Centurion

ALTERNATIVE OUTLOOK

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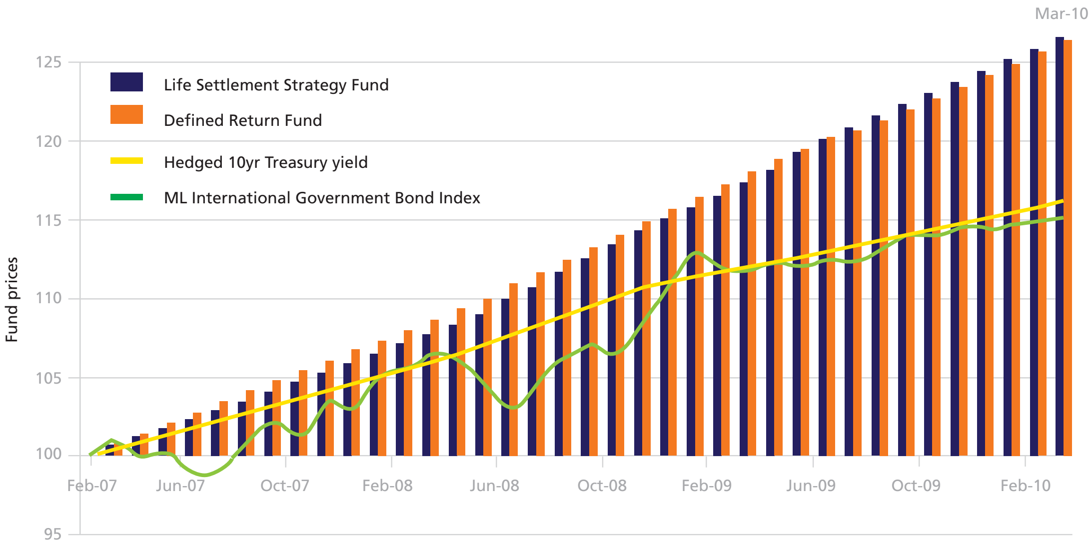
Life settlement funds – the reliable alternative

Life settlement funds as an alternative investment continue to provide an uncorrelated and reliable option for investors concerned about the potential effects of the continuing market volatility.

At Centurion our funds continue both to deliver sustainable and long term returns as well as outperforming the major market indices.



NEWS

Technical tools for evaluating life settlement funds

Transparency is becoming a major factor in enabling investors and their advisors to properly assess which life settlement fund to invest in. We believe that the following key areas in a fund's portfolio can give potential investors a good indication of the quality and sustainability of a fund:

1. Projected cash flow
2. Actual-to-expected analysis
3. Age of life expectancy estimates
4. Valuation methodology

Our Technical Bulletins for Defined Return Fund Growth Series 2 and Life Settlement Strategy Fund Managed Growth provide an in-depth analysis of these areas for each fund's portfolio data. To enquire about how to obtain a copy of the latest bulletin please contact us at: info@groupcenturion.com

Centurion was founded in 1995 and has over $400m 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

2nd ILS Europe Summit

Centurion is sponsoring IQPC's second ILS Europe Summit in London on 26-28th April 2010 where Managing Director David Rawson-Mackenzie will be speaking on "Managing the dangers associated with longevity, origination, and valuation risk in a life settlement fund"

Centurion joins the Institutional Life Markets Association

Centurion Fund Managers Ltd. is the first fund manager to join the Institutional Life Markets Association (ILMA) whose founding members include Credit Suisse, Goldman Sachs, JP Morgan and UBS. David Rawson-Mackenzie commented: "We believe that currently best practices in this market are being driven by investment banks and not by brokers and/or providers. By being a member of ILMA, we are in a position to be the first to be aware of new developments in best practices with regards to compliance, due diligence and transparency issues, all of which are at the top of our agenda."

Strengthening our UK sales team

Andy Wills has joined Centurion Portfolio Managers as sales director for the UK, with a remit to build and strengthen the sales team and to drive forward the company's UK sales strategy.

Andy was previously head of investment sales at Cardif Pinnacle and has over 23 years' experience of sales and business development in the financial services industry.

Longevity can add value to fixed income portfolios

Longevity as an asset class bears many resemblances to fixed income as both have a fixed maturity value and anticipated maturity and return. With its low correlation to markets, longevity can bring a new dimension to complement any fixed income portfolio.

Comparing longevity instruments to fixed income investments

By virtue of the type of asset - an insurance policy or a house with a life tenancy - investors will generally find it easier in the first instance to assimilate micro longevity products into their fixed income portfolio.

