



# LIFE SETTLEMENTS FUNDS

SUM ASSURED

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**Global Insurance Settlements Funds PLC**

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Cover image: Dublin, Ireland



**LIFE SETTLEMENTS**  
FUNDS



**GLOBAL INSURANCE**  
SETTLEMENTS FUNDS PLC

## Chairman's Message

# Change

Change is something we've heard a lot about in the media over the last year or so;-

"We need to change because of the after-effects of the global financial crisis".

"It's a different world now so our banks will need to change".

"Investment return expectations will need to change".



Ian Cotton

Let me put this into context. The liquidity issues felt in the financial sector that started late 2008 may resurface with the current European problems. This, combined with the deflating of various bubbles around the world such as share

markets and US housing,

will have a serious impact on everyone. Many people lost their job whilst others have to delay any hopes of retirement. However it's not something new as these things happen in cycles and there have been numerous corrections throughout history.

It's only human behaviour that we over-react to good or bad news and that's what causes these economic cycles. After the initial euphoria and speculation we see the effects of excess leverage and markets can then collapse very quickly. No-one likes the catastrophic losses experienced by many investors over the last few years. What is important though is that with many of these assets it only matters if you have to sell in the crisis, or need them to generate an income. That is why a long term focus and diversification are important. And thus true alternative assets will form an integral part of investment portfolios going forward as the importance of low correlation to equities and property takes on more prominence. Our assets, life policies, still retain the same face value which we collect in due course.

The worldwide economy will eventually get back to normal, as necessity drives structural changes and developing economies look to innovate.

But there's no doubt that CHANGE IS NEEDED, hopefully driven by an acceleration of

productivity growth, utilising new technologies or at least new applications of existing ones and importantly improved regulatory controls.

**And that is a lesson we have taken on board and embraced – looking for productive change that can help our investors.**

As an industry life settlements have undergone some major changes over the last year or two to better position it for future growth. Elsewhere in this newsletter we'll talk about the regulatory changes, which have only strengthened the case for life settlements. The industry is also developing codes of conduct and standards on several fronts, which will lead to higher confidence for policy sellers and investors.

On a fund level however we have spent considerable time researching the best structure to hold these assets in that will enable us to provide tax clarity to investors. We have no doubts about other aspects of our business – the regulatory framework, the financial strength of the insurance companies that issue our policies, our extensive due diligence and selection process as well as our strong compliance procedures. The only grey area could be the potential tax treatment given by the US Internal Revenue Service and the possibility that they could impose a withholding tax on policy proceeds, thus diluting the returns of our investors. To date we have relied on certain provisions under the US / Australia Double Tax agreement. Whilst we had good tax advice as to this position, there had been no definitive ruling by the IRS so we sought to strengthen the position for our investors.

Consequently we have launched a new structure that will provide significantly higher confidence for our investors. This is not about tax minimisation; it is just designed for tax efficiency for our investors, irrespective of their

domicile (ie. investors pay tax in their own country at their own rates).

Global Insurance Settlements Funds PLC is an investment company listed on the Irish Stock Exchange. It is structured as an umbrella fund with segregated liability between its sub-funds. The sub-funds may be open-ended (like our current fund) or closed-ended to enable institutions to provide a separate mandate if their investment is large enough to provide them with the required diversification.

Life Settlements Funds Ltd, the Responsible Entity for our existing fund, will become the Investment Manager and Distributor of the Global Insurance Settlements Funds PLC. The current underlying investments will be transferred to the new environment and managed in the same way, with no increase in the management fee.

Our existing unit-holders in the Life Settlements Wholesale Fund have been written to and informed that we can now offer them the strongest clarity about the tax issue in this industry. The existing fund will become a sub-fund under the new structure. So instead of owning the policies outright, the LSWF will own shares in the new entity, the Global Insurance Settlements Funds PLC, which can take advantage of the Irish tax treaty and our unique structure.

We are very excited about this new offering which is the result of countless hours of research by our staff and advisers. The life settlements industry has a fantastic future and we now have the best vehicle to deliver success to our existing investors and meet the requirements of potential investors worldwide.

Therefore whilst change is something we are all wary of, there are productive benefits.



