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# Life Insurance Portfolio Performance Monitoring Report

Prepared for:

Valued Client  
123 Main Street  
Anytown, OH 45725

And:

John Advisor, Trustee  
Valued Client Family Irrevocable Trust  
10000 Business Road, Suite 100  
Another Town, OH 44321



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This Life Insurance Portfolio Performance Monitoring Report is not complete without all constituent pages including all notes and footnotes clarifying its proper use.

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## Executive Summary

The purpose of this Life Insurance Portfolio Performance Monitoring Report (LIPPMR) for the Valued Client Life Insurance Portfolio is to confirm policy charges are in line with expectations, to measure performance of invested assets underlying policy cash values, and to generally assess the current status of the portfolio. This LIPPMR consists of this Executive Summary, a Summary of Portfolio Holdings, a Reconciliation of Portfolio Expenses and an Asset Allocation Summary.

### Portfolio Objective

The objective of the Valued Client Life Insurance Portfolio is for the purpose of closely-held stock redemption and estate tax financing, by using policies that secure the maximum amount of permanent life insurance death benefits from insurers with 1) high ratings for financial strength and claims-paying ability, and using products offering 2) a low cost structure, 3) stable pricing, 4) good cash value liquidity, and 5) superior historical performance of invested assets underlying policy cash values.

### Portfolio Construction

The portfolio consists of one (1) John Hancock Variable Universal Life (VUL) policy, with a face amount of \$8,000,000, and one (1) MetLife VUL policy, with a face amount of \$8,000,000, issued on the life of Valued Client, and with an overall rating of « « « « « (5-Stars out of a total 5-Stars, using TheInsuranceAdvisor.com patented Star Ratings<sup>1</sup>) based on 5-factors of product suitability as listed above. The owner and beneficiary of the policies is the Valued Client Family Irrevocable Family Trust, dated November 1, 2003.

### Initial Portfolio Status

The two policies in the portfolio were each funded via initial premium payments of \$800,000 per policy paid over two policy years in order to prevent violation of IRS Modified Endowment Contract (MEC) and Definition of Life Insurance (DOLI) premium limits and maintain the tax preferred status of the life insurance.

### Current Portfolio Status

The Valued Client life insurance portfolio is currently below original target funding objectives based on annual cash value targets required to endow policy cash values in amounts equal to the initial policy face amount at the policy maturity age. While policy investment performance has been 25.44% below originally targeted funding objectives (i.e., not a 25.44% loss, but instead a cumulative return on cash values that have averaged 2.91%, or 5.09% less than the target 8.0% net rate of return per year), there is no requirement that cash values must grow to endow for the full face amounts.

The Risk Profile Questionnaire on file indicates that you have a Moderate risk profile. A Moderate risk profile is appropriate for policyholders whose primary objective is capital growth and who are prepared to maintain policy cash values for 5 years or longer, can tolerate some fluctuations in policy cash values in anticipation of possible higher returns, and cash values are invested predominantly in large-capitalization stocks and investment grade bonds, which are expected to have returns ranging between -9.81% and 22.47% in 19 out of 20 years (i.e. with a 95% degree of certainty), and average 8.0% or more over time.

While the portfolio is currently below targeted objectives, performance has been consistent with the rate of return for relevant asset class benchmarks<sup>2</sup> over the same time period, and given the expected range of returns listed above, it is conceivable that the portfolio could catch up to originally targeted funding objectives within 2 years. Although policy earnings have been within the expected range of returns, investment performance can and will fluctuate over time.



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The above is derived from illustrations of hypothetical policy performance and related Confidential Policy Evaluator (CPE) Research Reports for the various products shown. As such, this is not complete without such corresponding illustrations and CPE Research Reports.

## Portfolio Management Options

While the Valued Client life insurance portfolio is currently below original target funding objectives, the policies are not in danger of lapsing in the foreseeable future. The portfolio may thus be managed through the below portfolio management alternatives.

