International Society of Life Settlement Professionals
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Teleconference transcript

ISLSP's 3rd International Teleconference
April 30th, 2009 at 11:00 AM ET

"European Pension Funds investing in Life Settlements. Feedback from a recent roadshow."

Presenter: Jonas Martenson

Andreas Hauss:
Ladies and gentlemen, it is with pleasure that I welcome you to the third teleconference of the International Society of Life Settlement Professionals. I am Andreas Hauss the founder of the Society, an independent and investor oriented team of top Life Settlement professionals.

Today I welcome an audience from all over the United States of America, Europe, and the Middle East representing fund managers, law firms, advisors, marketing firms and high net worth investors. Let me thank George Polzer and Charmaine Wages for the excellent organization of this event.

Following our previous international teleconferences this year, the International Society of Life Settlement Professionals is becoming the go-to resource for marketing advice on investor orientation and a growing number of introductions among peers inside our exclusive network have been successful. In our constant conversation with providers and investors, many agree that only a clear vision and dedication to be investor oriented will attract the necessary capital to the Life Settlement asset class to assure further success and growth. We deal with more demanding and very intelligent investors asking for cutting edge and transparent investment opportunities.

The today teleconference serves as an overview on institutional investors in Europe, mainly pension funds, interested in investing in Life Settlements. This teleconference will be recorded and assembled in the media library on our website available to members.

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I am proud at that point to announce our speaker Jonas Martenson. Jonas is co-founder and Chief Executive Officer of Resscapital based on Stockholm, Sweden. Jonas has an outstanding international financial background and has worked with major banks throughout Europe, focusing on selling and structuring derivative products to European institutional investors. Jonas shares ISLP's investor focus and will talk about his experience from a recent road show among institutional investors. I wish you an interesting conference. Jonas.

Okay, thank you so much. I'm very pleased to be speaking today. Just wanted to thank you George and Andreas for the opportunity and also for sharing my views on speaking to Northern European investors mainly in the Benelux region, UK and Scandinavia.

We are in the process of launching a Luxembourg based fund and I think some of the feedback we receive from the investors could be of interest to other investors in the Life Settlements sector. We have been speaking recently to insurance companies, pension funds, family offices, and a lot of these are currently not investing in Life Settlements.

Generally speaking we would say that 70-80% of the institutional investors are only aware of Life Settlements to a small degree, which we view as something being highly positive in the sense that these are investors that have not previously invested in Life Settlements. They are now interested in investing in Life Settlements because of the uncorrelated nature of the returns. We have generally also found that the investment climate is getting better. People who were six months ago not considering doing very much, I think the general investment climate now is much more positive, and I think everyone in the Life Settlements sector may see that there have been no new inflows of capital yet but we think that that will slowly change as investors begin to invest again.

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The general perception of Life Settlements I would say is rather positive when we speak to investors who have a higher degree of knowledge such as actuarial background or having perhaps researched the market. Many of the past problems we've seen in the Life Settlement markets have gone away. Issues such as transparency and other very important issues now are being dealt with. We've also found that investors to some degree find it difficult to place Life Settlements within a box: does it belong to private equity, is it a hedge fund, is it alternative investments, and this has been slightly problematic with larger institutions that tend to have departments already set up doing either private equity or hedge funds, and quite often they do not find where should Life Settlements belong. Is it as illiquid as private equity or is it somewhere in between, and we've found quite a number of institutions where they don't really find the right department for investing in Life Settlements. I think that's generally just the case with larger institutions, I think as more institutions have much more flexibility and tend to look at investing assets they like.

Generally speaking we first think that the asset class has to become accepted by investors and as I stated earlier I think that in probably seven to eight out of ten meetings, investors have previously not really heard about Life Settlements. So we spend a lot of time on educating the investor base, explaining about the market, participants, different ways of accessing and investing through derivative instruments, through funds, through sourcing policies directly, and we spend a lot of time in these post matter dates on due diligence. We find ourselves spending a lot of time talking about the legal structure, service price used for our funds, I think that's also a very general theme that investors are putting a lot more emphasis on the structure, the service price is involved, the custodian involved, the people involved.

