

Life Settlements ...



Life Settlements

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The Best Kept Secret in Investing

And

Venture Capital

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Life Settlements ...



Best Kept Secret in Investing – Life Settlements

....“Life Settlements are the fastest-growing alternative asset class in the country, powered by the secondary market for life insurance policies. The nation’s largest financial and insurance institutions, including Goldman Sachs, Morgan Stanley, Warren Buffett's Berkshire Hathaway, Deutsche Bank and Credit Suisse, collectively have committed more than \$12 Billion to this secondary market.”

-- *LISA (Life Insurance Settlements Association) Member News, January 2008*

What is a Life Settlement?



A Life Settlement is simply the purchase of a life insurance policy at a discount to the face value of the policy.

The sellers of the policies are typically financially sophisticated individuals or trusts who purchased life insurance policies for estate planning or other financial purposes and no longer want or need the coverage.

History of Life Settlements



Although the secondary market for life insurance is relatively new, the market was more than *100 years* in the making.

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History ... Landmark Court Case



- The Supreme Court case of Grigsby v. Russell (1911) established the policyowner's right to transfer an insurance policy.
- Justice Oliver Wendell Holmes noted in his opinion that life insurance possessed all the ordinary characteristics of property, and therefore represented an asset that a policyowner could transfer without limitation.

From Viaticals to Life Settlements



- The viatical industry emerged in the late 1980's as the AIDS epidemic took hold and patients needed to finance expensive medical treatments.
- The viatical market morphed into the senior life settlement (SLS) market in the late 1990's when AIDS/HIV patients began living longer.

From Viaticals to Life Settlements



- Although the viatical settlements industry has all but disappeared, the senior life settlements (SLS) industry is here to stay.
- SLSs involve the same basic premise of buying policies for an amount based on the insured's actuarial life expectancy, but have been expanded beyond the terminally ill to an elderly, wealthy population.

What the Experts Say...



Journal of Structured Finance (Published Quarterly by Institutional Investor, Inc.) – July 2006 – “Life Settlements: Product Flow Opportunities and Constraints”

...“With the market potential estimated at \$188 billion and a 70 percent annual growth rate since 1998, the life settlement industry has *captured serious attention from institutional investors* from all corners of the globe. As increasing numbers of hedge fund managers, investment banks, and private equity funds enter the marketplace in pursuit of life settlement portfolios, the demand for product flow increases.”

What the Experts Say...



Bloomberg.com – March 31, 2006 – FINANCIALS

“Life Settlements are the only asset that can be truly said to provide *absolute returns*. They are *not correlated* to any trade market – whether stock, bond, currency, or commodity markets – nor political or economical upheaval.”

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What the Experts Say...



The Wall Street Journal – “Life Insurance for Sale – In a Secondary Market”

... “Institutional investors recognize that the return *of* their principal and the return *on* their principal are contractual obligations of highly rated insurance companies and are not subject to any market or economic considerations...”

