



ALTERNATIVE OUTLOOK

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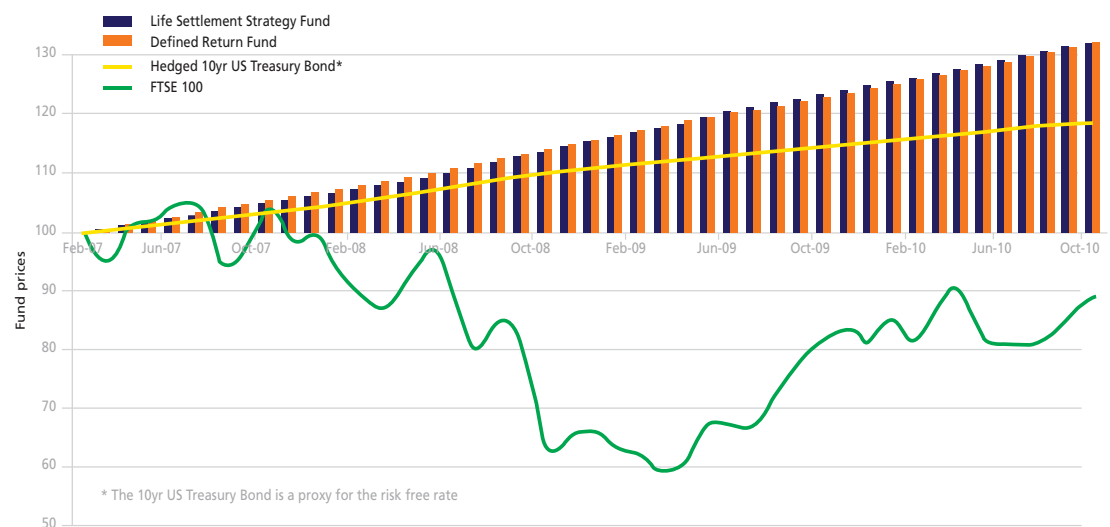
Market outlook - the longevity market is stabilising

Recent signs indicate that both confidence and capital are starting to return to the longevity market after the recent global financial crisis; a report published last month by Conning Research & Consulting estimates that the life settlements market could grow to \$142 billion in the next nine years.

There has been a flurry of activity in the tertiary market which is mainly being driven by private equity funds looking for distressed assets, with two recent transactions including the sale of a \$6.2bn distressed portfolio by KBC Financial Products and the acquisition by Ireland's National Asset Management Agency of distressed assets from five Irish banks. According to a recent survey by Dealflow Media at its conference in Las Vegas, 66% of conference attendants said that the dominant amount of capital played in 2010 was on the tertiary market rather than the secondary life settlements market.

The secondary market is still very much a buyers market with potential for some value purchases as shown by a recent policy acquisition by Centurion's policy team coming in at just over 19%. However, feedback from providers is that as buyers are slowly returning to the market, yields are beginning to tighten; policies with a face value of under \$1.5m that were transacting on IRR in the high teens are now transacting in the mid-teens.

For investors, one of the continuing attractions of investing in longevity is its returns with minimum correlation to the financial markets, and at Centurion our funds continue both to provide sustainable and long term returns as well as outperforming the major market indices.



Centurion was founded in 1995 and has over \$450m 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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Longevity fund obtains Financial Express rating

Defined Return Fund (DRF) Longevity Plus has obtained a three crown rating from Financial Express. The Financial Express Crown Ratings is a quant-based ratings system that highlights funds having a superior, consistent performance in relation to risk, relative to their peer groups, the fund sectors are defined by the Investment Management Association and the Association of British Insurers. Crown Ratings are compiled using three key measurements of a fund's performance - alpha, volatility and consistency - with each rated fund receiving 1, 2 or 3 crowns.

Centurion SICAV listed in Singapore

Centurion's Luxembourg domiciled Centurion Longevity Fund has been listed by the Monetary Authority of Singapore. The fund's unique combination of macro and micro longevity assets helps investors benefit from maximum diversification, greater liquidity and lower volatility and risk and will therefore greatly appeal to investors in the region seeking inflation-beating returns and capital preservation.