We certainly find ourselves talking a lot about our model, our quantitative model, and of course, issues that are specific to the Life Settlement market also. Where is the liquidity, is it more like private equity that I am locked up for 10 years, or is it somewhere in between equities, bonds which are liquid and private equity which is very illiquid. Where would one, you know, view, should I

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Life Settlements as perhaps the markets are back to normal there is some liquidity in the tertiary market or is that an illusion.

Transparency is an ongoing theme. We know that in the early days of Life Settlement markets sometimes the seller of the policy did not know exactly what fees were paid to brokers and other intermediaries. Most of our investors feel that this is extremely important transparency throughout the whole transaction is of extreme importance, and this is something that either mine or other institutional organizations are obviously promoting and I think its becoming more and more generally accepted throughout the market, or that we find pockets of resistance. But from an institutional investment standpoint it is a risk I'd say and that's hard to take as policies sourced without fees being properly disclosed.

We also find ourselves talking a lot about valuation of policies. Market to model, market to market, is there a market, not really. How would you then be able to trust the market to model. How does the model work for each investment manager? Those are issues where we spend a lot of time explaining about our views, our thoughts and in our case we've chosen to have an independent auditor verify the net asset value for the fund and also to verify our model. We put on quite a number of (10:45 interference) so to say, which has been the requirement from the institutional investor base where they want to assure there are independent parties verifying what we are doing.

I think generally the service writers that one has to choose when dealing with institutions tends to be larger institutions, well known names, and I think also the structure itself, the legal structure, it has to be in a jurisdiction where it works from a U.S. withholding tax point of view. We are required by our custodian bank, our investors to produce tax opinions for every investor country and that's just a requirement from the withholding tax point of view. We are required by our custodian bank, our investors to produce tax opinions for every investor country and that's just a requirement from the custodian bank and from the investors. So I think we've found that the requirements from institutional investments are very high, but its also been something very high, but its also been something very positive because I think that it will drive the market towards becoming more institutionalized. We would see more inflows from institutional investors since the fund structures are becoming more similar to other asset process.

We find that we spend a lot of time talking about the past mistakes in the Life Settlement market. Talking about the problem with life expectancy estimates. The medical underwriters, how do they perform, what is their past performance. Do they have other business? Are there conflicts of interest? Why is the market so fragmented? Is there a common standard for medical underwriters? Is this expected to be the case in the near future? These are some of the questions that institutional investors would ask from us. Tax is another major, major issue where we find increasingly that the choice of jurisdiction is something we discuss and spend a lot of time on.

From European investor point of view the two jurisdictions that are widely used would be Luxembourg and Ireland. They are well-known jurisdictions within the European union, so they pose no problem to, and of course no other European union country would pose any problem as well. But I think those are the two jurisdictions we've seen other Life Settlement funds launch from. But we are aware of structures out of Switzerland, Sweden, and obviously from other offshore jurisdictions as well. But I think from an institutional point of view, choice of jurisdiction is more important perhaps than for other investors.

As I mentioned earlier we get quite positive feedback from educated investors. When we have meetings with (14:15 inaudible) or investors who are used to dealing in esoteric asset classes and probably would include Life Settlements still in the more esoteric classes. We find that the feedback from assets in both cases is positive. They are clearly appealed by the uncorrelated return. They see the problems that the Life Settlement market has faced in the past, but they also see the

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progress which is being made and the quality of the service providers, the quality of the custodian banks, etc., and the market is becoming more mainstream in their eyes, which in their view is something positive and good. We do think that would be quite beneficial for the market if there were more independent fund (15:10 interruption in call – 15:19 picked up) think that the, we generally think that that would be something positive for the market with more offerings out there. So we do believe that the awareness of Life Settlements will grow as there are more products being offered to the market and generally we've seen quite a few retail offerings in Europe, fewer institutional offerings and I think that's slowly going to change.

I think that these are some thoughts and I would obviously welcome any questions and feedback from people on the call. Okay, thank you very much Jonas. Please allow for one first question. I totally agree on what you presented here which is in large part the same experience we did in the last six years in Europe serving southern European countries as being a neutral advisor. Which kind of structured products in your view and from your experience did institutional investors, mainly pension funds, like most ?

