LIFE SETTLEMENTS FUNDS

SUM ASSURED

Issue 13 • July 2010

Inside:

Cover image: The White House - Washington DC

Chairman's Message

Ian Cotton

The recent industry conference, organised by the Life Insurance Settlement Association (LISA), confirmed that this asset class continues to move in the right direction, with increased regulation, increased consumer awareness and action plans to ensure best practice procedures. We fully support the recent legislation that strengthens the framework surrounding transactions.

There's also been a lot of work done through LISA to standardise the mortality tables utilised by the medical underwriters. This will result in further confidence in their work which can only be good for the industry.

No-one is taking anything for granted though as the industry as a whole looks to develop appropriate safeguards to ensure against things such as fraud and privacy issues.

Every policy we have purchased was initially analysed by 2 Certified Fraud Examiners on staff, and then assessed by people with experience in looking at the wording contained within each policy document. We go to great lengths to ensure we have legal title to our assets and every likelihood of receiving the full proceeds in due course.

There is no doubt that interest in life settlements is increasing with institutions worldwide now starting to look at the benefits of diversification that these assets can provide. In this issue we suggest a few aspects they should consider when deciding who should manage their investment.

One fantastic development has been the research into the asset class by 2 major asset consultants and their recommendations to institutions to seriously consider an investment. This is recognition that the industry has now developed to a stage where these conservative analysts have recognised both the regulatory framework and the potential diversification benefits.

From an administrative perspective we will shortly be issuing a distribution to our unit holders representing net profits on matured policies. Lots of work is being done behind the scenes on jurisdictional matters and international tax regulations to ensure our fund and our offerings remain appropriate for clients wherever they are situated.

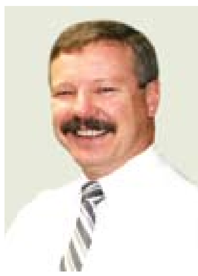
I mentioned in our last newsletter that we were continuing to focus on positive returns for our investors. The recent volatility in equities markets worldwide gave me cause to reflect on this earlier statement with some pride. Consistently providing increased wealth to investors and shareholders should be the aim of all Fund Managers. You'll see in an expanded article later in this newsletter that we have managed to do that this year. In fact we have managed to do that for 44 months out of the 48 months we have been in operation. That's a 92% rate of increases on a monthly basis.

It's a great achievement considering the economic environment and developments of recent years. And you can be assured we'll try to continue to perform to this high level.

Financial Year Results

As of 30 June 2010 we have announced our maiden dividend for unit holders. 'Despite the volatility in other markets, we are pleased to announce a positive performance for the last twelve months" director Stephen Knott said. Our Ordinary Unit holders have seen an increase of 6.17% for the year, whilst our US $ units have increased by 5.85%.

The unit price represents a valuation of the current market value of policies as they get closer to maturity, but it is only a fraction of their long-term maturity value. "For all investors the maximum return on their investment will come through policy maturities. This represents the early stages of the portfolio beginning to mature" Stephen confirmed.



Stephen Knott

Administration Notices

A couple of statements will be forwarded shortly that should be retained for preparation of your tax return;-

- A distribution statement will be mailed in July
- A tax statement will be provided before September following completion of the Fund's audit.

If you have any questions in this regard don't hesitate to contact our Administration team, including Darlene and Candice.

Candice Jellick

Darlene Cummins

Major Asset Consultants Research the Asset Class

Whilst many institutions have been watching this asset class for a number of years, investment has been delayed until their investment consultants completed their research. Two major international research houses have now released reports on life settlements, both deeming it worthy of serious consideration. Here's a brief extract from the detailed report compiled by Mercer.

Ryan Bisch - Mercer

Ryan Bisch is a Senior Associate in Mercer's Alternatives Boutique, a unit within the Investment Consulting business. In this role, he is primarily responsible for generating intellectual capital and providing advice to institutional investors on the use of alternative assets. Additionally, Ryan is responsible for manager research coverage of insurance linked strategies. Ryan joined Mercer in September 2002 as an actuarial consultant. He is based in Sydney, Australia. He holds a Bachelor of Science majoring in actuarial science and with a minor in business from the University of Alberta, Canada. Ryan is a CAIA charter holder and an affiliate member of the CFA Institute.

One of the fallouts of the global financial crisis was the realisation that many of the more traditional alternatives, such as hedge fund of funds, asset classes failed to provide adequate strategy diversification. Mercer believes investors should continue to investigate the use of longevity-linked investments such as Life Settlements to gain exposure to real alternative risk premia.