For more information please go to www.centurionfundmanagers.com

Fund platforms - making life easier

Centurion has been working closely with leading offshore providers and fund platforms and our longevity funds are now on the approved list of more than 50 companies.

Defined Return Fund PLC Longevity Plus Class has delivered consistent returns of more than 9% since launch (as at October 2010) and can be accessed through Axa Isle of Man, Friends Provident International, Prudential International, Standard Life International and many more.

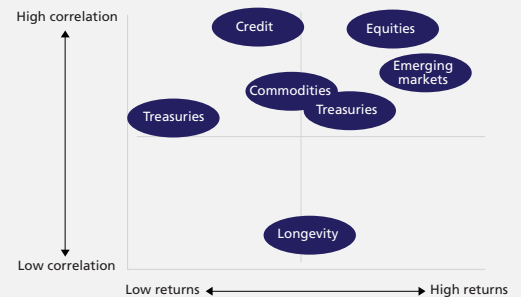
Safe returns in a volatile era from life settlement funds

In the current market climate investors are increasingly looking for stable and reliable returns that are non market correlated. As a result, longevity is rapidly gaining interest, mostly in the micro-longevity form of life settlements.

Benefits

One of the main attractions of investing in life settlements is that the rate of return on investment is linked to the accuracy of the life expectancy estimate of the insured instead of the movement in the financial markets thus rendering its return lightly correlated to the overall financial market.

Life settlements can add diversity to the alternative asset allocation in an investment portfolio whilst helping to increase performance and reduce risk and market exposure. They can be incorporated into an asset allocation mix to obtain different results depending on the investor's risk profile and investment objectives. A risk adverse investor deploying capital towards life settlement can enjoy similar returns to that of bonds or property but with less volatility, which will enhance capital preservation.



It is a common misconception that life settlements are completely non-market correlated. Two market forces that have an impact on the performance of life settlements are capital deployment and foreign exchange movements. The most recent global financial crisis demonstrated that investors' appetite, even for alternative assets with low market correlation, was affected and investors demanded an above average return. As life settlements are a US Dollar denominated asset, investors whose base currency is not US Dollar need to have an effective hedging strategy to prevent them from experiencing any potential foreign exchange losses.

Barriers

One of the main barriers to investing in life settlements is the difficulty for investors to evaluate and understand all the risks involved.

Key risks inherent in life settlements	Why this is important
Extended longevity	If the lives assured live longer than expected, the fund will have to pay out more premiums than anticipated and the proceeds from policies maturing arise later than expected. Consequently the fund's performance could be affected and returns lower than expected.
Policy origination	If the policies purchased are of dubious origination or inconsistent underwriting, investor's capital could be at risk. It is vital, therefore to ensure that the fund only holds high quality assets.
Liquidity	If the fund cannot meet ongoing premiums and redemption requests, it will need to dispose some assets potentially at a reduced price in order to raise liquidity quickly. This will negatively affect returns to the remaining investors.
Carrier credit risk	If the insurance carrier behind the policy becomes insolvent and is unable to meet death claims. However, insurance policies are viewed as a consumer product and death benefits are considered super senior debt and often fall under State Guaranteed Scheme.
Fund valuation	Life settlements are valued mark-to-model. If the assets are not accurately valued, then investor's expectations will not be met and liquidity issues may arise.

Life settlements are a highly specialised and complex asset class and therefore only suitable for sophisticated or experienced investors who, together with their advisers, have the ability to analyse and understand the asset class thoroughly. Until a life settlement UCITS compliant product is available, this asset class is only suitable for qualified investors as defined by Markets in Financial Instruments Directive (MIFID).

It is often easy to forget that life settlements are only one of many assets within the longevity stable, and that longevity as an asset class remains a unique opportunity for investors to gain superior returns with little market correlation.

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

Currency risk in life settlement funds

Why is it important?

As life settlements are a US\$ denominated asset class, investors whose base currency is not US\$ face the risk that movements in the FX rates could adversely affect the return on their investments.

