




Life Solutions International Newsletter

March/April 2010



Simon Says



The first quarter of 2010 has been an active one for Life Solutions International, LLC (LSI). In February, we hosted the second annual Insurance-Linked Investments Awareness Month® (ILIAM), which garnered attendance from hundreds of investment professionals. The series of free, educational events covered portfolio transactions, distressed asset opportunities, purchasing strategies for private equity and hedge funds as well as pension plans, taxation, regulation and more.

Portfolio activity continued at an active pace, however, the prospecting, capital raising and due diligence activities greatly exceeded the transaction closings throughout the industry. LSI has continued to focus on this tertiary market, and has been instrumental in facilitating portfolio transactions for its clients. As has been written in this newsletter several times, portfolio transactions require an enormous amount of expertise, due diligence and patience. Nevertheless, LSI believes that the opportunities available in the tertiary market, particularly with distressed assets, are worth the effort.



In March, we also attended the Life Settlements Trade Mission hosted by the Life Insurance Settlement Association (LISA) and the European Life Settlement Association (ELSA). This mission brought together several dozen investors with members of the life settlement industry at events held in London, Luxembourg, and Zurich. We commend the leaders of each organization and their respective staffs for bringing together such a dynamic

group of life settlement industry and investment professionals. It is clear from the meetings that despite the prolonged effects of the financial crisis, life settlements continue to be an asset class of interest to various institutions worldwide because of their potential as an alternative asset class offering potentially attractive returns that are not directly correlated with major markets from highly rated issuers.

While capital supply and liquidity continue to restrict the market, we are noticing a highly diverse group of investors taking interest in the life settlement asset class, including private equity, hedge funds, family offices and pension plans. These institutions are placing a heavier emphasis on risk management in the wake of the financial crisis and investor fraud incidents during the past few years. The resulting risk mitigation techniques have moved to the forefront of the evaluation process, especially those that address investor protection, the proper structure of investment vehicles, the use of securities intermediaries and poor historical performance.

We are finding a few trends and sentiments becoming common among institutions. Life expectancy evaluations are shifting towards conservatism, which has restricted qualified asset supply for both the individual case and portfolio markets. geted IRRs.

In addition, many other distressed debt opportunities that were available a year ago are gone now. As a result, returns available in other asset classes going forward are



Simon Says Continued

viewed as offering lower potential than life settlements. Because of these trends and plans by some large institutions like CalPERS to lower their expected IRR's going forward, attention has increased on life settlements to potentially fill voids

As these new participants come to market, it is important for them to develop or find the right vehicle. Some institutions are struggling to find such a vehicle and have realized that open-end retail funds may not be well suited for them because of their constrained options for liquidity. In our opinion, closed-end funds are better suited for long-term capital, similar to private equity funds.

Both small and large open-end funds wrestle with liquidity issues, namely providing the ability for investors to exit the investment in the early years. Closed-end funds, however, employ longer lockup periods to prevent them from forced-sale distress situations. Smaller open-end funds are also challenged to maintain sufficient concentration risk limits that can only be overcome with enough assets to diversify across several carriers and lives. Moreover, valuation methods employed by funds are being increasingly scrutinized to determine how funds are valuing assets.

One concern commonly noted with open-end funds relates to the practice of calculating and earning management fees based solely on modeled and anticipated mortality experience, as opposed to actual performance. Structures that are preferred by institutions make an allowance for management and profit participation fees, but are based on actual mortality experience,

not modeled performance. Lastly, high distribution costs associated with some of these funds has rendered them too cost prohibitive in the eyes of many institutions.

Securitization continues to be elusive. Rated securitizations are anticipated to come from the compilation of new life settlement asset pools with proper diversification of assets, strong asset quality, concentration risk limitations and overall quality and consistency of origination and servicing. Rating agencies are also requiring cash reserves for potential increases in cost of insurance and litigation and equity (skin in the game).

