Risk Factors

You must make your own assessment of risks inherent in and potential returns from, an investment in Investment Contracts. In particular, it should be noted that information or material in this Offer, about investment prospects and future events is uncertain and is based on certain assumptions about matters beyond the control of the Life Policies of America (LPA) and its officers and advisers. Without limiting the generality of the foregoing, no representation, warranty or guarantee is given in respect of information concerning possible future performance or about the prospects of such future events.

Introduction

An investment in Investment Contracts is speculative. The value of Investment Contracts can be affected by a number of factors. LPA expects to manage a number of these risks by implementing appropriate due diligence procedures and management techniques but circumstances outside LPA's control could affect the value of Investment Contracts.

Adverse events could result in a *partial or total loss of capital*.

Capital risk

This is the risk whereby you may not receive back the money you invested.
To minimise this risk LPA has adopted policy purchase procedures and oversight. Policies purchased are issued by some of the most financially secure insurance companies in the USA and the Life Settlements enjoy the same regulatory protections available to all life insurance policyholders in that country.

Currency risk

Investment Contracts are purchased in US dollars. The exchange rate applicable at the date of investment may not be the exchange rate applicable at the time US dollars are purchased to purchase Investment Contracts. Currency fluctuations can have an adverse impact on your investment in Investment Contracts. Currency rates between the Australian and US dollar have been highly volatile recently.

Hedging will be undertaken if the discretion of the Manager, however such hedging as taken out may not be adequate to protect against adverse extreme currency moves.

Insolvency of an insurer

LPA only selects policies where the insurers who have a rating of A+ or better from A.M. Best, or an equivalent rating organisation, at the time of acquisition. There is a risk that the ratings of the insurer are downgraded at a later date, adversely affecting the value of policies issued by that insurer.

The risk of an insolvent insurer is lessened by "Guarantee Fund" established by each State in the USA that typically range from US$100,000 to US $500,000 of coverage for each insured person depending on the State. These Guarantee Funds cover claims on insolvent life insurance companies.

Historically State insurance departments have generally been able to organise the purchase of a faltering insurer by a financially secure insurance company, thereby continuing the secure coverage of the insured.

Life policies with a face amount greater than the State limits are not guaranteed.

Lawsuits by former beneficiaries

There is the possibility that a former family member or beneficiary may challenge a Life Settlement claiming it void because of undue influence, duress, or unsoundness of mind. LPA's Policy Purchase Criteria requires the execution of a beneficiary and spouse waiver and the execution of a "letter of competence" from the insured's doctor. These measures reduce the risk of such claims.

Regulatory intervention

Life Settlement transactions are regulated by the States. Regulatory regimes vary from State to State adding a great deal of complexity to the Life Settlement transaction. There can be no assurance that future regulations will not be introduced that may adversely affect the Life Settlements Industry.

Policy acquisition costs

The process of buying or selling a policy can be expensive.

Some states require policies to be transacted via an escrow agent at the cost of the policy buyer. There are no standardised forms or contracts used in a Life Settlement and each regulated State has differing requirements to be included in their documentation.

Due diligence on a Life Settlement requires review of the purchase documentation, matching of all data received for consistency, supporting documents and certificates, notarisations and verifications.

The market for Life Settlements is thin. Prior attempts to set up electronic exchanges for the trading of life settlements have failed.

Increases in demand for policies may push up the prices for policies beyond what is considered a reasonable cost.

Life expectancy estimates to actual results will vary

Life expectancy estimates compared to actual results will vary and any extension to the estimated life of the insured person will reduce your return on investment. Conversely, where the insured person has a shorter life than originally estimated, your return on investment will increase.

If the insured lives longer than anticipated, the payment of death benefits by the insurance company is not a risk, but the return on investment will diminish the longer an insured lives. The return on a Life Settlement is directly impacted by the accuracy of life expectancy evaluations on each policy acquired.

To minimise this risk LPA obtains and closely assesses the life expectancy before offering to purchase policies and has established procedures to monitor the life expectancy of insureds after purchase.

Estimating life expectancy is not an easy process and cannot be predicted accurately.

The actual health and future development of health impairments on the insured may differ from expected.

Future medical advances will impact the treatment of the insured and hence longevity.

Mortality rates fluctuate from year to year for a range of reasons including, the severity of winter and whether or not there is a flu epidemic plus many other factors.

Life Expectancies may be wrong

Life Expectancy providers may vary the basis upon which they assess mortality rates leading to extensions to life expectancy estimates and losses on policies purchased using the varied life expectancies.

In late 2008 all major Life Expectancy providers increased their life expectancies by between 20% and 30% based upon improved life expectancies in the 2008 mortality tables. This led to large losses on Life Settlements purchased based upon the old shorter life expectancies.

Understanding Life Expectancies

It is important to understand how Life Expectancy estimates are formulated.

