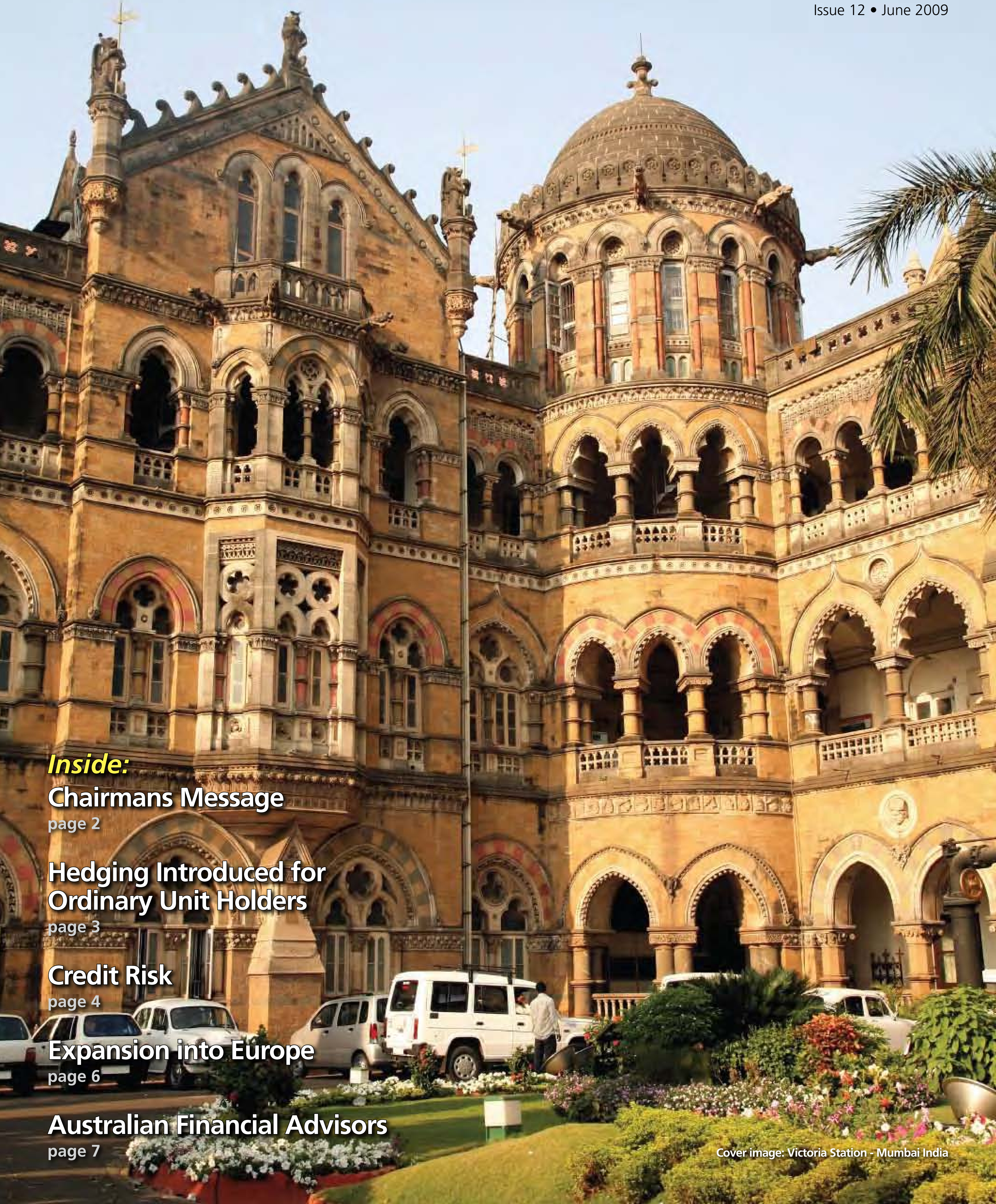
LIFE SETTLEMENTS FUNDS

SUM ASSURED

Issue 12 • June 2009



Inside:

Cover image: Victoria Station - Mumbai India

Chairman's Message

Good governance. That sums up the approach the directors have taken with the Fund as the financial world struggles to recover from the unusual circumstances witnessed last year.