Longevity-linked investments are increasingly becoming a larger part of the larger Insurance-Linked Strategies (ILS) asset class, an asset class where, until recently, the majority of the focus has been on investments linked to catastrophe reinsurance. However, increased volumes in the longevity-linked strategies, such as life settlements and longevity hedging instruments, signals a wider acceptance for these types of risks by capital markets investors.

We believe the Life Settlements asset class has potential to offer an attractive return stream uncorrelated to capital markets. Investors can capture an underlying risk premia, longevity risk, which is effectively an arbitrage against the insurance company.

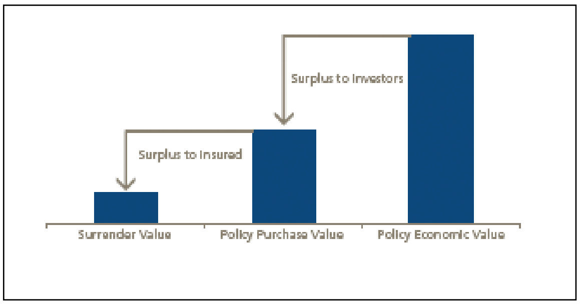
Understanding the intricacies of managing exposure to longevity risk is critical to a successful investment in this asset class. This asset class is potentially worth consideration only by investors who have an appreciation of its risks and complexity.

The underlying risk premium investors capturing with an investment in Life Settlements can be best described in as an exposure to:
• a structural pricing inefficiency and
• a liquidity premium

This structural pricing inefficiency is further exploited as individual insurance policies cannot be re-priced once issued, even in the case where the insurance company is aware of new information, such as a new medical impairment of the insured, which would impact the value of the policy.
We believe this risk premium should remain over the medium term, however short term imbalances could cause fluctuations in the level of the returns available to investors.

Investors in the Life Settlements market should be able to benefit from this structural pricing inefficiency by purchasing policies with low surrender values from individuals with impaired mortality profiles and then holding the policy to maturity.

The Life Settlements asset class is new and relatively untested from a mainstream institutional investor context. While data and asset class history continues to accrue, the perceived risks are high. Investors need to be comfortable that the returns available are sufficient compensation for the risk involved in being an early adopter / investor in Life Settlements.



Mercer believes there are close parallels between a life settlement investment strategy and successful implementation strategies for other areas of alternative investments such as private equity or hedge funds. As always, for example, well considered implementation is critical, access to high quality managers and careful due diligence is of paramount importance.

For a full copy of his report please contact Ryan on +61 2 8864 6474.

Assessing an Investment Manager

Mark Brigden

The attraction of the low correlation of life settlements to other asset classes has not only generated interest from institutions keen to invest but has also seen several players keen to function as a Fund Manager.

So how does an intending investor assess the merits of a prospective Manager? In traditional asset classes they might first look at the performance of the Fund Manager against a benchmark. It's easy with listed assets like equities and you can soon see if a Manager brings additional performance over and above the market return by comparing to an index benchmark such as the S&P 500. However in the life settlements asset class you can't rely on indexes. There is an index that collates information from 16 different funds; however this can only be used as a guide as the funds within it all have different methods of operation. There is no standard benchmark that allows you to compare different funds.

For this reason you also can't assess performance based on a peer group. Unlike say long-only growth funds, which predominantly have the same pool of assets to choose from, each life settlement fund manager can select policies with very different attributes and then value them in a different manner. Therefore there is no grouping of like-minded managers.

Similarly past performance is not the best barometer of future performance unless you can get a good handle on the valuation methodology used by the various fund managers and understand the characteristics that make up their pool of policies. There is not a standard monthly increase or decrease attributable to each individual policy; it all depends on where they are in their respective mortality curve, when premium payments are due and which valuation method is adopted. For example a fund showing exceptional profits in the short term may not be valuing the policies on a realistic mark-to-market basis and thus could suffer a substantial decrease in the unit price once policies get close to their estimated maturation point. Valuing them too highly early can mean a detrimental effect as additional premium payments have to be made.

It is important to understand that life settlement policies are not homogeneous products – they all have different characteristics and return profiles.

