



CALIFORNIA  
VENTURE CAPITAL

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Principal Protection

# Life Settlements

The Best Kept Secret in Investing & Venture Capital

...“The life settlements are the fastest-growing alternative asset class in the country, powered by the secondary market for life settlements.

The nation’s largest financial and insurance institutions, including Goldman Sachs, Morgan Stanley, Warren Buffett's Berkshire Hathaway, Deutsche Bank and Credit Suisse, collectively have committed more than \$12 Billion to this secondary market.”

- LISA (Life Insurance Settlements Association) Member News, January 2008



The best kept secret in Investing

*Life Settlements*



# What is a Life Settlement?

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A Life Settlement is simply the purchase of a life insurance policy at a discount to the face value of the policy.



The sellers of the policies are typically financially sophisticated individuals or trusts who purchased life insurance policies for estate planning or other financial purposes and no longer want or need the coverage.

# History of Life Settlements

“Although the secondary market for life insurance is relatively new, the market was more than 100 years in the making.”

# Historical Legacy – Landmark Court Case

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The Supreme Court case of Grigsby v. Russell (1911) established the policyowner's right to transfer an insurance policy.



Justice Oliver Wendell Holmes noted in his opinion that life insurance possessed all the ordinary characteristics of property, and therefore represented an asset that a policyowner could transfer without limitation.



# And, the experts say that...

...“With the market potential estimated at \$188 billion and a 70 percent annual growth rate since 1998, the life settlement industry has captured serious attention from institutional investors from all corners of the globe. As increasing numbers of hedge fund managers, investment banks, and private equity funds enter the marketplace in pursuit of life settlement portfolios, the demand for product flow increases.”

Journal of Structured Finance (Published Quarterly by Institutional Investor, Inc.) July 2006 – “Life Settlements: Product Flow Opportunities and Constraints”



“Life Settlements are the only asset that can be truly said to provide absolute returns. They are not correlated to any trade market – whether stock, bond, currency, or commodity markets – nor political or economical upheaval.”

Bloomberg.com – March 31, 2006



“Institutional investors recognize that the return of their principal and the return on their principal are contractual obligations of highly rated insurance companies and are not subject to any market or economic considerations...”

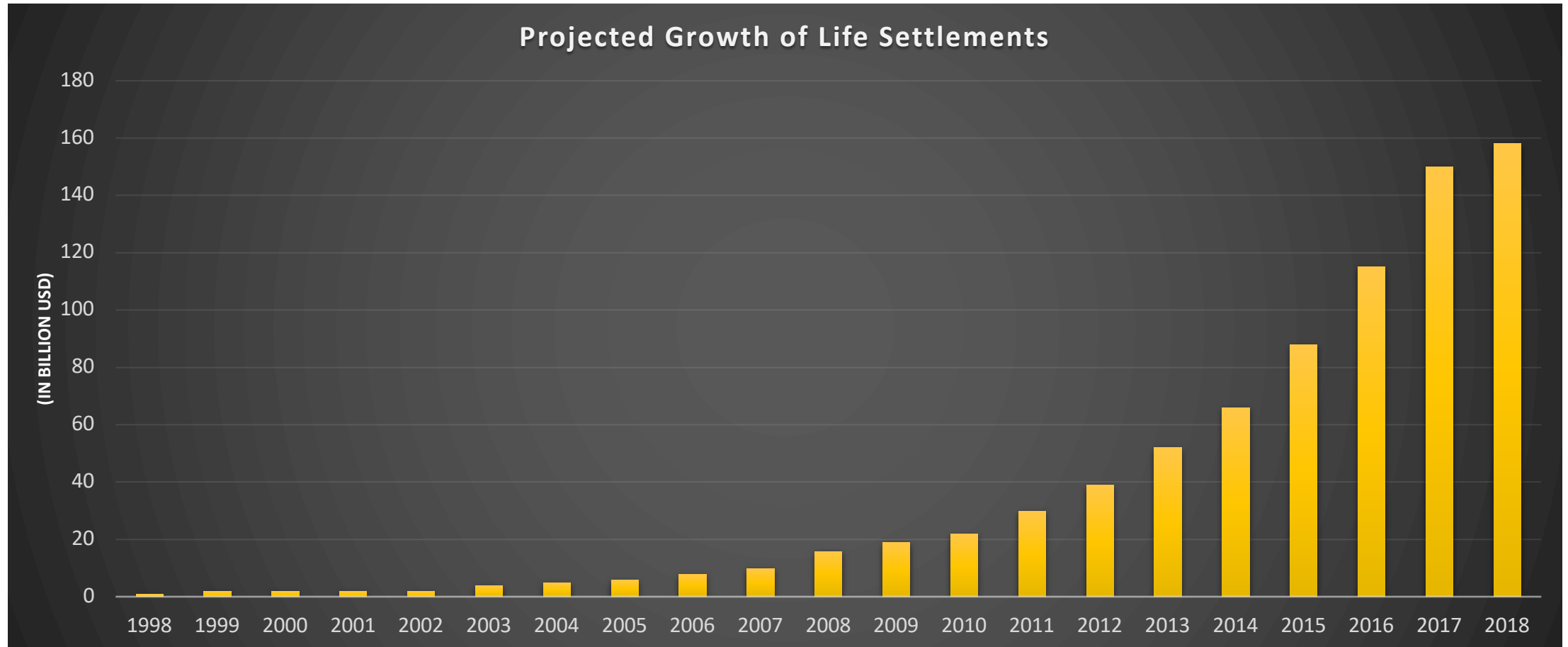
The Wall Street Journal – “Life Insurance for Sale – In a Secondary Market”





