



ALTERNATIVE OUTLOOK

Issue 7 - March 2011

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Market outlook - renewed optimism for the longevity market

2010 was an interesting year for the longevity and life settlements industry; increasing regulation in the US helped to add more transparency to the asset class and the secondary market remained largely ignored with only \$3bn traded, as new investors such as Apollo, Fortress and Cerberus instead looked for distressed policies or portfolios in the tertiary market.

As opportunities in the tertiary market become less available in 2011, capital will be redirected to the secondary market where trading is predicted to be closer to the 2009 level of \$6bn by the end of the year. 2011 will also see a continued push towards regulation in the industry; whilst approximately 20% of US states remain unregulated, some of the key unregulated states already have legislation in the works and consumer protection is top of the agenda.

Although institutional investors are expected to return to the market, the dual attraction of diversification and predictable returns is also enticing high net worth individuals and family offices to start playing a serious role and be active investors in longevity. The European longevity market is also showing positive signs. Despite falling interest from retail investors and the closed-end funds they once invested in, the German life settlement market is forecast to grow in 2011. According to the German life settlement association BVZL, volume could reach \$200million by the end of the year. Finally, in 2011 we also expect to see an increase in 2010 levels with more capital coming in from Asia and the Middle East, which are relatively untapped sources of investment capital.

For existing or new investors coming into this asset class, these are exciting times. Experienced policy procurement teams can acquire portfolios yielding in the low 20s, thus as the "tail risk" on existing mature portfolios disappears with the death of the insured and is replaced by this new inventory, we should see a pick up in yields. The table below lists a sample of the policies procured by Centurion's asset acquisition team in the fourth quarter of 2010, showing an average yield in excess of 20%.

Portfolio of policies acquired Q4 2010			
Age of insured	LE (months)	Policy face value	Investors' gross IRR
82	79	\$1,000,000	19.7%
84	44	\$1,500,000	23.7%
89	63	\$2,000,000	24.6%
83	84	\$5,000,000	27.8%
80	102	\$5,000,000	27.1%
85	82	\$1,000,000	16.8%
85	82	\$1,500,000	18.5%
85	86	\$2,000,000	19.7%
86	61	\$1,500,000	31.9%
75	104	\$1,000,000	24.6%

Source: Centurion Fund Managers 2011

Centurion was founded in 1995 and has over \$500m in longevity funds under management. We specialise in alternative investments including life settlements and longevity derivatives and also offer a range of bond, equity and liquidity funds.

www.centurionfundmanagers.com

Fund
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5th Life settlements & longevity investment summit

David Rawson-Mackenzie is chairing a panel on "Insights from the Offshore and International Life Settlement Investment Community" at this conference being organised by IQPC in New York on April 28-29. The panel will discuss a number of topics including improving investor education - update on new international best practices; international perspectives on underwriting life expectancy and managing longevity risk and emerging trends in offshore investing.

Centurion launches fund selection tool

The Fund Selection Matrix is the second in the series of Centurion's web based tools. It provides asset managers and professional intermediaries with a fully interactive guide to Centurion's range of longevity investment products and which is the most suitable for different investor types.

Available via our professional intermediary portal, the tool streamlines the process of fund selection and allows users to choose what is important to them when making a fund selection.

Key features include a guide to accessing the funds via platforms such as Standard Life International and Friends Provident International, and using an insurance company wrapper such as a life bond.

Registered users can access the Fund Selection Matrix by going to www.centurionfundmanagers.com



Will longevity be the next innovative retail asset class?

Enabling knowledgeable retail investors to benefit from investing in longevity is a view that is beginning to permeate the industry: the dichotomy is that longevity is a simple concept to explain but hard to understand and this is mainly due to a lack of standardisation in the longevity market.

The lack of industry standards is particularly true for macro longevity, which is based on derivatives such as swaps, longevity linked notes and longevity indices. To date there has been no standard documentation or contract for longevity derivatives, but this looks all set to change with the announcement that the International Swaps and Derivatives Association (ISDA) is working on a standardised contract for longevity swaps as a response to the increased interest in this relatively new market sector.

