Company:
Carlisle Management Company
Email: info@cmclux.com
Web: http://cmclux.com/
Address: 9, Rue Sainte Zithe
1st Floor
L-2763 Luxembourg
Telephone: +352.268.4.53.59

Carlisle Management Company

I. An introduction to Carlisle Management Company

Nestled amid the ancient castle walls and soaring financial buildings of Luxembourg, the only remaining Grand Duchy in Europe, Carlisle Management Company has made its home. Offering one of the most comprehensive, well-structured and stringently regulated alternative asset domiciles in all of the investment world, Luxembourg serves as a place that only the best and most prudent investment managers and advisors seek out when it is time to choose a home. For this reason, Carlisle Management knew, with Luxembourg, that they had found the perfect place to hang their flag.

For many years, Carlisle Management Company SCA has diligently strived to provide a wide variety of clients, with access to insurance-linked investment products by offering intelligent alternative fund management solutions designed to work with a wide array of institutions, corporations, public funds and high-net-worth individuals. Specializing in, both, open-ended investment funds and related private equity transactions, Carlisle considers itself to be a holistic investment and fund manager, assuming a wide range of tasks over the entire life cycle of the investment. Carlisle constantly monitors economic conditions, market and sector developments as well as regulatory changes to stay out in front of market trends. With a rapidly growing asset base, Carlisle and its core team represent nearly 100 years of financial management collectively.

While many financial institutions try to provide disparate services, Carlisle believes that having a tireless focus is the right strategy. The company has developed, initiated, implemented and managed a number of investment vehicles. The primary focus for Carlisle Management Company is its expertise within the life settlements industry, creating, structuring and managing yield-oriented and tax optimized investments for institutional investors, financial intermediaries and high net worth individuals specifically within this asset class. Carlisle designs investment products for investors seeking stronger organizational infrastructure, greater regulatory oversight, institutional counterparties and higher diversification through minimal correlation to traditional financial markets.

After years of assisting institutional clients in the development, structuring and management of captive investment vehicles, Carlisle became aware of a lack of products which could offer long term growth focused investments within the life settlements space to investors who lacked the capital to efficiently build their own captive structure, yet were very interested in this minimally correlated asset class. From this inherent need, one of their flagship investment vehicles, the Luxembourg Life Fund: Long Term Growth Fund FCP SIF was born, lending its open ended structure to investors wishing to participate in a larger pool of life settlements while maintaining a more flexible liquidity profile.

II. Understanding Life Settlements

A life settlement is the transfer of ownership and beneficiary rights of an unwanted or unneeded life insurance policy on an insured senior in exchange for a cash settlement. The seller no longer has the responsibility of paying future premiums. In exchange, investors profit based on the difference between the face value of the policy and acquisition and maintenance costs. The process is based on the United States Life Insurance marketplace. The Life Insurance Industry in the U.S. is a tremendous market. For centuries this industry has been developing actuarial data and valuation procedures that deal with mortality and insurance based products. This data and procedures are now being used to value mortality within life settlement products, hence the industry is built on the experience and data of the life insurance industry, which provides a robust foundation for this asset class.

Prior to life settlements, seniors who owned U.S. life insurance policies they no longer wanted, needed, or could afford were faced with either letting the policy lapse or surrendering the policy back to the insurance carrier for only a small cash value. The life settlement marketplace has provided consumers with a much needed option where they can receive substantially more than the cash surrender value. According to a study by ICR Life Insurance an alarming 55% of seniors in the United States have lapsed a life insurance policy. Looking deeper, current lapse statistics report a total of over a quarter million policies with a combined face value of well over 50 billion dollars.

A policy owner's decision for allowing an unwanted policy to lapse could be numerous, however most cases come down to a few simple reasons. One of the most common reasons boils down to simple affordability. As an individual progresses through their retirement years, cash flow can become a concern, and when confronted with choosing between expenses such as housing payments, medication and other essential living expenses, it is easy to see how a life insurance premium could be one of the first to be eliminated. Additionally many policy owners acquire life insurance for specific reasons, such as mortgage security for their families or "key man" policies for a business partnership or employer. Once these reasons are no longer a factor, many individuals may simply stop paying premiums and allow the now unwanted policy to lapse.

The life settlement market provides all policy owners with a more attractive alternative to simply lapsing their policy or surrendering it for whatever small cash value might be present at the time. A life settlement can offer a policy owner a substantially larger value for their unwanted policy, providing funds that could be used to pay for healthcare, finance new life insurance or a myriad of other positive uses that the individual might be in need of. This is an essential marketplace for a component of many individual's investment structure that until now, might go unrecognized as a valuable portion of their financial planning. The diagram below illustrates the average transaction price in 2014 relative to cash surrender value. The potential benefits of this added value cannot be ignored.

