22 YEARS OPALESQUE

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Rediscovering True Alternatives in Overcrowded Markets

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A Return to First Principles in Alternative and Private Market Investing

The term *"alternatives"* is used so liberally that it has lost much of its original meaning today. When "alternative" investments have become increasingly mainstream and correlated with traditional markets, investors face a pressing challenge: finding genuine portfolio diversification, backed by a strategy that can make money even in poor market conditions and economic headwinds.

Many Private Markets have failed to justify their illiquidity risk. Tony Bremness, a seasoned specialist in longevity-linked assets, argues that most private markets no longer deliver on their fundamental promises - and that sophisticated investors need to reassess their alternatives allocation through a more rigorous lens. To reap their benefits, one must go back to basics:

What Makes an Investment "Alternative"?

According to Bremness, , the original case for alternatives rested on three pillars:

- **Portfolio Diversification —** uncorrelated return streams that are insulated from traditional drivers such as interest rates, equity market cycles, or economic downturns.
- **Attractive Risk–Return Profiles —** performance evaluated not only on returns, but also on volatility and other qualitative risk metrics.
- **Unique Opportunities/First Mover Advantage —** early exposure to markets and assets not accessible through conventional equity, credit, or fixed income channels.

However, over time, many so-called alternatives have migrated toward the mainstream, sacrificing uncorrelated performance for asset growth. In some cases, this shift has left investors with highly correlated, often illiquid, risk exposures.

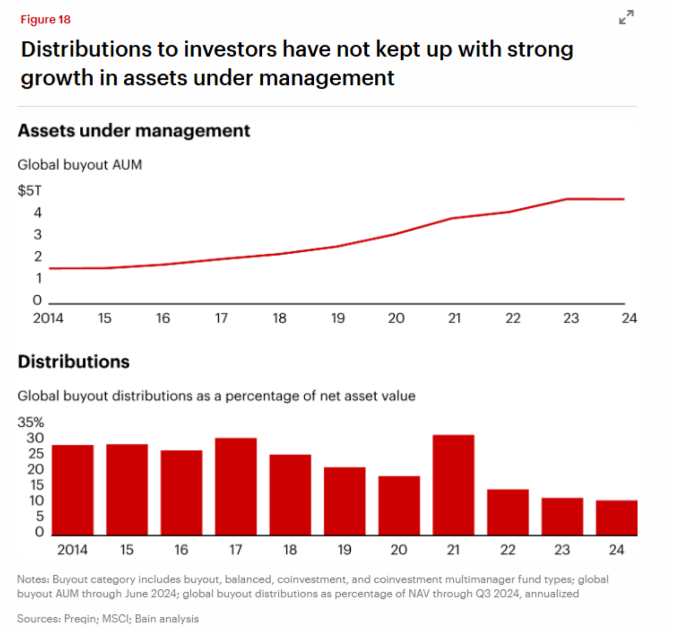
"An alternative is a term that's being misused in a lot of situations," Bremness observes. His point resonates particularly strongly in today's market environment, where daily investment reports reduce complex portfolio decisions to binary "risk-on" or "risk-off" days, and where supposedly alternative strategies like crypto, trend-following, and global macro have become "just part of the crowd."

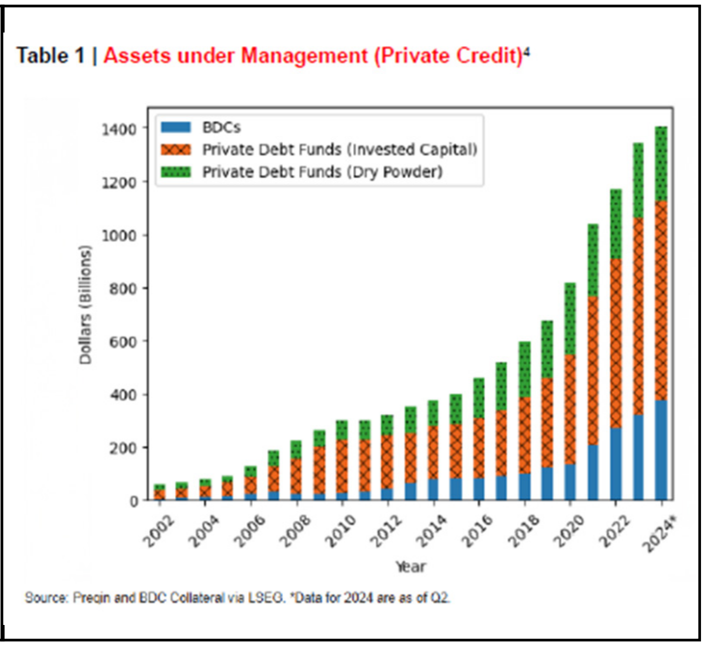
The Illiquidity Premium Paradox and the Capital Tsunami

