



Product Profile

<i>Fund Name</i>	Life Settlements Portfolio (Share Classes A, B, C, D)
<i>ISIN</i>	LI0017791463, LI0017791646, LI0025821211, LI0028518350
<i>Investment universe</i>	US Traded Life Interests
<i>Benchmark</i>	-
<i>Base Currency</i>	Dependent on share class EUR or USD
<i>Earnings</i>	Accumulation
<i>Inception date</i>	31/10//2004 (Inception of the first share class)
<i>Fund Volume</i>	USD 515.17 m as 31. Jan. 2008 (all classes)
<i>Management Fee</i>	2% p.a.
<i>TER</i>	2.54% (weighted average from all share classes)
<i>Fund Manager</i>	Walter Schadenfroh
<i>Company</i>	International Life Settlements Prosperity Anlagegesellschaft AGmVK (ILSP)
<i>Internet</i>	www.ilsp.li

Investor's Profile

<i>Investment horizon</i>	long-term (at the least 8 – 10 years)
<i>Risk classification</i>	low
<i>Return expectations</i>	initially 4-6% p.a., long-term double-digit return possible
<i>Loss Tolerance</i>	low

TELOS Comment

The *Life Settlements Portfolio* managed in Liechtenstein is aimed at investors who take a long-term view, and invests in the secondary market for US life insurance policies. The portfolio consists of four share classes, in either denominated EUR or USD and directed at either retail and institutional investors. The EUR share classes are exposed to exchange rate fluctuations, although these are always hedged. Due to its complexity, a number of external units are involved in the well-structured investment process.

The objective of the fund managers of International Life Settlements Prosperity (ILSP) is to offer the investor an opportunity to invest via a broadly diversified portfolio rather than via highly risky individual investments in this market, which is viewed to be attractive. Investments are made exclusively in life policies, which do not pay out until after the death of the policyholder. If a policyholder wishes to surrender his policy early in order to obtain the payout prior to death, this is typically only possible via the secondary market. ILSP intends to offer investors whose investment horizon is at least 8 to 10 years a return that runs into double figures, by selectively investing in a number of individual policies. When the original policyholder dies, the

death benefit is collected by the *Life Settlements Portfolio*. In return, ILSP pays the premiums up to that point. The longevity of the policyholder thus represents a relevant risk factor. Accordingly, optimising the cash flow and realistic assumptions, particularly with regard to the life expectancy of the policyholder are critical to the success of the portfolio. The policyholder's life expectancy is estimated on the basis of at least two independent medical opinions. If the estimates vary significantly, then in principle the more conservative estimate is accepted; otherwise an average survival term is assumed. Potential investment opportunities are identified by an extensive analysis process. This is based on a number of different accepted stochastic and actuarial models. In order for a policy to be even considered for investment, it must meet certain criteria. For example, the sum assured must fall within a certain band, and the policy must offer a minimum Internal Rate of Return (IRR). Investment decisions are taken on the basis of a buy-and-hold strategy. Recently, ILSP has been undertaking policy valuations itself, whereas before an external Investment Advisor used to perform the valuations.

Life Settlements Portfolio is rated **AA+**.



Investment Process

The *Life Settlements Portfolio* is managed by the owner-managed *International Life Settlements Prosperity Anlagegesellschaft AGmVK (ILSP)* in Liechtenstein. *Walter Schadenfroh* has overall responsibility for all investment decisions.

The fund management invests exclusively in US life insurance policies, which are traded on the secondary market. Investments in the fund are subject to a three year lock-in period, to emphasise the intended long-term horizon an investor should have. In fact, investors who sell within eight years pay a higher redemption fee. The *Life Settlements Portfolio* currently contains around 720 individual policies. The fund management may borrow up to a maximum of 50% of the portfolio value. This ensures that regular premium payments can still be serviced even if there are no inflows of funds or payments as a result of the death of policyholders.