# The explosion of Life Settlements

(Source: Sanford C. Bernstein & Co.- 2005)



# Advantages of Life Settlement Investing

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Potential for exceptional (double-digit) returns – on an average, approximately 16% per year over the last 16 years

Life Settlements have no correlation to securities markets, interest rates or economic conditions – in other words, there is NO MARKET RISK

Heavily regulated

It's one of the most secure investment assets you can own – 100% INSURED

Has minimal fees: 2% annual management and/or IRA custodial fees

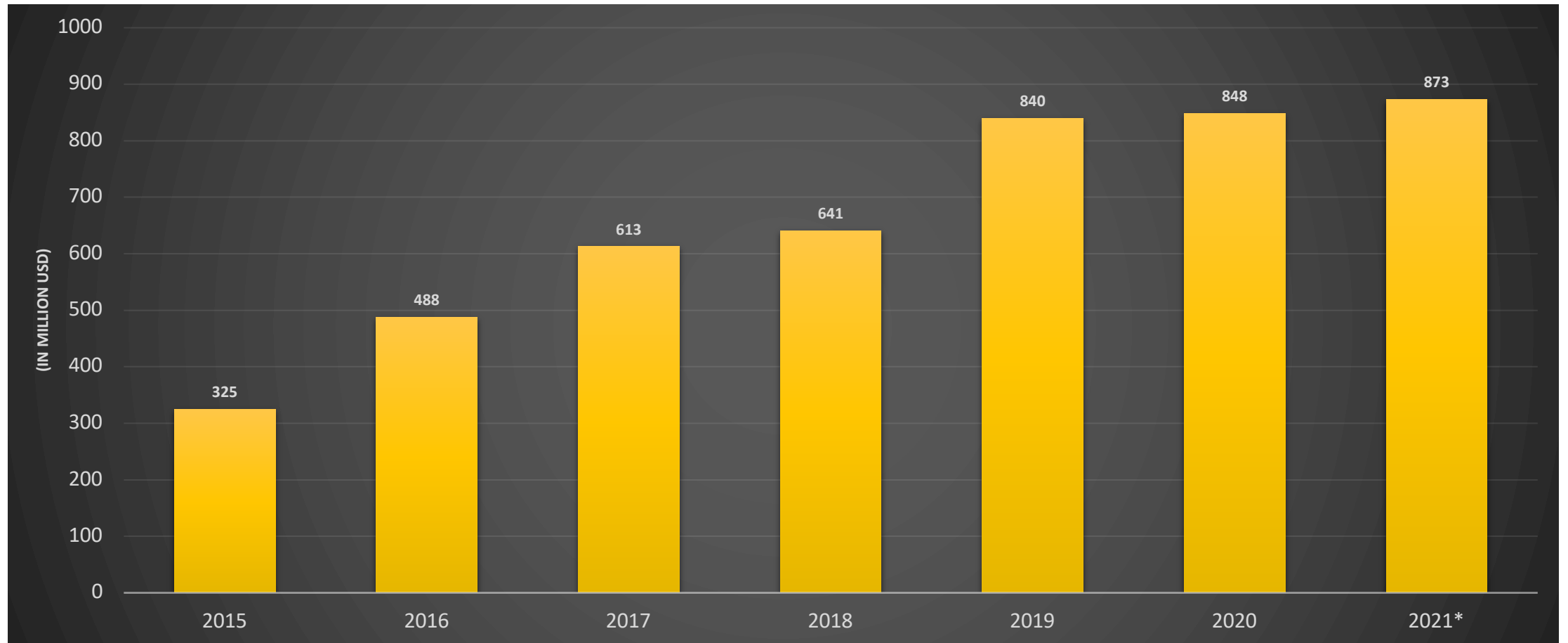


# Life Settlement Supply Chain

## *Schematic - Life Settlement Supply Chain*



# Capital Invested in Life Settlement Space (\$M)



# Key – The Life Settlement Provider

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The purchaser for Warren Buffett's Berkshire Hathaway recently stated "...the asset poses little risk if properly under written."



The Life Settlement Provider serves as the purchaser and underwriter in a life settlement transaction.



They provide life expectancy estimates on the insured for pricing purposes.

