



ALTERNATIVE OUTLOOK

Issue 1 - March 2009

In this issue

NEWS

Evaluating synthetic longevity

Sharing a platform with Credit Suisse and Coventry

Launching the Deep Dive series

INSIGHT

Centurion weathers life expectancy storm

Investment returns of over 75%

Q&A

How do life settlements work as an alternative investment?

DEEP DIVE

In search of liquidity

OUR PEOPLE

Management team

Welcome

Welcome to the first issue of Alternative Outlook. The aim of this newsletter is to keep you informed and up to date with what's been happening at Centurion.

As specialists in alternative investments and leaders in longevity, we aim to help you understand what we do and how we do it.

In this first issue we want to use the opportunity to answer some frequently asked questions about longevity as an asset class. For those readers seeking more in-depth insight, we've also gone one step further to explain how the recent increase in life expectancy estimates is impacting this market and how we generate and manage the liquidity which is so important in the current market conditions.

“ We have built up an in depth knowledge of longevity as an asset class which has enabled us to develop a solid valuation technique, build an efficient tax structure, differentiate between underwriters to select the right types of policies, and understand when to use synthetic versus physical policies. ”

If you have any comments on the content of this newsletter, have more questions you would like answered or simply need to find out more about our funds, please go to the People section.

We look forward to working with you.

David Rawson-Mackenzie
Director



Evaluating synthetic longevity

David Rawson-Mackenzie shared a platform with Goldman Sachs on Evaluating Synthetic Longevity Products at the 2009 Life

Settlement Investments Conference organised by iGlobal Forum in New York on March 18th 2009.

Speaking at the conference, David commented that: "Customised longevity swaps can be used to mitigate risk as they allow the fund

manager to select what characteristics the policies have to reduce the longevity, underwriting credit and liquidity risk."

To view the full presentation go to: <http://www.centurionfundmanagers.com/literature/nyc.pdf>

more
inside

Centurion was founded in 1996 and has more than \$400m in 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

Sharing a platform with Credit Suisse and Coventry

Centurion is to be co-sponsor of IQPC's Insurance Linked Securities European Summit in London on April 28-30 together with Credit Suisse and Coventry. David Rawson-Mackenzie will co-present with Credit Suisse on Innovations in Synthetic Longevity Products.

David will be talking about the benefits of investing in synthetic longevity products from a life settlement fund perspective including how to customise longevity-linked indices and structures to meet investors' demands.

To register for the conference, or to find out more, go to:
www.iqpc.com/uk/ILSEurope

Take a life class

For tutorials on synthetics and related topics go to:
www.centurionfundmanagers.com



Centurion weathers life expectancy storm

New longevity tables published in the US last year had a big impact on asset prices as funds scrambled to revise the life expectancy estimates on the policies within their portfolios.

Valuation Basic Tables (VBT) are used extensively by life insurance companies to underwrite risk and they have a direct influence on the pricing of longevity-linked assets. New tables produced last year suggested that changes in the life expectancies, as compared to previous estimates, ranged from a decrease of 4% to an increase of 13% depending on gender and health status of the specific group, causing life expectancy providers, including EMSI, 21st Services, AVS and ISC, to review and adjust their underwriting methodologies. The result was an extension to the expected maturity of life settlements and a negative impact on asset prices. This in turn meant that a significant number of life settlement funds and investors in individual policies saw their portfolio value fall.

“...we were able to absorb most of the impact of longer life expectancies without the negative impact to investors seen in other funds.”

Valuation reserve buffers portfolio values

As fund managers, we have long been aware that the estimation of life expectancy is not an exact science. As such, we have taken steps to manage this risk both by regularly updating life expectancy estimates and by applying a conservative valuation technique – steps which ensured that the value of our portfolios was only marginally affected by the update to the tables.

For a number of years, we have been updating at least 20% of our life expectancy reports each year to ensure that they remain in line with current market estimates. During 2008 we stepped up our efforts, extending the updating of our life expectancy estimates to 50% of our policies which resulted in an

average extension of 12 months. Recognising that lives were extending, in early 2008 we also closed a synthetic transaction that allowed us to enhance our reserve and balance our exposure across the different life expectancy providers.