Policies must meet certain requirements defined by the portfolio managers in order to be even considered as a possible investment. For example, the anticipated life expectancy of the policyholder should be between 6 and 15 years, the insurance company should have a minimum rating of B- and no single insurance company should ac-

count for more than 25% of the anticipated payouts. In addition, the period during which the insurance company may contest the policy and during which the policyholder may cancel the contract must have expired, and the market value of a single policy must not be disproportionately high. The policies are offered to ILSP by a number of different providers, who buy the contracts from the original policyholders. To optimise the flow of premium payments and for policy analysis purposes, the two most common standard actuarial software packages in the USA are used to value policies on the secondary market. *ILSP* itself also recently set up a database containing a number of individual policies, which it uses for various analyses and evaluations. The fair market value of policies is calculated using a discounted cash flow model. Every policy should have an IRR of at least 12%. Before an investment is made, the fair value is calculated for each of the subsequent months of the life expectancy of the policyholder, taking into account changes in life expectancy (and consequently in the payment flow) over time.

The *ILSP* portfolio managers implement and execute investment decisions.

Quality Management

Deloitte & Touche, acting independently of the portfolio management, is responsible for quality control. The company conducts the monthly actuarial review of the individual policies and of the portfolio as a whole. During these reviews, the value of the medical opinions on which investments decisions are based is examined. The risk structure of the portfolio is analysed by examining variables such as the average age or average residual life expectancy of the

policyholders. The objective is to keep transaction costs as low as possible. With this in mind, identification of the shortest route to the seller of the policy represents a key constituent of the investment process.

To minimise risks for the investor, the entire execution process, and consequently all payment flows, operates via a trustee.

Team

Since the launch of the first share class in 2004, the Life Settlements Portfolio has been managed by *Walter Schadenfroh* who is also one of *ILSP*'s managing directors and owners. The deputy fund manager Vladimir Koziy joined the company in 2007. The portfolio management

team includes members of staff with responsibility for actuarial and legal monitoring. All staff are graduates and have relevant professional experience within their own area of responsibility.



Investment Characteristics

<i>Important external factors</i>	<i>Important control factors</i>
Equity market (level)	Asset selection
Equity market (volatility)	Asset weighting
Economic environment	Maturity allocation
Liquidity	Credit-worthiness
Sector development	Sector weighting

Product History

Monthly Returns

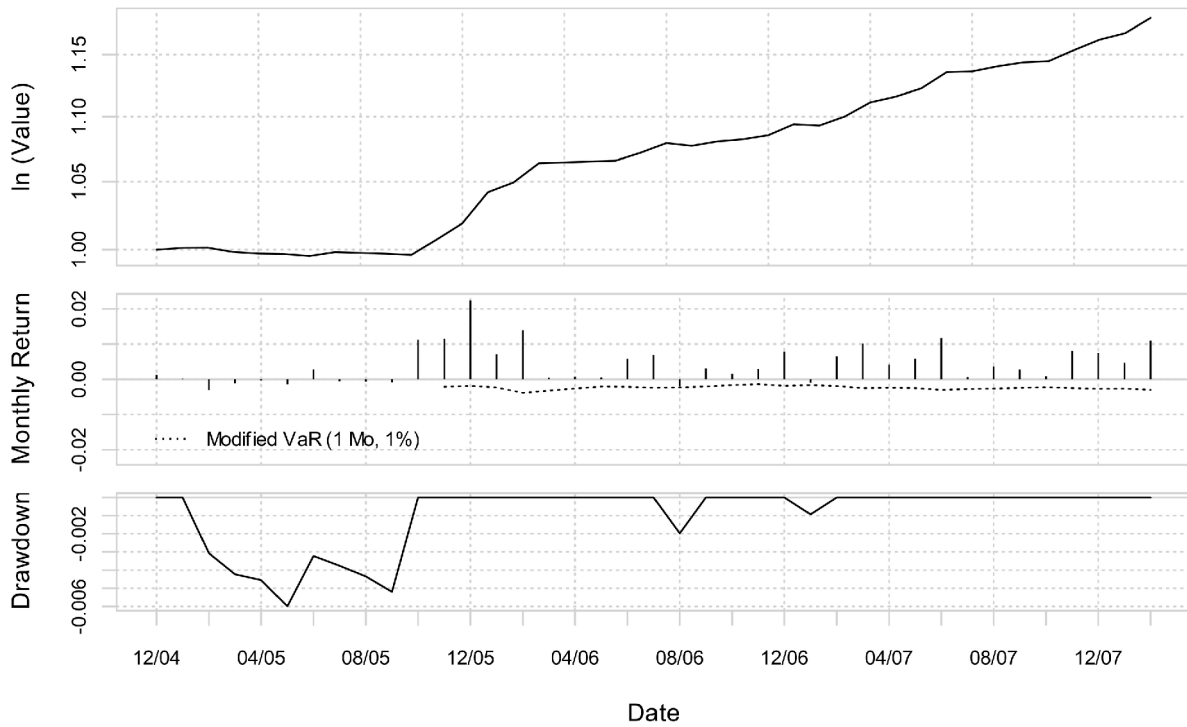
	2004	2005	2006	2007	2008
Jan	-	0.0	0.7	-0.1	0.5
Feb	-	-0.3	1.4	0.7	1.1
Mar	-	-0.1	0.1	1.0	-
Apr	-	0.0	0.1	0.4	-
May	-	-0.1	0.1	0.6	-
Jun	-	0.3	0.6	1.2	-
Jul	-	-0.1	0.7	0.1	-
Aug	-	-0.1	-0.2	0.4	-
Sep	-	-0.1	0.3	0.3	-
Oct	-	1.1	0.2	0.1	-
Nov	-	1.2	0.3	0.8	-
Dec	0.1	2.2	0.8	0.7	-
Fund	0.1	4.1	5.0	6.3	1.6