LSI and its affiliates continue to strengthen and broaden the life settlement portfolio servicing platform based on the demand for these services from experienced, capable and licensed providers. There are many new players in this arena; however, institutions have begun to realize the importance of having servicing performed by firms that are able to conduct all activities related to servicing. LSI and affiliates offer the full suite of functions for virtually the same price as the newer players, however, our services come with the expertise gained from pricing billions of dollars of assets to determine optimized premiums. Better premium forecasting may result in considerably lower costs and help achieve target IRR's.

Regulators have also continued to enact and refine regulations in this market, paying particular attention to interference by insurance carriers to the life settlement transaction process requirements, including the furnishing of verifications of coverage (VOC).



Simon Says Continued

While the recovery from the financial process remains slow, the capital migration back into settlements is still occurring. We are very optimistic about the prospects 2010 will bring and expect improved liquidity, which should have a major impact in the life settlement market over the next 6-12 months.

In June, we will be hosting the fifth annual Life Settlement Awareness Month® (LSAM). Because of the market shift and greater in-

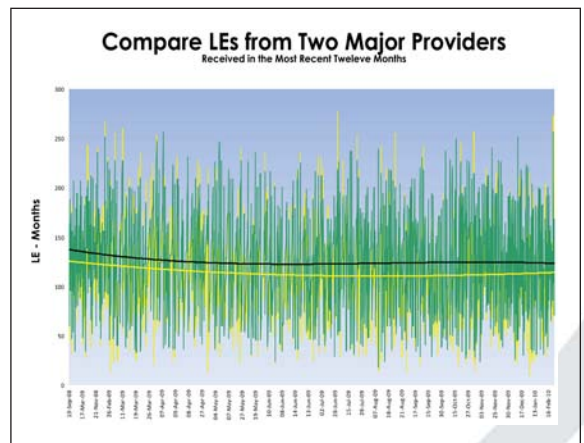
terest from investment professionals, we will be providing more comprehensive educational materials than ever before. Like ILIAM, all LSAM events will be Web-based and free to attend. We welcome your suggestions for topics and speakers.

Please feel free to contact us with questions or for more information at:
info@lifesolutionsint.com.

