

It's a men's world

At least it's in the beginning. According to the U.S. Census Bureau there are 5% more male babies borne annually than female. However, that ratio changes over time and by age 75 there are only 72 men per 100 women. Even though the older population consists of much more women than men, life settlement investors in the secondary market were purchasing predominantly policies of male insured last month - 92% of the trades in the secondary market and an even

higher ratio in the tertiary market referred to male insured. This is much higher than the long term average gender split of insured persons of around 2:1.

In May, the 'AAP Life Settlement Reference Rate—Main Market' was driven by shorter LEs and larger face values than in the previous month and therefore the IRR increased from 14.7% in April to 17.0% in May.

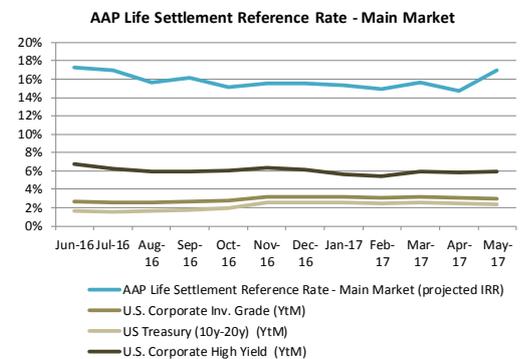


Chart of the month - "Pass rate", a new risk measure

In this final episode of our discussion of closed end products we introduce the "Pass rate" as a new risk measure for the assessment of structured life settlement products.

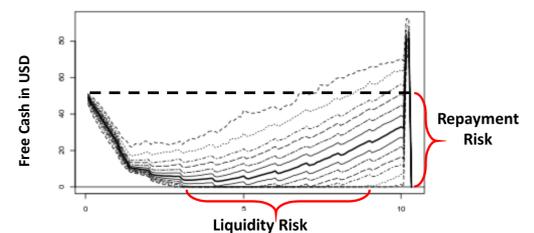
In the previous episodes we have shown how the uncertainty of mortality, the stochastic, leads to very different outcomes of a life settlement portfolio even if the life expectancies are accurate on average. We also explained that stochastic and longevity, people living longer than expected, are two separate risks that, however, have a similar effect on the cash flow of a portfolio. Both risks can reduce the free cash flows which is of utmost importance for two reasons.

First, if mortalities do not occur as expected and the investment runs out of cash, it becomes troublesome to keep the policies in force. Policies have to be sold, credit facilities have to be drawn or in the worst case this

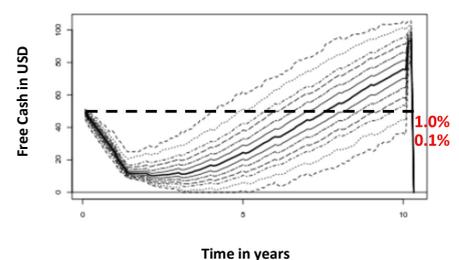
might lead to the liquidation of the portfolio. Another unpleasant consequence of a negative stochastic outcome or longevity is that investors could get hit at the end. The increased costs from longer premium payments 'eat away' what otherwise had been paid to the investor, the initial investment can't be repaid in full.

The pass rate measures the risk of running out of cash or of failing to repay the investment in full by simulating thousands of different outcomes for a portfolio and calculating how many times a simulation is successful or not. A pass rate of 99% therefore means that investors face a 1% risk that they may face a hit on their investment either during the tenure or at the end of the investment. If the settings for such a calculation are applied in a standardised way, it allows investors not only to assess different risk scenarios better but also to compare different investment offerings more easily.

Probability distribution of expected net cash flow



Life Settlement Investment with Pass Rate of 99%



Data Sampling and Data Provider

The information in this report are based on life settlement transaction data which is collected by AAP on a multi provider basis. The transparent life settlement providers are (in alphabetical order):

- Emergent Capital, Inc.
- FairMarket Life Settlements
- Habersham Funding LLC
- Life Equity
- The Lifeline Program
- Life Settlement Solutions
- LifeTrust, LLC
- Q Capital Strategies
- RiverRock Partners, LLC
- Settlement Group, Inc.

Life Settlement Market Activity

Mth to Mth

Secondary Market	Proj. Ret.	Volume
Main Market (Age 75-86)	↑	↑
Tail Market (Age < 75)	↓	↑
Tail Market (Age > 86)	↓	↑
Tertiary Market		
Tertiary Market All	↑	↓
Total Market		
Sec. and Tert. Market	↓	↑

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AA—Partners Ltd.

Witikonstrasse 36
CH-8032 Zurich
Switzerland
Tel. +41 76 414 42 29

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www.aa-partners.ch

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