In addition to this, there are a number of different ways to access this asset class and these avenues differentiate us from our competitors. We certainly don't offer derivatives, as we feel these complex financial instruments add unnecessary risk to the equation. They also lack transparency of fees and your liquidity options are severely limited. Recent economic events have also shown that the credit-risk is magnified if you are reliant on say one investment bank for your counterparty risk (think Lehman Brothers and Bear Sterns).

So in looking for someone to manage your investment in this asset class by way of physical policies, the key aspects you must look for are;-

- **Management and industry experience** is a must! Two of the greatest challenges for institutional buyers in the life settlement market place are disciplined acquisition and then managing the policies after they are purchased. You need to work with experienced professionals who are familiar with the full chain of events, from sourcing policies, undertaking a detailed analysis of the wording of each policy, utilising appropriate selection methods and ongoing, effective management.
- **Policy selection** is crucial and we utilise sophisticated analytical tools that collectively provide the best risk assessment and risk management process available in the industry, thus providing our strong competitive advantage.
- **The appropriate structure** is vitally important. Should you be part of an open-ended fund to provide diversification, or is your investment large enough for a separate, actively-managed mandate? Depending on your jurisdiction tax consequences may potentially be significant and you need to work with managers who understand the best vehicle for your circumstances.
- **Strong relationship** ethos. In this asset class it is important that you work not only with people who know what they are doing, but also who are accountable and keep you informed of developments. Transparency and understanding are key issues so you need to select an experienced Manager used to dealing with institutions.

Naturally we can elaborate on this in much more detail, so don't hesitate to contact Mark for a discussion in this regard.

Industry Developments

Many states in the United States have introduced regulations allowing investors to view life settlements with greater confidence.

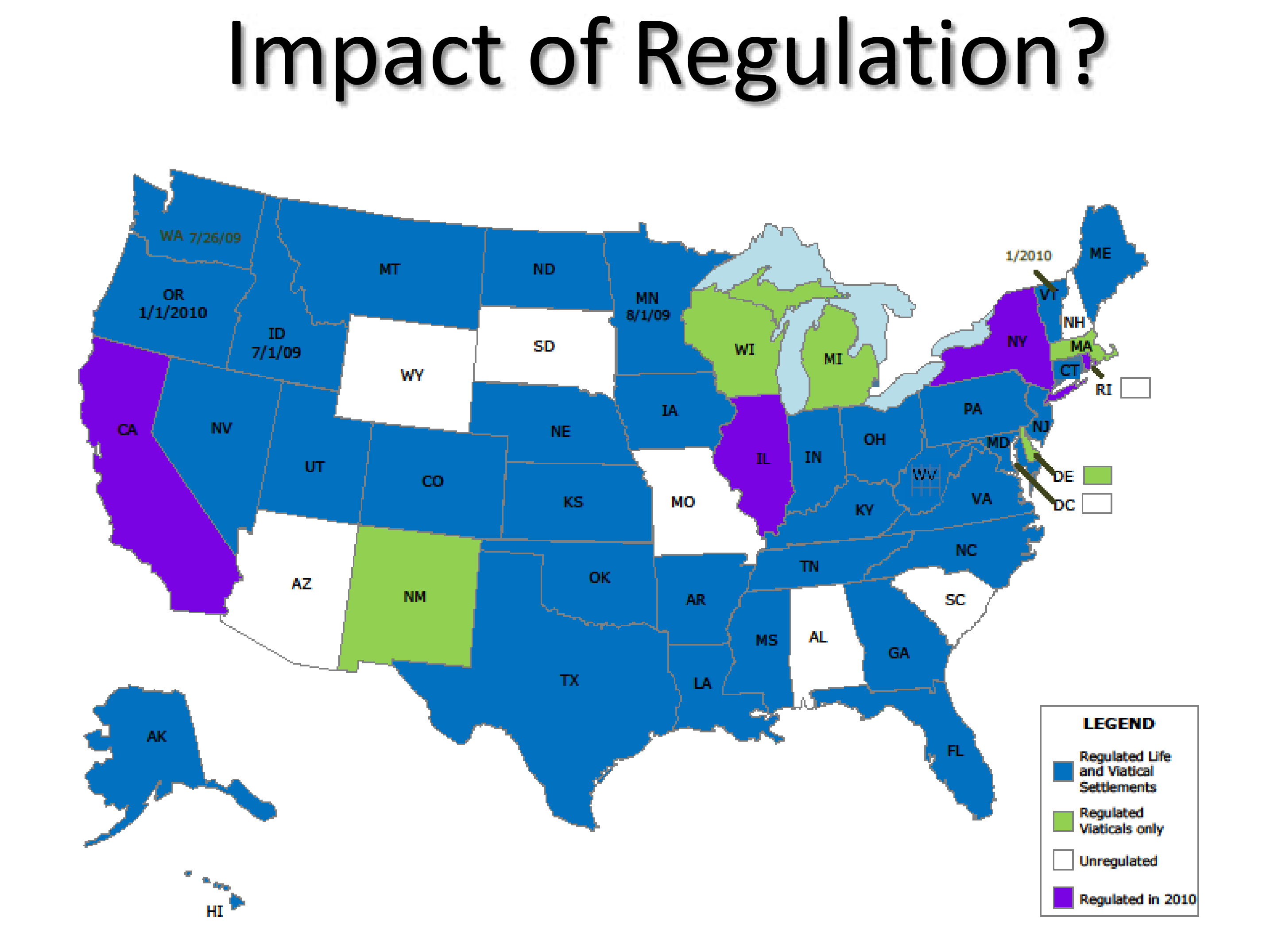
Once considered a niche industry, life settlements is now a broadly regulated market place. By the end of this year over 90% of Americans will live in a state that regulates life settlements and thus they are able to consider a sale if it suits their circumstances, under the protection of the regulatory framework.

