

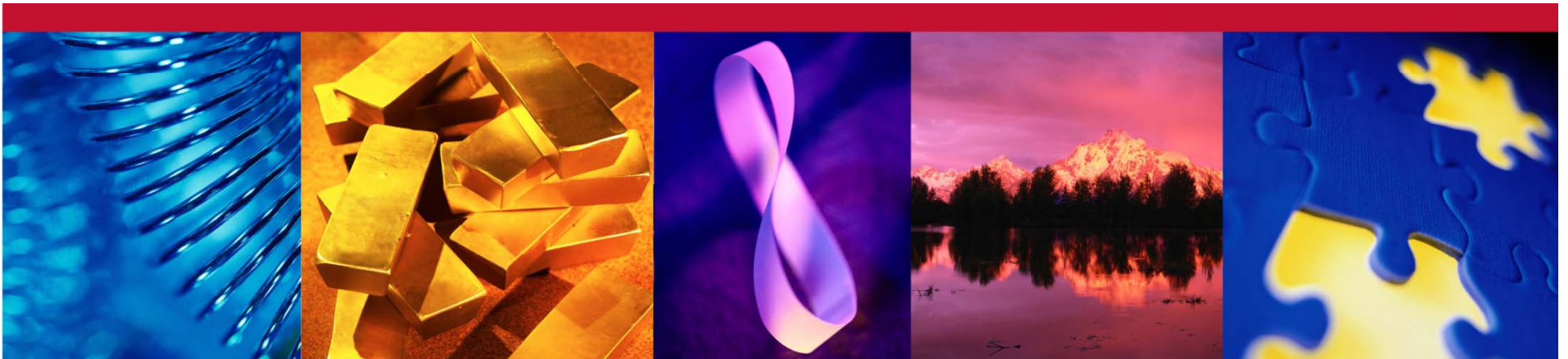


*In the Secondary Market, We're First.™*


# Current Opportunities and State of the Market (Qualified Investors Only)

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# Webinar Instructions

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- If you have questions during the presentation, please use the "message"  function located at the right of your web classroom screen.
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# LSAM Events & Resources

- June 1 – Fundamentals of Life Settlements
- June 3 – Advanced Strategies and Case Studies
- June 8 – Investors Only Part 1 - Current Opportunities and State of the Market
- June 16 – Broker Panel: Understanding Providers and Brokers
- June 22 – The Life Settlement Marketplace - Regulatory Climate; Market Trends
- June 24 – Investors Only Part 2 - Portfolios, Securitization, Settlement Allocation impact on overall Portfolios

Continuing Education course on life settlements ([www.lss.webce.com](http://www.lss.webce.com)) available in all 50 states (2-8 CE Credits)

Downloadable resources and event signup at:  
[www.lifesettlementawarenessmonth.com](http://www.lifesettlementawarenessmonth.com)

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Life

# Panelists



- Ian Subel, CFO, Life Settlement Solutions
- David Marinoff, Managing Director, Guggenheim Capital Markets
- Darryl Glatthorn, Head of Strategic Finance, Caldwell Life Strategies Corporation

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Ian Subel

CFO  
Life Settlement Solutions

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# Overview



- Last 18 Months – Distressed Sellers
- State of the Market – A Buyer's Market
- Opportunities Available in the Market
- A Look Ahead

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# Last 18 Months

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- Financial crisis – perfect storm
- Lack of capital – banks out of market
- Premium finance – no funding
- Investors and policy holders seeking liquidity
- Carrier ratings remain strong – some downgrades
- Distressed sellers in the marketplace present unprecedented buying opportunities

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# State of Market

- Buying opportunities in various market segments
- Longer LE's => lower prices => higher IRRs
- Lack of accurate data
- Market growth
- Distressed sellers
- Old LE's
- Lack of buyers

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# Demographics

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- Growing senior population
- Capital crisis reduced senior retirement assets and increasing their liquidity needs
- Devaluation of estates
- Financial advisor and consumer awareness increasing, leading to increased market penetration

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# Today: Opportunities in Market

- Opportunities available:
  - Traditional life settlements available with pricing utilizing higher IRR's and longer LE's
  - Jumbo policies – few buyers
  - Financed assets – beneficial interest
  - Portfolios
  - Assets from lower rated carriers (below A-)