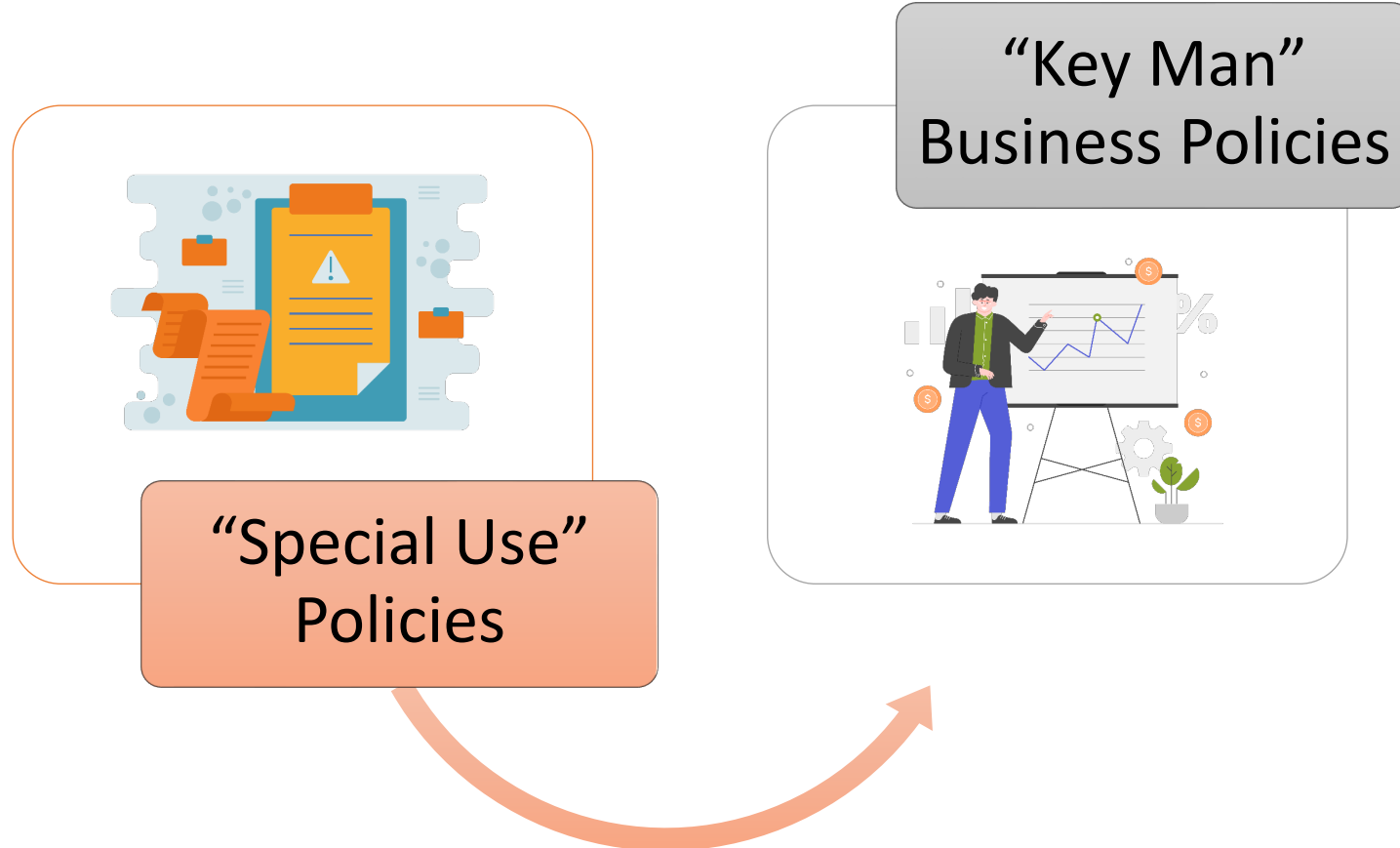


They are experienced in the analysis and valuation of large-face-amount policies and work directly with advisors to develop transactions that are customized to a client's particular situation.

# Types of Policies

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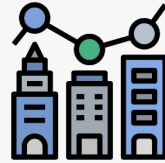
The vast majority of policies purchased are:



# How safe are Life Settlements?



Policies issued by  
A.M. Best “A”  
rated insurance  
companies.



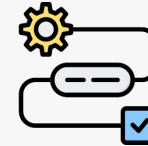
These companies  
are some of  
America’s oldest  
and most  
financially sound  
life insurance  
companies (i.e.  
MetLife, New York  
Life, Prudential  
Life Insurance,  
etc.)



They are Legal  
Reserve Life  
Insurance  
Companies, which  
are required by  
law to maintain  
sufficient reserves  
in the state(s) in  
which they do  
business. These  
reserves are  
based on actuarial  
formulas & are  
designed to allow  
the company to  
meet all of its  
financial  
obligations.



A legal reserve life  
insurance policy is  
one of the most  
secure investment  
assets to own.



A Legal Reserve  
Life Insurance  
Company has  
never missed a  
death benefit  
payment since the  
legal reserve  
system was  
enacted back in  
1854!



Even during the  
Great Depression,  
life insurance  
companies still  
paid off on all of  
their policies.



So, what does this mean for YOU the investor?

# How LS Applies to YOU as a Hedge...

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LS (Life Settlements) have become *increasingly popular* among hedge funds and venture capital firms.

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VC firms are successfully using *high investment grade* (AAA equivalent) SLS policies to mitigate the risks associated with raising capital for seed stage, development stage, venture capital and other higher risk investment ventures.

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Investors in VC Funds, Oil Exploration Funds, Film Development Funds and other early-stage higher risk investment opportunities have *completely collateralized their investment principal* through the use of this LS driven risk-hedging strategy.

# How it works?

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VC Fund raises \$10 million for new venture.

Approx. 50% (or \$5 million) is dedicated to the purchase of SLS policies with an estimated life expectancy of 4-7 years and a total portfolio face value of \$10 million.