Ian Cotton

These unprecedented recent events in world financial markets saw a substantial decrease in funds available for investment and resulted in a reduction of the volume of life settlement transactions. As a result, it became difficult to accurately determine the market value of the Fund's assets for application and redemption transaction processing.

At the same time, updated US Life Industry Tables were being adopted by an increasing number of underwriters. These tables form the basis for determining the life expectancy of insured's, which has a direct impact on the value attributed to life settlements.

There were two issues to determine,

a) what is the appropriate pricing of the Fund for application and redemption transactions, taking account of all current factors and

b) have sufficient market conditions returned to allow normalcy.

To ensure accuracy of the Fund's assets for unit pricing purposes, Life Settlements Funds Limited appointed an independent actuary with extensive life settlement experience to value the assets of the Fund. The actuary has completed a market valuation of the Fund's assets, i.e., what a willing but not anxious buyer would pay for the Fund's assets in the current market using the updated US Life Industry Tables.

Now that the Fund has re-opened and is trading as normal, investors should be aware that the new unit price for each class of unit reflects the current valuation of the Fund's assets today, under current conditions. The unit price attributed to each class of unit will continue to change over time as a result of broader financial market conditions, life expectancy of insured's and the volume of life settlements transactions. The Product Disclosure Statement for the Fund sets out a range of risk factors that may also impact on the unit price and the value of the Fund's assets, such as improvements to medical treatments and changes to taxation.

Importantly, the current valuation of the Fund's assets and market conditions do not change or affect the face value benefit payable under each policy at maturity, which is fixed at the time of issue of the policy by the insurance company.

The Fund currently owns a diverse portfolio of 567 policies issued by 70 different US life insurance companies with a total sum of benefits payable of US$2.3 billion.

We also remind investors that an investment in the Fund is a medium to long term investment with a time frame of at least six years.

In summary, whilst the revaluation and freeze on the Fund had a temporary impact on our investors, we believe it was necessary from the perspective of good governance.

Again it is important to remember that unlike funds in other asset classes, our assets have a known value that will be realised at some future date. Consequently any revaluation is only temporary and the full value will be picked up when a claim is made under the policy.

In addition to this the Board has introduced a hedging policy for all Ordinary (Australian dollar) Unit holders to ensure they are not disadvantaged by currency movements. This ensures all investors are treated equally and receive the full benefit from the stability of the underlying asset. Further information on this is available later in this newsletter.

We look forward to continuing our relationship with you and delivering solid returns in the current volatile market.

The good news for our existing investors is that the Board has now lifted the suspension of redemptions. The Board have been closely monitoring the situation regarding liquidity in the markets and have formed the opinion that market conditions have improved sufficiently to enable this action to be taken.

Fund Report Monthly Statistics

As of 1 June 2009

No. of units issued	1,202,197,750
No. of policies owned	567
No. of insurance companies	70
Face Value of Policies	US$2,366,688,981
Average age of insured's	81

Hedging Introduced for Ordinary Unit holders

Stephanie Nolan

One of the big frustrations in recent years has been the impact the currency fluctuations between the A$ and the US$ (which the large majority of the Fund's assets are held in) has had on the Ordinary Units issued in the Fund. These units are held by retail investors in Australia and New Zealand.

Unfortunately the volatility in currency movements has detracted from the performance of the underlying assets. Consequently the Board recognised the importance of taking the currency effect out of play for these unit holders and has introduced a hedging policy.