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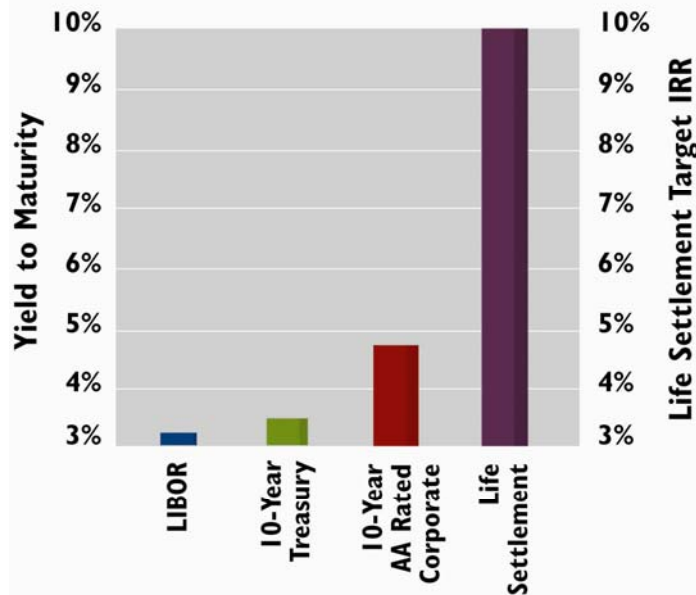
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# Settlements Offer Potentially Attractive Yields

## SETTLEMENTS OFFER ATTRACTIVE YIELDS



Relative to other US fixed income investments, life settlements may offer attractive target IRRs over a long term horizon. *As of March 31, 2008.*

Source: Bloomberg and Pinnacle Data

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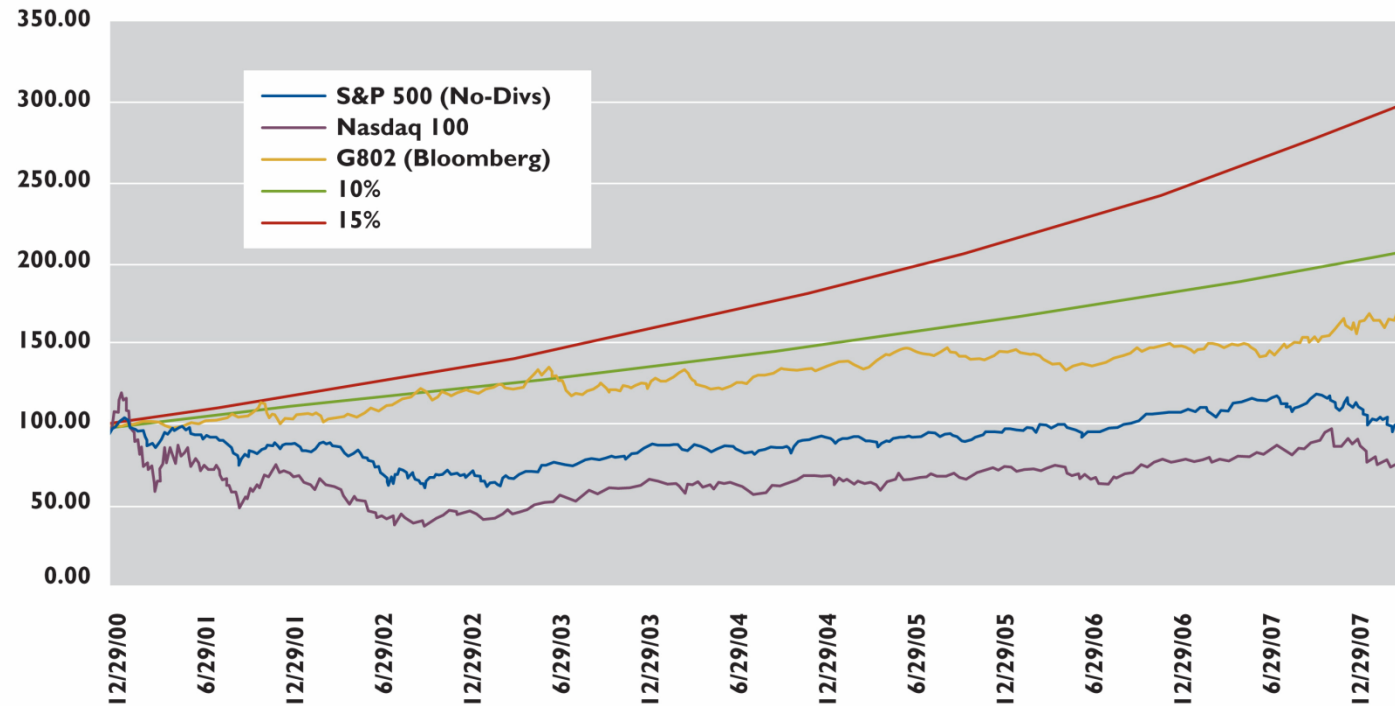
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# Historically Attractive Returns

