



The International Society of Life Settlement Professionals

Investor Report

August 2009

Preliminary Risk Assessment Analysis of an open ended Life Settlement Fund

UK Integrity Group's RAMM Technology approved by ISLSP

Introduction:

When an investor is considering life settlements as an asset class, he is faced with different potential entrance strategies and the number of proposals seem to grow steadily. Recent investor meetings in the States and in Europe proved that investors willing to deploy capital are more open to invest in well structured single open ended LS funds. Apparently investors appreciate the major transparency of a single fund, a proven track record, highly professional diversification inside the portfolio and privileged access to the fund manager.



It is ISLSP's mission to build confidence in the asset class and to provide investors with insight into potential investment risks and hidden values. ISLSP has recently approved UK Integrity Groups RAMM technology as being, at present, the most detailed risk assessment tool in the life

settlement industry.

The present summary is the result of a joint effort to scrutinize a first up and running life settlement fund with RAMM technology to showcase the level of a drill down that we suggest to ask for before taking any investment decision.

ISLSP was able to interview several fund managers during the month of June 2009 and one was available to disclose partial data on his fund and wished to remain anonymous. Further funds will be scrutinized over time or at specific request from institutional clients. Life Settlement fund evaluation is part of the investor-oriented services ISLSP provides inside its' international network of professionals to facilitate informed investment decisions and accelerate the growth of best_in_class life settlement vehicles.



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Evaluation:

(1) Policy Evaluation risk

For reasons of anonymity the Fund did not stipulate the professional background and degree of independence of the person who modified their mortality tables. They disclosed that they simply added 16% to their underlying tables. It was not made clear who recommended this nor on what basis of knowledge/experience/independence they came to this figure. The same lack of disclosure occurred when asked about the mortality expert that acts as a "check mechanism" to assess the basis for the modifications, as well as the modifications themselves.

The availability of different types of mortality curves, based on type of life, i.e. standard, preferred, etc, was not disclosed. Lack of disclosure in terms of which service providers have input on the figures used in calculating the portfolio/policy valuations, along with who gets paid on the basis of such valuations, also severely dented this score. There is a potential for a conflict of interest. Training of staff members was not detailed, along with the number of sign offs required on each pricing run.

(2) Policy Sourcing risk

No disclosure as to the length of time providers had been operating, their E&O coverage, nor an estimation of the face amount they had originated took 10% off the score, as this impacts the credibility factor of the sourcing channels and their liability coverage for errors.

There was no disclosure in terms of the vocational experience and qualifications behind those staff members providing valuations, fraud and legal reviews.

There are no comments on transaction risk, as the fund manager did not answer the questions of this section.





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(3) Transaction risk

There are no comments on transaction risk, as the fund manager did not answer the questions of this section.

(4) Taxation risk

Again, there was no disclosure here to provide suitable indication of system and controls to ensure a tax strategy was being actively adhered to. The one answer that was given could not be verified, as the domicile was not given.

(5) Servicing risk

There are no comments on transaction risk, as the fund manager did not answer the questions of this section.

(6) Longevity risk

Lack of disclosure, mostly in the discussion of vocation and degree of independence took away 50% of the possible score. For longevity risk to be mitigated, it is crucial for the Fund to display its employment of mortality experts, without interference from the investment manager, or the use of arbitrary flat extras in LEs.

(7) Counterparty risk

The best answered section of the questionnaire. The only points lost relate to the modelled expense ratio that the Fund (and ultimately investors) would have to suffer.

(8) Potential conflicts of interest

Again, well answered. Only problems here relate to the corporate ownership links between the Fund Administrator and the Investment Manager. The latter being paid on the basis of the NAV. Corporate links downplay any independence, even if Chinese walls are said to exist. Also, as Directors are the people running the Fund on behalf of the investors, it is crucial that a majority be independent from the investment manager and any other service provider – this helps ensure that any investment strategy is adopted in the best interests of the investor.



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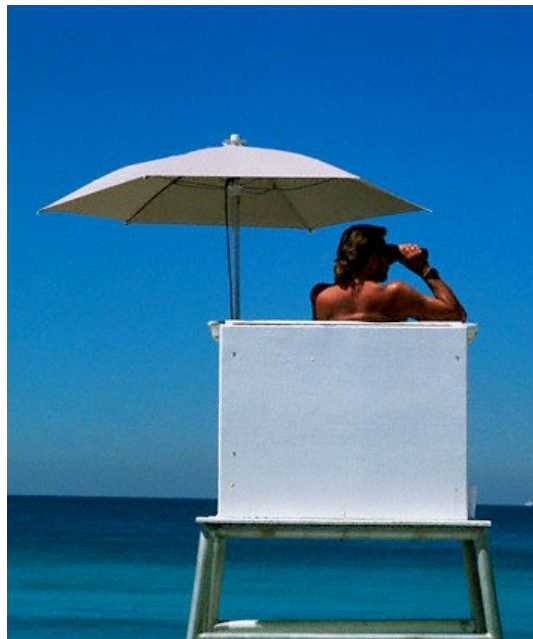
(9) Management risk

Again, specific questions asked to validate the experience of the investment manager and adviser were not answered and depressed the score by some 50%. Again, the disclosure as to how the policy valuations were verified further damaged the score.

Comment

For reasons of confidentiality the fund manager did not disclose information that would have been necessary for more in depth evaluation. As in any other asset class, proper risk assessment is important for well judged investment decisions. Given the complexity of life settlements and the sometimes confusing increasing number of product proposals in the market, it is a must for investors to apply dynamic risk assessment checks on their future investments.

ISLSP, in cooperation with its international team of leading professionals is your ideal partner.



**) ISLSP is grateful to Mr Alan Moore at UK Integrity Group for the professional evaluation of the fund data.*