The balance of \$5 million is then invested in venture capital and other riskier investments.



# The Result

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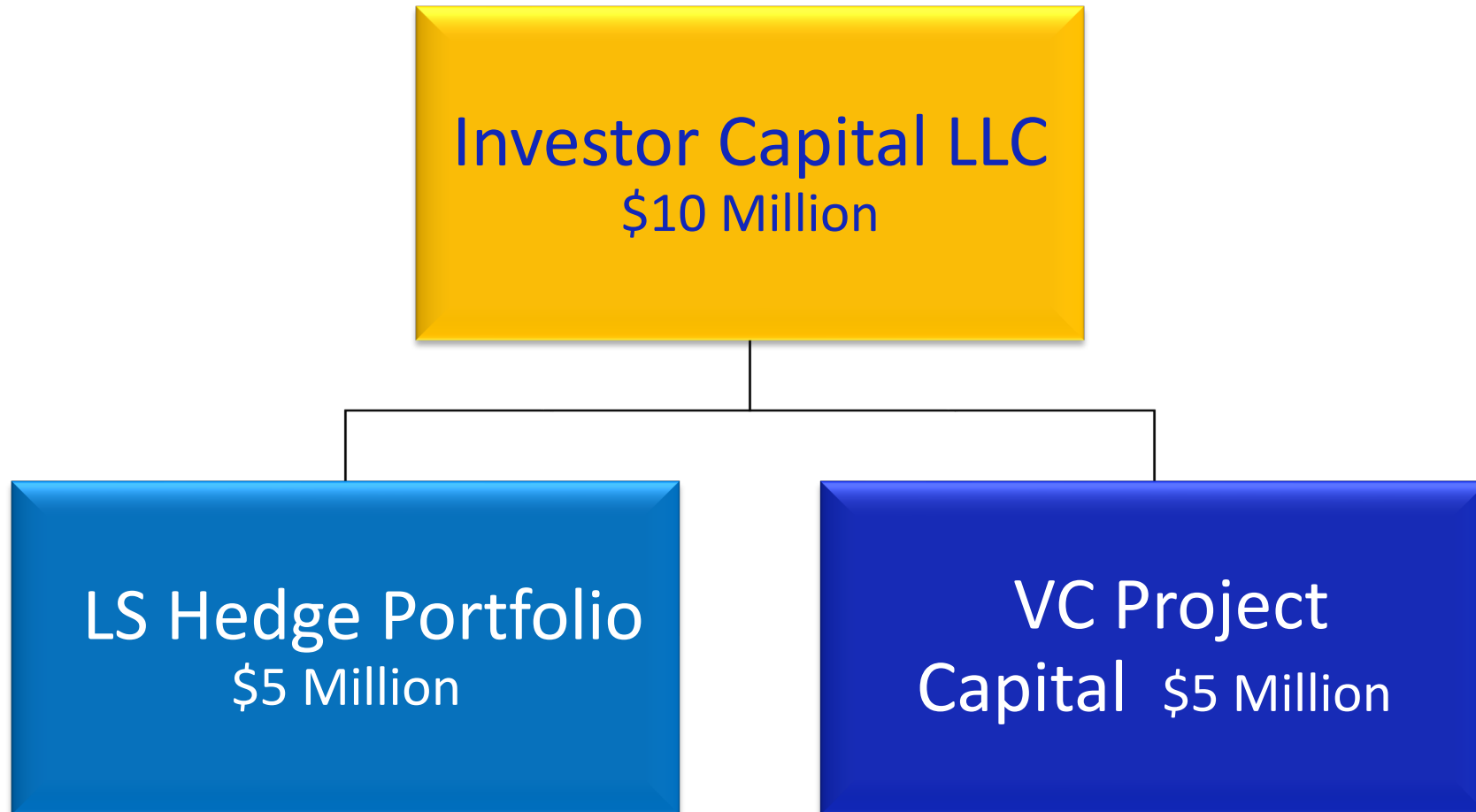
The Fund has a \$10 million “safety net” to collateralize and protect the investment principal for the investors.

