

Investment in Life Settlements: Certainty in Uncertain Times

A Life Settlement is the sale of an in-force life insurance policy to a third party for an amount less than its death benefit, but greater than the policy's cash surrender value. The selling policy owner is not restricted in the use of the cash proceeds received from the sale. In return for the cash payment, the purchaser owns the life policy, names the beneficiary, pays all premium payments as and when due and eventually receives the entire death benefit at the time of the insured's death.

As world financial markets continue to fluctuate and traditional investment products experience both volatility and diminished performance, many investors today are looking for non-correlated investments that provide greater certainty and less sensitivity to market turmoil while still offering potential for growth. Life Settlements are an alternative asset class that offers investors a new product that achieves portfolio diversification and attractive, statistically predictable returns when a large enough portfolio of Life Settlements is acquired.

Stocks continue to be volatile investments and their movement and value fluctuations have been significant. At this moment there is a substantial flight of private investment from both mutual funds and the equities markets as investors seek less volatile investments. Recent surveys among affluent US investors indicate they want consistent returns and the benefits of alternative investment products. Eighty percent (80%) consider it important that an investment "earns money in good markets and bad markets." The same survey found that sixty percent (60%) seek the potential benefits from alternative investments, while fewer than 7% currently hold an alternative investment in their portfolio. Highlights from another survey of investors having at least \$1 million or more of net worth indicate that 79% want investments to produce "returns in good markets or bad markets," 73% want "consistency in investment returns" and 40% prefer that returns "not be correlated with the overall stock market." More than 6 million US households enjoy net worth above \$1 million making the demand for alternative products that can deliver consistent non-correlated returns robust. These investors are under served. Ninety-five percent (95%) of investors surveyed claim they have never been offered an alternative investment by their advisor as a compliment to their core portfolio holdings.

Life Settlements are not directly correlated with traditional bond and equity markets and have the potential of yielding above market returns in the intermediate and long term. Unlike the equity and bond markets, the returns on Life Settlements are uniquely tied to mortality.

The credit quality of Life Settlement investments is very high. The timely payment of policy benefits are guaranteed by rated and regulated life insurance carriers which hold reserves against future benefit claims in reserves imposed by state law. Never in the history of the highly regulated US life insurance industry have life carriers failed to pay a death claim on a valid insurance contract. The certainty that a carrier will pay a fixed benefit upon the death of the insured provides outstanding investment security.

Unlike many diversification options that claim to be market neutral, Life Settlements offer non-correlated portfolio diversification. The investment in a Life Settlement product is sheltered from changes in interest rates, global market conditions, the performance of any single company or market sector, as well as adverse political or natural conditions.

Many of the world's largest financial institutions have recognized that Life Settlements are an attractive alternative investment. During the past decade, financial institutions such as Deutsche Bank, Credit Suisse, Goldman Sachs, JP Morgan, Barclays, Mizuho and AIG have each acquired Life Settlement portfolios having billions of combined life insurance benefit value. More recently, The Life Settlement Wire, a trade journal published by Deal Flow Media, reported in October 2010 that the Oregon

Investment Council committed \$100 million for investments in Life Settlements. The Oregon Investment Council oversees investments for the Oregon state pension fund. The Life Settlement Wire also reported that Apollo Global Management planned to establish a \$500 million Life Settlement fund comprised of a small group of institutional investors. Separately, investor research reports by both Franklin Templeton and Russell Investments have recommended an allocation to Life Settlements for their investors' portfolios. McKinsey & Co. Investment Services also recently entered the market in winning a competitive bid to acquire a large, diversified portfolio of Life Settlements.

As the marketplace for Life Settlements has become increasingly institutional, opportunities for private investors have been limited and have not met the hurdle of professionalism, experience and transparency that sophisticated private investors demand. Now, Peninsula Life Management offers investment advisors access to the Life Settlements market. Peninsula provides a unique opportunity for qualified individual investors to participate in well structured and transparent life settlement products.