Our valuation technique also played a key role in absorbing the increased life expectancies without creating losses to our investors. We use an actuarially tested combination of probabilistic and deterministic linear valuation techniques, which injects an element of caution by not decreasing the life expectancy duration uniformly over time. We also build an actuarial valuation reserve with the extraordinary gains achieved by early maturities, and this is then used to offset any negative impact due to longer than expected maturities.

This combination of valuation reserve built up over past years and policy maturities that occurred in December 2008 meant that we were able to absorb the impact of longer life expectancies without the negative impact to investors seen in other funds. Consequently we were able to sustain our positive and stable returns even with the extended longevity.

Investment returns of over 75%

Since its launch in 2002, the Defined Return Fund Growth class has achieved an investment return of over 75%. Our Life Settlement Strategy Fund - which invests in both physical and synthetic policies - having returned nearly 9% in the last 12 months, looks on track to exceed the performance of the Growth class.

We continue to review our valuation methodology and policy acquisition strategy to make sure that our funds are equitable to all investors, regardless of when they enter into the fund, and to ensure that we deliver a defined return.

How do life settlements work as an alternative investment?

With the current market for life settlements standing at around \$13bn and expected to grow to \$160bn over the next few years, it is clear this asset class is growing fast. We answer below some of investors' more common questions.

What are life settlements?

Life settlements are life insurance policies usually belonging to US citizens which are sold to a third party such as Centurion, usually for a higher sum than the surrender value offered by the life insurance company. The purchaser becomes the new beneficiary of the policy, is responsible for paying premiums and receives the benefit when the policy matures on the death of the individual insured.

Why would someone want to sell their life insurance policy?

Individuals choose to sell their policies because they are no longer required or affordable, to pay for the rising cost of health care, to purchase an annuity or for estate tax planning purposes.

What is the appeal of this kind of asset to investors?

Life settlements as a longevity investment offer investors the ideal combination of high returns and low volatility. They provide investors with an opportunity to diversify away from traditional assets such as stocks and bonds and so ensure a broader spread of assets in their investment portfolio.

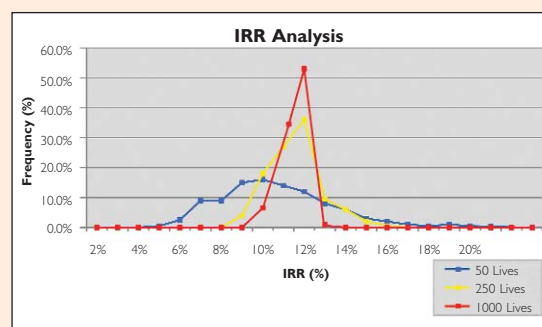
Why is volatility low?

Volatility is low for two reasons. First, the longevity assets are of known value – the only unknown is the date on which they will mature. Second, volatility is significantly reduced by the conservative valuation techniques that we apply.

What is the best way to invest in life settlements?

A single life settlement can be volatile as the actual remaining life of a specific individual is uncertain. However, investing in a diversified pool of lives spreads the risk across the policies in the portfolio.

Analysis conducted by major investment banks and illustrated below demonstrates that as the number of lives in an investment portfolio or longevity fund increases so the rate of deviation from the expected rate of return reduces.



In these difficult times, prudent liquidity management is vital. As life settlements are often characterised as an illiquid class, the challenge is not just to manage liquidity, but to generate it.

Deep dive

In search of liquidity

So how do we do it?

The answer is two-fold: conservative valuation and the use of micro-longevity products.

Conservative valuation

We recognised early on that to price the longevity asset class is a relatively complex task. Keen to ensure equitability to all shareholders, we have put in place a valuation reserve which is used to buffer the vagaries of the market such as modifications in life expectancy underwriting, changes in the market discount rate or delays in policy maturity.

Built over the past five years, our reserve today is between \$15 million and \$20 million, well in excess of our target 3% of the net asset value of the fund.

Micro-longevity products

Life settlements increasingly form part of an emerging asset class known as micro-longevity – the subset of the general population

(macro-longevity), typically comprised of between 300 and 1,000 medically underwritten lives of individuals ages 70 and above, in the case of life settlements.

