve required falls (after Value Date).

[5] As at October 10, 2018 – on any view the Cash Reserve as at March 31, 2019 will be significantly lower than $8 million.

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PWCG Trust: Cashflow Analysis Update

Starting Portfolio

Portfolio: PWCG Portfolio

| Summary | Composition | Policy Information | Insured Information | Lapse Risk Analysis |

Summary ✏️

Portfolio Name   PWCG Portfolio
Folder Name

Status	Total Lives (Surviving/Deceased)	Unique Lives (Surviving/Deceased)	Total Face	Number of Policies
	161 (161/0)	132 (132/0)	234,290,335	114
Total	161 (161/0)	132 (132/0)	$234,290,335	114

	Min	Avg	Max
Face Amount ($)	250,000	2,055,178	10,000,000
Attained Age (years)	80	89	100
Insured Life Expectancy (months)	19	77	163
Policy Joint Life Expectancy (months)	32	89	196

After Surrender/Sale

Portfolio: PWCG Portfolio (exc SURR/SELL) New LEs

| Summary | Composition | Policy Information | Insured Information | Lapse Risk Analysis |

Summary ✏️

Portfolio Name   PWCG Portfolio (exc SURR/SELL) New LEs
Folder Name

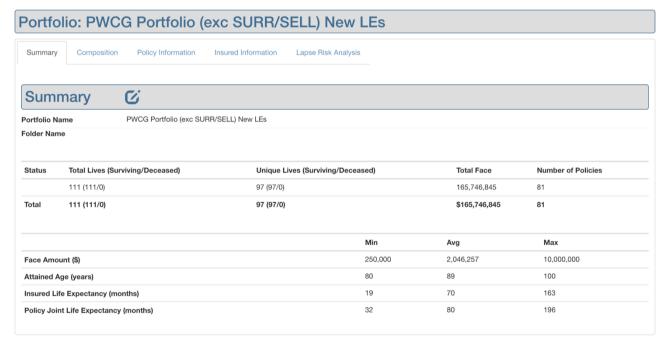| Status	Total Lives (Surviving/Deceased)	Unique Lives (Surviving/Deceased)	Total Face	Number of Policies
	111 (111/0)	97 (97/0)	165,746,845	81
Total	111 (111/0)	97 (97/0)	$165,746,845	81

	Min	Avg	Max
Face Amount ($)	250,000	2,046,257	10,000,000
Attained Age (years)	80	89	100
Insured Life Expectancy (months)	19	70	163
Policy Joint Life Expectancy (months)	32	80	196

Our valuation of the Portfolio found 33 Policies with a negative NPV. Where those Policies have a positive CSV, we assume that they are surrendered or sold to third parties (at a price equal to the CSV), with the CSV being taken into the Cash Reserve. This process increases the Cash Reserve by just over $806,000 (note that this assumes that the surrender is undertaken as soon as possible, otherwise it is likely that the surrender value of each Policy will decline as it is used to fund monthly deductions). It also has a beneficial effect on the Portfolio NPV (which increases by $9.19 million) and on the mean and 95% required Cash Reserve, which drop to US$8.09 million and $14.95 million respectively. However, the Cash Reserve calculation only

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PWCG Trust: Cashflow Analysis Update

incorporates cashflows arising from the assets themselves, so we need to incorporate the other costs of managing the Portfolio in our assessment.

Surrender Timing

We understand that the Cash Reserve is being drawn upon to meet premium payments as and when required. Based on the figures you have provided to us, the premiums due between December 2018 and March 2019 total approximately $3.07 million. Were all of the negative value Policies to be surrendered today, that premium load declines to $1.99 million. It appears to be in the Receiver's best interest to consider the surrender/sale of these negative value Policies as quickly as possible.

Questions

If all policies other than negative NPV policies are held until their maturities, how does the projected total cash available for distribution at the end (i.e. when the last policy matures) compare to the projected cash available for distribution if all policies are sold in the short term (i.e. within the next 4-5 months)?

If the Portfolio were to be sold at the end of March 2019 "as is", it would net approximately $27.25 million (assuming it sold at the 12% discounted probabilistic NPV outlined for the Starting Portfolio in the table above). However, if the Receiver were first to surrender policies, the NPV of the Portfolio increases to $36.44 million. Together with the balance of the Cash Reserve, if any, this can be made available for distribution to investors[6].

Holding the Portfolio to maturity will involve costs which are not factored into the Portfolio NPV calculations, such as the fees of the Receiver and ongoing management costs for the Portfolio which are not otherwise covered by the servicing fees (e.g., ordering updated medical records and life expectancy reports). During our conversation with the Receiver on October 18, 2018, we understood the Receiver to say that the yardstick for this determination is the net amount of cash received – not the timing of those cash receipts.

