

TO: ABC Health System, Board of Directors Executive Committee

CC: Capaxa LLC LifeNotes Fund I

RE: Life Insurance Pooling Proposal

LifeNotes Pooling Proposal

Current Situation	Proposed LifeNotes Fund I Investment
<p>Cash on Hand/Days Cash/Cash Reserves</p> <ul style="list-style-type: none"> Cash Value: \$50,000,000 Historical Low Point: \$25,000,000 Yield: 0% <p>Considerations</p> <ul style="list-style-type: none"> Fully Liquid Can't Lose Value Uses... <ul style="list-style-type: none"> 1) for expected demand to pay employees and vendors in cash. 2) For emergencies and unexpected purchases. <p>Overall</p> <ul style="list-style-type: none"> Days cash on hand is an important measure of hospital liquidity. An organization needs a certain amount to meet the requirement of lenders, rating agencies and others. But if DCOH is too high, the impact on hospital finances could be detrimental, as cash is not deployed to areas of the business generating higher returns. 	<p>Certificate Value:</p> <ul style="list-style-type: none"> Cash Value on Transaction Date Par Value as of Effective Date <p>Recommendation</p> <ul style="list-style-type: none"> Re-deploy 50% of historical low <ul style="list-style-type: none"> \$12,500,000 <p>Steps</p> <ul style="list-style-type: none"> Fund new H-COLI Move H-COLI into Pool <p>LifeNotes Participation Certificate Class PY15:</p> <ul style="list-style-type: none"> Participation Rate: SOFR30¹ + 360bps Duration: 15-Year Target September 2022 Annualized Yield: 6.07% Securitized Spread from pooled mortality <p>Overall</p> <ul style="list-style-type: none"> \$37,500,000 kept in cash yielding 0% \$12,500,000 moved to pool now yielding 6%+ \$50,000,000 w/ average yield = 1.5%
<p>Pooling Result:</p> <ul style="list-style-type: none"> Cash Value: \$50 M (\$12.5 M in consideration) Yield: Net increase from 0% to SOFR30 + 360 bps adjusted monthly on the final business day of the month: 6.07% APY as of September 30th Hypothetical Net Income Increase: +\$63,229 for September 2023 (\$63,229 vs \$0) 	

¹ Secure Overnight Funds Rate 30-day moving average as published daily by the NY Federal Reserve Bank as of September 20, 2022 (2.47%)

Pooling Result (cont.):

- **Est. Concentration on Transaction Date:**
 - MassMutual: 25%
 - Guardian: 25%
 - New York Life: 20%
 - Northwestern Mutual: 10%
 - Penn Mutual: 10%
 - Minnesota Life: 10%

Trust Pooled Life Insurance

Most Healthcare Organizations are required to have a certain amount of Days Cash on Hand/Cash Reserves to ensure liquidity needs are always being considered. That said, even in a rising interest rate environment, most of these funds are earning close to 0%, which can become a detriment to the hospital's financials, as cash is not being deployed to areas of the business that can generate higher yields and/or provide direct value to the organization's day-to-day objectives.

Capaxa LLC is a grantor trust backed by life insurance based assets, that allows Healthcare Organizations to better deploy a portion of their Days Cash on Hand/Cash Reserves. Similar to cash, the Participation Pool is fully liquid at all times, with the added benefit of always providing a positive yield (Guaranteed Minimum Yield = 360 BP). This is achieved by...

- 1) Funding New Healthcare COLI Policies.
 - As long as we can get at least 10 insureds, this will be done as Guaranteed Issue, and will not require any sort of Medical Underwriting
- 2) Move Said COLI Policies into the Participation Pool
 - Policy Assets being added to a Trust Fund Pool ("LifeNotes Fund I") at Cash Surrender Value in exchange for the same dollar par value issued back to the Healthcare Organization as a participation certificate evidencing undivided beneficial security interest in the asset values and payments from the entire pool of assets (pool size is over \$500,000,000).

Conclusion

Existing Days Cash on Hand/Cash Reserves can be converted to Healthcare COLI, and then added to the pool, with any key-person or personal death benefit retained for beneficiaries (if applicable). This will result in the current yield of close to 0%, increasing to 6% or more (based on death claims timing and as a floating rate of SOFR30 + 360bps with 15-year target duration), without negatively impacting the required liquidity needs.

As this concept raises questions, please reach out to schedule a time to walk through any concerns. Thank you for your continued trust in our expertise in executive retention and yield strategy programs.