ATTRACTIVE RETURNS WITH LOWER VOLATILITY



Source: Bloomberg and FastTrack

\*Past returns are no indication of future performance

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# Assets Available



- Traditional life settlements
- Large face value policies
- Portfolios
- Financed assets

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# A Look Ahead



- Securitization
- Capital availability
- Education of potential investors

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# Entry into Market



- Determination of assets to acquire
  - Portfolio characteristics
  - Method of acquisition (managed account, portfolio, etc.)
- Investment structure
- Assembling the right team
  - Provider – origination, servicing, due diligence
  - Legal
  - Actuarial
  - Tax; trustee; securities intermediary

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# About Life Settlement Solutions

- One of the oldest and largest life settlement providers
- In excess of \$2 billion in face value closed to date
- Solely institutional capital (customer protection)
- Industry-renowned capabilities and reputation
- Member of Life Insurance Settlement Association
- AA+ rating from Scope Agency
- Expert management and employee teams
- Founder and presenter of Life Settlement Awareness Month (LSAM)®
- Developer of one of the few continuing education courses on life settlements for credit toward life agent licensing

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# David Marinoff

Managing Director,  
Guggenheim Capital  
Markets

**GUGGENHEIM**



# Guggenheim Partners **LSAM**<sup>™</sup> Life Settlement Awareness Month

## Business Overview

- Guggenheim Partners is a diversified financial-services firm focused on Investment Management, Investment Advisory, Capital Markets, and Merchant Banking. Our website is [www.guggenheimpartners.com](http://www.guggenheimpartners.com)
- Since its formation in 1999, Guggenheim has focused on attracting recognized leading market professionals to a platform that employs innovative risk-management and portfolio-management techniques in order to build a world class financial-services firm focused on fixed-income investment management for Institutional and Ultra-High Net Worth clients
- Offices are located across the United States, Europe and Asia. Locations include: Chicago, New York, Boston, Philadelphia, Miami, Houston, Los Angeles, St. Louis, Sioux Falls, London, Dublin, Geneva and Hong Kong
- Guggenheim has over \$120 billion of assets under management

**GUGGENHEIM**



# Life Settlements Disfavor in the Larger Market



– The growth of the life settlement market has been stymied since the events of 2008 as a result of the specific features of the asset class:

- The policies are unrated
- Life Settlements qualify as “esoteric”, a market segment that has been under distress
- The policies have a long duration
- Life Settlements are a negative cash flow instrument, i.e., the owner of the policy must make periodic premium payments so that the policy remains in force. This has been difficult for investors facing liquidity constraints
- Life Settlements are liabilities of financial institutions, where credit has been impaired by declines in value of long term asset portfolios
- Investors in life settlements have had difficulty selling their assets at anywhere near the marks they had been provided, creating skepticism around asset liquidity

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# Life Settlements Banks



- **Banks have shied away from new investments in life settlements for the following reasons:**
  - Many Yankee banks have experienced losses through their involvement in premium financing, creating mistrust for the entire industry
  - High capital charges on unrated and illiquid assets have impeded bank holdings of this asset class
  - Rating Agencies, never a believer in this industry, are reluctant to rate any new asset classes

**GUGGENHEIT**

# Life Settlements Hedge Funds

- **Meanwhile, hedge fund involvement in this space has increased:**
  - Life settlements tend to meet or exceed Hedge Funds' hurdle rate (generally returns exceed 14%)
  - Further, there is a ready supply of portfolios from distressed sellers
  - Funds willing to pay high coupons for premium financing
  - It should, however, be noted that in the wake of the recent credit crisis, hedge funds continue to face liquidity concerns, limiting the current interest in the space