The life settlements market has become more sophisticated over the last several years. As evidence of this transition, the same actuarial techniques and advanced financial analyses used as part of the life insurance industry's underwriting process have now been incorporated into the life settlement underwriting process as well. Similar models, mortality tables and underwriting guidelines were implemented as institutional investors became the most prevalent source of capital for life settlements. As the market has evolved, valuation, underwriting and transaction standards have been developed and recognized - further solidifying life settlements as an established financial market.

Investors are interested in life settlements as an asset class because they can provide several attractive qualities as part of an investment diversification strategy. Some of these qualities include:

- Uncorrelated Returns – since cash flows are based on mortality events of individual policy holders, investment returns are independent of traditional financial markets.
- Strong Credit Worthiness - returns are backed by some of the world's largest insurance companies.
- Attractive Yields - many investors are experiencing strong double digit returns.
- Regulatory Structure - the industry is highly regulated and structured.
- High Growth Potential - given the projected growth of the senior population, the industry is expected to continue growing – offering more investment opportunities.

III. Market Insight
Life settlement transactions work very similar to real estate transactions. A seller will select a representative to place their asset in the marketplace, where it is seen by potential buyers who then bid on the asset via their own purchasing agent. In the life settlement industry the seller's agents are known as brokers who are normally contacted through a number of channels including insurance agents, estate planning attorneys, CPA's, financial planners and sometime even direct by the policy owner. Once the policy is identified for sale, the broker will then communicate the availability of the policy to a network of licensed life settlement providers, or originators as they can be referred to, who serve as the buying agent for the potential buyer and also the settlement entity for the transaction once an agreement is reached.

As a potential purchaser of a policy, the key idea is to utilize the same data and technology used by life insurance issuers to determine the value of a policy and identify its probable cash requirements. By doing this the purchaser has a clear idea of the resources needed to maintain the policy and ultimately yield a favorable investment return. By acquiring a large number of polices, a buyer can essentially diversify risk over an entire portfolio of policies. Each buyer must determine, based on their own expectations, what types of policies will work best as an investment. In order to do this, it is important to have a clear view of the current market which can be obtained through reputable independent data collection firms such as AA Partners in Zurich, who collect transaction data from the top tier of market participants and translate the data into overall market statistics.

The life settlement marketplace focuses on an age group that ranges primarily between 65 and 95 years of age as seen in the graph at the top of the following page. This core range represents the majority of transactions, both in average size as well as number of transactions completed during 2014 as found by AAP.

In terms of transactions, the graph at the bottom of the following page illustrates that just under half of the current market is made up of policies with face values of under one million dollars with polices between one and five million dollars representing a majority of the remaining portion. When examining transactions in terms of total face amount transacted in the marketplace these face amount brackets tend to distribute more evenly demonstrating that higher face value segments have the ability to drive the market.

Based on the current market insight, investors are profiting from this asset class, but procuring these life insurance contracts at an attractive discount rate that will yield an attractive investment return with minimal correlation to traditional financial markets and strong credit quality. Life settlements is becoming one of the most prevalent alternative asset classes today.

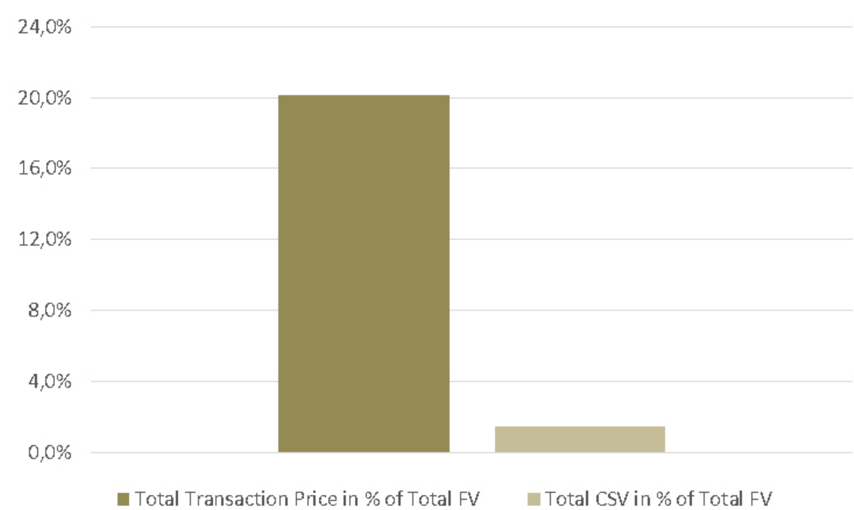
IV. Risk Types and Mitigation of Life Settlements Investments
In order to further evaluate life settlements, one must examine the three primary risks associated with the asset class. These three variables represent the major focus points of any mitigation strategies used within a life settlement investment structure.