The indicative return in a micro longevity instrument such as a life settlement, is determined based on the anticipated maturity date, the fixed maturity value and the premiums due for this period, although the realised return may vary depending on the actual longevity of the reference life. As an investment, its characteristics are similar to those of a callable zero-coupon corporate bond where there is an implied term and return, a defined maturity value and the issuer has a credit rating. The difference is mainly in the nature of the risk. In a bond, the holder's repayment is linked directly to the credit worthiness of the issuer at the time of maturity. The risk in a life settlement is mostly in the maturity date, which largely depends on the accuracy of the initial assessment and medical improvements in the ensuing years. Life expectancy estimates are determined actuarially based on the medical history of the person and as with credit rating, it is not an exact science.

Adding longevity to your asset allocation

Compared to the corporate bond market, longevity is a thinly traded and therefore relatively illiquid asset. For most asset managers, this is unchartered territory and quantifying the strength of a third party manager in a relatively new asset class is not easy. Unlike in most other asset classes, in longevity, past performance is in no way an indicator of future performance. Longevity trades typically have a long term horizon, thus measuring performance based over a relative short period of time without understanding the risks involved in the asset class is fraught with danger. Bonds as an asset class have been around for quite some time and so there is a myriad of good managers out there to select from. Conversely, longevity is a new and evolving asset class so there are fewer managers to choose from, especially those who have an eight to ten year track record.

With the advent of macro longevity, access to these derivative trades can be gained via investment funds in order to achieve proper diversification. Investment managers will find it easier to slot longevity into their fixed income asset allocation with reduced counterparty risks thereby adding value to their clients' fixed income portfolio.

Until the advent of government longevity bonds linked to the population, finding a retail product will be difficult for investors, simply because longevity is a complex asset class. However, investing in longevity does have its rewards; there is little correlation to markets, and whilst semi-illiquid, the asset class is similar in nature to fixed income instruments and yet provides superior returns.

To read the full article go to:
www.centurionfundmanagers.com/longevity

Origination risk

What is origination risk?

As the life settlement market grows, the demand for more policies increases. Origination risk in life settlements typically refers to policies that are taken out with the sole purpose of reselling to the market. Questionable practices have arisen which bring into question insurable interest and fraud. Origination risk centres on the rationale and the condition under which a policy was taken out (originated) in the first instance.

Why is it important?

Policies that are poorly or dubiously originated may be difficult, if not impossible to trade in the market. In certain cases, this may lead to carriers rescinding the policy. If this should happen, the return on investment for investors would be negatively impacted. It is therefore vital that the fund manager implements a thorough and judicious asset selection process to mitigate this risk.

What is Centurion doing to mitigate this risk?

Centurion has a dedicated and experienced team responsible for asset selection. We work closely with leading industry professionals and follow industry best practices and guidelines in order to mitigate this risk. The primary concerns of the team when purchasing assets are:

- Reviewing the factual data on the insured's original application to ensure that the policy categorically does not have any insurable interest issues.
- The policy must not be a Stranger-Originated Life Insurance (STOLI) policy.
- If a policy is premium financed, it must be part of a carrier approved full disclosure non-recourse programme.
- The policy type must be a fixed death benefit Universal Life or convertible term insurance. Ideally the issue date of the policy and the date of the life settlement transaction must be greater than four years but in any case always exceeds two years.

Longevity investment should now be viewed as a long-term investment since the asset class is semi-illiquid

Deep dive

Extend the lifeline

Until recently it has not been easy for investors to invest in longevity due to the size of the transactions but as more players enter the market, more financial products are being offered, making it increasingly easy for investors to participate without having to take on the financial market risk. These include:

- Cash market – life settlements, blocks of annuities, reverse mortgages and life tenancies
- Longevity/mortality swap – longevity/mortality swap or options
- Structured notes – pass-through, principal protected notes, coupon protected notes and leveraged notes
- Indices – targeted population indices and broad population indices

These longevity risk products can be broadly split into macro longevity and micro longevity.

Macro versus micro longevity

Macro longevity relates to the general population and is generally represented by a sample size in the tens of thousands of lives. The longevity estimates used for the transactions are based directly off the mortality tables. This mortality rate is the principal factor in longevity estimates and is based purely on historical observations, mortality improvement statistics and stochastic modelling.

Micro longevity targets a specific sub-set of the population with a sample size of between 200 and 1,000, lives which are medically underwritten to arrive at a life expectancy estimate. The medical underwriters review the health of the insured and his medical history, then using the basic mortality table as a starting point, make adjustments based on actuarial assumptions, to arrive at an estimated life expectancy.

Access to longevity risk via investment funds

Due to the complex nature of assessing the risk in this asset class, a pure longevity play is not for the retail investor. Investors who invest into a single life settlement transaction will experience huge volatility in the investment as the return depends solely on the longevity of a single individual. Institutional investors with large funding abilities and resources to analyse the risk factors can invest in large longevity transactions to achieve diversification.