The Development of the Life Settlement Market

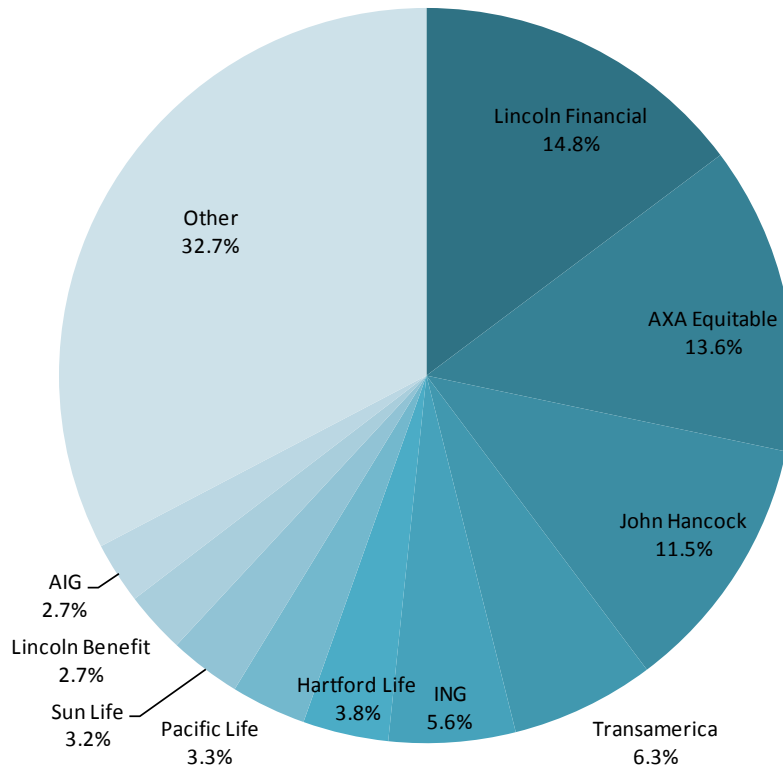
While a policy owner has always enjoyed the legal right to sell a life contract, until the establishment of a liquid secondary market, there was never an opportunity. The United States Supreme Court ruled in 1911 (*Grigsby v. Russell*, 222 US 149) that a life policy is personal property and can therefore be sold by its owner. In the late 1990's, almost a century after the Grigsby ruling, the processes, capital and technologies finally came together to allow the sale and transfer of life policies by the original policy owner and the creation of a secondary market.

At the same time, a growing, older segment of Americans found themselves holding life insurance policies they no longer needed or could no longer afford. The Life Settlement market developed early in this decade with liquidity provided by institutional investors to serve this senior insured population. It is not surprising that the very first institutional funding for Life Settlements came from insurance and financial service giants, Zurich, AIG and GenRe. These insurance-focused investors were well prepared to underwrite and manage mortality risk in Life Settlements just as they had in the primary market for life insurance.

The fundamental reason for the expansion and rapid growth of the Life Settlement market is consumer value creation. According to the Market Analysis for 2009 prepared by Life Policy Dynamics, an affiliate of Peninsula Life Management, the average Life Settlement traded at 17.5% of the death benefit value. This is in sharp contrast to the modest cash surrender value of an average 4% of death benefit that would have been paid to the same population of insureds upon the surrender of their Policies to the life carriers.

In the same 2009 study period, it was estimated that approximately \$1.6 billion was paid by investors for nearly \$9 billion in Life Settlement benefit value. This economic value created for consumers in 2009 is more than four times the \$360 million that would have been paid by the life carriers on the surrender of these same policies. The average Life Settlement in 2009 involved a life insurance policy with an average benefit value of \$2,800,000. It is estimated that the secondary life market served nearly 3,200 individual senior insurance consumers in 2009, unlocking an average \$387,500 of additional value per policy for each policy owner.

Diversification of carriers within a Life Settlement portfolio is one of the tools to make this a more certain product than traditional asset classes. Based on a sample of 861 Policies in our 2009 Life Policy Dynamics Market Analysis report, the graph below depicts a breakdown of the carriers whose Policies have been sold in the Life Settlement market. Overall, 56 carriers were represented in the research, with the largest 10 illustrated below.



As evidenced by this statistical sampling, the Life Settlement market involves a diverse group of highly rated life insurance carriers.