The theoretical foundation for private market investing rests on a simple premise: investors should receive higher returns for accepting reduced liquidity. This illiquidity premium represents compensation for the opportunity cost and risk of having capital locked up for extended periods. Yet recent market dynamics suggest this premium has evaporated in many traditional private market sectors.

Consider private equity's current predicament. Despite public equity markets trading at record highs—theoretically the ideal exit environment - private equity funds are struggling to realize investments. The emergence of "continuation vehicles" (CVs), and even more concerning, "CV squared" structures that extend holding periods by another five to seven years, signals a fundamental breakdown in the liquidity promise of private equity. As Bremness pointedly asks: "If you can't sell your company when company prices - i.e. the stock market - are at record highs, when the heck are you gonna sell it?"

The situation in private credit appears equally troubling. Rising default rates and the increasing prevalence of payment-in-kind (PIK) arrangements—where borrowers pay interest with additional debt rather than cash—suggest that the sector's rapid growth has come at the cost of underwriting discipline. Both phenomena reflect what Bremness describes as a "tsunami of capital" that flooded these markets over the past five years, creating what he terms a mathematical dilution of quality: "When capital pours into an asset class at that rate, quality inevitably suffers. It's mathematical."





The Correlation Conundrum

Beyond the erosion of illiquidity premiums, many alternative strategies have failed to maintain their most valuable characteristic: non-correlation with traditional markets. The proliferation of strategies that move in lockstep with equity and credit markets defeats the primary purpose of alternative allocations—portfolio diversification.

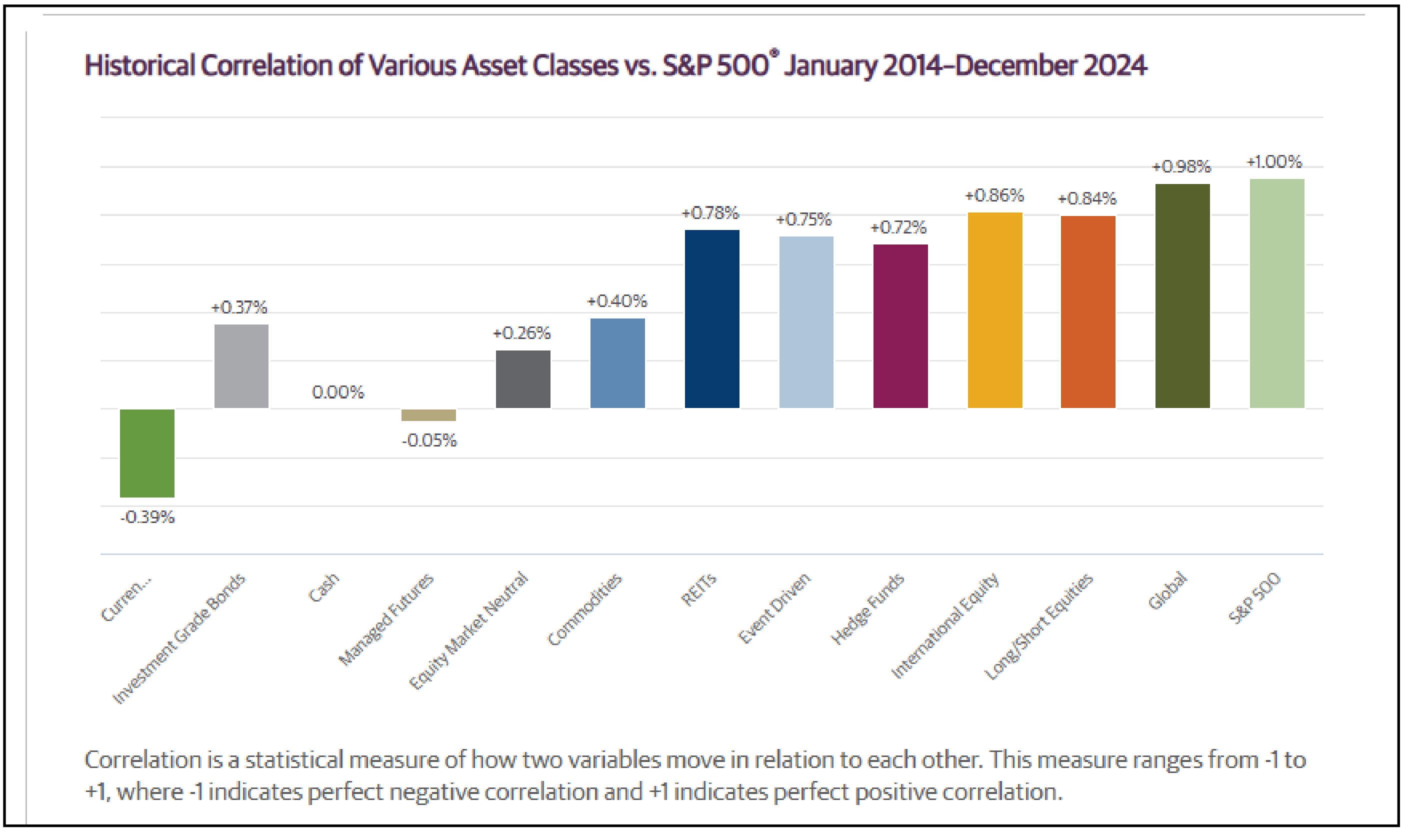
This correlation creep has been particularly pronounced among liquid alternatives and hedge fund strategies that were originally designed to provide differentiated return streams. When tech equities, Bitcoin, and various "alternative" strategies all move in the same direction on "risk-on" days, investors must question whether they're achieving genuine diversification or merely adding leveraged beta exposure with higher fees.