In the event of worst-case scenario where the \$5 million is lost in the riskier ventures, the original \$10 million is insured to be returned to the investors.

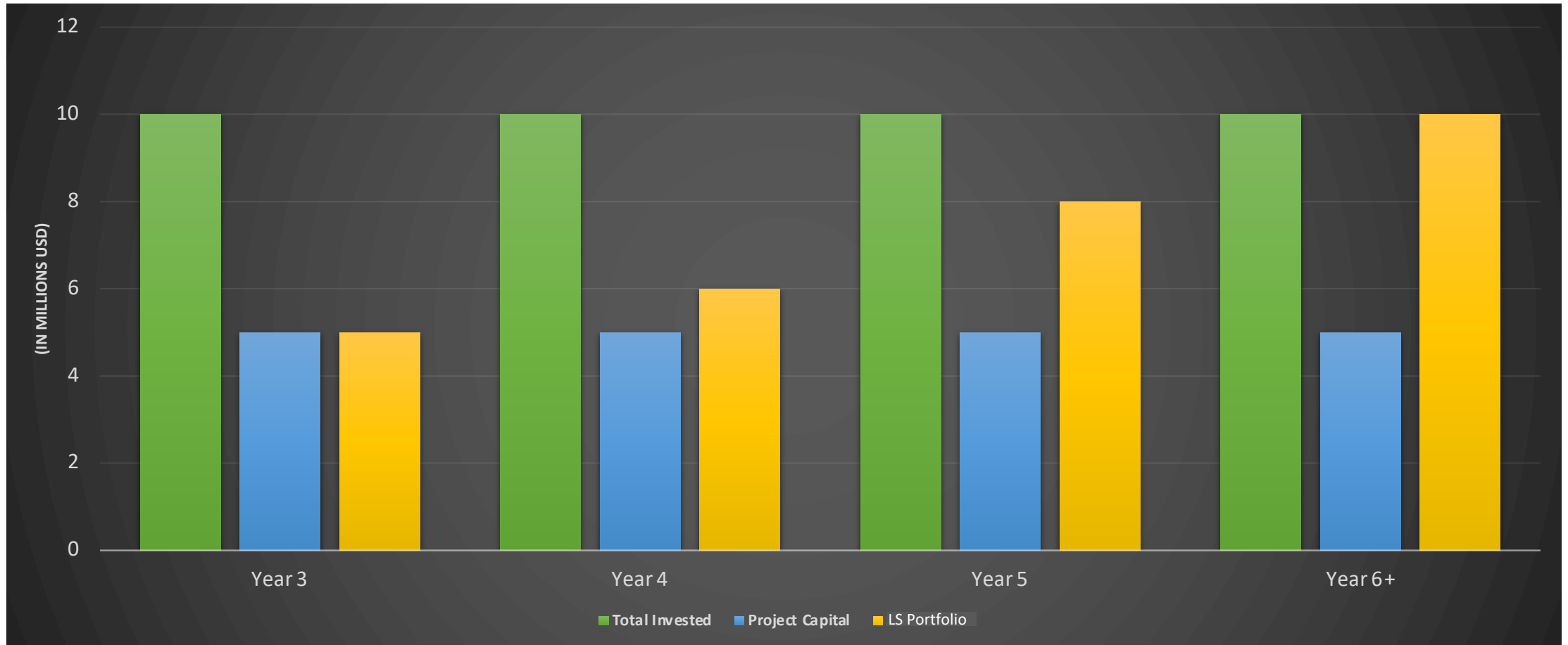
This strategy of added protection for the investors will result in greater success for the VC firms to raise capital.

# Capital Allocation Model

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# Risk Management Tool



# Other applications

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Life Settlement investments can also represent a strong stand-alone investment opportunity for qualified institutional clients and private clients.





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Thank you.