- 1) **Change Policy Funding:** To increase policy cash values needed to support originally projected death benefits, annual premium funding would need to be increased by \$37,000 (from \$0 to \$37,000), assuming the originally planned 8.0% net average rate of return.
- 2) **Change Policy Benefits:** To reduce policy costs to levels that can be supported by currently planned premium payments, death benefits can be reduced by \$4,000,000 (from \$16,000,000 to \$12,000,000), assuming the originally planned 8.0% net average rate of return.
- 3) **Reallocate Cash Values:** To maintain growth of policy cash values necessary to support policy benefits, cash values may be re-allocated among the mutual-fund-like separate accounts to allocate more cash value to those asset classes that have produced historically higher returns, albeit with historically higher volatility in an effort to more accurately achieve a target rate of return of more than 10% gross. ***Please complete the enclosed Risk Profile Questionnaire so that we can determine your current risk tolerance and suggest appropriate fund allocations.***
- 4) **Re-rate Policy Pricing:** To reduce policy costs to levels that can be supported by current policy cash values and planned premiums, the current policy in the portfolio may be exchanged to a policy offering lower cost of insurance charges (COIs), lower fixed administration expenses (FAEs), and/or lower cash-value-based “wrap fees” (e.g., M&Es) and lower premium loads. A preliminary search of available rates and terms indicates up to 12% in potential savings, assuming qualification for the same select preferred-non-tobacco-risk rate class as that for the current policies. These savings could be used to reduce or eliminate the need to change policy funding, change policy benefits or reallocate cash values, as illustrated in Portfolio Management Techniques 1-3 listed above.
- 5) **Wait-and-See:** Because the current policy cash values are sufficient to support currently projected policy charges for at least the next 31 years, assuming the originally planned 8.0% net average rate of return from this point forward, a “wait and see” approach may be exercised in anticipation of improvements in market performance.

***Please review these options and complete the enclosed Grantor Consent Form by selecting your preferred portfolio management option(s), sign and return to our office, to enable us to manage your portfolio accordingly.***

<sup>1</sup> TheInsuranceAdvisor.com (TIA) Star Ratings indicate the relative appropriateness of a given product as measured against its peer group of products based on five (5) factors of suitability as to: 1) financial strength and claims-paying ability ratings, 2) the relative competitiveness of cost of insurance charges, premium loads, fixed administration expenses and cash-value-based “wrap fees” as compared to peer group products, 3) pricing stability, 4) relative cash value liquidity as compared to peer group products, and 5) the historical performance of invested assets underlying policy cash values. TheInsuranceAdvisor.com, Inc. (TIA) Star Ratings were invented by Barry D. Flagg (U.S. Patent #6,456,979), and are produced using generally accepted mathematical algorithms and a consistent and objective rules set, and like all ratings systems, rely on certain judgmental techniques, which are fully disclosed, and with which certain insurance professionals may disagree. Because any evaluation of a variable life product presented by any registered representative and pursuant to the purchase of such product presents the potential for a conflict of interest, it is important to understand the methodology behind any such evaluation and the relationship between the evaluator and the registered representative.

<sup>2</sup> See Asset Allocation Summary footnotes for detailed information regarding the various benchmarks used.



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## Summary of Account Holdings

### December 31, 2008

Company, Policy Number, Issue Date	Face Amount, Plan	Premium, Mode	Cash Accumulation Value	Cash Surrender Value	Owner, Beneficiary
John Hancock 1234567 December 1, 2003	\$8,000,000 VUL	\$800,000 Modified Single Premium	\$658,268	\$539,295	Valued Client Family Irrevocable Trust
Selected Investment Allocation: 500 Index B 11%, Total Stock Market Index 11%, Mid Cap Stock 8%, Mid Cap Index 5%, Mid Value 6%, Small Cap Value 5%, Int'l Equity Index B 8%, High Yield Bond 9%, Money Market 3%, Fixed Account 35%					
MetLife 9876543 June 30, 2003	\$8,000,000 VUL	\$800,000 Modified Single Premium	\$680,002	\$641,922	Valued Client Family Irrevocable Trust
Selected Investment Allocation: Fidelity Contrafund 5%, Fundamental Value 5%, Equity Index 6%, American Funds Growth Income 6%, Fidelity VIP Mid Cap 5%, Pioneer Mid-Cap Value 5%, Russell 2000 Index 5%, Total Return Fund 16%, MFS Research International 11%, High Income 11%, Money Market 5%, Fixed Account 20%					
<b>Total</b>	<b>\$16,000,000</b>	<b>\$1,600,000</b>	<b>\$1,338,271</b>	<b>\$1,181,216</b>	

This material is provided as a general guide to the value of your portfolio and is for informational purposes only. These values represent an estimated assessment of the market environment of your account at a specific point in time and are based on data gathered from what we believe to be reliable sources. The summary of account values was obtained from the specific carrier as of December 31, 2008. The prices listed may vary from actual liquidation value. Account values are not guaranteed as to accuracy, and do not purport to be complete, please contact your investment advisor directly for an exact account summary.