Credit Risk
Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the fund. When a fund invests exclusively in U.S.-based life insurance policies, the insurance carriers represent the primary concentration of credit risk. The fair value of the life settlement policies includes the consideration of the credit worthiness of the life insurance issuer, and accordingly represents the maximum credit risk exposure to the fund. U.S.-based life settlements have marginal credit risk because each insurer is required by law to maintain stringent reserve requirements. In addition, no U.S. life insurance carrier has ever failed to pay a legitimate death claim. The risk of default is considered minimal.

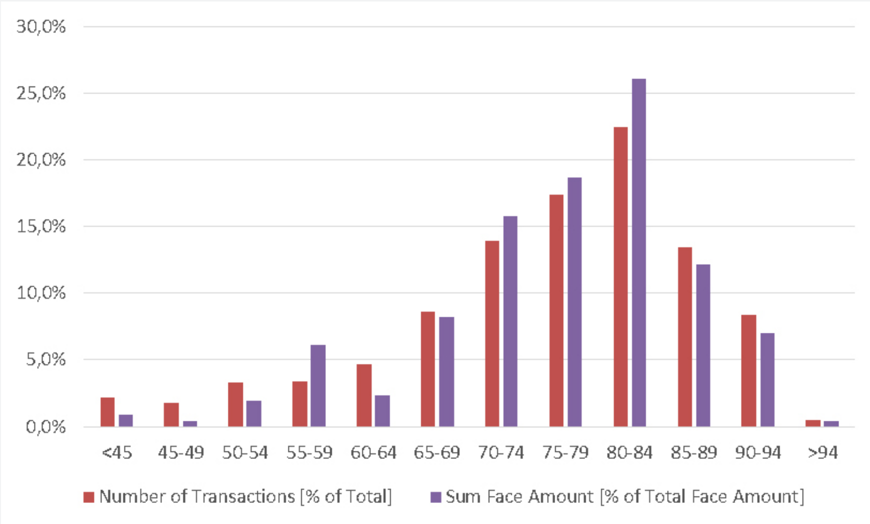
However, in order to further mitigate this risk, open ended funds should seek to purchase policies issued by life insurance companies with at least an investment grade rating by a major credit rating agency. Furthermore, a well-constructed investment portfolio will diversify across a wide array of insurance carriers to minimize risk exposure to any one company.

Longevity Risk
When evaluating the value of life settlements, each policy must be reviewed for multiple quantitative aspects of the insured and their health to get a firm handle on the probability of death over a given timeframe. Understanding the broader implications of these small details within a life settlement transaction is important. One of the key pieces of data used during the underwriting process is the medical underwriting report, which is performed by an independent medical underwriter. Utilizing the latest mortality information, premium data, mortality tables and verification of coverage, an asset profile is developed and a valuation is produced by an independent valuation agent. A thorough review should then be conducted by a number of parties to create redundancy, and a detailed checklist utilized to ensure uniformity such that all criteria and regulatory requirements correspond to accurate underwriting and quality standards.

Longevity risk is the biggest quantitative risk factor in the valuing of life settlements. In general, investment managers focus on reducing the economic impact of unexpectedly increased policy holder longevity.



Source: AA-Partners Ltd Zurich, 2015



Source: AA-Partners Ltd Zurich, 2015

In order to ensure this, a fund must review actual versus expected results and stress test different scenarios of mortality expectations in order to determine the impact that these stressed scenarios have on the value of the life settlement. This stress testing is typically performed on the current portfolio as well as on policies available in the market that are being evaluated for purchase.

Given that longevity risk is difficult to predict, thorough statistical analysis is the best way to mitigate its potential negative impacts. A common way to accomplish this is to perform a Monte Carlo simulation on the fund's portfolio on a periodic basis. This analysis provides the investment manager with insight that can then be used to make purchasing and liquidity management decisions. The analysis also provides a long term view of the portfolio's investment strategy and expected results.