# GLOBAL INSURANCE SETTLEMENTS FUNDS PLC

## Global Insurance Settlements Funds PLC

### This structure is:-

- a variable capital investment company incorporated as a Public Limited Company (PLC)
- listed and traded on the Irish Stock Exchange
- registered with the Financial Regulator as a Qualifying Investor Fund (QIF)
- that qualifies as a resident of Ireland under the Irish / US Double Tax Agreement

### What this means is:

- the investor will own shares in a listed company, from which it will receive dividend income
- so as long as an investor is a "Qualified Investor" they can invest in the fund

A Qualified Investor is either a professional client (with the appropriate expertise, experience and knowledge to understand the investment), an eligible institution or a fund such as the existing Life Settlements Wholesale Fund that meets the following criteria:-

### Qualifying Investor Fund (QIF)

A QIF is subject to the following conditions:

1. minimum subscription per investor €100,000 and
2. institutional investor owns or manages on discretionary basis at least €25 million, or
3. individual investor has a minimum net worth of €1.25 million (excluding principle residence)

### From a taxation aspect:

- as the entity is an Irish Resident for tax purposes there is no US withholding tax imposed on death benefits
- distributions/dividends paid from Ireland to offshore jurisdictions are not subject to withholding tax
- provides tax efficiency

## Service Providers

As part of the transition to the new Fund, CAECIS Bank Luxembourg, Dublin branch will act as the custodian of all of the assets of the company. They have a good knowledge of life settlements and are highly respected within our industry. They are currently the 9th largest custodian in the world with assets under custody in excess of €2.37 trillion as at 30 September 2010. They employ 3,500 people worldwide in 11 different locations.

The policies themselves have to be held in the US, so Wells Fargo Bank has been appointed as sub-custodian. We are certainly comfortable working with two blue-chip custodians to ensure the safety of the assets owned by our investors.

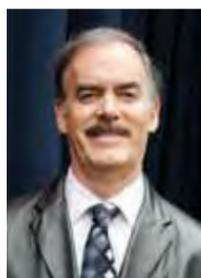
# Our Directors

## Meet the directors of the Global Insurance Settlements Funds PLC;-



*Ian Cotton*

Ian is also Chairman of Life Settlements Wholesale Fund. He has been a member of the Australian Institute of Chartered Accountants and a Fellow from 1969 to 2008. Until his retirement in August 1993, Ian had spent his entire professional life with the international firm of accountants, Deloitte Touche Tohmatsu. During his professional career he has also been a director of several public companies listed on the Australian Stock Exchange, one of which he was Chairman.



*Laken Mitchell*

Laken is also a Director of the Life Settlements Wholesale Fund. He is President and Director of CMG Surety LLC, based in the United States of America and is a securities and corporate attorney who has been involved in the securities and investment brokerage industry since 1981. In addition to his private law practice, he is a controlling owner of Sovereign-American Securities, Inc., a FINRA member firm.



*Stephanie Nolan*

Stephanie is a Director and the General Manager of Life Settlements Funds Limited and is a member of the Risk Management Committee and Investment Committee for the Life Settlements Wholesale Fund. Stephanie is a chartered accountant and has spent her career in investment banking and fund management. Stephanie is also the General Manager of LSI Management Limited.



*Paul McGowan*

Paul was a financial services tax partner in KPMG for more than 25 years and was Global Head of Financial Services Tax for KPMG. He is a former chairman of the Irish Funds Industry Association. He is currently chairman of AEGON Ireland PLC and a director of Milestone Aviation Limited. He is also chairman of the IFSC Funds Group established by the Department of the Taoiseach and was appointed to the EU Arbitration Panel on transfer pricing by the Irish Government. Paul is an Irish resident.



*Bronwyn Wright*

Bronwyn is a former Managing Director and Head of Securities and Fund Services for Citi Ireland. In that position, she was responsible for the management and strategic direction of the securities and fund services business which included funds, custody, security finance and global agency and trust. Bronwyn holds a degree in Economics and Politics as well as a Masters degree in Economics from University College Dublin. Bronwyn is past chairperson of the Irish Funds Industry Association committee for Trustee Services. Bronwyn is an Irish resident.



## How It Works / What it All Means



Mark Brigden

diversification when combined.

Even though the fund is listed on a stock exchange it is still intended as a long term investment, not one to be actively traded. This of course is necessary as it is the collection of the maturity proceeds in due course that derive the main component of an investor's return. All we are doing is basing a fund in a different, but well-recognised, jurisdiction, so as to have clarity about the tax position irrespective of which country our investor resides in.

So what does this mean for our existing investors;-

1. Don't be confused by terminology such as shares – the investment is still exactly the same, US life policies that meet certain criteria. Existing investors will still own units in the LSWF, which will invest in the new fund. New

investors, that meet the qualifying investor criteria, will be allocated shares in our new fund

2. The value of our portfolio will not be impacted by movements in the share market, so the benefit of the very low correlation to equities, bonds and property still applies.

3. The Life Settlements Wholesale Fund will invest in a sub-fund under the umbrella of the Global Insurance Settlements Funds. This means LSWF is able to take advantage of the greater international recognition of European structures as well as the tax clarity provided under the Irish tax treaty by using our new structure.