This hedge only relates to the Ordinary Units and was automatically applied to your holdings from late January 09. It will have no impact on other unit classes, however it is anticipated that due to the current interest rate differential of say 2% between the US and Australian interest rates, there should normally be a small monthly additional return on the Ordinary Units. CFO, Stephanie Nolan, was pleased that all investors would now have a level playing field. "This investment should be about the stability of the underlying asset, not a currency speculator for Australian and New Zealand investors" she said.

"Certainly our Ordinary Unit holders will be very impressed with the performance of their investment in recent times. For the financial year to date their holdings have increased by 26.52%" she added. Combine this with the fact that the hedge will now limit their downside risk and it's looking very positive indeed.

In fact if we look at the following graph tracking the unit price and the exchange rate, you'll notice it was basically a mirror image until recently. Consequently, the upside potential, without the impact of the currency, is now great.

New PDS

A new Product Disclosure Statement has been released, dated February 2009, which provides an updated snapshot of the Fund and its holdings.

This document must be utilised to form the basis of all investment decisions. Old copies should be destroyed and the new issue can be obtained either from your local distributor or by contacting our administration – email admin@lifesettlementsfund.com or phone 1300 881 373 (within Australia) or +61 7 5557 4700.

Alternatively you can download the new PDS from our website.

The changes to the document include:

- Registered Office
  The Board resolved to change the Registered Office of the company to Level 2, 56 – 58 Nerang Street Southport Qld 4215
- The addition of two extra directors, Grant Vickers and Rob White
- Clarification of our valuation policy
- Explanation of the Liquidity of the Fund
- The Fund Manager has taken steps to implement a hedging policy for Ordinary Unit investors to overcome the currency fluctuations
- In relation to our Fees and Expenses – Expense Recoveries are forecast to reduce thus lowering the Indirect Cost Ratio
- Risk Factors have been reviewed
- Clarification and Disclosure of Related Parties
- AML/CTF Act (changes to the application form)
- Section 7.5 – Australia-US Double Tax Agreement (Article 8(3) has been amended)
- LSFL's membership with Financial Ombudsman Service (Effective 1 July FICS has merged with FOS)
- Opt–in of Trans-Tasman Mutual Recognition Scheme

Credit Risk

In the current environment it is crucial for any fund manager to have good control over counter party risk, which in our case is the risk that the insurance company does not pay on our policies when due.

This risk is reduced by the spread of policies across a wide range of insurance companies. There is also the fact that each US State operates a compensation scheme that partly indemnifies policyholders against insolvency of the insurer.

The Fund purchases policies issued by some of the most financially secure insurance companies in the USA. As the policy owner we enjoy the same regulatory protections available to all life insurance policyholders in that country.

One of the Fund's Policy Purchase Criteria is for policies to have been issued by an insurer with a suitable A.M. Best rating. A.M. Best provides ratings of the financial strength of insurance companies. Ratings provide an opinion of an insurance company's ability to meet long-term obligations to its policyholders, arising from an analysis of the insurance company's balance sheet strength, operating performance and business profile.

A.M. Best describes a "secure" insurer as having either "superior" or "excellent" balance sheet strength, operating performance and business profile. These companies are considered to have either a very strong or strong ability to meet their long-term financial obligations to policyholders.

The 567 policies that we currently own are a diversified portfolio issued by 70 different insurance companies. We limit our exposure to any one issuing company or group of companies.

To demonstrate the financial strength of these companies, the following table demonstrates our holdings as at 1 April 2009;-

AM Best rating	Category	Percentage Holding
A++	Superior	32.2%
A+	Superior	52.295%
A	Excellent	15.2%
A-	Excellent	0.3%
B+	Good	0.005%

So as you can clearly see, we are certainly comfortable with the credit risk within the portfolio as 100% of our policies fall within this 'secure' range. Of these, 85% by face value are regarded as 'superior' and all up 99.995% fall within a sub-category of 'excellent' or 'superior' (the highest 2 categories).