Liquidity Risk

Liquidity risk is the risk that the investment vehicle may not be able to settle or meet its cash obligations on time. The life settlement market offers a secondary market (tertiary for life insurance) that can provide investors with the opportunity to monetize their investments. Liquidity risk is managed by placing the majority of the fund's assets in investments that can be readily disposed of in the tertiary market when necessary. In order to ensure that the fund will receive the amount of liquidity it requires when it sells policies, it is important that it has utilized accurate mark-to-market valuation and accurate accounting practices. Albeit the time to liquidity can be lengthy, liquidity in the life settlement space is viable.

V. The Economic recession and the importance of uncorrelated investments

The last half decade has proven to be rather tumultuous time for the global investment community. 2008 brought with it the Global Financial Crisis, which many consider to be the worst financial destabilization since the Great Depression. In the years that followed the investment community suffered from a volatile ride driven by a myriad of economic uncertainties such as liquidity issues, corporate insolvency and fiscal uncertainty that made investing in the traditional assets classes challenging to say the least. As liquidity began to return to the markets, investment levels within the alternative assets sector started to increase. A large component to the reasoning behind this increase was the realization the incorporating assets with uncorrelated investment strategies into a portfolio could substantially reduce the volatility that plague the traditional asset classes during periods of economic uncertainty.

As returns in the traditional asset classes continued to suffer, alternative assets became a more and more apparent diversification strategy for large institutions and asset managers. A study conducted by Prequin Investor Interviews in mid-2014 showed that thirty percent of managers interviewed had increased their alternative asset team over the previous two years.

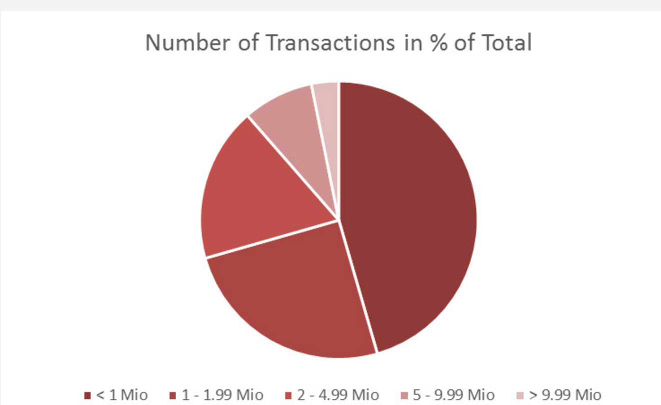
But even within the alternative assets sector in general, it can sometimes be challenging to identify truly uncorrelated investment products. Alternative strategies can sometimes retain key characteristics that could potential tie performance to economic drivers such as interest rates and movement in the equities market. With life settlements, the correlation to these traditional drivers is practically non-existent. As highlighted in the previous section, the primary risk variables of the asset class have little or no influence applied by variables such as interest rate fluctuations, swings in the stock market or other typical market drivers. Based on the structure of the asset class and its underlying assets, performance operated independently from interest rate fluctuations, equities and debt market volatility and other traditional influences. A life settlement, when held to maturity, will yield a set amount of proceeds, no matter whether interest rates are at one percent or twelve, whether the S&P 500 is above 2000 or at a 52 week low.

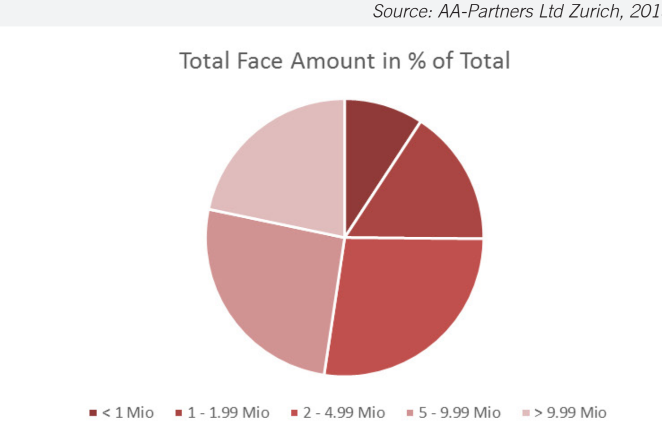
VI. The current marketplace for life settlements

Along with a steadily growing sector, institutional interest in the life settlements marketplace has been on a significant rise since 2010. As the benefits of a truly uncorrelated class of investment gained exposure across the investing community, larger and more established investment firms were drawn to the asset class, noting the relative simplicity with which a portfolio of life settlements can be applied to an overall long term growth strategy. Some of the largest names in the banking and capital management sectors now hold significant portions of participation in life settlements. Larger institutions do not always have the time required to build a portfolio of polices on a one by one basis which has given way to a tertiary marketplace where large blocks and sometimes even whole portfolios are bought and sold between investors, which has increased the industry's liquidity. By the end of this past year, the tertiary market represented nearly 50% of the total transactions conducted in the life settlements sector.