We assess the net cashflows on the Portfolio by building a cashflow waterfall model. The function of this model is to pass the aggregate cashflows arising from the Portfolio (i.e., the death benefit receipts, net of premium payments and servicing fees) through a waterfall and thus simulate the impact on the Cash Reserve over time. We repeat this process 1,000 times (using a different set of aggregate Portfolio cashflows on each occasion)[7] and consider the results.

- If we follow the Receiver's request precisely (and assume that no interest is earned on the Cash Reserve and that all death benefit receipts are deposited into the Cash Reserve and retained until the last Policy matures or expires), then theoretically holding the Portfolio to maturity will result in a peak Cash Reserve balance greater than $65.48 million in 90% of simulations.
- The median value for the peak Cash Reserve balance is $85.3 million.

The problem is that collecting on that $65.48 million (or more) can only be done if all the expenses of ownership can be met. In our cashflow waterfall modelling, if we start with a Cash Reserve of $8.8 million and no additional financing, the structure fails[8] a little over 54% of the time (547 failure in 1,000 simulations), with the median time to failure being 19 months from inception. This suggests that holding the Portfolio to maturity without additional financing is unlikely to succeed.

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[6] In our model, selling further Policies other than those with a negative net present value results in no change to the net amount of cash, as it is assumed that those Policies are sold for a cash amount equal to their 12% probabilistic NPV.

[7] The 1,000 simulations used in the cashflow waterfall modelling differ from the 25,000 simulations used to determine the Monte Carlo values in the Results Summary table. 1,000 simulations has been used to speed up the calculation process in the waterfall.

[8] "Fails" in this context means that the Cash Reserve drops below zero (i.e., the liquidity facility is fully drawn or it has terminated).

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PWCG Trust: Cashflow Analysis Update

It appears $8.8 million may not be a sufficient Cash Reserve to maintain the policies until their maturities (not including the policies with negative NPV, which will likely be surrendered or sold). If we were to obtain a credit facility to supplement the Cash Reserve, what amount should be obtained and how would that affect the net cash available for distribution when the last policy matures?

We incorporate into our cashflow waterfall model a liquidity facility from inception, which can be drawn upon to pay premiums, servicing fees and the Receiver's fees. We make the following assumptions:

- No interest is earned on the Cash Reserve;
- All cashflows are credited to/debited from the Cash Reserve;
- The Cash Reserve opening balance is $8.8 million;
- The liquidity facility can be drawn upon to meet expenses as soon as the Cash Reserve hits $500,000. All amounts drawn from the liquidity facility are credited to the Cash Reserve;
- Interest and undrawn fees associated with the facility can be capitalised if there is insufficient Cash Reserve to pay them when due;
- Cash in excess of $500,000 in the Cash Reserve is used to repay the liquidity facility;
- The liquidity facility can be drawn for up to six years but must be repaid in full at the end of that period;
- The liquidity facility carries an undrawn fee of 0.50% per annum and charges interest at 7.00% on the drawn amount;
- The liquidity facility limit is set at $10,000,000;
- No distributions are made to investors at any point prior to the maturity/expiration of the last policy in the Portfolio;
- The only expense incurred "outside" the Portfolio is the Receiver's fees. We have divided the annual Receiver's fees by 12 to produce a monthly fee; and
- The Receiver's monthly fee ceases to be earned as of the month in which the last cashflow occurs in the Portfolio (i.e., the Portfolio is wound up at this point).

We run the same 1,000 simulations through our cashflow waterfall model and find that:

- 90% of simulations result in a peak Cash Reserve balance of at least $64.96 million;
- The median peak Cash Reserve balance is $84.8 million; and
- The structure fails 56 times in 1,000 simulations.

Assuming that investors are indifferent to the time value of money and are comfortable with a risk of failure below 10%, it would seem reasonable to conclude that the absolute amount of cash available for distribution to investors will be greater if the Portfolio is held to maturity (with the aid of a liquidity facility) rather than sold now. As a guide, the median month in which the peak Cash Reserve balance occurs is October 2035 and 90% of peak Cash Reserve balances occur prior to August 2039.

Scaling the Liquidity Facility

We have outlined an interest rate, undrawn fee, term and size for the liquidity facility in our comments above. We based these values on conversations with prospective lenders (as to the drawn interest rate and the undrawn fee) and on the results derived from our cashflow waterfall model. We targeted an approximate 5% failure rate on the structure, hence seeing 56 out of 1,000 simulations resulting in a failure. Targeting a 0% failure rate would, in our view, be too conservative, given the nature of the underlying asset risk.

- **Interest Rate**: This has been set at 7.00% in the model. Verbal quotes from prospective lenders have ranged from 6.25% to 12%. As proposed, the failure rate of the structure is relatively insensitive to the interest rate – increasing it to 10.00% only increases the failure rate from 56 to 57 in our 1,000 simulations.