Example

£100 is invested into a life settlement fund and then exchanged into US\$ at an FX rate of 1.500. The return at the end of the year will depend on the performance of the fund and the prevailing FX rate.

Scenario	FX-rate	US\$ value of investment*	Equivalent £ value of investment	Return on investment in £
Strengthening of US\$	1.3500	165	122.22	22.22%
Constant FX rate	1.5000	165	110.00	10%
Weakening of US\$	1.6500	165	100.00	0%

* In this example the US\$ return is assumed to be 10%

This example demonstrates that a strengthening of the US\$ has a positive effect on the overall performance, while a weakening has the opposite effect. Thus, life settlement funds need to efficiently hedge their currency risk to minimise investor's exposure to this risk.

How do life settlement funds typically hedge currency risk?

Currency hedging strategies can be based on FX options or FX forwards or a combination of both.

An FX option gives a life settlement fund the right but not the obligation to exchange US\$ into another currency (e.g. £) at a pre-agreed rate on a specified future date in exchange for an option premium. This enables the life settlement fund to benefit from favorable FX movements with the additional advantage of there being no cash flow requirements after the initial option premium has been paid.

Another way to hedge currency risk is to use an FX forward contract, whereby the life settlement fund agrees to exchange US\$ into another currency (e.g. £) at a pre-agreed rate on a specified future date. There is no initial cost when entering into this contract, but the forward prevents the fund from benefiting from favourable FX movements and can create volatility in the fund's cash flow requirement as any strengthening of the US\$ will require cash outlay. Conversely, the fund will receive cash inflow should the US\$ weaken.

The principle of a life settlement fund is to gain value from a portfolio of maturing policies, so the life expectancy estimate of the underlying insured must be as accurate as possible to maintain a realistic valuation of the fund.

Deep dive

The importance of updating life expectancies

Before acquiring a life policy, part of the policy origination process is to assess the life expectancy of the insured to enable the fund manager to decide whether the policy falls within the fund's policy acquisition criteria. Most fund managers will require at least two reports, from separate underwriting firms, in order to complete their assessment of the policy's suitability for purchase.

Why should life expectancies be reviewed?

Updating life expectancy reports on a regular basis ensures that the fund's assets are valued as closely as possible on market conditions so that policies can be sold at prices as close to those used in the valuation as possible. The original assessment relied on the insured's medical history and the mortality assumptions in force at that time but there are various factors which can influence ongoing life expectancy assumptions, including:

- Deterioration in the person's state of health
- Advances in medical science
- Updated mortality tables used by the insurance industry, based on historical trends

How are life expectancies updated?

The fund manager of a life settlements fund will employ servicing and tracking agents to monitor and maintain the policies held by the fund. This will include checking any correspondence relating to the policy, updating medical information and checking the status of the insured. The tracking agent will check public records, for example, to find out whether the person has died and will obtain copies of the death certificate in order that a claim can be made.

Prudent fund managers will update a percentage of their life expectancy reports each year to enhance liquidity and will also review the actual to expected maturity ratio of the underwriters to ensure they have sufficient risk diversification.



Fund profile: Argent Fund – DMS Diversified

Fund facts

Fund launch date	October 2003
Class launch date	January 2005
Domicile	Cayman Islands
Stock exchange listing	Luxembourg Euro MTF
Currencies	EUR, GBP, USD
Minimum investment	€50,000 or currency equivalent
Dealing	Monthly on 1st
Annual penalty free redemption	7%
Fund manager	Centurion Fund Managers Limited
Custodian bank	Fairbairn Private Bank (IOM) Ltd
Auditors	BDO International

What is the investment strategy?