<i>Statistics per end of Feb 08</i>	<i>1 year</i>	<i>2 years</i>	<i>3 years</i>	<i>5 years</i>	<i>7 years</i>	<i>10 years</i>
<i>Performance (annualised)</i>	7.32%	5.34%	5.75%	-	-	-
<i>Volatility (annualised)</i>	1.31%	1.32%	1.87%	-	-	-
<i>Sharpe-Ratio</i>	2.54	1.02	0.93	-	-	-
<i>Best monthly result</i>	1.17%	1.17%	2.25%	-	-	-
<i>Worst monthly result</i>	0.06%	-0.20%	-0.20%	-	-	-
<i>Median of monthly results</i>	0.53%	0.39%	0.34%	-	-	-
<i>Best 12-month result</i>		7.32%	8.46%	-	-	-
<i>Worst 12 month result</i>		3.40%	3.40%	-	-	-
<i>Median of 12-month results</i>		5.83%	6.29%	-	-	-
<i>Maximum loss period</i>	0 M	1 M	7 M	-	-	-
<i>Maximum loss</i>	0.00%	-0.20%	-0.29%	-	-	-

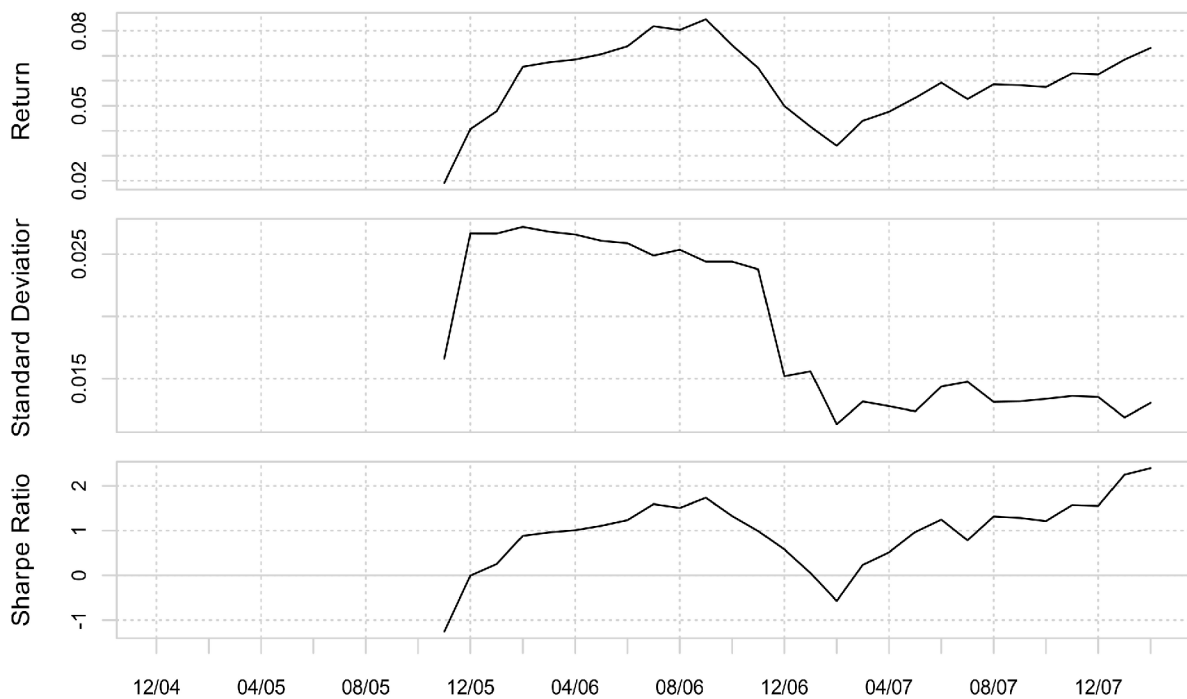
Fund vs. Benchmark

Jensen alpha	-
Beta	-
R^2	-
Annualized Alpha	-
Correlation	-
Tracking Error	-
Active Premium	-