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Darryl Glatthorn

Head of Strategic Finance,  
Caldwell Life Strategies  
Corporation

# Caldwell Life Strategies

- Caldwell Life Strategies is an asset manager providing life settlement investing solutions. CLS has more than \$370 million of assets under management with a policy value in excess of \$2.5 billion. Our in house management platform is vertically integrated to oversee every step in the process from origination, underwriting, legal review, compliance, tracking and reporting. We're dedicated to providing specific investment insight and full transparency.
  - Three year positive track record with a team of 20 professionals
  - In House Actuary -member of the SOA VBT Formation Committee in 2008
  - President -formerly the partner that ran Baker MacKenzie's LS practice
  - In depth knowledge of insurance products and actuarial sciences
  - Hands on "work out" experience in policy collections from carriers
  - Strong structured products knowledge, including tax efficient structuring
  - Proprietary portfolio management system with remote access capabilities
  - Fully transparent origination, compliance and financial operations



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# Size of the Current Life Settlement Market

- According to the National Association of Insurance Commissioners (NAIC), the US life insurance market currently includes \$6 trillion dollars of outstanding policies
- A 2008 Conning Research report estimates that there are \$23 billion in life settlements related policy death benefits outstanding (low side) and estimates market growth to \$161 billion by 2030
  - Growth in tandem with the market entrance of the Baby Boom
- Consumer awareness is growing
  - Alternative to “surrendering” a policy for a nominal value
  - Recognition of policy value based on the “life expectancy” of the insured
  - Obsolete policies can be liquidated for fair value
  - HNW individuals are discovering the hidden asset of their net worth



# Why Consider Investing in Life Settlements?

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- “Non Correlated Asset”
  - Some correlation to the credit markets. Virtually none to equities, real estate or commodities however . . . **All assets are correlated to liquidity**
- Stable Asset, Low Volatility, Limited “Gap Risk” (overnight risk)
  - Insurers are highly regulated with well capitalized claims reserves and a consistent history of paying claims
  - Investment valuation isn’t subjected to the variability of daily marks . . . Hard to have a “flash crash” in LS
- High Credit Quality Investment
  - Normally “A-” or better as assessed by Standard & Poor’s
- Buy Hold Strategy Yields Long Term Predictable Returns
  - Absolute return with statistically significant portfolio
  - Ideal asset for LDI (Liability Driven Investment)



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# Mortality v. Other Asset Classes – 20 Years