Understanding asset correlation

Asset	Correlation with S&P 500	Data source
Real Estate	0.9636	VGSLX
Sports Cards	0.9483	PWCC 500
Robo Advisors	0.9345	MoneyMade Robo Advisor Index
Bitcoin	0.9175	BTC
Ethereum	0.9124	ETH
Cardano	0.8849	ADA
Farmland	0.8540	USDA
Dogecoin	0.8338	DOGE
Ripple	0.7738	XRP
Solana	0.7709	SOL
Silver	0.7612	SLV
Wine	0.7375	Liv-ex 100
Gold	0.6829	IAU
Platinum	0.6817	PPLT
Crude Oil	0.6406	DBO
Bonds	-0.3380	Treasury Yield Rates
Art	-0.6350	Artprice Global Index

Source: MoneyMade "Diversifying outside of Stocks…" by Liz Aldrich 13 April 2022

Guggenheim: Asset Class Historical Correlations



Source: Guggenheim Investments

The situation is likely to become worse in any bear market: multiple studies have shown that most popular “uncorrelated” asset classes become even more correlated in bear markets.

Life Settlements: An Authentic Alternative

Against this backdrop, life settlements emerge as one of the few remaining asset classes that delivers on the original promises of both alternative investments and private markets. The asset class offers several compelling characteristics that distinguish it from the broader alternatives landscape:

True Non-Correlation: Life settlement returns are driven by mortality and longevity risk - factors that have no relationship to equity valuations, interest rate movements, credit cycles, or economic turbulence. This isn’t theoretical – another promised non-correlation that breaks down during market stress - it’s structural: based on actuarial and medical science rather than market dynamics.

Self-Liquidating Structure: Unlike private equity, which requires finding buyers at exit, life settlements naturally liquidate as policies mature. This eliminates most of the exit risk that has plagued private equity investors, particularly in recent years. With closed-end fund structures, capital begins returning to investors as early as year three, with most capital typically returned by years five or six. Investors’ capital is at risk for a much shorter period of time.

Minimal Credit Risk: With most insurance companies rated A or better and significant defaults occurring about once every three or four decades, the credit profile of life settlements stands in stark contrast to private credit’s rising default rates. Regulatory oversight provides advance warning for any potential credit deterioration, allowing managers to take protective action.