4. As part of the transition most of our institutional clients will separate into another segregated pool managed by us. Our retail investors will remain in the general pool. It is expected that the majority of new investors, including institutions, will join the general pool also, unless their investment is of sufficient size to warrant a separate sub-fund.

5. Initially the open-ended pool that LSWF will transfer into will obviously be smaller until new investors proceed.

6. KPMG will continue to audit the fund and copies of our annual reports will still be

available.

7. The life settlement policies will continue to be independently valued by a leading actuarial firm. This provides our investors with comfort that an independent specialist is determining their current market value. Existing investors will still be provided with a monthly unit price, and our reporting will continue to clearly demonstrate performance.

8. The current Responsible Entity, Life Settlements Funds Limited, will now function as Investment Manager and Distributor of the new fund, as well as managing the LSWF.

9. In terms of fees, there will be no change for existing investors in the LSWF.

10. A new Product Disclosure Statement for the Life Settlements Wholesale Fund will be released, after the constitutional changes have been passed.

11. One change in this prospectus will be the redemption notice period required. This will increase to allow payment to be made within a maximum of 180 days (plus 30 days notice period) as compared to 90 at present. This will better enable us to manage our liquidity requirements in the interests of all investors.

12. Australian dollar investors will still be able to invest via the new LSWF prospectus.

## Industry Benefits

**The U.S. Governmental Accounting Office (GAO) reports that from 2006 to 2009 policy owners who sold their policies received \$5.56 billion more than had they surrendered their policies.** So there can be no doubt as to the benefits that the ability to sell a policy brings to American consumers. This of course would have represented many thousands of policies. Naturally they have the choice to retain their policy, however should they choose to sell then they receive substantially more benefits than just lapsing or surrendering their unwanted policy.

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 do add to the quality of the insured's life by purchasing their policy.

Like any developing industry there can be teething problems. However according to the GAO and the National Association of Insurance Commissioners (NAIC), there were fewer than 20 consumer complaints involving life settlements reported nationally to state insurance regulators over the past four years.

This clearly shows that the benefits are there for people selling the policies, whilst the framework and regulations set down ensures that the transactions process occurs as expected.

## Institutional Acceptance

In late 2008 the Pensions Institute produced a report that concluded "There are no particular ethical issues associated with life insurance policies, provided products and processes are fully transparent and provided the privacy of the policyholder is safeguarded". Life insurance settlements are little different to the pension industry where annuities are based on life expectancy. Indeed public pension funds have been making sizeable investments into this asset class, with many more expected.

# Industry Regulations

Insurance in the US is regulated at a State level and there has been legislation introduced to most states to safeguard a consumer's rights to sell their policy and strengthen the framework behind the industry.

In a recent court decision (November 2010) the New York Court of Appeals reaffirmed 150 years of jurisprudence in both New York and the United States, which recognises the basic property rights of life insurance. The outcome supported existing legislation and most states now have specific legislation in place. This decision against Phoenix Life Insurance Company, along with the recent court decisions against AXA Equitable Life Insurance Company and Lincoln Life and Annuity Company of New York, and the regulatory actions against several other companies for interfering with life settlements will further accelerate the renewed interest from investors in the secondary market for life insurance.

Life insurance, purchased by consumers to protect their families and as an asset class for investors who buy policies that are no longer needed or wanted by consumers, has been affirmed as a secure investment by this decision of the highest court in New York State. Both consumers and investors are more secure in the knowledge that the death benefit will be paid.

# Financial Reforms Point to Stability

Moody's new "global stress test" measures the risk that the operating liabilities of insurance companies may cost more than they expected, combined with potentially reduced investment income following recent economic developments, could place insurance companies under stress. However the insurance companies passed this test in good state. Moody's found that most of the world's life insurers have enough cash, or access to cash, to cope with periods of severe financial stress.

The 2010 Financial Reform Law in the United States continues state-based regulation of insurance carriers but the law also creates a Federal Insurance Office to monitor the insurance industry. This oversight of insurance practices will only benefit the life settlement industry.

# New Zealand Scene

Like all other areas of finance, New Zealand is also in the midst of change with new regulation requirements for all financial service providers, advisers and the wider investment markets. Greater levels of protection have been sought for retail clients after the experiences of the last few years. Advisers are required to be more transparent and provide greater disclosure when giving personalised advice. The Financial Markets Authority has been set up to bring order to the investment markets and encourage confidence and informed participation in capital markets by retail investors.

Institutions are looking harder at governance and regulation as the market values risk more cautiously in the new environment. Life Settlements fit these new drivers as the insurance market is regulated and provides opportunities for diversification into an asset class that has very low correlation to traditional stocks and bonds.



Lyn Buckley

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