Information Ratio	-
Treynor Ratio	-

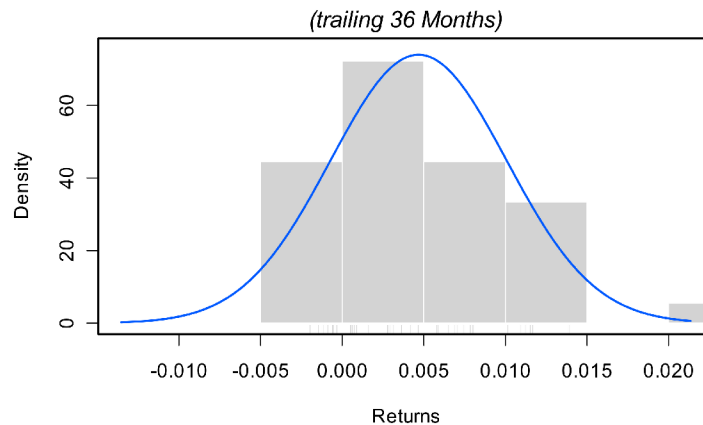
Performance



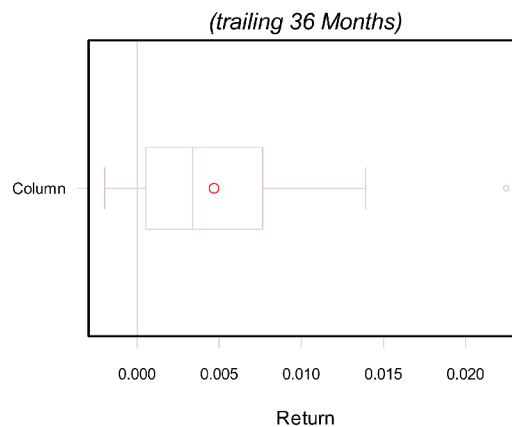
Rolling 12-Month Performance (annualised)



Histogram of monthly Returns



Boxplot of monthly Returns



Explanations

TELOS Rating Scale

AAA	The fund complies with highest quality standards
AA	The fund complies with very high quality standards
A	The fund complies with high quality standards
N	The fund does currently not comply with the TELOS quality standards
+ / -	further differentiate within a rating level

The **Product Profile** contains general information on the fund, the investment firm, and the responsible fund manager.

The **Investor's Profile** enables the investor to quickly match his or her expectations with the "official" classification of the product by the investment firm.