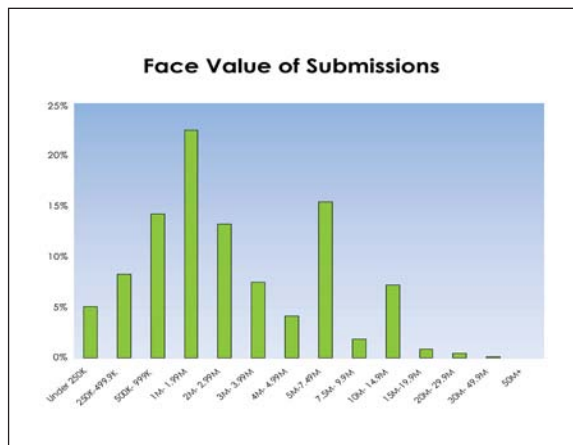
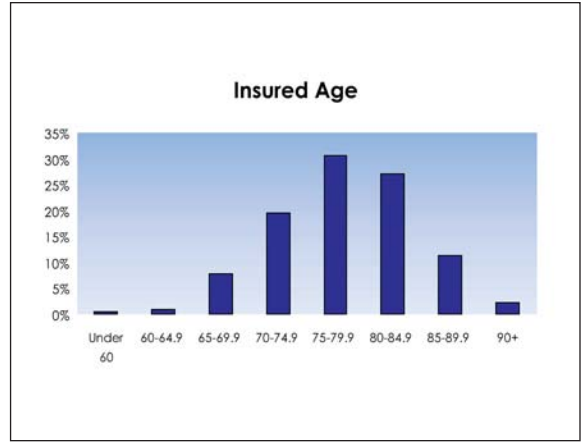
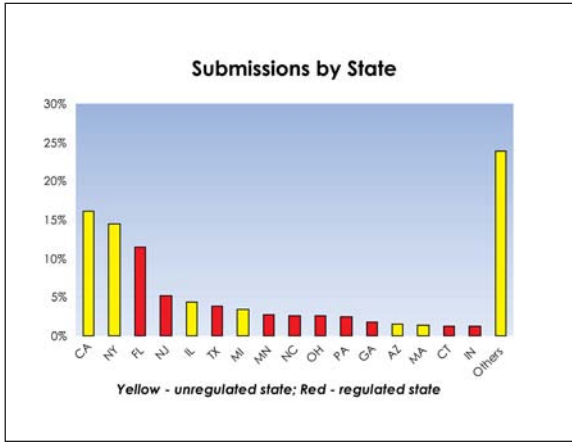
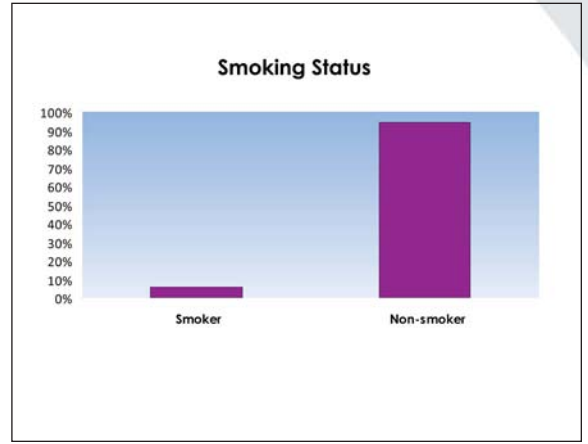
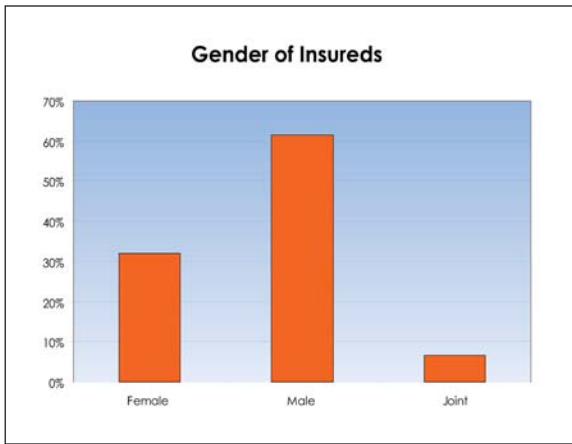


Industry Analytics

The following charts provide an overview of life settlement assets. For more detailed analytics, contact us at info@lifefirms.com.



Source: Life Settlement Solutions Year End 2008



Source: Life Settlement Solutions Year End 2008



Legal Briefs

Court Rejects Carrier's Attempt to Void Policy Despite STOLI Allegations

Attorney Steven Sklaver and the law firm of Susman Godfrey LLP recently announced entry of summary judgment in favor of their client, Jonathan Berck, and against the plaintiff in the matter of Lincoln Life and Annuity v. Rosamond Janis, and Jonathan Berck as Trustee of the Rosamond Janis Insurance Trust (NY Sup Ct, Westchester County, No. 17362/08). In its complaint, Lincoln sought declaratory relief in requesting a court order holding that the Janis policy was void from its inception, or that Lincoln was entitled to rescind the policy, based on allegations that the policy was procured for the benefit of persons not having an insurable interest in the life of the insured and that material misrepresentations were made in the policy application.

In response to Lincoln's suit, defendant Berck filed a motion to obtain a court order

for either (1) summary judgment declaring that Lincoln was not entitled to void or rescind the policy, or, in the alternative, (2) partial summary judgment declaring that if Lincoln were to prevail at trial and the policy were declared void or rescinded, then Lincoln would be required to refund premium payments that had been paid on the policy both before and after the lawsuit was filed.

In its ruling, the court ruled that Lincoln had waived any right to either void or rescind the policy based on the fact that Lincoln had continued to bill for, receive and retain premium payments on the policy even after the carrier had learned of the alleged fraud in procurement of the policy – and Lincoln continued doing so even after the lawsuit had been filed. Such conduct by Lincoln was inconsistent with its position that the policy was void or could be rescinded.