**S&P 500**



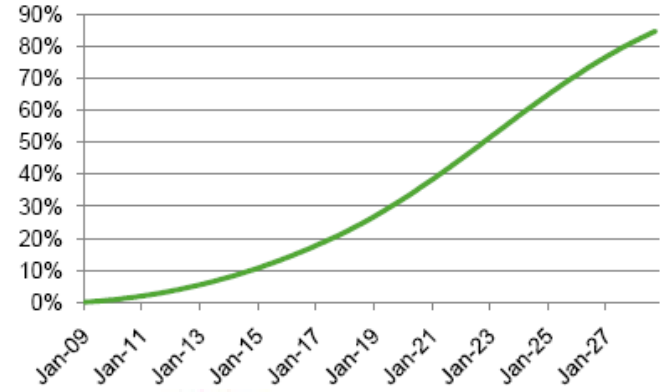
**WTI Spot Crude**



**10 Yr Treasury Yield**



**Mortality - VBT '08 Age 76 Male Std**



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# Past Challenges

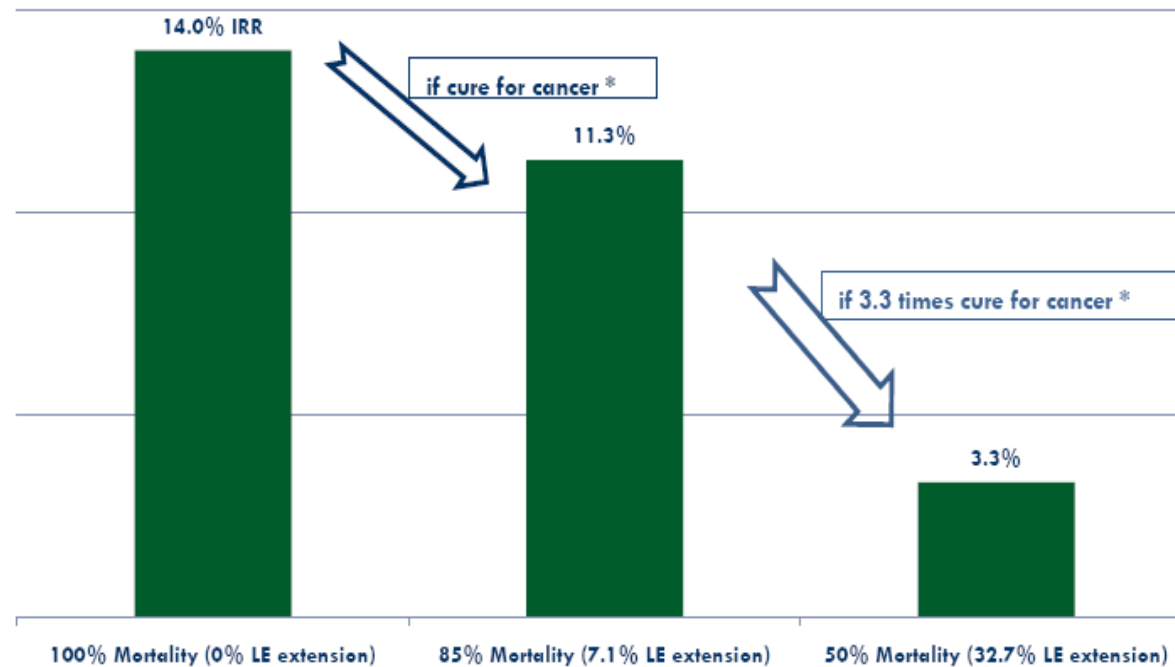


- Insurance Carriers resisted the development of the Life Settlements market and tried to retain their exclusive relationship with policy holders offering them only one alternative, surrender for cash value, should they wish to monetize their policy
- Early estimates of "life expectancy" (LE) proved to be too aggressive resulting in portfolios that seriously underperformed expectations. Some investors have experienced difficulties making premium payments to maintain policies
- During the early years, the lack of transparency in transactions and very little regulation led to poor origination practices. The advent of premium finance programs opened the door for policy "manufacturers"



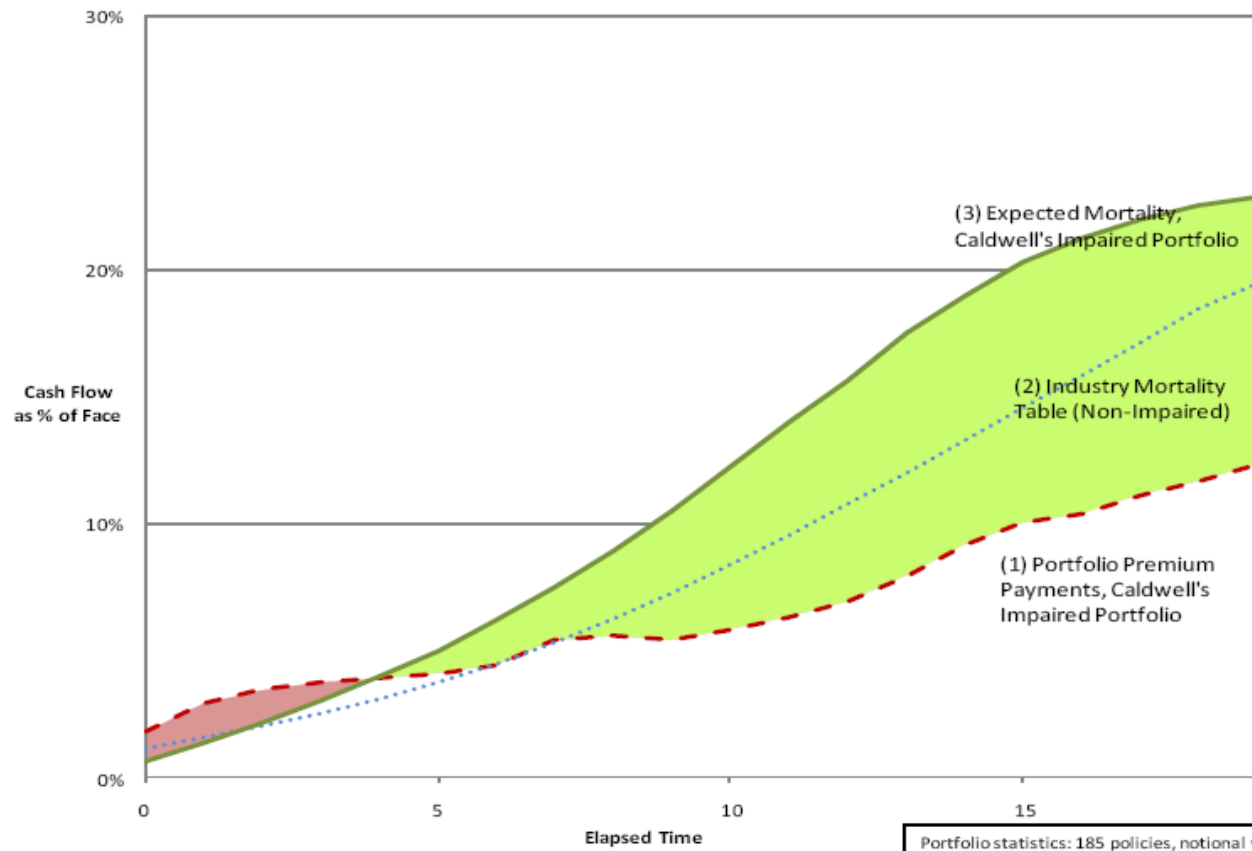
# How Accurate are LE's Going Forward? In Our Opinion, Very ...

