

## EXHIBIT 1

### NET SETTLEMENT FUND PLAN OF ALLOCATION

#### **A. Preliminary Matters**

The "Gross Settlement Fund" includes: the initial settlement amount of \$100 million in cash (the "Initial Settlement Amount"); the Fidelity Bond Recovery<sup>1</sup>; the Remaining Tremont Funds; proceeds, if any, from Assigned Claims<sup>2</sup>; and the interest earned thereon. The "Net Settlement Fund" includes the Gross Settlement Fund, less: the 8.2% that was allocated to the Insurance Subclass and Individual Settling Insurance Plaintiffs pursuant to a binding mediation; Court-approved attorneys' fees and expenses; notice and administration expenses; and taxes and tax expenses. The Net Settlement Fund will be disbursed to State Law Subclass and Securities Subclass Members who submit timely and valid Proofs of Claim ("Authorized Claimants"), and whose payment from the Net Settlement Fund would equal or exceed ten dollars (\$10.00).

The purpose of this Plan of Allocation of the Net Settlement Fund ("Plan of Allocation" or "Plan") is to establish a reasonable and equitable method of distributing the Net Settlement Fund among Authorized Claimants. For purposes of determining the amount an Authorized Claimant may recover under this Plan, Plaintiffs' State Law and Securities Class Counsel have consulted with their damages consultants and various interested parties who have had an opportunity to comment thereon during a mediation process overseen by the Honorable Layn Phillips (Retired) and Plaintiffs State Law and Securities Class Counsel. This Plan is intended to be generally consistent with an assessment of, among other things, the damages that Plaintiffs' State Law and Securities Class Counsel and the State Law and Securities Plaintiffs believe could have been recovered had they prevailed at trial. The Plan is not intended to and does not exactly replicate such assessment of damages, however. Certain State Law Subclass and Securities Subclass Members who may not have had recoverable damages at trial may be eligible to receive a payment under this Plan.

Because the Net Settlement Fund is less than the total losses alleged to be suffered by State Law Subclass and Securities Subclass Members, the formulas described below for calculating Recognized Claims are not intended to estimate the amount that will actually be paid to Authorized Claimants. Rather, these formulas provide the basis on which the Net Settlement Fund will be distributed among Authorized Claimants.

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<sup>1</sup> All capitalized terms shall have the meanings defined herein and in the Stipulation of Partial Settlement in In Re Tremont Securities Law, State Law and Insurance Litigation (08 Civ. 11117 (TPG)), dated February 23, 2011.

<sup>2</sup> To the extent the State Law and Securities Plaintiffs prosecute any Assigned Claims and realize any recovery thereon, any such recovery net of fees and expenses will be part of the Net Settlement Fund and will be disbursed pursuant to this Plan of Allocation.

**B. Eligible Securities**

Authorized Claimants may be entitled to receive a payment from the Net Settlement Fund based on investments in securities ("Eligible Securities") offered by the following hedge funds ("Eligible Hedge Funds"):

- Rye Select Broad Market Fund, L.P.;
- Rye Select Broad Market XL Fund, L.P.;
- Rye Select Broad Market Prime Fund, L.P.;
- Rye Select Broad Market Insurance Fund, L.P.;
- Rye Select Broad Market Insurance Portfolio, LDC (but only with respect to INTAC Independent Technical Analysis Centre Ltd., LifelInvest Opportunity Fund, LDC, Scottish Annuity Company (Cayman) Limited, The Scottish Annuity and Life Insurance Company (Bermuda) Ltd. and The Scottish Annuity Life Insurance Co. (Cayman) Ltd.);
- Rye Select Broad Market Portfolio Limited;
- Rye Select Broad Market XL Portfolio Limited;
- Broad Market XL Holdings Limited;
- Tremont Market Neutral Fund L.P.;
- Tremont Market Neutral Fund II, L.P.;
- Tremont Market Neutral Fund Limited;
- Tremont Opportunity Fund Limited;
- Tremont Opportunity Fund II L.P.;
- Tremont Opportunity Fund III L.P.;
- Tremont Arbitrage Fund, L.P.;
- Tremont Arbitrage Fund-Ireland; and
- Tremont Strategic Insurance Fund, L.P.