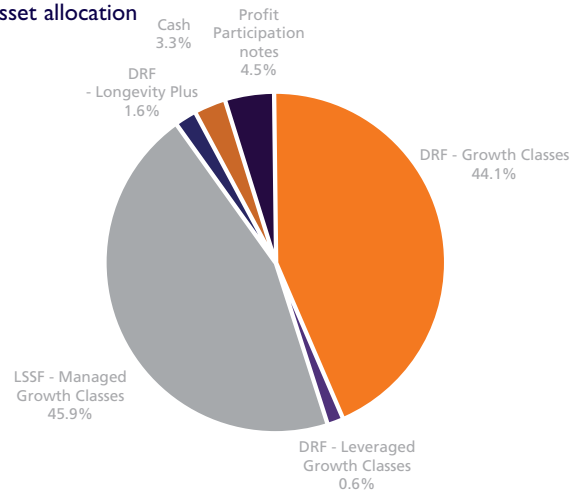
Argent DMS Diversified is a longevity fund of funds that invests in a range of different longevity strategies giving the investor access to a large and diverse pool of physical policies and other longevity assets. The fund aims to deliver low correlated net returns and a 7% annual penalty free redemption.

The fund is also listed on the Luxembourg Euro MTF, which is regulated by the Luxembourg Stock Exchange.

How has it performed?

The fund has a track record of over 60 consecutive months of positive performance and an annualised return of 7.8% since inception.

Current asset allocation

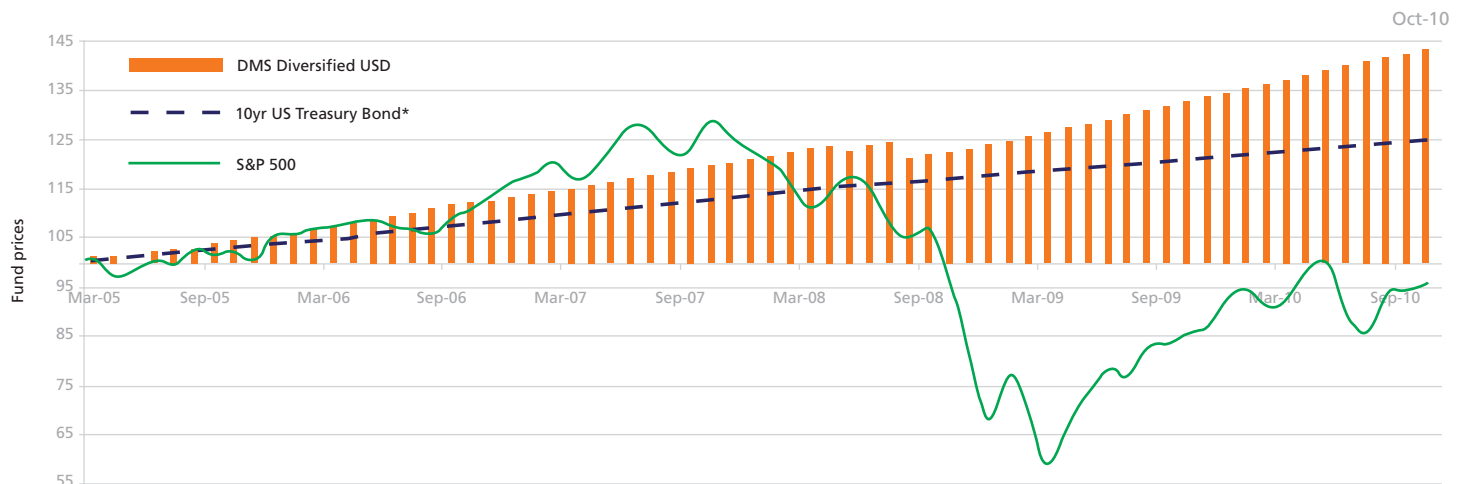


Who might the fund be suitable for?

The low correlated nature of the investment appeals to a wide range of investors, particularly those targeting inflation-beating returns and capital preservation. The availability of a penalty free redemption option is also attractive to investors looking for regular "income" whilst maintaining or growing their capital and who previously might have considered property or bonds to achieve this combination.

Argent DMS Diversified can also be used in an investment portfolio to add an element of diversification and with its low correlation to the financial markets, it can also add value to a client's existing fixed income portfolio. It is currently available via a number of fund platforms including Royal Skandia International, Friends Providence International and Hansard.

Further facts and analysis on Argent Fund DMS Diversified can be found in the monthly performance sheet available on our website at www.centurionfundmanagers.com



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

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