



Life settlements as an asset class in an investment portfolio

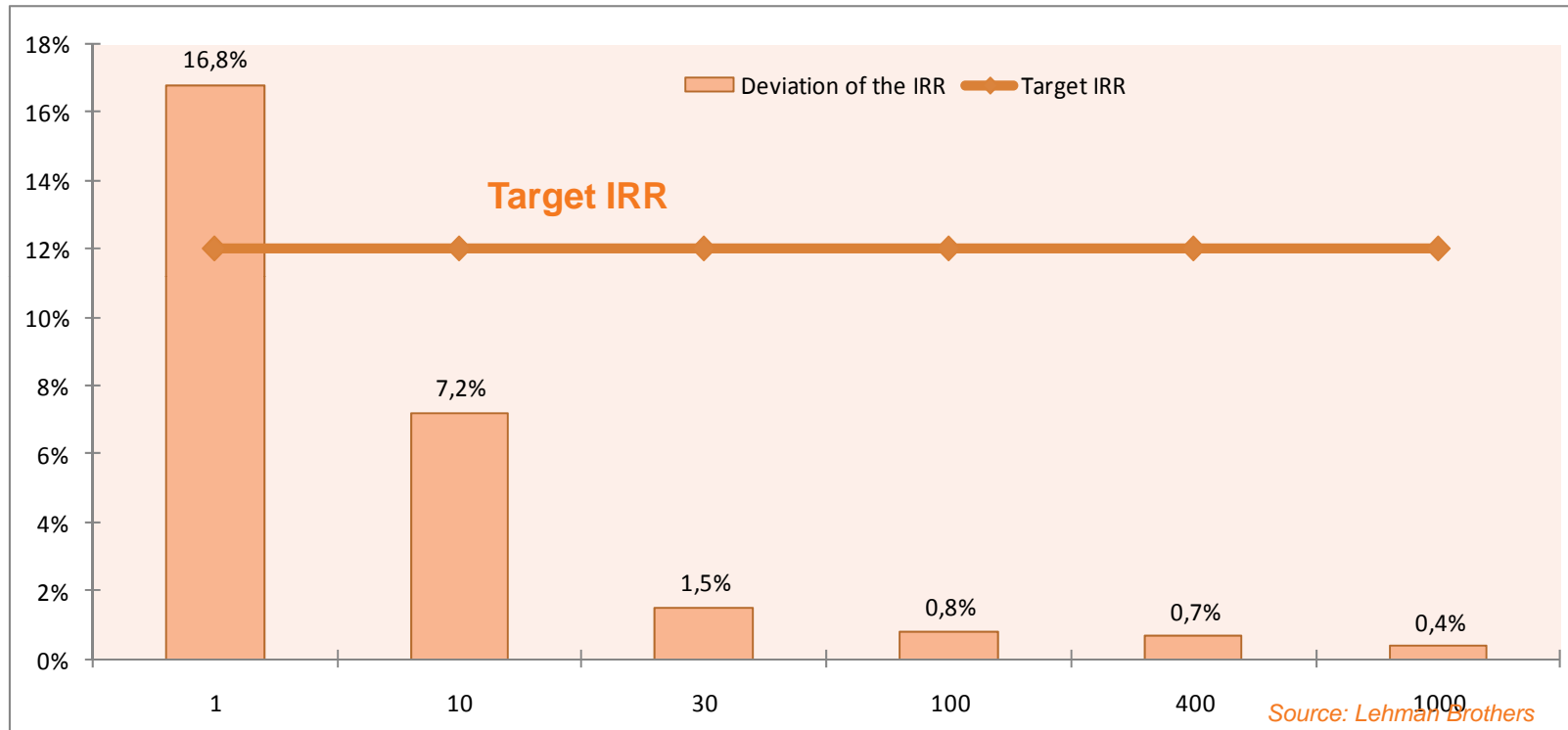
David Rawson-Mackenzie



Life settlements – a lucrative choice

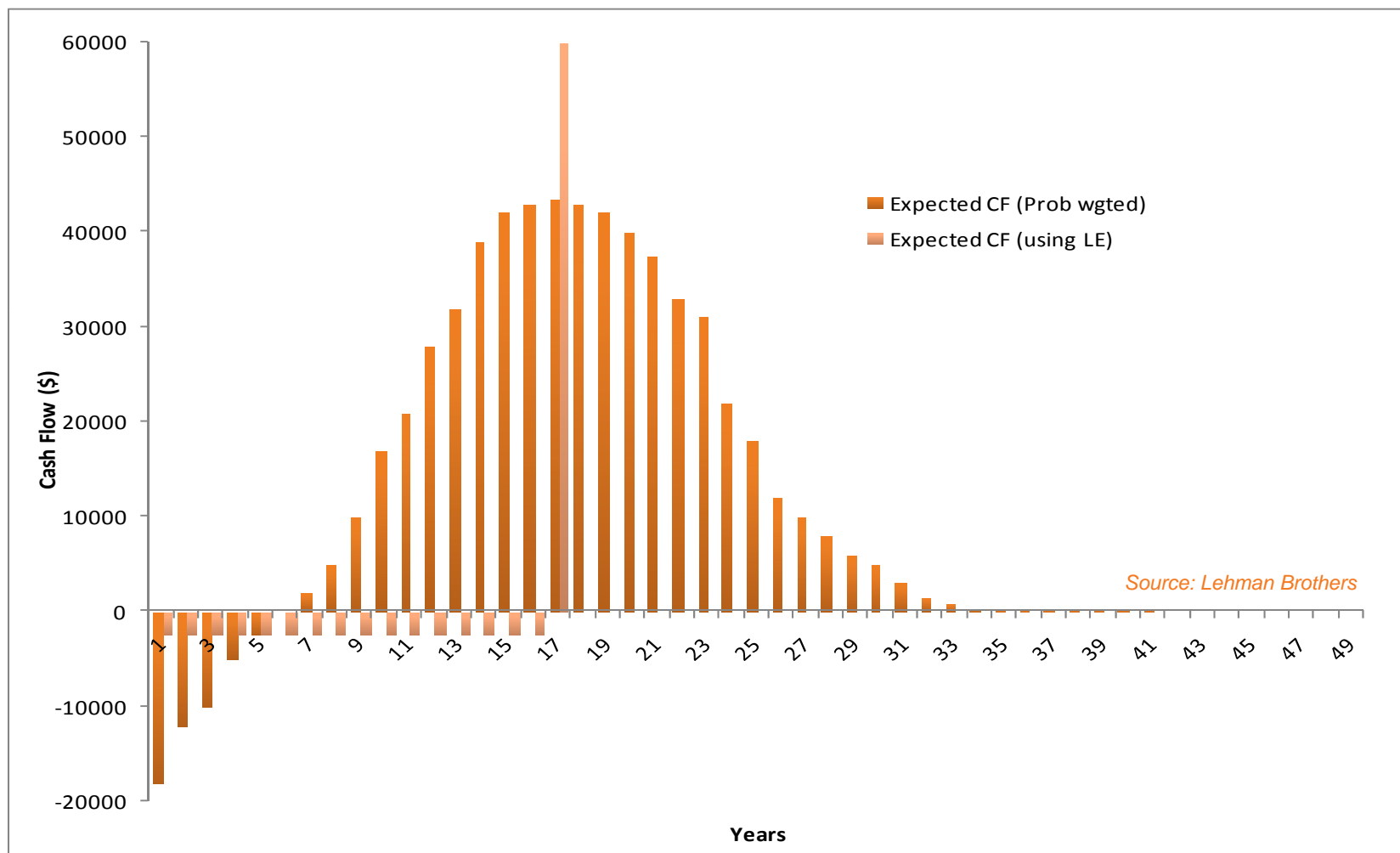
- ▶ An asset class borne out of an arbitrage situation
 - ▶ mismatched pricing of premiums by insurance companies based on longevity of insured
- ▶ A non-market correlated bond-like asset class
 - ▶ Provides attractive yield with very low volatility
- ▶ Provided the portfolio has a large enough sample size, variance and deviation on performance are exceedingly low