**C. Principles and Additional Definitions**

This Plan is based on the following principles and additional definitions (listed alphabetically), among others:

1. "Authorized Claimant" is a State Law Subclass and/or Securities Subclass Member who is entitled under the Stipulation and this Plan to share in the disbursement of the Net Settlement Fund and who submits a timely and valid Proof of Claim. Authorized Claimants do not include members of the Insurance Subclass or the Individual Settling Insurance Plaintiffs.
2. "Contribution" is the amount paid on or before December 11, 2008 by an authorized Claimant to an eligible Hedge Fund for an eligible Security. If an Authorized Claimant acquired an Eligible Security by means of a gift, assignment, inheritance or operation of law, the Contribution for that acquisition shall be calculated by using the amount paid for the Eligible Security on the original date of Purchase and not the date of transfer, unless

the transfer resulted in a taxable event or other change in the cost basis of the Eligible Security.

3. "Disbursement" is the amount to be paid to an Authorized Claimant from the Net Settlement Fund.
4. "Eligible Carrier" is one of the following insurance carriers that invested in Eligible Hedge Funds: (a) New York Life Insurance and Annuity Corporation; (b) Metropolitan Life Insurance Company; (c) John Hancock Life Insurance Company (U.S.A.); (d) General American Life Insurance Company; (e) Pacific Life Insurance Company; (f) Hartford Life Insurance Company; (g) Pruco Life Insurance Company; (h) Security Life of Denver; (i) AIG Life Insurance Company; (j) Sun Life (SLF) Assurance Company; (k) Scottish Annuity and Life; (l) Nationwide Life Insurance Company; (m) New England Life Insurance Company; (n) Acadia Life Limited; (o) The Scottish Annuity Life Insurance Co. (Cayman) Ltd.; (p) Lifeinvest Opportunity Fund LDC; (q) AGL Life Assurance Company; (r) BF&M Life Insurance Company Limited; and (s) The Scottish Annuity and Life Insurance Company (Bermuda) Ltd. Each Eligible Carrier shall be considered an Authorized Claimant for all purposes in this Plan of Allocation.
5. "Eligible Policyholder" is an owner of a variable universal life insurance policy or deferred variable annuity policy that was issued by an Eligible Carrier.
6. "Purchase" is the acquisition of an Eligible Security by any means.
7. "Recognized Claim" is the amount of a claim under this Plan and is the number used to calculate an Authorized Claimant's Disbursement.
8. "Redemption" is the amount withdrawn on or before December 11, 2008 by an Authorized Claimant from an Eligible Hedge Fund based on ownership of an Eligible Security. For this purpose, Redemption is the amount requested and actually paid to an Authorized Claimant based on ownership of an Eligible Security.
9. "Stipulation" means the Stipulation of Partial Settlement in *In re Tremont Securities Law, State Law and Insurance Litigation* (08 Civ. 11117 (TPG)) dated February 23, 2011 and filed with the United States District Court for the Southern District of New York on February 25, 2011.
10. "Swap Counterparty" means a party that entered into a swap transaction or similar arrangement with any of the Rye Funds or Tremont Funds in order to provide said Funds with a leveraged return.

#### **D. Recognized Claims**

The Recognized Claim for each Authorized Claimant will be the total of all Contributions to Eligible Hedge Funds minus the total of all Redemptions from Eligible Hedge Funds, multiplied by the percentage that such Eligible Hedge Fund was exposed to Madoff (i.e. invested

in Madoff related investments). Direct payments, if any, by any Authorized Claimant to the SIPA Trustee to settle claw back claims will be treated as Contributions for purposes of calculating such Authorized Claimants' Recognized Claim. Only those Authorized Claimants who suffered a net loss are entitled to a payment from the Net Settlement Fund.