The Asset Class Helps Out

We have in previous editions of this newsletter discussed the ethical side of this industry in providing a service or outlet for thousands of American policy holders keen to sell their policy. There are of course many reasons why this would occur, but the important thing to realise is that no pressure is brought to bear on their decision. Circumstances often dictate their decisions, as per the latest example.

According to the Palm Beach Post newspaper, "After watching their wealth evaporate in what could be the largest financial fraud, some victims of the alleged Madoff scandal are considering selling their life insurance policies to support themselves.

Investors who turned all their liquid assets over to Bernard L. Madoff Investment Securities now may have little left except for their homes and insurance policies.

"In cases like this, people scramble to raise money," said John Pankauski, an estate attorney in West Palm Beach. For formerly wealthy investors, that means selling a life insurance policy. People who are worth millions often buy large life insurance policies as a way to reduce estate taxes.

According to Michael Silver, a financial planner in Boca Raton "These people are multi-, multi-millionaires who are now broke. It's a last resort." Known as a life settlement, the transaction means the investor takes over premium payments and collects the death benefit when the policyholder dies. Silver said he has talked to a number of Madoff clients, including one who lost $34 million. "They're flat broke," Silver said. "They're being forced to sell their home."

Why we ask for information

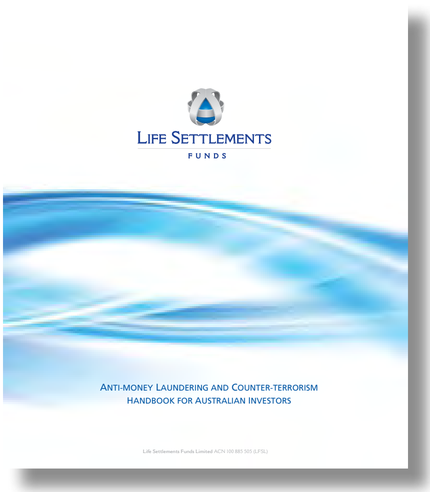
Under the Anti-Money Laundering and Counter-Terrorism Financing Act 2006, we have an obligation to monitor customers and their transactions on an ongoing basis. This 'ongoing customer due diligence' (OCDD) which was introduced December 12th 2008, will help us (and all other reporting entities) to identify, mitigate and manage money laundering or terrorism financing risks.

The AML/CTF Rules specify three mandatory components of OCDD:

- Collection and verification of additional 'know your customer' (KYC) information.
- A transaction monitoring program.
- An enhanced customer due diligence program.

Before providing a service to a customer, as a reporting entity we must collect and verify information about the customer's identity. As part of the OCDD obligations, reporting entities must also determine when it may be necessary to collect further information, or update or verify existing KYC information.

So if our administration asks you for further information or identification, we trust you will realise we're simply complying with the Government requirements set down for all investment fund managers.



Monthly returns

There's been a lot of talk recently about the revaluation of the assets of the Fund.
As I'm sure you're aware this was brought about by the convergence of two unusual circumstances, the lack of liquidity in investment markets and the changes to the industries life expectancy tables. The combined effect was such that it was prudent to revalue our existing portfolio of policies.
However it's also a good time to reflect on the value of this asset class in times of great volatility in other markets.

Since September 2006, our US$ units (which are not affected by currency fluctuations and thus represent a true indication of the power of life settlements) had a period of **26 consecutive months where the unit price increased**, before the fund was frozen to allow the revaluation to happen. Since then we've **continued the trend with six more positive monthly increases.**

This period of course was during the time of unprecedented volatility on world stock markets, plunging property values and fluctuating commodity prices. It clearly demonstrates that the low volatility of life settlements make it a perfect way to diversify any investment holdings.

As mentioned earlier the one-off revaluation caused the substantial drop in November 2008; however this value will of course be recouped in time as the full value of the policies is received at maturity.

We all know the extremes we've had in world share markets over the last year. The normal low volatility of life settlements, compared to these equity swings, certainly stands out and from that you can derive the diversification benefits it provides to an investment portfolio.