Insurance is regulated at a State level in the US, and to date 39 States and 1 territory have already passed legislation to protect consumer's rights in this industry, while several other states have legislation pending. This is demonstrated by the map produced by L.I.S.A shown below.

In many of these states they have moved to abolish what is known as STOLI's (stranger originated life insurance) to ensure no fabricated situations detract from the market place. These policies, where a third party investor pays a senior citizen to take out insurance cover for the benefit of the investor, have been contrived and thus the owner has no insurable interest. The legislation to ban these practices has no effect on legitimate life settlement policies. It should be stressed that we have not and will not buy these types of policies.

The market for available life settlement policies has been growing – no doubt a combination of the current economic environment giving some people cause to sell, whilst the liquidity crisis in recent years has restrained the growth of institutional investment.

The feedback from our partners regarding the secondary market and opportunities show there are few serious buyers in the market right now, although many are looking at it. We expect this to change within the next six months, so timing is great now from an investment perspective.



Source: Life Insurance Settlement Association

Fund Consistency

The volatility in financial markets and the poor performance of the other asset classes has only strengthened the case for life settlements. In fact, the performance of our fund since inception highlights the smoothing effect and the benefits that an allocation to this asset class can bring to an investment portfolio. Considering the wild swings in equities in recent years, let's look at a snapshot showing the monthly performance of our US$ unit class and whether the monthly return was up or down on the previous month.

	2006	2007	2008	2009	2010
January		+	+	+	+
February		+	+	+	+
March		+	+	+	+
April		+	+	+	+
May		+	+	+	+
June		+	+	+	+
July	-	+	+	-	+*
August	-	+	+	+	
September	+	+	+	+	
October	+	+	+	+	
November	+	+	=	+	
December	+	+	-	+	

*Unit price and distribution

Now that's the sort of result that an absolute return fund tries to encapsulate, although most haven't done this well. This table shows we have had only 4 months since inception when the unit price (or unit price plus distribution) has decreased from the previous month, as compared to 44 monthly increases. And 2 of the negative months were at the start when we had the set-up costs to account for.

Don't you wish your equity investments performed with this consistency??

It's worth considering this stability as an addition to your investment portfolio.

Reputational Risk

One factor being considered by institutions prior to an investment in this asset class is reputational risk. That is, the impact they could suffer from negative headlines associating them with profiting from mortality. But is this realistic or just based on the ignorance of lazy journalists?

It is both morally and ethically responsible that people have access to a market where an asset can be sold at a fair market value. Of course if someone wishes to retain their insurance cover then they will. People in the US have long had the choice of retaining their policy and continuing to pay the premiums themselves, or of surrendering the policy for a nominal value or even letting the policy lapse for no compensation (except they don't have the burden of making further premium payments).

With life settlements, people choose to sell their policy in a structured, regulated process that protects them as the policy owner. It simply becomes another transaction between a willing seller and a willing buyer. They would choose this option after consulting with their financial adviser or insurance agent (who has a fiduciary duty of care to their client) and form the view that the policy is no longer required.

Some policies on the secondary market are 'key-man' insurance policies taken out as part of a business or rural enterprise. When the business is sold the cover becomes excessive and rather than letting it lapse owners can unlock some of the value in that asset themselves by selling it as a life settlement.