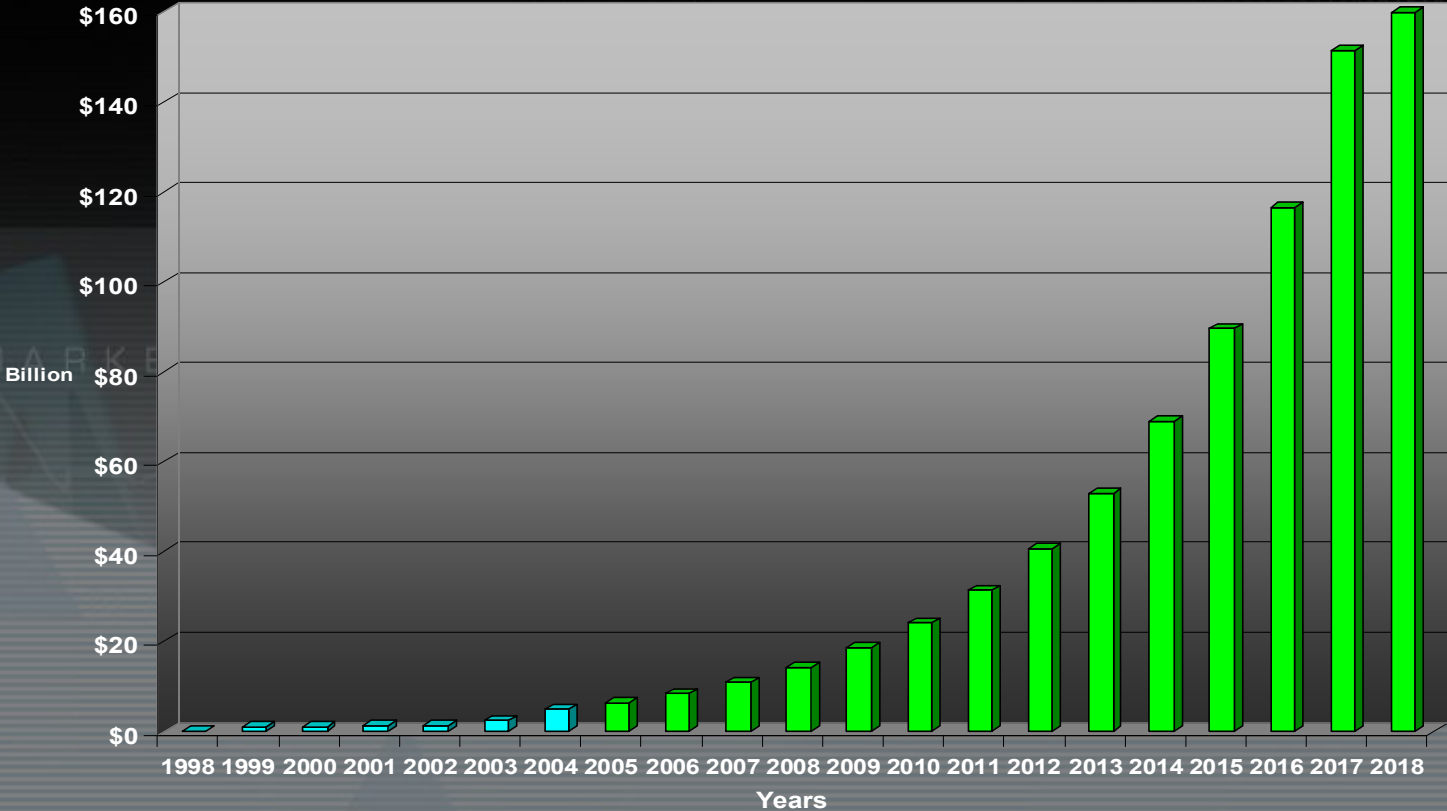
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The Explosion of Life Settlements

Source: Sanford C. Bernstein & Co.- 2005



Projected Growth for Life Settlements



Investment Advantages ...



Benefits of Life Settlement Investing

- Potential for *exceptional* (double-digit) returns – on average approx. 16% per year over last 16 years
- Life Settlements have no correlation to securities markets, interest rates or economic conditions – in other words, there is **NO MARKET RISK**
- Heavily regulated

Investment Advantages ...