Whilst these returns have been positive, they have fluctuated for a variety of reasons including regular additional purchases of policies, payment of premiums, collection of maturities and our ongoing review each month of a portion of the portfolio.

It is important to bear in mind though that this growth in our unit price represents only one part of the potential return. The movement of the unit price is based on regular revaluations of the underlying assets. In addition to this however there is the distribution of the net profit realised from claiming under each policy (or selling some back into the market place). The large majority of our policies have only been purchased in the last 18 months so this aspect of the return has not yet kicked in.

All in all it's a compelling story and certainly an appropriate investment for the current financial environment.

New Zealand investors reassess the importance of Non-correlation and Diversification

Lyn Buckley

Correlation – is a technical term meaning the relationship between two or more variables over a period of time. For a very large segment of the population an obvious correlation (or relationship) exists in the way our jobs are tied to the state of our employers, which are tied to the state of the economy, which is further tied to the state of the financial markets. As we can currently see "correlation" can sometimes be a bad thing as it can lead to a domino effect.
Most major New Zealand investing institutions are invested in equities and are therefore ultimately affected by the same set of risk variables that influence our jobs. For example: interest rates, energy prices, geopolitical instability, natural disasters, currency fluctuations, commodity prices, etc.)
Recent turmoil has shown the interconnectedness of global markets. This has led to a very high level of correlation, not only among equities but across most asset classes.
It is times like now, when the entire house of financial cards starts tumbling; uncorrelated assets come into their own. Most importantly, life settlements tend to be capital stable and therefore a relatively "safe harbour" for institutions and private investors alike.
All investors know that not having all your eggs in one basket (diversification) is crucial to achieving long term investment objectives.
Life settlements provide non-correlated diversification. This is because insurance policies are independent of the factors contributing to economic downturns, such as interest rate fluctuations, changing fuel prices or employment figures. Wonderfully, with life settlements, the likely return or future value is pretty much known when the asset is purchased.
Whilst NZ has not been directly affected by the sub-prime credit crisis we are now being influenced by the resulting falls in global equity markets and developing global recession. As this takes effect the benefits of diversification into alternatives like life settlements have never been more pronounced.
Many NZ institutional investors are now actively increasing their allocation to alternatives – like life settlements - as a part of their overall asset mix. Overall life settlements look set to become an increasingly important safe harbour and long term asset class in NZ. The NZ team looks forward to supporting institutions, smaller investors and investment advisers in 2009.
For further information on the Life Settlement Wholesale Fund (LSWF), call Lyn Buckley, on 0274 501 518 (within NZ) to arrange a presentation.

Q&A

Mark Answers Your Questions.

Mark Brigden - Executive Manager Australia and New Zealand

Q Can you explain why this investment is not correlated?

A Once a policy is acquired, the performance of that policy is no longer correlated to any events, either inside or outside of the life settlement industry. The insured will eventually pass away and the Fund will receive the proceeds of that policy.

Therefore none of the traditional factors that influence markets, such as interest rates, oil prices, inflation and economic stability, have any bearing on the face value we'll receive for each policy.

It is only in the case of redemptions, however, and the possible need to sell policies to meet them, where the value that can be realised from the sale of a policy may be affected by market conditions in the life settlement industry at that time (but not by any outside forces).

These market conditions are correlated only to the amount of cash that is available to buy policies at any given time. Therefore, while the asset class is truly non-correlated, the amount received from policy liquidations is correlated to supply and demand within the life settlement industry.

Q What are the advantages of your open-ended Fund over a separate mandate or a closed end fund?

A As with any investment there are a number of risks. The best way to mitigate the known risks in this industry is to diversify, diversify and diversify. That is, diversify the number of policies held, diversify the credit risk posed by the issuing companies and diversify the medical impairments.

This is very difficult to do of course under the limitations imposed by a separate mandate or a closed-end fund.