A growing senior population within the United States ensures that sources of quality policies will remain quite strong over the coming years. With the baby

Source: AA-Partners Ltd Zurich, 2015





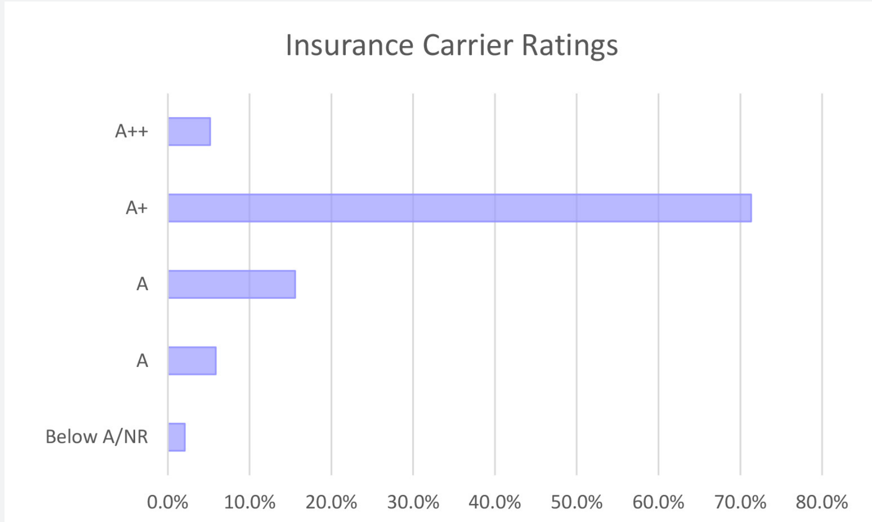
boomer generation entering in the later phase of their retirement stage, there is no shortage of policies fitting the typical investment profile of a life settlement. With life settlements exposure growing steadily paired the various educations initiatives within the industry, more and more seniors are being alerted to benefits of a life settlement, however the potential of this one trillion dollar industry has barely been tapped.

To understand the future potential growth within the asset class, once can examine of few current statistics collected by the industry associations. Conservatively, seniors age 65 and older are lapsing or surrendering over 250,000 life insurance policies annually, totalling well over fifty billion in face value only taking into account universal life policies. If you add Whole Life and Term policies the number could be nearer to one million policies. In 2013, according to the Life Settlement Report, less than 1500 policies were sold by consumers in the secondary market, therefore, the life settlement market is less than 1% of the number of policies that are lapsed or surrendered annually by seniors age 65 and over. This makes very apparent the sheer growth potential that life settlements possess. Carlisle have taken notice of this amazing growth opportunity and are dedicated to ensuring that their investors are in the optimal position to benefit from the future growth and diversification that this asset class represents.

VII. Choosing the right investment vehicle and investment manager

The life settlement market is growing, and is also evolving into a more professional and liquid market that opens up opportunities to a greater number of investors and investment vehicles. The correct investment vehicle, can provide investors with a structured solution into accessing the asset class while providing ample liquidity and robust reporting. The investment community is taking note of this and taking advantage of this value proposition. Fund managers must challenge the life settlement market by closely monitoring actual versus expected mortality results, find ways to mitigate longevity risk, and implement a sound mark-to-market valuation methodology. In addition, investment vehicles must be sufficiently diversified to provide risk mitigation in multiple fronts. If executed properly these variables will provide an investment proposition with a diversified asset pool that can help investors generate uncorrelated returns that will significantly bolster their diversification strategy.

Carlisle Management has specialized in life settlement since inception. The company believes in providing the investment community with the life settlement investment opportunities that outperform the market. Carlisle's funds were designed for investors seeking greater sophistication in infrastructure, mortality and liquidity profile, offering a smarter approach to investing through mark-to-market valuations, favorable domicile, and advanced mortality modeling. Over 80 years of combined experience has provided Carlisle with a strong network of global contacts, the ability to adapt to changing condition and has allowed the organization to build on its unrivaled expertise in the entire life settlement value chain and global capital markets.



Source: AA-Partners Ltd Zurich, 2015

pavel dudek / Shutterstock.com