For Eligible Hedge Funds that were partially exposed to Madoff (i.e. the Eligible Hedge Fund had non-Madoff related investments), each Authorized Claimant's Recognized Claim will reflect the percentage that the Eligible Hedge Fund was exposed to Madoff as of December 11, 2008. Thus, if an Authorized Claimant had a net loss of \$100,000 and the Eligible Hedge Fund was 10% exposed to Madoff, the Authorized Claimant's Recognized Claim would be \$10,000 (i.e., 10% X \$100,000).

The Recognized Claim for an Eligible Carrier shall be determined by the same methodology as above.

The Recognized Claim for a Swap Counterparty shall be determined by the same methodology as described above, subject to a discount factor of 99%. Thus, if a Swap Counterparty had a net loss of \$100,000 based solely on the Swap Counterparty's Contributions and Redemptions, its Recognized Claim would be \$1,000 (\$100,000 X 1%).

Please note that the term "Recognized Claim" is used solely for calculating the amount of participation by Authorized Claimants in the Net Settlement Fund. It is not the actual amount an Authorized Claimant can expect to recover.

#### **E. Disbursements from the Net Settlement Fund**

The Notice and Claims Administrator will determine each Authorized Claimant's share of the Net Settlement Fund. Each Authorized Claimant will receive a Disbursement determined by multiplying the Net Settlement Fund by a fraction, the numerator of which is the Authorized Claimant's Recognized Claim and the denominator of which is the sum total of all Authorized Claimants' Recognized Claims, provided that no Authorized Claimant will receive more than its Recognized Claim. Eligible Policyholders will be paid by their Eligible Carrier out of the Eligible Carrier's Disbursement based on a methodology to be determined by the Eligible Carrier.

Payments made pursuant to this Plan of Allocation above shall be conclusive against all Authorized Claimants. No Person shall have any claim against the State Law and Securities Plaintiffs, Plaintiffs' State Law and Securities Class Counsel or the Notice and Claims Administrator based on Disbursements, determinations, or claim rejections made substantially in accordance with this Plan or further orders of the Court, except in the case of fraud or willful misconduct. No Person shall have any claim under any circumstances against the Released Parties based on any Disbursements, determinations, or claim rejections or the design, terms, or implementation of this Plan. Authorized Claimants who failed to complete and file a valid and timely Proof of Claim form shall be barred from receiving Disbursements from the Net Settlement Fund, unless the Court otherwise orders. State Law Subclass and Securities Subclass Members who did not either submit a request for exclusion or submit a valid and timely Proof of

Claim will nevertheless be bound by the Settlement and the Judgment of the Court dismissing the State Law and Securities Actions.

The Court has reserved jurisdiction to modify, amend, or alter the Plan of Allocation without further notice to anyone, and to allow, disallow, or adjust any Authorized Claimant's claim to ensure a fair and equitable disbursement of settlement funds.

The Settlement of this matter is now final in all respects. Therefore, payments under this Plan of Allocation will be made to Authorized Claimants whose claims entitle them to a payment of no less than \$10.00 after all claims have been processed and after the Court has finally approved this Plan of Allocation. If there is any balance remaining in the Net Settlement Fund (whether by reason of unclaimed funds, tax refunds, uncashed checks, or otherwise), at a date one hundred eighty (180) days from the date on which the Court enters an order directing the Net Settlement Fund to be distributed to Authorized Claimants, then Plaintiffs' State Law and Securities Class Counsel shall, upon approval of the Court, disburse such balance among Authorized Claimants as many times as is necessary, in a manner consistent with this Plan of Allocation, until each Authorized Claimant has received its Recognized Claim (but no greater than its Recognized Claim) as defined in this Plan. If Plaintiffs' State Law and Securities Class Counsel determines that it is not cost-effective to conduct such further Disbursement, or following such further Disbursement any balance still remains in the Net Settlement Fund, Plaintiffs' State Law and Securities Class Counsel shall, with the consent of the State Law and Securities Plaintiffs and upon approval of the Court, and without further notice to the State Law Subclass and Securities Subclass Members, cause the remaining balance to be disbursed *cy pres*.