Performance on an individual holding versus a portfolio within a fund



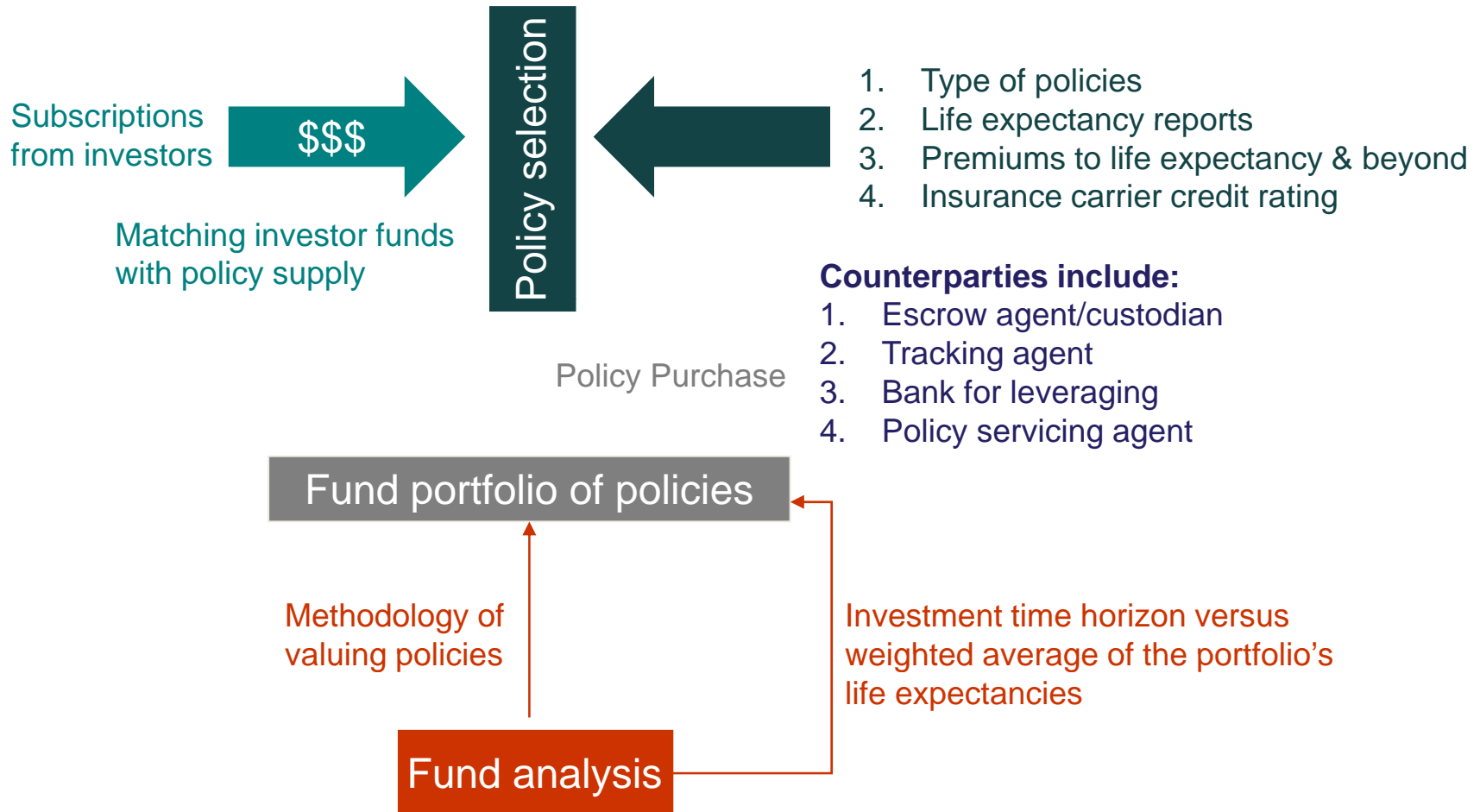
The accuracy of the rate of return depends on the number of policies held

Portfolio's expected cash flow



Source: Lehman Brothers

Asset-related selection criteria



Fund manager related selection criteria

- ▶ Liquidity – cash flow related to:
 - ▶ Premium payments
 - ▶ Foreign exchange hedging
 - ▶ Additional leveraging of the portfolio
- ▶ Tax structure
 - ▶ US versus non-US investors
 - ▶ Robustness of the tax structure to minimise US withholding tax
- ▶ Financial engineering
 - ▶ Valuation reserve – treatment of early maturities
 - ▶ Use of synthetics and options

Conclusion

- ▶ Life settlements are increasingly becoming a mainstream asset for investment funds
- ▶ The nature of this asset class lends itself to the creation of a broad spectrum of financial products which allow investors of different risk profiles to participate
- ▶ The key to success in this asset class is to understand the longevity risk in the asset allocation and to mitigate such risk through financial engineering and instruments



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