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## Reconciliation of Portfolio Expenses

### December 2007 – December 2008

	Projected Values from Illustration of Hypothetical Policy Values	Actual Policy Values from Prior Year Annual Policy Statement
Beginning Portfolio Balance	\$1,722,289	\$1,842,903
Plus Premiums Paid	\$0	\$0
Premium Mode	Modified Single Premium	Modified Single Premium
Portfolio Expenses		
Cost of Insurance Charges (COIs)	(\$45,530)	(\$46,021)
Fixed Administration Fees (FAEs)	(\$4,748)	(\$4,748)
Cash-Value-Based "Wrap Fees" <sup>1</sup>	(\$12,766)	(\$2,982)
Premium Loads	(\$0)	(\$0)
Total Portfolio Expenses	(\$63,044)	(\$53,751)
Portfolio Earnings		
Gain/(Loss)	\$135,626	(\$450,880)
Rate of Return	8.0%	(28.3%)
Ending Portfolio Account Balance	\$1,794,871	\$1,338,271
Surrender Charge	(\$157,054)	(\$157,054)
Net Portfolio Surrender Value	\$1,637,817	\$1,181,217
Weighted Average Rate of Return for Indices <sup>2</sup> and Portfolio	(22.2%)	(21.6%)

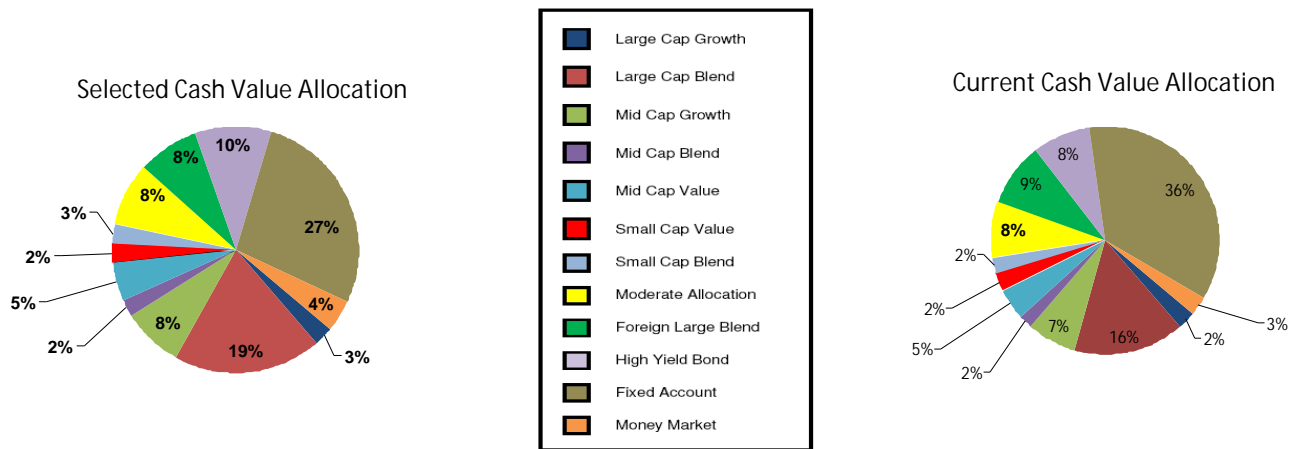
<sup>1</sup> MetLife does not disclose Cash-Value-Based "Wrap Fees" in their annual policy statements.

<sup>2</sup> The performance of any index is not indicative of the performance of a particular investment and does not take into account commissions or other expenses associated with purchasing individual investments, such as fees and expenses associated with purchasing mutual fund shares or insurance-related expenses associated with purchasing variable insurance products. Individuals cannot invest directly in any index.




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## Moderate Risk Profile Asset Allocation Summary December 31, 2008