Investors who are considering this asset class need to be aware that the sale / purchase of a policy doesn't add or subtract a single day of life from an individual. Yet there is no denying that the Fund (and its investors) does add to the quality of an insured's life by purchasing their policy.

Life Settlements are a financial instrument that is based on traditional life insurance products that have been available for hundreds of years. Taking away all the emotion, a life settlement creates greater value then the Cash Surrender Value (CSV) offered by the life insurance companies. If that value is not there the settlement would not be viable. A life settlement is based on the calculation of risk and return as applied to the life expectancy of the insured, just as the life insurance policy was calculated when initially purchased.

There are two key aspects to keep in mind;-

- It is the insured who initiates the transaction, as they want to derive an economic benefit from an unwanted policy. So the choice to sell is theirs.
- To them the policy becomes a 'living' policy rather than a 'death policy' and the original owner can enjoy the benefits whilst they're alive.

From a business perspective, life settlements can be an attractive investment, and from the personal perspective of the policy owner, it is a valuable service. Therefore a life settlement offers a win-win outcome for both parties as an unwanted life insurance policy becomes a valuable, tradeable asset.

Who Sources Our Policies

Laken Mitchell

Rob White

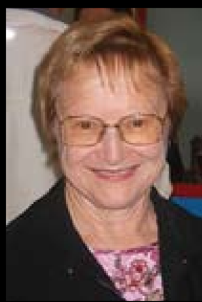
CMG Surety LLC, a U.S. licensed life settlement provider based in Florida, is a leading originator of life settlement policies in the industry. With an affiliated FINRA broker-dealer firm, Sovereign-American Securities Inc., CMG sponsored 15 securitizations of life settlements both in the U.S. and around the world from 2003 to 2006. In late 2005, CMG acquired an equity interest in the RE and has become the primary provider for the RE.

CMG has acquired over 600 policies, representing over US $2.4 Billion of death benefit. Unlike other providers in the industry, CMG continues to manage every policy it has acquired for its clients. CMG has also created proprietary policy analysis tools that give it and the RE a distinct competitive advantage in the marketplace.

It's important to deal with the right people.

New Zealand News

Working in a Global Village



Lyn Buckley

The impact of the last few years has been felt in all countries either directly or as a flow on effect. Asset classes have come under scrutiny as investors searched for safety, simplicity and transparency. In NZ, investors perception of risk and return have been challenged where previous "shocks" have tainted different asset classes, which has lead once again to a flight to safety.

Governance and regulation have been called into prominence as sovereign stimulus has supported areas in the capital markets on a short term basis. A flight to within a regulated market has strengthened the interest within the Life Settlements Sector. The Life Settlements Sector is not correlated to the capital markets, and works within the insurance industry which has a long history as a highly regulated market. It is through these regulations that the opportunities for the asset class and the life insurance policy owner have become apparent.

The life insurance contract is treated as an asset and therefore the ownership can be transferred at the request of the original owner. Insurance regulations in the US, set out criteria regarding the transfer and the validity at maturity which provides security for the investor – new owner. The transaction is simple and transparent.

Life Settlements Wholesale Fund provides investors returns during GFC.

Being amongst the most accountable life settlements funds in the world, Life Settlements Wholesale Fund is being seen as a "safe harbour" by prudent and savvy investors. Flexibility and control can be achieved through tailored structured investment vehicles to suit an investors or institution specific needs. The fund is expected to yield an attractive return for investors over a medium term hold from both unit price increases and dividends from the collection of maturities as they fall due.

If you would like more information on this potential, give Lyn a call on 0274 501 518.

Think About This

In a portfolio of life insurance policies the investor holds contracts issued and guaranteed by a wide range of highly-rated life insurance companies. If you held debt on one of these companies you might receive say a 5.75% yield on a 7 year corporate bond. With a direct cash investment into life settlements, the investor is likely to receive substantially higher yield for substantially less credit risk.

Portfolio Construction

Something to consider if you're looking at a substantial investment in a separate mandate - The portfolio construction objective is to put together a portfolio with an actuarially significant number of life settlement policies so that the overall risk of life extension in any one policy is minimised. Additionally, portfolio construction aims to achieve diversification between issuing insurance companies, medical impairments of the insured and the stage in the lifecycle of the individual policies. We will manage this aspect for you.

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

- Royal London 360°

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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