I think what we are seeing is a slight dislike of any product which is structured. Its pretty much the feedback we get is more back to basics, the plain vanilla, the pension funds initially either prefer to source the policies themselves if they feel they have the in-house knowledge, or they prefer to invest through a fund. I think derivative structures such as swaps, there are certainly benefits in them but the feedback we receive is that there is also once again then they're relying on one counter party and not being able to perhaps control ones destiny and being too much locked up to one counter party, and also I guess credit risk could play an issue, where this was not an issue a couple years back, but I think it is an issue now.

Okay, wonderful. So I think Jonas you are together with your colleagues Russell Nell and Andreas Ametrin as well, so both gentlemen are obviously invited to answer any questions from the audience.

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At that point I would like to welcome Madame Quynh Nguyen, our next prospective advisory board member, who will be leading and starting our question and answer session.

Hello everybody, my name is Quynh Nguyen, at Global Capital in London. Our firm is an advisory firm to family offices globally. We have not marketed yet Life Settlements to our clients, but we would consider to take this product on board, so I have very basic questions in terms of these regions. What other key questions regarding the legal structure of service platform and custodian which your institutional clients have normally laced and what other expectations?

Yes, this is Jonas. I think on our side we mainly speak to European institutions so we had a choice between the two jurisdictions which was basically Ireland or Luxembourg and on our side we chose Luxembourg and the structure is what's known as (19:08 inaudible) XTP which is a transparent structure. So the end investor will end up using their own double tax treaty in their home country. So if you have an investor based in the UK they will use the UK US double tax treaty and French investors use the French US double tax treaty and that structure is transparent. Luxembourg XTP works well for onshore institutional investors.

And in terms of service platform and custodian, I have the same question.

Yeah we basically, we have a few larger banks offering these services. In our case we have chosen to work with Caceis Bank, Luxembourg, which is a bank which is 50/50 owned by Natixis of France and they are the largest custodian bank in Europe, it's a pure custodian bank so no investment banking activity, it's a pure custodian bank which many of our investors feel is quite important, double A rated, and the second custodian is Wells Fargo in the United States where the policies will be held by Wells Fargo. Obviously there are of course other custodian banks which are equally good. We've just had good experiences with these two counterparties in the past.

Thank you. What is the length of time if needed for this due diligence?

Generally when we have the first meeting it tends to be I would say generally takes about six months for institutional investors to make up their mind and we are often required to produce a lot of independent research on Life Settlements in general first in order for the institution to decide whether or not they like Life Settlements as an asset class, and once they make the decision that they like Life Settlements as an asset class then they will then go on and actually look at how can you invest through a fund or actually source policies directly through the secondary markets.
You mentioned earlier about the length of investment long term illiquid like private equity and you did mention about 10 years, etc. I would like to clarify this point, investing in a fund like Life Settlement what is the lock up period in general on the market and why this 10 years was mentioned, because it seem to be so long?

Yeah, no that's, I apologize if I may, that was in relation to private equity. I think that Life Settlements is somewhere in between where most, the existing funds where you are locked up for a number of years, we very much view this as an asset class which is suitable for investors taking an investment horizon which is at least 3 or 4 years and actually longer.

Investors are taking investment horizons of 5, 6, 7, 8 years and even longer, our investors are long term investors and in most cases they will remain investors for 10, 11, 12 years in the asset class and the aim really is to provide a very large diversified portfolio of insurance policies so that investors benefit from a good diversification and the vision really is to create a very sizeable fund with a European investor base which is kind of mostly we'll do welcoming investors from any part of the world, but that's kind of like our reach.

My very last question is, how does the performance of an investment in a Life Settlement fund in the past 3 to 5 years I think the market probably doubled up in the past 5 years?

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I think the market probably doubled up in the past 5 years compared to other asset classes, so I have the impression that increasingly I will base on your presentation, increasingly the product Life Settlement become more popular to institutional investors, so how does the performance compare in the past years ?

I would say that the performance in the past years has been quite bad in some products which are probably not properly structured or properly managed, and you may have heard about the changing life estimates, so I think over relying on the publicly available medical underwriting information can be quite dangerous. I think what we're seeing more and more in the market is proprietary medical underwriters being utilized by one fund only and a lot more emphasis is placed on getting both the bottom up, looking at each policy and getting the life estimate correct, but also the top down approach where one would focus a lot more on different life estimates, look at the deceased categories for example so that one has a diversified pool. So I do think that some of the problems we have seen in the past with underperforming funds have not only been due to the fact that life estimates have changed, but I think also they have been constructed not in a good way really. So I think there certainly have been underperformances and I think the market has now matured and it is at the stage where I think we're seeing more and more professional fund managers not relying on information which is only public available and hoping that is going to be, you know.