The **TELOS Comment** section summarises the main insights of the rating and constitutes an important supplement to the rating grade. The subsequent sections contain

descriptive information on the investment process, the quality management, and the responsible team.

The **Investment Characteristics** lists – from the point of view of the fund management – the most important external determinants influencing the performance of the fund, as well as the essential factors employed for its control.

The **Product History** presents – by means of graphs and tables – the development of the fund in comparison



AA+
03/2008

Life Settlements Portfolio

with the money market and a benchmark (where appropriate) in respect of performance and risk criteria. All calculations are based on month-end data. Fund data and benchmark data are provided by the investment firm.

The *performance* of the fund is calculated based on re-invested prices: profit distributions are being invested in new shares of the fund immediately. Thereby, the performance of distributing and nondistributing funds is mutually comparable. This approach corresponds to the “BVI method” of performance calculation, advocated by the association of the German investment fund industry. If the fund management is guided by a *benchmark*, the performance of the latter is shown as well. Otherwise, a suitable comparative index is chosen for illustration purposes – in agreement with the investment firm.

The *Sharpe Ratio* provides information about the “excess return” of the fund with regard to a risk free financial investment – here represented by the money market – as a proportion of the total risk taken. The risk free rate used in this report is 4%, and the *volatility* is the annualised standard deviation of the monthly returns.

The *median of monthly results* is characterised by the fact that half of all monthly returns occurring in the observed period are either at least or at most as large as this value. As a result, this measure is less sensitive to “outlier results” than, for instance, the mean (average) value of monthly returns. In an analogous way, the *median of 12-month results* should be interpreted. The *longest loss* period is the number of months needed by the fund in order to recover losses by reaching or exceeding a level that had been achieved previously in the period under consideration. If this level could not be reached again, the end of the period is used. Accordingly, the *maximum loss amount* is the largest loss which the fund suffered in the period under

consideration – starting from the highest value reached earlier during this period.

Jensen Alpha measures the beta-risk-adjusted (cf. beta) outperformance of the fund versus the benchmark and is calculated using monthly returns. A positive value indicates the generation of added-value by the fund's management.

Beta is a measure of the fund's market risk exposure. A Beta larger (smaller) than one indicates that the fund will be more (less) volatile than the benchmark.

R^2 is the square of the correlation coefficient (cf. correlation). It is the measure of the quality of a linear fit on the fund's vs. the market's returns. It ranges between 0 (bad fit) and 1 (good fit).

Correlation is a measure of how the fund and the market move in relation to each other. Correlation ranges between -1 and +1. The extreme values i.e. -1/+1 indicate that the fund and the market always move in lockstep, for -1 in opposite directions, for +1 in the same direction. 0 indicates there is no clear relationship.

The *tracking error* is the standard deviation of differences between fund and benchmark returns. The lower the tracking error, the more closely the portfolio follows the index.

Active Premium or excess return measures the Out/Underperformance of a fund vs. its benchmark.

The *Information Ratio* is the active Premium divided by the tracking error. The higher the information ratio, the higher the active premium of the fund, given the same level of risk.

The *Treynor Ratio* is the active premium divided by beta. The Treynor ratio is a beta-risk-adjusted measure of excess return.

All rights reserved. The current version of this report can be obtained from our website www.telos-rating.de. This rating report is based on facts and information taken from sources believed reliable, but we cannot warrant their accuracy and/or completeness. TELOS GmbH accepts no liability for any loss or damage arising from errors or matters of opinion expressed. Neither the presented figures nor the actual historical performance permit future predictions. Ratings and views presented are subject to revision and should not solely be relied upon for investment decisions. The Fund rating is no offer or recommendation or request to buy, sell or hold the product(s) being discussed in this publication. The current version of this report may be obtained from our [website](http://www.telos-rating.de).



AA+
03/2008

Life Settlements Portfolio

Contact

TELOS GmbH
Abraham-Lincoln-Straße 7
D-65189 Wiesbaden
www.telos-rating.de

Telephone : +49-611-9742-100
Fax : +49-611-9742-200
E-Mail: tfr@telos-rating.de