Genuine Illiquidity Premium: Perhaps most importantly, life settlements currently offer an authentic illiquidity premium. Bremness notes that transaction prices in the sector are down approximately 30% from two years ago, as capital has been exiting rather than entering the asset class. This capital outflow - the opposite of what’s occurred in private equity and credit—has created more attractive entry points for sophisticated investors.

The Investment Proposition

For institutional investors, the life settlement value proposition centers on achieving 8-12% net IRRs with genuine non-correlation. Lewis and Ellis, a leading actuarial firm, has validated these projections through over 1,000 stochastic simulations incorporating current market conditions and historical manager track records. This translates to approximately 1.6x to 1.7x invested capital over a seven-to-nine-year period.

Critically, this return profile comes without the extending time horizons that have frustrated private equity investors. The closed-end fund structure Bremness describes pays out profits rather than reinvesting them, ensuring that the investment timeline remains predictable and that investors begin receiving distributions relatively early in the fund's life.

Identifying the Right Investors

Life settlements aren't suitable for every institutional portfolio. The asset class demands a genuinely long-term investment horizon—ideally seven to nine years—and investors who place value on portfolio diversification. These characteristics naturally align with certain institutional investor types:

Endowments and Foundations often have perpetual time horizons and sophisticated approaches to portfolio construction that can accommodate and benefit from truly uncorrelated return streams.

Pension Plans, with their long-dated liabilities and need for predictable cash flows, may find the self-liquidating nature of life settlements particularly attractive, especially given the asset class's immunity to market volatility.

Family Offices investing for multiple generations can utilize life settlements to diversify away from concentrated business risks, venture capital exposure, and direct business investments that may dominate their portfolios.

A Strategic Inflection Point

The current market environment may represent a particularly opportune entry point for life settlements allocation. While traditional private markets grapple with exit challenges, rising defaults, and the consequences of excessive capital inflows, life settlements offer the inverse dynamic: improving pricing power due to capital outflows, structural non-correlation that has been tested across multiple market cycles, and a self-liquidating mechanism that significantly reduces exit risk.

For institutional investors concerned about equity valuations, fixed income volatility, and the correlation of their alternatives portfolio, life settlements provide a compelling solution. As Bremness notes, "If they agree with our analysis that the markets are increasingly a dangerous place... then it is time to consider diversification because it will be needed in the future."

Conclusion: Reclaiming the Benefits of Alternative and Private Markets

The institutionalization of alternative investments has, paradoxically, eliminated many of the characteristics that made them attractive in the first place. As private equity struggles with exits, private credit faces rising defaults, and liquid alternatives correlate increasingly with public markets, institutional investors must look beyond conventional alternatives for the required portfolio diversification.

Life settlements represent more than just another alternative asset class; they offer a return to the fundamental principles that originally drove institutional capital toward alternatives. With demonstrated non-correlation, predictable liquidation schedules, minimal credit risk, and currently attractive entry points, the asset class provides sophisticated investors with an opportunity to capture the illiquidity premium that has become elusive in more crowded private markets.

For institutions willing to embrace genuinely long-term, uncorrelated strategies, life settlements offer something increasingly rare in modern markets: an alternative investment that actually provides an alternative source of returns. In a world where most "alternatives" have morphed into mainstream correlated assets, that distinction has never been more valuable.

This article is based on an interview with Tony Bremness, a veteran manager in the life settlements sector, conducted in August 2025. The views expressed are those of the interview subject and should not be construed as investment advice. Prospective investors should conduct their own due diligence and consult with qualified advisors before making investment decisions.

Upcoming webinar:

INVESTOR WORKSHOP & STRATEGY DEEP DIVE: How Life Settlements Turn Illiquidity into Alpha

Join Tony Bremness, CFA and Khadija Benlhassan, PhD at the upcoming live and interactive STRATEGY DEEP DIVE "How Life Settlements Turn Illiquidity into Alpha" on Thursday, October 9th 11 am ET(4pm GMT, 5pm CET, 6pm Riyadh, 7pm Dubai, 8:30pm Delhi).

Free registration: www.opalesque.com/webinar/