I think it's changed and I think now the timing is actually quite good for new investors and obviously that some investors are suffering from the deals going up and policies bought maybe 12 months ago, those investors suffer both from having the life estimate being longer and also the returns having increased for policies which are bought in today's market.

Thank you Jonas.

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Okay, Quynh, thank you very much for starting the Q and A session. At that point we would like to open up now to all attendees. Please feel free to ask questions, and again, Jonas, if you think it is appropriate your associates Russell and Andreas are most welcome to answer questions as well.

This is Ken Kline at Fair Market Life Settlements in New York, can you hear me all right.

Hi Kevin, yes we can, thank you very much for joining.

Thank you. Two quick questions if I might, one Jonas, what yield are you anticipating to receive out of the secondary market here in the United States for your fund? And secondly, what method of origination of the assets are you thinking of using here in the United States?

I don't know if Russell would like to answer some of those questions, are you on … can I have Russell now … okay. I think we would be originating through a couple of providers in the United States with whom we have relationships since a number of years, and we are aiming to pay a lower upfront fee than is the market standard and instead we would like to share the performance fee with our providers, thus aligning the interest with the provider and our investors since we feel there's been maybe a lack of alignments of interest in the past, I mean deals in the market, people tell me that its roughly right now anywhere from 13 to 16%, so I mean depending on whose model you use so we will.

Thank you that's fine. I concur with your structured better aligned interest of the originator and your fund investors and I think you're quite spot on in terms of the current yield environment.

Okay. Any further questions, please speak freely.

This is Robert from Life Policy Group. What would you say to the factors from the approach of using, not using independent life expectancy calculations but yet using some sort of in-house model to determine a life expectancy? It could be seen as a sort of a conflict of interest without having the independent valuations provided.

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I don't see the conflict of interest really, how do you mean?

Well in a sense that if you're creating your own valuations for life expectancies in-house it could be seen as being a conflict, rather than using an independent third party valuation methodology for life expectancies.

In our case what we would be using is an external medical underwriter which is probably not available. So its an independent firm providing an independent medical life estimate to us. Its just not going to be available to the market, and then we have in-house actuaries with experience in senior mortality ready to challenge that, so that's kind of our in-house focus is more on the actual experience and then the only provider would be external, but independent.

Okay.

Okay, the next question please.

Yes, this Jim Sinnot with Life Settlement Advisory Group. Very well put point I think. The question I would have is with respect to the in-house medical underwriting, which by the way I think is a proprietary advantage and necessary, are you also in terms of when you look toward the tertiary, possible tertiary trading of the policies, are you also obtaining sort of market life settlements such that you have it in the file and are in a position to sort of validate your in-house underwriting.

Yeah we will in all cases always have one other external public available early from the major underwriters yes. We may well have one or two, but we would always have at least one.
It seems to me that that would be the only downside I guess to the in-house underwriting is that you have to justify to the rest of the world, you know, what pricing you have if in fact at some point you want to trade the assets.

No I think if you wanted to trade the assets you would have to get them publicly available to, maybe your own writer to re-underwrite in that case. So I mean I think that's, and we may well, in all cases the fund is required to have two medical underwriters in order to purchase a policy.
Very good, thank you.

Okay, your next question please. Are there any further questions from the attendees please. Okay, Quynh would you like to close the question and answer session, if there's any further question from your side.

At this moment I do not have further questions, but perhaps we can stay in touch with other attendees in case there are more questions also question from my side to other investor who have already invested in this product because perhaps my client might want to hear the experience of other institutional investors before they consider investing in this new product, new for themselves not new in the market. So thank you so much for organizing this.

Thank you Quynh, this is a very good point and it allows me to announce that in the very near future we will open up an investor platform under the guidance of ISLSP as being really investor oriented and independent.

Further to scheduling for one on one conversations with Jonas, as well as the other attendees, please feel free to contact us at info@islsp.org or just call me directly in the U.S at 602-904-5746.

Looking forward to welcome you at our forth international teleconference in the month of May. I am Andreas Hauss the International Society of Life Settlement Professionals.

Thank you very much.