Sensitivity of Returns to Mortality



# Returns are "Back-End Loaded"

## Mortality Arbitrage: Expected Claims vs. Premium Expense



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## Current Market Conditions

- For every top tier investment bank (GS, JPM) leaving the business, two middle tier firms have entered.
- Portfolio “shoppers” abound –the „bid ask” spread is wide with a growing number of distressed buyers looking to purchase portfolios while portfolio sellers tend to hold out for their price. Transactions are rare.
- New investors, coming out of PE and family offices, have a more realistic outlook of liquidity and an understanding that LS are an ideal hold to „maturity” investment.
- Pension consultants have recognized the market with Mercer and Russell Investments now recommending LS asset weighting to their pension clients.
- STOLI (stranger originated life insurance) issues have greatly dissipated as brokers decline to spend the money to underwrite questionable policies.

# Current Market Opportunities

- While “rated” debt offerings aren’t on the horizon, the structured product market is growing and will continue to offer new alternatives for LS investors. Structured offerings are the best new investment approach.
- Leverage is returning with a number of opportunistic lenders returning to the market. Rates have yet to return to “bank” lending rates but the trend is favorable.
- Knowledge of specific carrier policy features and the fine points of specific actuarial table cells offer unique opportunities for informed investors.
- Corporate high yield spreads have collapsed during the past year but individual LS policy purchases still offer unlevered yields range from 12% to 16% or higher depending on the source of the policy and the specifics of its origination. The LS market has barely recovered from the March of ‘09 market lows.

*Actuarial Assumptions, Transparency and Disclosure Standards Have Improved*



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**Darryl Glatthorn**  
**Head of Strategic Finance**  
**Caldwell Life Strategies Corporation**

Mr. Glatthorn has over 29 years experience in Structured Finance and Capital Markets, of which the last 6 years are specific to Life Settlements. Mr. Glatthorn joined Caldwell Life Strategies in June 2008. As the Head of Strategic Finance he acts as the point person and primary interface with the capital markets and institutional investors. During the five years prior to joining Caldwell, he advised a long list of both investment banks and life settlement industry operators in pursuit of funding initiatives. He successfully raised funding for a number of the early hedge funds to enter the market and advised on the development and financing of a number of life insurance premium finance programs. He's a long standing member of the life settlements trade organization, LISA and is a well known professional in the life settlements business.

Prior to entering the life settlements market, Mr. Glatthorn founded a FINRA licensed broker dealer which specializes in private placements and finance for life settlement investments. He previously spent 8 years as a partner and the head of global trading at Zweig DiMenna Associates, one of the oldest established New York based hedge funds. He witnessed the growth of alternative asset investing over 15 years as a senior VP in institutional derivatives sales at UBS, Morgan Stanley and Lehman Brothers.

Mr. Glatthorn is a graduate of Babson College in Wellesley, MA. He majored in accounting and received his CPA from the State of Texas.

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**C O R P O R A T I O N**

# Resources



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