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PWCG Trust: Cashflow Analysis Update

- **Undrawn Fee**: This ranges from zero to 0.75% in verbal quotes. The failure rate is similarly insensitive to a change in the fee; running it at 1.00% annually has the same impact as the interest rate shift to 10%.
- **Term**: Shortening the term from six to five years increases the failure rate to 76 out of 1,000. Increasing the term from six to seven years reduces it to 47. We have indicated a term of five years in our conversations with prospective lenders; some may prefer to execute a renewable shorter-term deal (e.g., three years).
- **Size**: Reducing the facility size to $9 million increases the failure rate to 71. Increasing the facility size to $11 million reduces the failure rate to 46.
- **Cash Reserve Opening Balance**: Clearly, if the starting balance of the Cash Reserve is lower than $8.8 million, the facility size will have to increase disproportionately. For example, if the opening balance is set at $7 million, the facility size has to increase to $13 million to match the base failure rate of 56. The reason that this is not a $1-for-$1 increase is that the larger facility size attracts a higher undrawn fee and higher interest, which needs to be funded from the facility.

The Time Value of Money

We felt it would be sensible to acknowledge that most investors do consider the time value of money when making an investment and to that end we have considered the NPV which might be assigned to the investors' interest, in the event that distributions were made over time from the Cash Reserve. As most investors do not have an infinite time horizon on their investments, we have used the following time-limited structure:

- Start date April 1, 2019;
- Assume that the Portfolio has not changed in composition, other than that the negative value Policies identified above have been sold/surrendered, so there have been no further deaths;
- Assume a starting Cash Reserve balance of $6,000,000 (to allow for premium payments between now and April 1, 2019);
- Assume that a liquidity facility of $10 million in size is executed, charging 6.00% annually on the drawn balance and 0.50% on the undrawn balance with a six-year facility end/maturity;
- The investors collect all excess cash (i.e., after paying receiver's fees, interest and principal on the liquidity facility) as and when it arises for the first ten years; and
- After ten years, the remaining Policies in the Portfolio are sold at a price implied by a discount rate of 15.00%.

We note that this structure carries a failure rate of 56 out of 1,000 simulations (when run through our cashflow waterfall model).

Imagine asking investors the following question at the end of March 2019: "Would you prefer to receive $36.44 million today or to receive a higher amount in April 2029?". How would rational investors respond? One might imagine that they would prefer to receive a higher amount of money, assuming that the increase in risk is matched by an increased return. If our "risk free" benchmark is investing the $36.44 million in US Treasuries at say 3.00% per annum, then the investors might expect an annualized return of 6.00% or more for the increased risk of holding the investment for a further ten years. In order to compare apples with apples, we consider the present value of that ten-year holding at 6%, 7% and 8% discount rates:

Discount Rate	90th Percentile	Median	Maximum
6.00%	$30,075,458	$48,104,012	$76,740,807
7.00%	$27,598,743	$44,634,042	$73,034,060
8.00%	$25,422,144	$41,514,934	$69,584,946

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PWCG Trust: Cashflow Analysis Update

Comparing the median present value at each of these discount rates, we find that it is higher than $36.44 million. While there is downside risk to the ten-year structure (as can be seen from a failure rate of 56 in 1,000 simulations, and a 90th percentile present value of between $25.42 and $30.07 million), there is also upside potential as well. Assuming that a suitable liquidity facility can be originated, the risk/return profile of the ten-year holding structure outlined above would appear to compare favourably with a sale of the Portfolio.

Conclusion

- The recent changes in your mortality tables and underwriting criteria have significantly depressed the modelled NPV of the Portfolio. The impact of those changes is just starting to be felt in the broader life settlements market. It seems clear that – absent the injection of a liquidity facility – any possibility of keeping the Portfolio running will require the surrender/lapse of negative NPV Policies and the raising of further finance.

- With the change in the life expectancy profile of the Portfolio following on from your mortality table/underwriting changes, the "sell vs hold" decision has become more complex. The market value of the Portfolio has reduced significantly, and it is difficult to see this as anything other than a permanent reduction.

- It appears that holding the Portfolio for a shorter period than full term may provide a better risk/return profile for investors than holding it for the duration, based on the analysis of the ten-year structure set out above.

- Note that that $36.44 million value is sensitive to the discount rate at which the Portfolio is sold; if bids are received at a higher discount rate, the value recognized on sale will be lower still.

- You should bear in mind that the sale of Policies is likely to require a recent Policy illustration and updated cash account values; furthermore, it may also be sensible to obtain new LE reports from another life expectancy provider, to widen marketability of the Portfolio.

- Should you wish to pursue financing or the ten-year structure outlined above, it would be sensible to carry out a more complex cashflow waterfall analysis, in order to size the liquidity facility more accurately and consider the effect on returns to investors.

