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Blackstone Group LP (BX) was the successful bidder for the first tranche of the $15 billion life settlement portfolio owned by American International Group Inc. (AIG), according to market sources.

The winning bid was not known for the tranche containing $4.5 billion to $5 billion in face amount. The deal is said to have closed at the end of December.
The transaction was handled by Ali Al-Ali, managing director and co-head of insurance structured finance with Goldman, Sachs & Co.This is a departure from most tertiary transactions in the life settlement market, which are handled by Jeff Bollerman, director of Houlihan Lokey Inc.

Blackstone, a global alternative investment manager, has been a major buyer of portfolios in the life settlement market in recent years, but has lost out in bidding as well. The latest deal is believed to be the fourth major portfolio bought by Blackstone since it entered the market in 2014.

The first AIG tranche contained almost 900 policies, including more than 700 premium-financed policies, a person familiar with the matter said. The remaining part of the tranche included policies that had been subject to cost-of-insurance rate increases, which have been damaging the value of policies in the market since the rate hikes began in 2015 by a number of carriers. The policies in the tranche, known as the B group, conceivably could face litigation for insurable-interest issues, the person said. But only a small number of the policies, in the single digits, currently are facing litigation.

The documents weren't in the most-user friendly format, the person said. It wasn't easy to navigate the data room. New information kept being added and it was hard to keep track of what was added and when, the person said.

In addition, there were a number of documents missing. But AIG gave the impression that Coventry First LLC, which originated the portfolio, wasn't withholding documents on purpose, despite the bad blood between the two parties, the person added.

An AIG affiliate, Lavastone Capital LLC, had sued Coventry in September 2014, accusing it of secretly marking up policies it sold to the insurer. They had settled the case last February, allowing AIG to transfer the servicing business from Coventry so it could more easily sell the portfolio. AIG had given the impression that the difficulty with the lack of documents related more to Coventry's shrinkage than to anything deliberate. The company has laid off employees in previous years.

Notice of the portfolio sale came in late October or November. The timelines for submitting the bids were short, the person said.

It was not known exactly how many bid on the B tranche, although AIG said there were multiple bidders, another person familiar with the matter said.
There were a lot of deficiencies in the documentation needed for evaluation of the tranche, including a lack of documents available for the policies, the person also said.
Jon Nelson, CEO of Preston Ventures of Aliso Viejo, Calif., who advises Blackstone, advised it on the latest transaction.

Blackstone bought a Royal Bank of Scotland plc portfolio for $385 million in the fall of 2015. It contained about 640 policies with $1.8 billion in face value, market players previously said.
It also bought a portfolio with $1.13 billion in face value for just more than $100 million, a source said in October 2014. The portfolio, held by ESF 110 Parent Co. Ltd. of Ireland, was originated by Marty Fleisher of LPC Holdings I LP and Peter Stone of White Cliff Holdings LP.
Blackstone also paid about $100 million for another portfolio with about 100 policies and about $800 million in face value from Monarch Alternative Capital LP, people familiar with the matter previously said. It had a mix of policies owned by Caldwell Life Strategies Corp. and non-Caldwell assets.

Representatives of AIG and Blackstone declined to comment. Al-Ali of Goldman also didn't respond to requests for comment.

The market had been eagerly waiting for the AIG portfolio to hit the market ever since the litigation with Coventry settled. The portfolio was the largest in the market, holding 4,554 policies with almost $15 billion in face value at the end of 2015.

During an investor day presentation in November, Charlie Shamieh, senior vice president of corporate and chief actuary of AIG, said the company was considering selling the portfolio in chunks to increase competition instead of selling it off in one piece.

It's not known when the next tranche or tranches will be put up for sale.