The concept of a derivative can also be difficult to grasp as there is no actual "physical" asset. However, the increasing number of longevity swaps being arranged by investment banks in recent years is helping to bring longevity more into the mainstream investment markets. The introduction of longevity indices will also help increase transparency and raise standards. Currently there are three main indices in operation: the CSFB Longevity Index launched by Credit Suisse in December 2005; JP Morgan's LifeMetrics Longevity Index released two years later and the latest entrant into the market - the Xpect indices developed by the Deutsche Börse - the German stock exchange.

Micro longevity is a different animal; based on physical assets such as property and life insurance policies, it is relatively easy to explain but there are still a number of standardisation issues. For example, in the case of life settlements, there are limited standards of policy origination so it can be difficult to ascertain the rationale and condition under which the policy was taken out in the first instance: if this was with the sole purpose of selling it back into the market this would bring into question insurable interest and fraud. Life tenancies don't have this origination issue: the process

and documentation for buying and selling property is standardised within a legal framework, although there is the ability to customise certain aspects of the contract depending on the nature of the life tenancy structure.

Life settlements in a synthetic format could be attractive to the retail market if they were made available via a "symposium" of investment banks whereby the banks take on both the origination risk and pricing the life settlements. There would also be more data available to generate the life expectancy estimates as the banks would use their own mortality tables. In this way, the less quantifiable risks associated with life settlements disappear and the process becomes far more transparent thus making them far more attractive to the retail investor.

The investment banks would also provide the liquidity, which is a key ingredient in any retail product, but like all good things this comes at a price: lower yields, so investors expecting returns in the double figures will be disappointed.

Up until now longevity as an asset class has typically appealed more to institutional investors such as pension funds, insurance companies and investment banks rather than sophisticated retail investors. However, with the development of more innovative products combined with increasing regulation and standardisation, it is highly probable that in the next decade we will see a longevity investment product specifically aimed at the sophisticated retail market.

To read the full article go to www.centurionfundmanagers.com/longevity-media-coverage.aspx

Traded life tenancies

How do they work?

Traded life tenancies are structured to provide property owners flexibility in determining how they wish to access the released capital. They use a legal structure known as a life tenancy in the United Kingdom or a usufruct in Continental Europe whereby the occupant's rights are legally registered on the title deeds, which is a similar process to a mortgage but more encompassing. The occupants retain the life tenancy or usufruct and the purchaser retains the "bare ownership" of the property (similar to a freehold in the United Kingdom). They differ to a reverse mortgage in that the property changes ownership.

Is this similar to an equity release scheme in the UK?

There are some key differences as summarised below:

Equity release schemes	Traded life tenancy schemes
<ul style="list-style-type: none"> Property owners either take out a loan secured against the value of their property (lifetime mortgage) or sell all or part of their property (home reversion). 	<ul style="list-style-type: none"> Property owners sell the "bare ownership" of the property.
<ul style="list-style-type: none"> The amount borrowed depends upon the value of the property and the owners' age. 	<ul style="list-style-type: none"> The level of the lump sum and annuity depends upon the value of the property, the age of the owners and their expected longevity.
<ul style="list-style-type: none"> Upon the death of the property owner(s) the property is sold and either the loan including all interest is repaid in full with any surplus going to the beneficiaries (lifetime mortgage) or the proceeds are split between the home reversion provider and any beneficiaries (house reversion). 	<ul style="list-style-type: none"> Life tenants may vacate the property before the end of their longevity period, and depending on what they selected at the outset they may be entitled to an additional lump sum or increased annuity. They may also rent out the property to a third party.
	<ul style="list-style-type: none"> Upon the death of the life tenant, the property reverts to the "bare owner".