Benefits of Life Settlement Investing

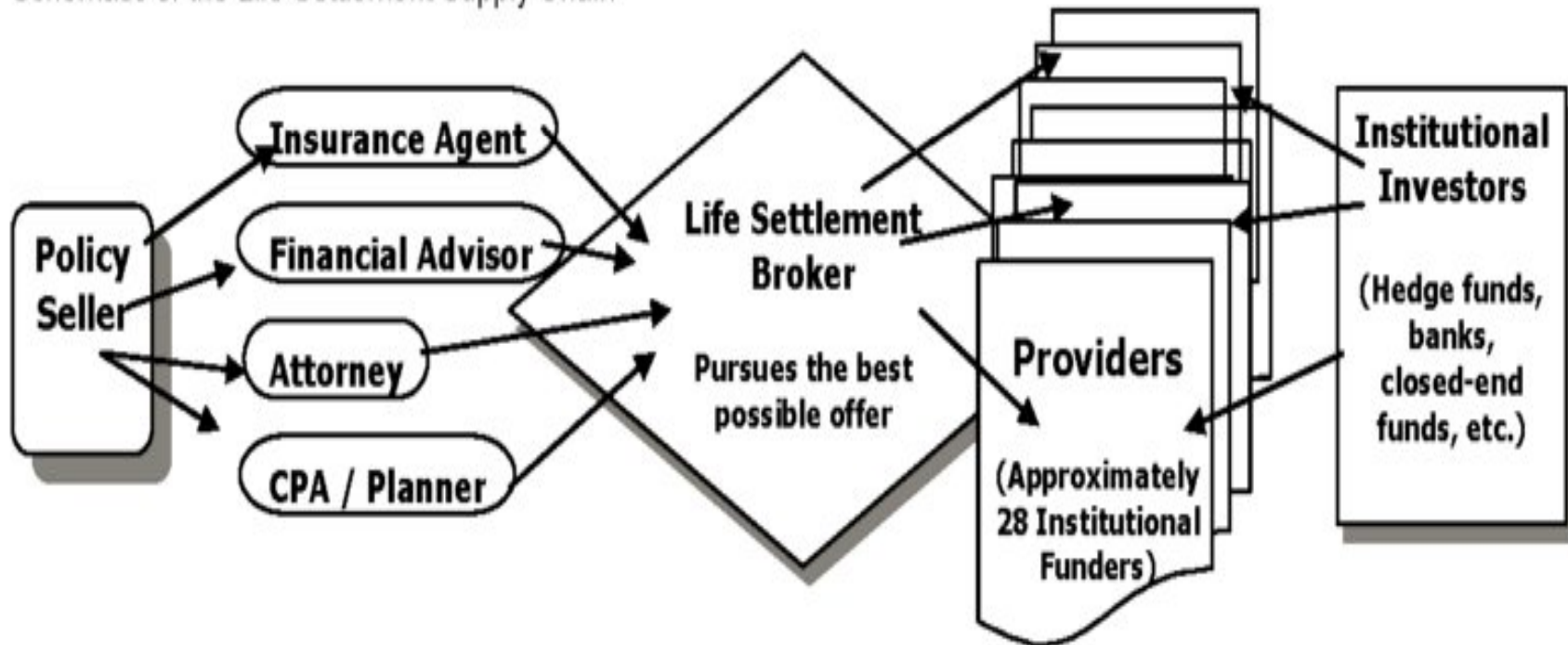
- It's one of the *most secure* investment assets you can own – **100% INSURED**
- Has no annual management costs (except for IRA custodial fees)

SLS Supply Chain ...



Life Settlement Supply Chain -

Schematic of the Life Settlement Supply Chain



Key - The Life Settlement Provider



The purchaser for Warren Buffett's Berkshire Hathaway recently stated "...the asset poses little risk if properly underwritten."

The Life Settlement Provider serves as the purchaser and underwriter in a life settlement transaction.

They provide life expectancy estimates on the insured for pricing purposes.

They are experienced in the analysis and valuation of large-face-amount policies and work directly with advisors to develop transactions that are customized to a client's particular situation.



Types of Policies

The vast majority of policies purchased are -

- “Special Use” Policies
- “Key Man” Business Policies

How Safe are Life Settlements?



- Policies issued by A.M. Best “A” rated insurance companies.
- These companies are some of America’s oldest and most financially sound life insurance companies (i.e. MetLife, New York Life, Prudential Life Insurance, etc.).



How Safe are Life Settlements?

- They are Legal Reserve Life Insurance Companies, which are required by law to maintain sufficient reserves in the state(s) in which they do business. These reserves are based on actuarial formulas and are designed to allow the company to meet all of its financial obligations.
- *A legal reserve life insurance policy is one of the most secure investment assets to own.*



How Safe are Life Settlements?