Separate Account Name	Asset Class	Morningstar Rating	Rate of Return on Individual Separate Accounts <sup>1</sup>	Rate of Return for Asset Class Indices <sup>2</sup>
Fidelity Contrafund	Large Cap Growth	« « « « «	(42.8%)	(38.4%)
John Hancock 500 Index Trust	Large Cap Blend	« « « «	(37.2%)	(37.4%)
Legg Mason Equity Index	Large Cap Blend	« « « «	(37.1%)	(37.6%)
Legg Mason Fundamental Value	Large Cap Blend	« « «	(37.9%)	(37.6%)
American Growth & Income Fund	Large Cap Blend	« « « «	(37.8%)	(37.6%)
John Hancock Total Stock Market Index	Large Cap Blend	« « « «	(37.1%)	(37.6%)
John Hancock Mid Cap Stock	Mid Cap Growth	« « « «	(43.8%)	(44.3%)
Fidelity Mid Cap Fund	Mid Cap Growth	« « « «	(40.1%)	(44.3%)
John Hancock Mid Cap Index	Mid Cap Blend	« « « «	(36.4%)	(36.2%)
John Hancock Mid Cap Value Fund	Mid Cap Value	« « «	(39.1%)	(38.4%)
Pioneer Mid Cap Value Fund	Mid Cap Value	« « «	(34.3%)	(38.4%)
John Hancock Small Cap Value Fund	Small Cap Value	« « « « «	(26.1%)	(28.9%)
Metropolitan Russell 2000 Index	Small Cap Blend	« « «	(34.1%)	(22.6%)
MFS Total Return	Moderate Allocation	« « « «	(23.0%)	(22.6%)
MFS Research International	Foreign Large Blend	« « « «	(42.9%)	(43.4%)
John Hancock International Equity Index	Foreign Large Blend	« « « «	(44.4%)	(43.4%)
John Hancock High Yield Trust	High Yield Bond	« « «	(29.5%)	(26.4%)
Legg Mason High Income Fund	High Yield Bond	« « «	(30.6%)	(26.4%)
John Hancock Guaranteed Interest Account	Fixed Account	n/a	4.1%	2.6%
MetLife Guaranteed Interest Account	Fixed Account	n/a	4.1%	2.6%
Money Market	Money Market	n/a	2.0%	2.0%
<b>Weighted Average Rate of Return for Portfolio</b>			<b>(21.6%)</b>	<b>(22.2%)</b>

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<sup>1</sup> The returns are reported for the time period most closely corresponding to the reporting period for this report. However, because performance for the various asset-class benchmarks is only reported as of the end of each month, the performance of the various separate account funds is also reported as of the end of the corresponding month for comparison purposes. In addition, because the returns shown above are intended to measure the performance of the individual separate account funds relative to their respective benchmarks, the returns for the separate account funds are not intended to reflect actual performance of the separate account funds for the reporting period for this report.

<sup>2</sup> Based on 50% equities as measured by performance of the S&P 500, Russell 1000®, Russell 1000® Growth, Russell 2000®, Russell 2000® Value, MSCI EAFE and MSCI AC World ex US indices, 46% bonds as measured by performance of the Dow Jones U.S. Moderate, Barclays 5-10 Year Government/Credit, Barclays 1-5 Year Government/Credit, and Merrill Lynch High Yield indices, and 4% Money Market assets. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe, and includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. The Russell 2000® Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Standard & Poor's MidCap 400 Index (S&P 400®) includes approximately 10% of the capitalization of U.S. equities and is represented by 400 companies whose capitalization range is between \$250 million to \$5 billion. The Russell Midcap® index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index. As of the latest reconstitution, the average market capitalization was approximately \$5.3 billion; the median market capitalization was approximately \$3.9 billion. The largest company in the index had an approximate market capitalization of \$14.9 billion. The Russell Midcap® Growth Index includes those Russell Midcap® companies with higher price-to-book ratios and higher forecasted growth values. Russell Midcap® Value Index measures the performance of those Russell Midcap® companies with lower price-to-book ratios and lower forecasted growth values. The MSCI AC World ex USA is a free float-adjusted market capitalization index that is designed to measure equity performance in the global developed and emerging markets, and is comprised of 48 developing and emerging market country indices. The MSCI EAFE® (Europe, Australia and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. As of December 2003 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. EAFE is a registered service mark of Morgan Stanley Dean Witter, Discover & Co. The Barclays (formerly Lehman Bros) 5-10 Year Government/Credit Index measures the performance of medium and larger issues of U.S. government, investment-grade corporate, and investment-grade international dollar-denominated bonds that have maturities between 5 and 10 years and are publicly issued. The Barclays (formerly Lehman Bros) 1-5 Year Government/Credit Index represents a combination of the Government and Corporate Bond indices for bonds with maturities between 1 and 5 years. The Merrill Lynch U.S. High Yield Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. The Down Jones U.S. Moderate is a total returns index that is designed to replicate 60% of the risk of the U.S. securities market, in a time-varying weighted average of stocks, bonds and cash, in a portfolio whose semi deviation is 60% of the annualized 36-month historic semi deviation of the down Jones 100% Index.



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