During the past decade, major financial institutions have acquired substantial Life Settlement portfolios having billions of dollars in life insurance benefit value. With demand fueled by institutional investors (according to the combined research from Conning and Cantor Fitzgerald), nearly \$60 billion in Life Settlement benefit value has been transacted in the last decade.

Why Life Settlements Now: An Opportunistic Buyers Market

Today, there exists an imbalance in the Life Settlement market derived from an abundance of policies offered for settlement and limited capital available for purchase. The imbalance in today's market is producing additional value that will create exceptional returns for buyers and investors.

The abundance of Life Settlement options is driven by the demographic shift in the US with a rapidly growing affluent senior population. An expanding supply of Life Settlement opportunities is also a result of the growth in the awareness of consumers, their life agents and financial advisors regarding the benefits of the Life Settlement option. These combined and complimentary forces have resulted in an increased supply of policies available for settlement within the market place.

During the global recession and liquidity crisis, Life Settlements have become a buyers' market. A reduction in capital and limited credit availability has reduced demand for Life Settlements. Acquisition costs for policies have decreased allowing for selective acquisitions focused on policies with higher quality and better value.

The US Life Settlement market has celebrated its 10th anniversary. With this maturity, any early market stage risk and inefficiencies have been reduced or removed. The young market has evolved over a decade into a more regulated and transparent marketplace with greater standardization.

Today we have a sound understanding of mortality risk which affects the timing of returns on investment. On a combined basis the largest and most respected life expectancy providers, have completed nearly 1 million individual life expectancy projections during the last decade. Based upon their considerable data and experience, mortality tables have been updated, processes have been improved and methodologies have been enhanced. Today's longer life expectancies benefit investors with, what we believe to be, more reliable mortality predictions, as well as a lower ultimate purchase prices for life insurance policies.

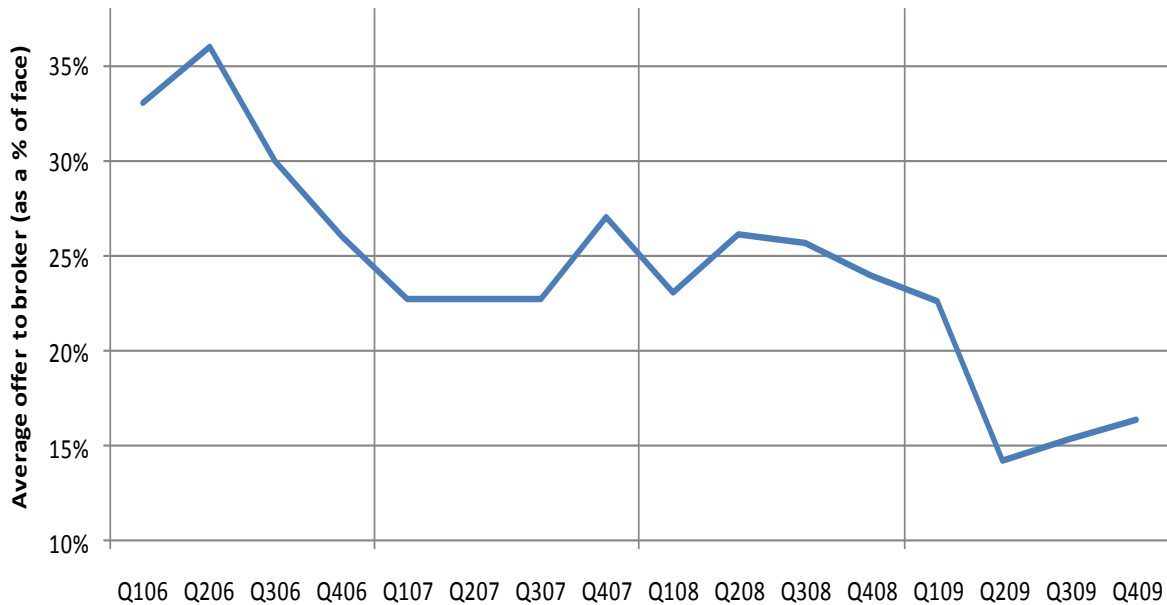
Leading trade associations, such as the Life Insurance Settlement Association, the Institutional Life Markets Association and the European Life Settlement Association have worked toward greater market transparency, standardization and "best practices." The most important example is the mandatory disclosure of agent and broker commissions to an insured selling an insurance policy. Commission disclosure is now a statutory requirement in both New York and California. These states are the two largest Life Settlement markets, accounting for nearly 40% of all Life Settlements transacted in 2009. Compensation disclosure is now an industry best practice required by all institutional funders, as well as Peninsula and other market leaders.