Regulators Focus on Stranger-Originated Annuity Programs

Both NCOIL and NAIC have recently announced plans to look into practices involving the purchase of annuities procured by investors with benefits tied to the life of unrelated persons. Both groups announced these plans in response to lawsuits filed by certain insurers, as well as investigations being pursued by the SEC and federal investigators into practices by Rhode Island attorney Joseph Caramadre. The life insurers have alleged that Caramadre and others doing business with him have taken advantage of terminally or seriously ill persons in applying for annuities for the benefit of investors.

Although nearly every state recognizes insurable interest laws that preclude investors from obtaining life insurance on unrelated persons, there are inconsistencies and ambiguities in some states as to whether insurable interest laws apply to annuities. The NAIC and NCOIL indicate that they will be evaluating these issues with the possibility of promulgating model laws, or potentially amending existing STOLI provisions in their model settlement acts, to more directly address annuity practices.



Legal Briefs Continued

Regulations Governing the Life Settlement Industry

As the life settlement industry has grown over the past decade, large numbers of financial professionals and institutional buyers have entered into the secondary and tertiary life insurance markets – markets which can present a legal minefield to the uninformed. These participants must focus on education, due diligence and compliance to ensure that, while maximizing the opportunities presented by life settlements, they also minimize compliance risks.

Institutions that own or seek to acquire a portfolio of settled policies must be cognizant of the complex web of state and federal laws that govern life settlements, as well as life insurance generally, privacy laws, etc. In addition to assuring that the institutional policy owner is maintaining its own compliance with applicable laws, the quality of traded assets and business reputation of the portfolio owner may be affected by other parties' compliance with laws and regulations governing origination practices.

State Insurance Laws Govern Settlement Transactions

Both NCOIL and NAIC have recently announced plans to look into practices involving the purchase of annuities procured by investors with benefits tied to the life of unrelated persons. Both groups announced these plans in response to lawsuits filed by certain insurers, as well as investigations being pursued by the SEC and federal investigators into practices by Rhode Island attorney Joseph Caramadre. The life insurers have alleged that Caramadre and others doing business with him have taken advantage of terminally or seriously ill persons in applying for annuities for the benefit of investors.

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Licensing Requirements

Virtually every state that has adopted settlement laws requires that parties seeking to buy policies, and those that perform policy servicing functions for the portfolio owner, must obtain some type of license or registration. Conducting due diligence in this area is critical. Proper licensing should be verified

before exchanging information with or making any payment to any person engaged in the business of life settlements. Professionals should also be wary of funding sources that operate solely in unregulated states or other firms that "rent out" state licenses to another firm.



Legal Briefs Continued

Policy Servicing and Insured Tracking

Life settlement laws commonly restrict the frequency of post-settlement contacts with an Insured for purposes of monitoring health or life status, limiting such contacts to once every 3 or 6 months in most cases, or month-

ly or quarterly if the Insured's life expectancy is 12 months or less. Most life settlement acts require or contemplate that tracking services be performed only by licensed companies.

Use and Disclosure of Personal Information

Life settlement laws generally include provisions protecting the privacy of personal information pertaining to sellers and Insureds. The Gramm-Leach-Bliley Act, HIPAA and state privacy laws also impact the conduct of life settlement business, both in connection with obtaining and disclosure of personal and medical information as necessary to effect a settlement transaction and as related to post-settlement servicing and monitoring of the Insured's health and life status. Portfolio owners and servicing companies may also be required to provide privacy notices to insureds on an annual basis.

For example, HIPAA-compliant consent forms are required to enable a provider or portfolio owner to obtain the Insured's medical records as related to evaluation or enforcement of policy assets. The ability to obtain updated medical records in the future, which will often require updated HIPAA consent forms, is an important consideration for the portfolio owner in many cases.