Assumptions

- We have used probabilistic and stochastic valuation models developed by us. Results from our valuation models may differ from those developed by other parties.

- Values shown in the commentary are approximate values, rounded to the nearest US$10,000.

- Except where otherwise noted, we used November 9, 2018 as our value date for the analysis. This was selected because the latest underwriting date on any insured is November 3, 2018.

- We have not conducted any independent verification of the data provided by you to us. In particular, we have not tested the validity of the premium schedules (i.e., whether they will carry the Policies to maturity).

- We have not stressed the life expectancy data provided by you to us. By its nature, the process of determining a life expectancy relies upon the insured life performing in accordance with the average of a large number of individual lives. There can be no guarantee that any one individual's mortality/morbidity will progress in accordance with a specific life expectancy report.

- Because of the large volume of data generated by the Monte Carlo process, for the purpose of calculation we assumed that all cashflows which occur in a single calendar month are "bucketed" on the first day of that month. In practice, cashflows will be distributed unevenly across a calendar

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PWCG Trust: Cashflow Analysis Update

month. This will lead to some variation in the performance of a Portfolio as against our models but we assess this as not material in light of the long term nature of the cashflows.

- We have made no qualitative assessment of any of the Policies. Values achieved on sale can be affected by factors other than life expectancy and cashflows; for example, if a Policy was originated in a manner which may compromise the existence of insurable interest at issue, it is likely to sell for a much lower price than an equivalent policy for which insurable interest existed at issue.

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EXHIBIT B

PWCG Trust
Policies to Sell or Surrender

Client Policy ID	21 Policy ID	Carrier		Face Value
FISHR3382	30670	John Hancock Life Insurance Company (USA)	$	4,000,000.00
FISHR7982	30671	John Hancock Life Insurance Company (USA)	$	1,500,000.00
FISHS7974	30672	John Hancock Life Insurance Company (USA)	$	1,500,000.00
DYKET831	30666	Lincoln National Life Insurance Company	$	850,000.00
AZZAB024	30646	Hartford Life and Annuity Insurance Company	$	3,000,000.00
BALLG	30647	Lincoln National Life Insurance Company	$	3,980,000.00
BERGC043	30648	Lincoln National Life Insurance Company	$	4,699,203.19
BERGC084	30649	Lincoln National Life Insurance Company	$	2,299,200.00
BERGC343	30650	Lincoln National Life Insurance Company	$	5,000,000.00
BERNH558	30652	Lincoln National Life Insurance Company	$	379,000.00
BROWE865	30657	Transamerica Life Insurance Company	$	300,000.00
CASEJ9441	30659	Transamerica Life Insurance Company	$	1,000,000.00
DILTE190	30664	C M Life Insurance Company	$	2,000,000.00
GELGR397	30679	Lincoln National Life Insurance Company	$	1,500,000.00
GELGR002	30680	Lincoln National Life Insurance Company	$	1,000,000.00
HUTTL716	30690	Jackson National Life Insurance Company	$	1,000,000.00
HUTTL726	30691	Jackson National Life Insurance Company	$	1,000,000.00
LEVIE7988	30707	Lincoln National Life Insurance Company	$	1,000,000.00
LEVIR3657	30709	AXA Equitable Life Insurance Company	$	2,000,000.00
MARAA887	30712	West Coast Life Insurance Company	$	2,000,000.00
REDIE2193	30725	Transamerica Life Insurance Company	$	2,500,000.00
RICHW588	30727	Beneficial Life Insurance Company	$	1,500,000.00
RITTR	30729	Genworth Life and Annuity Insurance Company	$	2,000,000.00
SELLS5004	30733	Voya Financial	$	3,000,000.00
RUSSJ145	30735	West Coast Life Insurance Company	$	750,000.00
SIBIC	30736	Transamerica Life Insurance Company	$	1,000,000.00
SILVS253	30740	Lincoln National Life Insurance Company	$	1,691,718.00
EHRLID152U	30668	Columbus Life Insurance Company	$	1,000,000.00
ANDEF6802	30642	New York Life Insurance and Annuity Corporation	$	4,166,666.00
ANDEF6747	30643	New York Life Insurance and Annuity Corporation	$	4,166,666.00
ANDEF6799	30644	New York Life Insurance and Annuity Corporation	$	4,166,666.00
GREEM4441	30685	West Coast Life Insurance Company	$	1,000,000.00
LARSJ5690	30704	West Coast Life Insurance Company	$	1,000,000.00
MARKA4500	30714	North American Company for Life and Health Insurance	$	500,000.00
			$	68,449,119.19 ***

*** The Portfolio Face Amount listed on Page 2 of the ClearLife report reflects a slightly larger difference between the Starting Portfolio and After Surrender/Sale amounts. This is due to small variations in the face amounts of policies, likely due to withdrawals out of certain policies.

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