Other examples of standardization include: widely used pricing and probabilistic valuation software developed and updated over the past decade; standardized purchase and origination contracts developed and approved by the Institutional Life Markets Association (led by Credit Suisse); medical underwriting "best practices" that provide for a standard methodology and mortality table to be used in measuring and reporting actual to expected life expectancy projection performance; and the secure and efficient data management applications that have been developed and now commonly used by brokers and providers in sharing sensitive and private insured data, supporting a secure and efficient case coordination and valuation process.

Today's investors also benefit from an increased level of industry professionalism as well as more effective utilization of the expertise of actuaries, medical underwriters and service providers.

Other changes favorable to those investing today have taken place. In late 2007, the amount of capital available for the purchase of policies exceeded the number of quality policies available for settlement. There was significant competition driving up pricing on Life Settlements. On average investors were paying 25% more for Life Settlements and ingoing return projections were in the low teens on a probabilistic buy and hold basis. Remarkably, considering the favorable reduction in mortality risk due to increasing life expectancies, Peninsula has been able to acquire high quality Life Settlements during 2010 with an average ingoing IRR projected in the high teens.

Arguably the most important metric from an investment standpoint is the rate of return offered by a Life Settlement purchase. The 2009 Life Policy Dynamics Market Analysis report collected data on the offer amounts to the broker as a percentage of the life insurance policy face value as a proxy for analyzing the prevailing market rates. Although this metric does not directly take into account the cost of insurance projections or the expected mortality experience, it does give some indication of market trends from an investment perspective. Based on a random statistical sample of the Life Settlement market, the diagram below illustrates the development of the life settlement market over the past four years.



As indicated in this chart, based on a random statistical sample of 2,220 actual Life Settlements traded over four years, the value proposition for investors has increased over time since an investor can successfully offer a purchase price at a lower percentage of the face value of the insurance policy. It is unclear how long the current percentage of purchase price to face value will remain at historical low levels and when the market will return to a point where policy sellers can demand a higher purchase offer as a percentage of the face value.

Life Settlement Fundamentals

Generally speaking, the sale of a life insurance policy is an option for high net worth policy owners with a policy insuring an individual age 70 or older. Not all permanent senior life insurance policies qualify as a Life Settlement. The underlying asset in a Life Settlement is a life insurance policy issued by a life insurance company with high credit quality. Life insurance policies are issued by rated life carriers, all carefully regulated by insurance commissioners. Future carrier obligations related to claims paying on death benefits, as well as cash surrender values are backed by segregated statutory reserves, under the strict supervision of regulators. Life insurance policies sit at the top of the insurer's capital structure of these investment grade life companies. Even in the event of insolvency, policy holders are paid first from the statutory reserves, above all creditors, bond holders and equity investors.

Investment in a Life Settlement is characterized by a known purchase price, relatively predictable cost of insurance and a fixed death benefit. Successful investment in Life Settlements relies upon four basic fundamentals: (1) independent medical underwriting of life expectancy estimates; (2) pricing accuracy based upon probabilistic actuarial valuations based on current policy illustrations and account values; (3) clean, compliant Life Settlement origination including a thorough anti-fraud review; and (4) reduction of cash flow volatility and statistical fluctuation achieved by the aggregation of a diversified portfolio of insured senior life insurance policies issued by a variety of A rated life carriers.

Market Growth Factors

Industry sources estimate that the Life Settlement market has grown from a *de minimis* amount in 1999 to a forecasted annual market of US\$9 billion for 2010. Specifically, a Conning & Co. report published in 2009 estimated that approximately US\$12 billion worth of life insurance policies (based on face value) were settled in 2008, and a total of approximately US\$31 billion of US Life Settlements had been transacted by 2008 historically. More recent figures from both Conning and Cantor Fitzgerald suggest that \$60 billion of Life Settlements have been transacted in the past decade. Based upon assumptions from the Life Policy Dynamics Life Settlement Market Report, we believe that nearly 24,000 individual senior insurance consumers were served by the Life Settlement market in the past 10 years.