As this asset class continues to develop more financial products have become available from investment banks such as swaps, notes and indices that can not only help the liquidity of our investment funds, but also help overcome some of the intrinsic constraints of the life settlement asset. We started looking at using swaps in 2006 and concluded our first transaction in 2008.

Defined return

We set out to bring to the market the concept of a defined return and over the past eight years we have consistently delivered on that promise, irrespective of market conditions. By being cautious, some may say overly cautious, we are becoming that most rare of things, a longevity manager with a longevity track record.



“We select our assets prudently and manage them actively.”

Management team



Fund manager

David Rawson-Mackenzie

Centurion Fund Managers Ltd (authorised by the Cayman Islands Monetary Authority)

David is the founder and Managing Director of Centurion Group Limited, a financial services company with over sixteen years' experience in providing investment and tax solutions to both institutional and High Net Worth clients. In 2000 he set up Centurion Fund Managers and started researching life settlement and longevity as a new asset which resulted in the launch of the Defined Return Fund in 2002 and the Life Settlement Strategy Fund in 2006. Centurion was the first life settlement fund manager to conclude a longevity swap with a major investment bank and the first to put in place a robust tax structure for non-US based investors.



Fund investment adviser

Pollyanna Wan

Centurion Portfolio Managers Ltd (authorised and regulated by the Financial Services Authority)

Pollyanna joined the Centurion Group in 2003 as technical director for Centurion Fund Managers. Over the last five years she has been responsible for the development of a number of longevity products and recently led the group's first leveraged longevity swap in the life settlement market with Credit Suisse. Pollyanna is responsible for providing investment advice to Centurion Fund Managers, including portfolio analysis and for managing fund liquidity and leveraging. She is also responsible for the group's life policy bidding and analysis team.



Fund director

Paul Backhouse

Paul is a founder member and director of Cogent, a Guernsey based business providing mainly trust, company and related services both in Guernsey and offshore. His business career has always been in the financial services sector, initially with the Midland Bank Group (HSBC) and then with Deloitte & Touche. In 1982 he moved to the Bahamas, where from 1985 to 1989 he was with The Bank of Bermuda. At the end of 1989 he returned to Europe as a director of the Jardine Matheson Group in Jersey and then joined Fortis where he became Managing Director of the Channel Islands business. He is a former board member of Fortis Global Private Banking and has been a member of several advisory boards and committees of the Guernsey Financial Services Commission. He is a former Chairman of the International Bankers Association in Guernsey.



Fund director

Nick Ferris

Immediately prior to establishing Cogent in 2003, Nick was the head of MeesPierson in Guernsey. He spent eleven years with MeesPierson, initially responsible for operations, and also took over the management of a small niche trust business from Hong Kong at the time of the return of the colony to China, before becoming Managing Director. MeesPierson was one of the leading financial services companies in the Channel Islands with over 170 staff providing fiduciary services, investment management and banking. Nick is a professionally qualified Chartered Director.

Fund administrator

Centurion Administration Services Limited

Based in Mauritius, Centurion Administration Services provides a full range of fund administration and transfer agency services including fund subscriptions and redemptions, maintenance of shareholder registers and shareholder communication. It is regulated by the Financial Services Commission.

Custodian bank

Fairbairn Private Bank (IOM) Ltd

Fairbairn Private Bank operates across the British offshore islands of the Isle of Man and Jersey, and was the first British offshore islands bank to be given an independent credit rating of A by Moody's.

US policy custodians & servicing agents

Wells Fargo

Wells Fargo has been providing corporate trust services since 1934. Its Life Settlement Trust and Custody Services provides custodian, escrow and trust services for domestic and international life settlement transactions.

Mills Potozcak & Company

Mills Potozcak is a full service public accounting firm that provides a variety of escrow services for life settlements. The company is also a founding member of the Viatical & Life Settlement Association of America.

Actuarial consultants

Melinsky Pellegrini & Associates

Based in Argentina, the company provides actuarial analysis on portfolio valuations and actual versus expected portfolio mortality.

Milliman

Founded in Seattle in 1947, Milliman is among the world's largest independent actuarial and consulting firms and provides life settlement valuation software and tools.

Boger & Associates

Boger & Associates provides actuarial analysis on life settlement valuation methodologies.

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