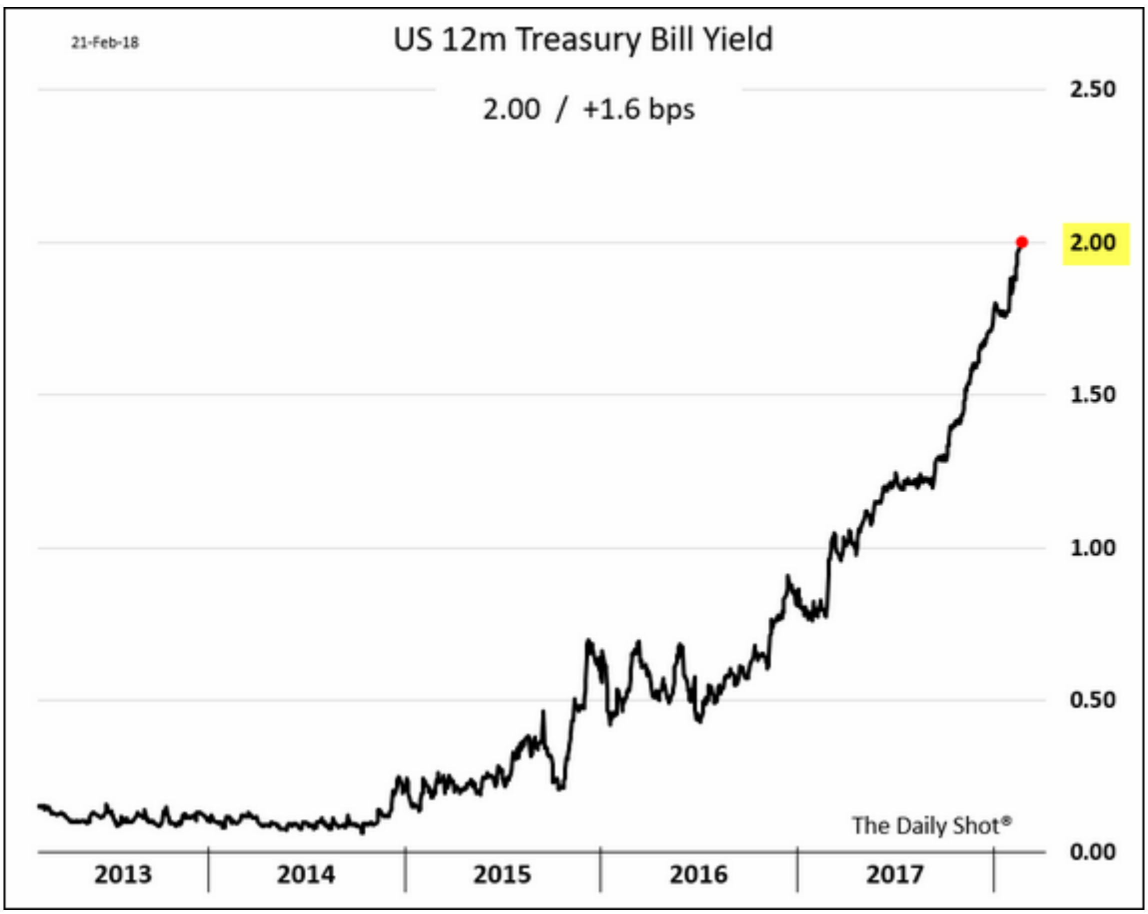
ARX
MANAGEMENT, LLC

WHY YOU SHOULD CARE ABOUT THE QSF AGAIN

Several decades in the future, investors will view newly installed Federal Reserve Chairman Jerome Powell's tenure as the beginning of the first secular bear market for bonds since 1962. He has inherited the unenviable task of leading the Fed's attempt to execute a soft landing after the most prolific money printing operation in world history, and will carry this out primarily by raising short-term interest rates.

Why should you care? Because with higher interest rates, the Qualified Settlement Fund is once again an important moneymaking vehicle for you and your clients.



Source: The Wall Street Journal

As the chart above shows, the yield on the 1-Year U.S. Treasury Bill has eclipsed 2% for the first time since the depths of the Financial Crisis in 2008. Minutes from the last Fed meeting indicate the Policy Committee's intention to raise interest rates 3 to 4 times over the course of 2018. ARX estimates that at least half this move is already priced in, and further rate increases will only modestly push this rate higher over the course of the year. What this means is that investors with a low appetite for risk and a short-term investment horizon, a profile that exactly fits the QSF investor, are finally being appropriately compensated. We believe the 1-2 year part of the government bond curve offers the most attractive risk-reward characteristics for QSF investors, and unlike bank deposits or CDs, the government guarantee is unlimited.*

Over the past decade, many global MDL settlement funds were placed in escrow accounts with the very institutions that caused the Financial Crisis. What's more, these QSF investors weren't paid for the risk! Government mandated deleveraging and historically cheap financing from the Fed meant the banks didn't want your deposits, so they paid (and continue to pay) virtually nothing to borrow money from even the largest depositors.

It is our view that a customized portfolio, comprised of a diversified mix of government-guaranteed securities and conservative money market instruments, offers a superior alternative to bank escrow programs. This type of QSF can be structured to:

- Meet the specific liquidity needs of each settlement.
- Earn interest to offset a significant portion of claimant post-settlement expenses.
- Generate meaningful earnings on the attorney fee portion of the QSF, as well as preserve attorney fee structuring/assignment options.
- Cover a portion of MDL/JCCP common benefit expenses through Fund earnings.
- Offer a more diversified risk profile than individual bank escrow accounts, which carry a maximum $250,000 FDIC deposit insurance limit.
- Outsource administration and claimant payment processing at no cost to your firm.

Contact ARX today at brown@arxmgmt.com or 310-546-5279 to see how we can help you.

About ARX Management:

Founded by principals with direct experience in the mass tort and institutional investment management fields, ARX offers an unmatched mix of expertise relevant to managing Qualified Settlement Funds. Prior to establishing ARX in 2011, our partners actively managed $8 billion in fixed income assets together for a large institutional asset manager. Our expertise managing conservative capital preservation products, such as money market and enhanced cash strategies, is directly applicable to the management of institutional QSFs.

** FDIC deposit insurance rate $250,000.*