Because of a lack of liquidity and the limited availability of credit, market volumes are reported to be down in 2010. The market for 2010 is projected at US\$9 billion, down from US\$10 billion in 2009 and a market high of US\$12 billion in 2008. While capital was difficult to source during the recent credit crisis, the Conning Report contains a prediction that capital will return to the Life Settlement market “because of the inherent appeal of the product to some investors, meaning that it has got a low correlation to equity market returns and because of its yields relative to other fixed income, or other investment options at this time.” The size of the potential Life Settlement market has been estimated by Conning in the range of \$500 billion.

In addition to the creation of insurance consumer value, changing demographics will help drive the growth of the Life Settlement market in the next decade. The population of the United States is becoming rapidly proportionally older and, in addition, living longer. The US Bureau of the Census projects the number of individuals in the United States over age 65 will grow from 34 million today to 69 million by 2030. In this regard, the senior population will nearly double and represent over 25% of the US population. At this expected rate of growth, the population above age 65 will grow by 51.6 million people by 2050, a percentage increase of 113.8% in the 65-84 age group and 388.9% in the over 85 age group. These seniors represent the single largest growth group in the nation.

About the Peninsula Group of Companies

In the summer of 2002, during another period of global economic turmoil and a severe market down-turn, Peninsula’s founders identified the emergence of a promising new investment opportunity - the secondary life insurance market. After careful analysis of this new market and investment trends, The Peninsula Group, LLC was organized in 2002 as a holding company with the vision of serving both the emerging senior life settlement and the life insurance premium finance markets. Eight years later, Peninsula offers a total solution that is unique in the industry operating within one vertically integrated, compliant and secure platform.

Peninsula’s integrated capabilities and dynamic management group enable the enterprise to innovate and develop new investment strategies and products within the senior life insurance marketplace. The subsidiary companies that operate within the life settlement market include: Secondary Life Capital, a licensed life settlement provider; Peninsula Life Management, serving US based Registered Investment Advisors with origination and management of well structured and compliant retail investment products; Peninsula Insurance Capital, an offshore fund advisor and asset management company with life settlement products focused on the international investor market and Life Policy Dynamics, a servicing company that provides market leading research while providing owners of Life Settlement portfolios with customized services that include premium administration, cost of insurance optimization and insured data management solutions.

Peninsula has deep experience in compliant policy origination and expert valuations, reliable optimized premium administration, Insured data management and sophisticated fund and asset management. The Peninsula Companies have originated and managed nearly a billion dollars of life insurance contracts and published the Life Settlement industry's only comprehensive annual market analysis for four consecutive years.

Peninsula's team has over 100 years of combined experience in life insurance products, Life Settlements, asset management and finance solutions. Our team of insurance and finance experts provides both private and institutional clients with alternative investment options within Life Settlements.

Peninsula continually strives to offer well structured and innovative investment products, and exemplary service to our customers and investors. We are personally aligned in the success of our investors and we are proud of our tradition of delivering on financial commitments. Our professionals have demonstrated outstanding abilities in financing as well as advising companies and outside professionals. We have earned a reputation in foreseeing significant change in both the drivers of investment returns and the structure of successful Life Settlement funds.

Whereas clarity of investment process has always been relevant to investors, we have moved beyond reliance on third party intermediaries to provide our clients with unsurpassed vertical integration and efficiencies. The combined capabilities of the Peninsula group of companies provide superior transparency, market intelligence and coordination, asset protection, cost control and savings. All of these elements working together benefit investors with more reliable return performance.

The Peninsula companies are well positioned for sustained growth and continued industry leadership. Peninsula is focused on regulatory compliance and business ethics, with respect for ever growing regulation, and, with its dynamic team of experienced professionals, the firm has set the standard as an industry leader. As active members of the Life Insurance Settlement Association, Peninsula has supported and worked throughout the United States for fair legislation and responsible regulation that fairly and equitably defines the parameters of the Life Settlement industry, protects Policy owner rights, and allows attractive opportunities for private accredited and institutional investors.

By J. Mark Goode
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