Managing liquidity is the "Achilles Heel" of longevity and one of the biggest tasks facing a fund manager

Deep dive Maintaining liquidity in a longevity fund

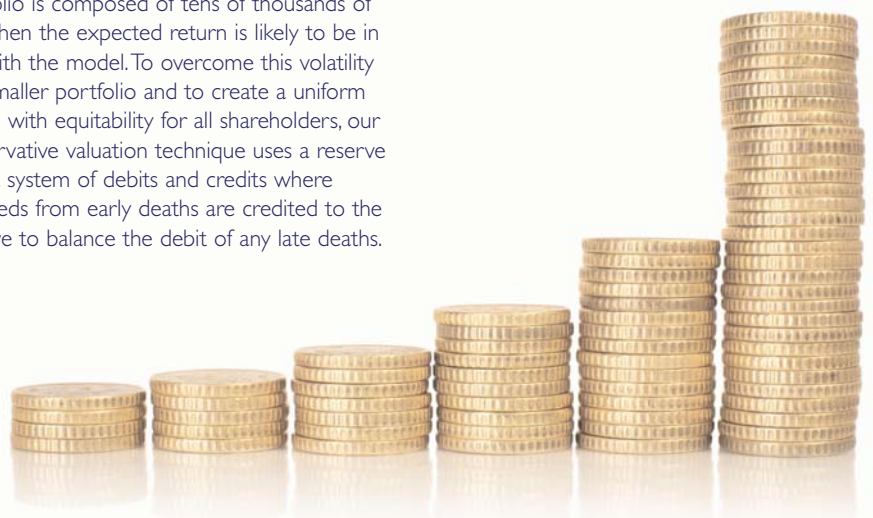
In an investment fund holding traditional assets such as equities and bonds, liquidity is typically met by selling an asset in an open market where the price is readily available. However, longevity is an illiquid asset and it is often difficult to establish a market price as the market is thinly traded. Prudence dictates that the model used to price such assets should include as many market driven factors as possible to ensure that should these assets need to be sold into the market to raise liquidity, that they are priced as close to market value as possible to protect shareholders' investments.

Life settlement and life tenancy assets are valued probabilistically based on two inputs – discount rate and anticipated longevity, but both these values are not always readily observable in the market. A portfolio of such assets valued probabilistically without a death at the

anticipated moment will result in a drop in value whilst an earlier than expected death will result in an increase in value. If the portfolio size is sufficiently large, such as in the case of a macro longevity trade, where by definition, the portfolio is composed of tens of thousands of lives, then the expected return is likely to be in line with the model. To overcome this volatility in a smaller portfolio and to create a uniform return with equitability for all shareholders, our conservative valuation technique uses a reserve with a system of debits and credits where proceeds from early deaths are credited to the reserve to balance the debit of any late deaths.

For more information on managing liquidity please go to

www.centurionfundmanagers.com/longevity



Life Settlement Strategy Fund – Managed Growth Class

Fund facts

Fund launch date	November 2006
Domicile	Cayman Islands
Stock exchange listing	Channel Islands
Currencies	EUR, GBP, USD
Minimum investment	\$50,000 or currency equivalent
Dealing	Monthly on 16th
Fund manager	Centurion Fund Managers Limited
Custodian bank	Fairbairn Private Bank (IOM) Ltd
US policy custodians	Wells Fargo, Mills Potozszak
Auditors	BDO International Ltd
Tax advisers	Ernst & Young; Locke Lord Bissell & Liddell

Portfolio details

Fund size	\$147.3m	
	Synthetics	Physical policies
Total face value	\$163m	\$276m
Number of lives insured	77	96
Number of insurance carriers	14	34
Average face value	\$1.9m	\$3.1m
Weighted average LE (months)	75	63
Carriers with a credit rating of A of above	93%	93%

What is the investment strategy?

The Life Settlement Strategy Fund (LSSF) is an open ended longevity fund that gives investors exposure to an alternative asset class with low volatility and limited correlation to the financial markets. The fund invests in both physical life settlements - typically with a life expectancy of between 8 and 12 years - and synthetic longevity products and aims to deliver sustainable returns to all its investors of between 7-9% per annum.