Actuaries say that the law of large numbers will kick in at over 200 policies.

A portfolio with fewer insured lives is more vulnerable to longevity risk than a portfolio with a greater number of insured lives. Longevity risk, while it cannot be eliminated, can be statistically predicted, managed and reduced by aggregating 300 or more lives in a portfolio. This would place it outside the realm of most single mandates as it would require an investment of at least US$150 million.

With regards to the structures themselves there are a number of differences. A closed-end fund means your investment is locked in for the full period, with no liquidity should you wish to withdraw earlier. Any mistakes in longevity are magnified as you are not able to smooth out the portfolio with additional purchases. It's only when the last policy has matured that you understand the return you receive.

There are also questions of how you finance the ongoing premiums (money has to be set aside for these expenses) and whether early maturities are distributed or held in cash thus diluting returns. It may also be more costly to administer because of the securitization expenses.

Then there are the tax consequences to consider. Closed end funds may be considered as passive investors and thus liable for US withholding tax. Certainly you'd need to obtain independent tax advice in this regard.

Consequently we believe that our open-ended fund provides the best vehicle for institutional investors to access this non-correlated asset class.

Expansion into Europe

Following strong interest from European institutions over the last 12 months, Life Settlements Funds Ltd have been investigating the possibility of opening a second fund. It will be based in Europe and will simplify the tax issues for European investors and potentially some other investors as well.

We've been going through a due diligence process with a number of specialists and further details will be notified shortly.

Indeed one of our directors, Grant Vickers, recently spent a month travelling throughout Europe and Asia to address these issues. "The demand started last year in the UK but it has really progressed this year right across Europe" Grant stated. "They felt the time was right for this asset class, with its low correlation and low volatility, as well as the diversification that we can provide through our exposure, provided it was in a structure that suited their needs" he added.

CFO, Stephanie Nolan, also spent time in Europe recently working with our tax and legal representatives over there to determine the most appropriate structure. In addition to this she met with, and completed an initial due diligence on, potential service providers. "It's an exciting time for the Fund as we move towards UCIT compliance and thus secure strong interest from these major institutions" Stephanie said. "We're working through the process as quickly as possible to ensure we are able to meet the expected standards" she confirmed.

Recognition

It was great to see Duncan Free being recognised for his services to sport by being awarded the Order of Australia Medal. This talented sportsman has overcome numerous obstacles and showed determination and persistence to reach the top as an Olympic and World rowing champion.

Duncan is a Corporate Ambassador for our Fund and is available to speak to dealerships at conferences and PD days. Apart from numerous interesting stories he will also highlight the disciplines that reach from sport to the business world and help position your advisers for future success.

Should you be interested in this, just contact our marketing administration.

Australian Financial Advisors

Anissa Cavallo

Alex Hawkins

Ed Oliver

(This article is submitted by BDM Direct, the Australian retail distributor of the Fund)

Whilst it has been a tumultuous year for financial planning it has also been a time for positive change. Perceptions, risk tolerance and investor behaviors have all undergone a maturation process as the industry experiences the benefits of true diversification.

As a result the market is ripe for alternative assets and BDM Direct, along with the Life Settlements Wholesale Fund (LSWF), are poised for a year of real growth.

Our market research over the past couple of months has found that financial planners have significant funds sitting in cash. Almost 100% of new money has been invested passively up to 8 – 12 months. Financial Advisers are keen to invest their clients' money but are not confident with "older style" products which are correlated so strongly with US and global markets. In addition investors and financial advisers have become more realistic about returns. As a result, alternative investments that will not "shoot the lights out" but show resilience in a variety of markets is more palatable. Indeed financial advisers are looking for alternative investment opportunities particularly those that can show positive returns over the past 3 years.

Interestingly there are very few products available to the market. Investment Managers who have performed very badly over the past 12 months are focusing on current fund issues rather than delivery of new products. In addition many products are simply unavailable for new investment.