Other investors should consider investing in a fund where due to collective investments, diversification can also be achieved. When investing in collective investment funds, the key is transparency – understanding the quality of the origination process, the valuation methodology and the liquidity constraints. In addition, investors who are looking to access longevity via an investment fund need to select an investment manager who has the required experience, knowledge and specialisation in this asset class including a proven and sustainable track record.

To read the full article go to:
www.centurionfundmanagers.com/longevity

Fund profile: Defined Return Fund – Longevity Plus Class

Fund facts

Fund launch date	June 2002
Class launch date	December 2005
Domicile	Caymen Islands
Currencies	EUR, GBP, USD
Minimum investment	$50,000 or currency equivalent
Dealing	Monthly on 16th
Income	Annual distribution of 6%
Fund manager	Centurion Fund Managers Limited
Custodian bank	Fairbairn Private Bank (IOM) Ltd
US policy custodians	Wells Fargo, Mills Potozcak
Auditors	BDO

Portfolio details

Fund size	$73m
Total face value	$141m
Number of policies	56
Number of insurance carriers	25
Average face value	$2.5m
Weighted average LE (life expectancy)	60 months

What is the investment strategy?

DRF Longevity Plus, is an open-ended longevity fund that gives exposure to an alternative asset class which has minimal correlation to other more traditional financial markets. The fund invests in a portfolio of physical life settlements and aims to deliver uncorrelated net returns of around 9% per annum with extreme low volatility. Investors can also select to receive a penalty free withdrawal option of 6% per annum, which is distributed annually on 30th April.

Now in its fifth year, the fund's success is the result of the fund manager's extremely conservative approach to valuing the fund's underlying assets combined with an asset acquisition strategy that reflects some of the strictest criteria in the life settlement industry.

Who might the fund be suitable for?

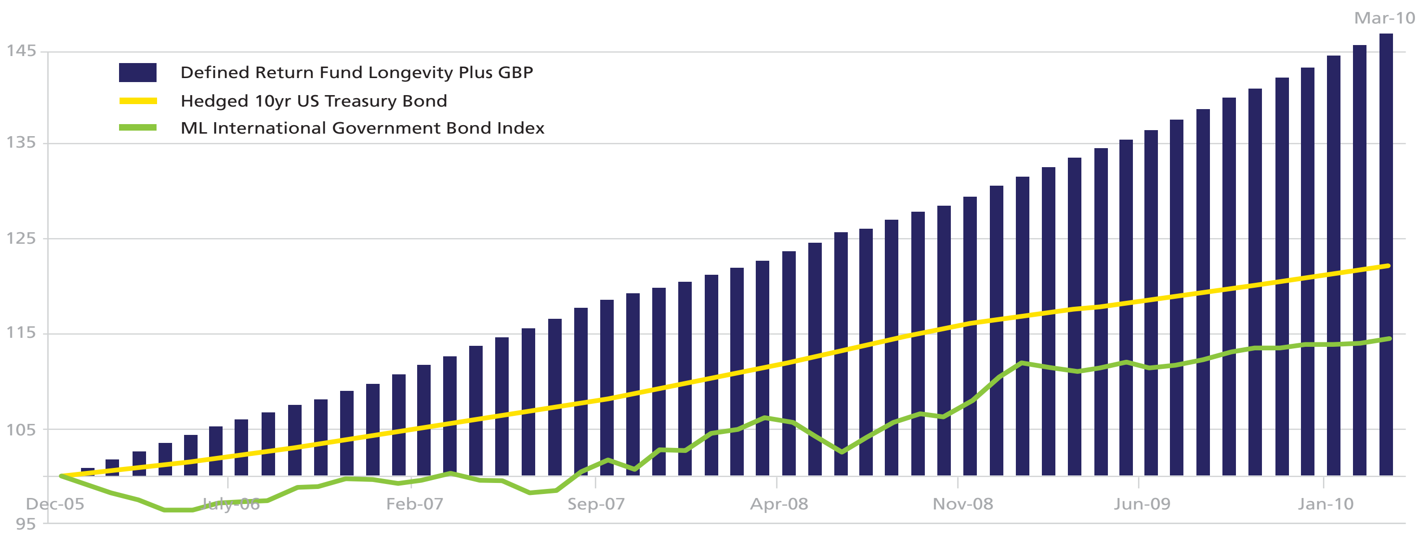
The uncorrelated nature of the investment makes it ideal for high net worth investors, who are looking to preserve their capital in the current volatile markets. Investors looking for income whilst maintaining or growing their capital will also find the fund attractive.

Additionally, certain characteristics of the fund mean that DRF Longevity Plus can also be included in a fixed income asset allocation, thereby adding value to a client's existing fixed income portfolio.

Further facts and analysis on DRF Longevity Plus Class can be found in the monthly performance sheet at www.centurionfundmanagers.com/Defined-Return-Fund.aspx

How has it performed?

The fund has a track record of 50 consecutive months of positive performance and an annualised return of 9.5% since inception.



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