- A Legal Reserve Life Insurance Company has never missed a death benefit payment since the legal reserve system was enacted back in 1854!
- Even during the Great Depression, life insurance companies still paid off on all of their policies.

So What?



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What does this mean for VC Firms?

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How SLS Applies to VC Firms ...



- SLS (Senior Life Settlements) have become increasingly popular among hedge funds and venture capital firms.
- VC firms are successfully using high investment grade (AAA equivalent) SLS policies to mitigate the risks associated with raising capital for seed stage, development stage, venture capital and other higher risk investment ventures.

How SLS Applies to VC Firms ...



- Investors in VC Funds, Oil Exploration Funds, Film Development Funds and other early-stage higher risk investment opportunities have completely collateralized their investment principal through the use of this SLS driven risk-hedging strategy.

How It Works ...



- VC Fund raises \$10 million for new venture.
- Approx. 50% (or \$5 million) is dedicated to the purchase of SLS policies with an estimated life expectancy of 4-7 years and a total portfolio face value of \$10 million.
- The balance of \$5 million is then invested in venture capital and other riskier investments.

The Result ...



- The Fund has a \$10 million “safety net” to collateralize and protect the investment principal for the investors.
- In the event of worst case scenario where the \$5 million is lost in the riskier ventures, the original \$10 million is insured to be returned to the investors.
- This strategy of added protection for the investors will result in greater success for the VC firms to raise capital.

Capital Allocation Model



Investor Capital
LLC
\$10 Million

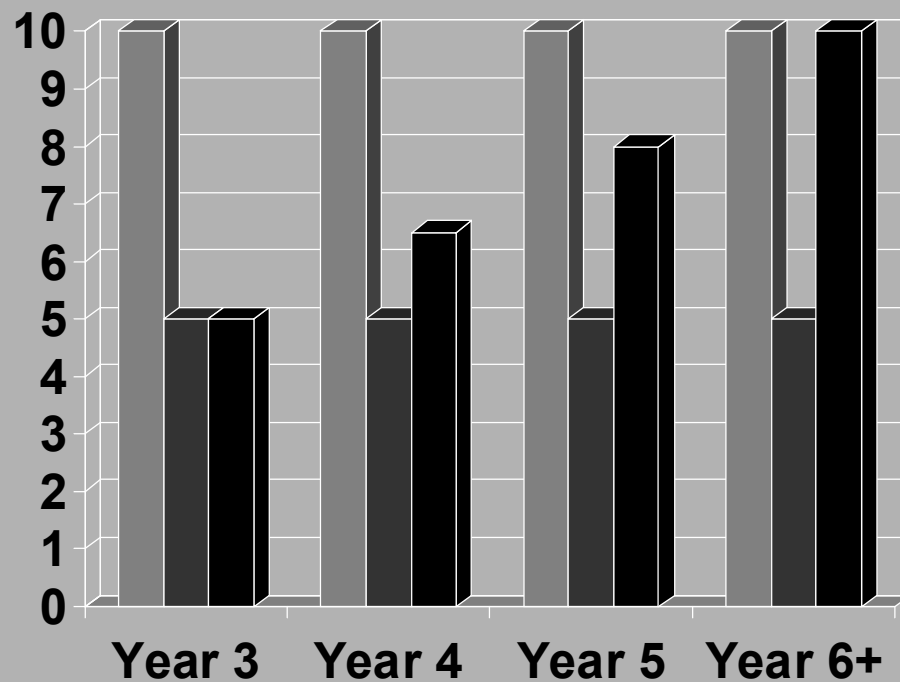
SLS Hedge
Portfolio
\$5 Million

VC Project
Capital
\$5 Million

Risk Management Tool



Millions



Legend:

- Total Invested
- Project Capital
- SLS Portfolio

Other Applications ...



- SLS investments can also represent a strong stand-alone investment opportunity for qualified institutional clients and private clients.