While medical records are the focus of HIPAA, GLB governs a wider range of nonpublic personal and financial information. Disclosure of such nonpublic information requires the express written consent of the consumer to which the information relates, although it may be permissible to extract data to facilitate certain disclosures if done

in a manner that is not personally identifiable to any individual.

By comparison, life settlement laws are in some ways more restrictive than either GLB or HIPAA. In many instances, disclosure of personal information that is identifiable to a particular person is typically allowed only to the extent necessary to effect or finance a settlement or other transfer of a policy, management of the policy asset, and enforcement of rights under the policy. These restrictions on the purpose for any re-disclosure of information are typically embodied in state-approved settlement contract and disclosure forms. As with GLB and HIPAA, these laws are focused on disclosure of information, but may not preclude internal use of data for other purposes so long as there is no disclosure of personally identifiable information for any reason other than the specifically enumerated purposes. Another distinction is that, although GLB protects only "nonpublic" information, life settlement laws often do not contain such limitations. Consequently, the mere fact that certain information may be publicly available (such as a person's name or phone number) may not be sufficient to create an exception to the prohibitions against re-disclosure of that information for other than one of the specifically permitted purposes.



Legal Briefs Continued

NY Insurance Department Fines AXA Equitable \$1.9M

In a statement issued March 26, 2010, NY Superintendent of Insurance James J. Wynn announced that AXA Equitable Life Insurance Company has paid a \$1.9 million fine for violations of various provisions of the NY insurance code. This announcement came following finalization of a market conduct examination, and references violations occurring in 2001 – 2006. Although the Department stated that it had received no consumer complaints, through its examination of AXA's operations violations were identified, including the provision of inaccurate or incomplete disclosures to consumers in connection with transactions by which consumers surrendered annuities or policies issued by other insurers and replaced them with

AXA products. In those situations, NY law requires that the insured be given a disclosure statement with complete and accurate comparative information about significant features of the replaced and the replacing policies or annuity contracts. In addition, the Superintendent's announcement mentioned that AXA was found to have committed certain other violations, such as use of an unapproved Equi-Vest policy form, failure to provide information required for accelerated benefit claims, failure to obtain informed written consent prior to conducting HIV testing, and failure to maintain required documents and information necessary to reconstruct claims in certain cases involving variable annuity claims.





Where Will We Be?

April 22, 2010

Investor Breakfast
Princeton Club, NYC

April 28-30

LISA Spring Conference
Washington, DC

Life Settlement Awareness Month® Schedule of Events

June 1: Fundamentals of Life Settlements

June 3: Advanced Strategies and Case Studies

June 8: Qualified Participants 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: Qualified Participants Only Part 2 - Portfolios, Securitization, Settlement Allocation impact on overall Portfolios

Resources

If you missed any of the ILIAM events, most were recorded and available for download along with the corresponding slides. You can access these resources at <http://www.life-solutionsint.com/news-resources.aspx>. In addition to the ILIAM resources, you will also find past issues of this newsletter, presentations, investor brochures and highlighters, and industry news articles.

Further, to keep up with LSI in real time, join our **Facebook Fan Page**, follow us on **Twitter @lifestlmntaware** or join our **LinkedIn group**.





About LSI

Life settlements offer a rare participation opportunity to qualified institutional purchasers. While maturing in some respects, the industry is still evolving and growing in others, providing participants with a potential opportunity in this expanding asset class. Life settlements are one of the few non-correlated asset classes offering the potential for low volatility, minimal gap risk and above market returns. The industry is attracting the attention of many investment banks, hedge funds, private equity groups and pension plans. Partnering with the optimal life settlement advisor is essential for an institution to enter the life settlement marketplace and realize the highest potential yields, while minimizing risk.

Life Solutions International, LLC. ("LSI") and its affiliates develop and implement insurance-linked asset programs in the expanding US life settlement industry for participants worldwide. This alternative asset has the potential to offer above market returns on receivables from highly rated issuers, portfolio diversification, alpha improvement and low volatility and has not been directly correlated to the equity and bond markets.

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