BDM Direct met with over 41 dealerships and 175 individual advisers to discuss their sentiments on the market and LSWF earlier this year. There has been very strong interest in LSWF with many advisers simply awaiting independent research to make their recommendations. Some of the stronger interest has been with medium sized independent financial planning groups all of whom wish to invest over $3m at a time.

These along with 30 other groups that are currently interested in the product have been extremely positive about LSWF and its recent reaction to circumstances in the United States.

The researchers, dealership gate keepers and individual advisers have largely applauded LSWF for its very strong due diligence process and ability to respond quickly to any threats to current unit holders. They also see the changes to the unit price as an excellent opportunity to invest in the fund at a discount.

Indeed the appetite for alternative investment in the retail market is very strong. BDM Direct is so confident about 2009 that they have launched a new office in Sydney. Alex Hawkins, State Manager, will be heading up the office supported by Edward Oliver, Business Development Officer.

Alex has a history in building specialist investment products as well as distribution opportunities. As a Credit Analyst with Balmain Commercial she helped assess and structure property debt transactions which led to a specialist manager role at Mirvac Aqua.

Alex left Mirvac as the Key Account Executive who had been responsible for delivering over $300m into 3 boutique style mortgage funds. She holds a Bachelor of Commerce / Bachelor of Arts Degree from University of NSW, and has completed the first level of the Chartered Financial Analyst designation.

Chris Renouf and Ross Ansell outside the Oberoi Hotel in Mumbai.

Life Settlements Wholesale Fund Goes To India

Chris Renouf, Executive Manager Asia, visited Mumbai during November 2008 along with our consultant Ross Ansell.

Fortunately they departed Mumbai just four days prior to the terrorist attacks on their hotel and the cafe they frequented on a number of occasions.

Whilst there, they met with three of the major Mutual Funds who saw an enormous potential to develop LSWF as an investment opportunity.

Everyone they met was very impressed by the concept and expressed a very strong intention to promote LSWF through their very large distribution networks.

India has 35 significant Mutual Funds represented in every major city across the country. Total assets under management are over US$100 billion, and growth on an annual average over the last 3 years was 48%.

Ross was previously a director of a NASDAQ listed Internet Telephony company through which he established very good contacts throughout the business community in India.

How to invest in the Fund

Direct investors can buy units in the **Life Settlements Wholesale Fund** by completing an application form which is available in the Product Disclosure Statement (PDS).

The PDS can be downloaded from our website: www.lifesettlementsfund.com and/or contact the Fund on 1300 88 13 73 or +61 7 5557 4700 to receive a printed copy of the PDS.

Units in the Fund are also available via the following investment platforms' investor-directed portfolio services (wrap account or master trust) with the minimum investment or additional investment determined by that service:

Australia

- Macquarie Investment Manager
- BT Wrap
- Symmetry (Avanteos)
- Access121 (Avanteos)
- Netwealth
- Wealthsure

New Zealand

- Discovery
- Aegis
- BNZ Custodial Services
- ABN AMRO
- One Answer

Worldwide

- Scottish Life International Flexible PIMS

Superannuation platform

- Macquarie Super & Pension Manager

Bloomberg

LIFSETW AU - Ordinary Units
LIFSETA AU - AP Units
LIFSETE AU - EA Units
LIFSETS AU - SA Units

Morningstar

LFS0001AU

IDENTIFICATION CODES

APIR CODE	ISIN	PRODUCT NAME
LFS0001AU	AU60LFS00013	Life Settlements Wholesale Fund
LFS0004AU	AU60LFS00047	Life Settlements Wholesale Fund - SA Units (South America)
LFS0003AU	AU60LFS00039	Life Settlements Wholesale Fund - EA Units (Europe-Africa)
LFS0002AU	AU60LFS00021	Life Settlements Wholesale Fund - AP Units (Asia-Pacific)

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