The success of LSSF Managed Growth is the result of the fund manager's nine years' experience in valuing longevity assets, combined with a dedicated, inhouse team responsible for asset selection, which uses some of the strictest criteria in the industry to acquire and manage the fund's underlying assets.

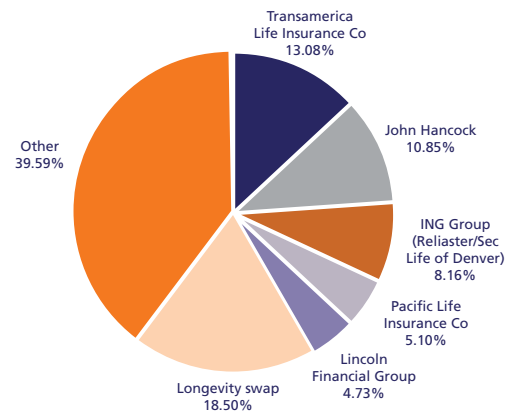
The fund's unique combination of physical and synthetic assets helps to deliver greater liquidity, increased diversification and robust risk management, enabling the fund to retain its over-riding objective of delivering sustainable returns to all its investors.

Who might the fund be suitable for?

The fund is suitable for professional investors, particularly those targeting inflation-beating returns and capital preservation. The availability of a penalty-free withdrawal option of 8% per annum (paid quarterly) is also attractive to investors wishing to maximise their income whilst still maintaining, or growing, their capital, and who might previously have looked at other alternative investments in order to achieve this combination of "income" and growth. Examples of typical investors into the fund include individuals approaching retirement who want to avoid volatility in equity markets and SIPP investors looking for a stable drawdown investment.

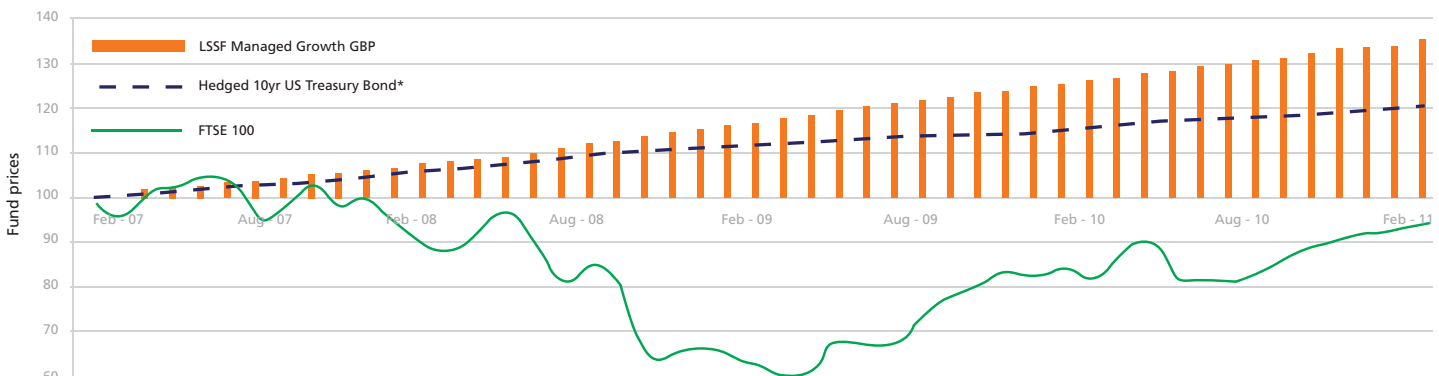
The fund is accepted on many platforms including Axa Isle of Man, Irish Life International, Legal & General International, Prudential International and Transact. For further information on accessing LSSF Managed Growth via fund platforms please go to our Fund Selection Matrix available to registered users on www.centurionfundmanagers.com

Insurance carrier breakdown



Further facts and analysis on the Life Settlement Strategy Fund can be found in the monthly performance sheet and fund fact sheet at <http://www.centurionfundmanagers.com/longevity-funds.aspx>.

Fund performance versus market index



* The 10yr US Treasury Bond is a proxy for the risk free rate

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