Life Expectancy estimates are often quoted at a particular number of months. For example an estimate may state that a person has a life expectancy of 100 months. This number is a probability that 50% of people in a cohort of 1,000 with the same conditions will have died by 100 months. It is the mean life expectancy of that cohort of people. 50% of that cohort will die after that 100 months.

Life Expectancies issued by 21st Services include a bell shaped mortality curve showing its forecast for the distribution of deaths for that particular cohort of people. Some curves will have a flat curve with an even distribution of mortalities, while some will be more concentrated around the mean.

No Life Expectancy provider has sufficient historical data to substantiate their forecasts or methodologies. Their Life Expectancies may be wrong

Inaccurate premium calculations or unforeseen premium increases

To assess each policy the LPA will obtain and review at least one policy premium illustration, from the insurance company, with level premiums taking the policy to maturity with minimum cash value at maturity. Premium illustrations are used to estimate future premium costs and expenses. Estimated costs are factored into prices offered for Life Settlements. In the event cost calculations are incorrectly estimated or, if unforeseen increases are experience, the value of the Investment Contract will be adversely affected.

Policies are usually priced based upon a minimum no-lapse premium to life expectancy (LE), plus two years. That means premiums and costs are calculated at the lowest level to carry the policy to LE + 2 years. The most common type of policy purchased are universal policies where the premiums can be varied and coverage maintained. The risk is that if the insured survives the period LE + 2 years the minimum premiums will not have been enough to fund the policy to maturity. At that point the premiums will rise exponentially, destroying any remaining value in the policy.

The Investment Contract structure is hedged against this risk by averaging policies within its pool of policies.

Misrepresentations or fraud by the insured or third parties to the transaction

False or misleading information, or the withholding of information from or by the insured or third parties to the transaction, could substantially affect the life expectancy evaluation.

Insurance agents, life settlement brokers and the insureds have perpetrated fraud in many varied forms.

Policies have been taken out purely so as to sell on the secondary market, insureds have been schooled to create adverse medical conditions, that do not exist, and brokers have falsified illustrations, amongst some of the many frauds undertaken.

Five years of the insured's medical records are reviewed for consistency and to detect unusual changes so as to lessen the possibility of this type of fraud.

LPA and the servicing agents have detailed fraud detection policies in place.

The Law of Large Numbers

All insurance operates on the basis of spreading risk of individuals over a large number of potential risks. Buying an individual policy or a small number of policies can be regarded as gambling unless there is longevity risk protection in place.

There is much debate about what constitutes a large number of policies. It is generally taken to be at least 300 policies. The larger the number of policies the smoother the expected returns will be. The lesser the number of policies the greater the risk that the returns will not perform to expectation.

Probity

The identity of insureds is kept confidential from investors to ensure that there is no moral risk.

Insolvency of Issuer

Policies are registered in the name of CLL, a Delaware registered bankruptcy remote company.
While CLL undertakes no other activities than issuing the Investment Contracts and the directors are not aware of any matter that could give rise to insolvency, there is a risk that CLL becomes insolvent jeopardising your investment.

Other Matters

There may be matters and circumstances that arise that LPA has not contemplated that could be a risk to your investment.

LPA will endeavour to update the risk profile in the event that it becomes aware of any risks not described in this document.

Errors in analysing life insurance polices

Experienced assessors will review policies on your behalf. Although the assessors are experienced in analysing life insurance policies suitable for Life Settlement, there is a possibility of error that could affect your return on investment.

Unavailability of suitable policies

Although there is a growing awareness of the Life Settlement industry in the USA the market remains thin. As a result, there is no assurance that LPA will be able to source sufficient qualified policies to meet investor demand.

Non-compliance with Agreements

There is a risk that a service party may not perform within the terms of its agreements and this could adversely affect your Investment Contracts.

To mitigate these risks LPA will establish procedures whereby the activities of all parties contracted to provide services will be subject to regular review and monitoring to ensure, as far as is reasonably possible, that all parties are acting in accordance with the terms and conditions of these agreements. Any disputes will have to be litigated in USA courts.

Failure of policy management systems

There is a risk of systems failure in the offices of the Medical Assessors and life insurance companies. This risk is mitigated by management information systems and disaster recovery procedures maintained by these companies.

Liquidity Risk

Investment Contracts require the continued payment of fees. Unpaid fees form a charge on the Investment Contract and if not paid the Investment Contract may lapse with no value.

Costs can rise rapidly if an insured survives longer than life expectancies forecast, making it uneconomic to continue the Investment Contract.

There is little or no secondary market for the sale of Investment Contracts. Investment Contracts must be held to policy maturity to collect a return on investment.

Your investment is illiquid.

Changes in taxation laws can impact on profitability

Changes in tax laws in the USA and Australia could affect the financial performance of Investment Contracts.

World and domestic events

Domestic and international economic, social and political events will impact currency exchange and the level of commercial activities leading to adverse impacts upon Investment Contracts.

Financial Crisis

Extreme fluctuations on financial markets may lead to adverse conditions for Investment Contracts that could lead to partial or total loss of capital.