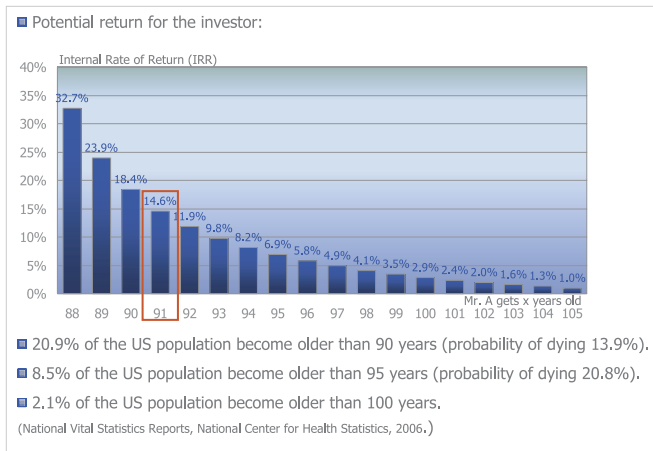


## AA LIFE FUND



Policy buyer: example  
 Source: AA-Partners Ltd.

## LIFE SETTLEMENTS

### Focus:

Fund of funds that invests in US life settlements

### Strengths:

- Structure facilitates broad based diversification of life settlements, spreads counter-party risk, and is an indirect investment in life insurance policies
- Active management of a portfolio of life settlement funds
- Access to policy pools, "sweet spots" (parts of the broad market with above avg. returns)
- Network

### Weaknesses:

- The valuation of life settlements based on life expectancy estimates
- Better suited to investors with a medium term outlook

### Opportunities

- Currently only a negligible percent of the potential pool of life settlements in the US are surrendered/ traded on the secondary market
- As awareness spreads, the market has potential to expand, provided there are no legal/regulatory changes

### Threats:

- Legal and regulatory changes
- Insurance companies choose to defend their turf more aggressively - compete head-on
- Breakthrough in medical technology that revolutionaries longevity

## Risk Management

□ Low □ Low / Moderate □ Moderate □ Moderate to High □ High

- Main risk at portfolio level: **precision in estimating life expectancy**
- Ability to access life settlements: □ □ □ □ □
- Ability to evaluate risk/return potential of investing in a single policy based on life expectancy estimates available: □ □ □ □ □
- Assumed accuracy of life expectancy: □ □ □ □ □
- Leverage: **max. 30% (to be used for bridge financing)**
- Liquidity
  - At fund of fund level (under normal conditions): □ □ □ □ □

- Individual policy level (under normal conditions): □ □ □ □ □
- Legal/regulatory risk: □ □ □ □ □
- Insurance company related default risk (under normal market conditions): □ □ □ □ □
- Currency risk: **if investing in base currency -USD, none**
- Key man risk: □ □ □ □ □

## Performance Parameters

□ Low □ Low / Moderate □ Moderate □ Moderate to High □ High

- No. of positions in the portfolio: **7 (expected to rise to 12 in first year)**
- Diversification achieved by:
  - Life expectancy (years): **6-7 years**
  - Providers: **7**
- Ability to identify managers: □ □ □ □ □
- Due diligence skills: □ □ □ □ □

- Portfolio construction, monitoring and management skills: □ □ □ □ □
- Expected annual correlation:
  - Stock index: **virtually none**
  - Bond index: **virtually none**
  - Commodity index: **virtually none**

Estimated portfolio performance for July '07: 0.84%

## Outlook

- Barriers to entry: **network, sector expertise**
- Threat posed by competition: **presently, pose no threat to performance**
- Scope for investing in life insurance policies: **upside**
- Scope for a fund like AA Life Fund: **upside**
- Ability to deliver returns over the next :
  - 12 month: **realistic**

- 3-5 years: **sustainable**
- Funds performance could be challenged if the cost of premiums payable outstripped the cost of policy claim amount - ie: **considerably extended life expectancy for majority of the policies held in the portfolio**
- If the reverse occurred – the fund would likely tend to show a relative out-performance

## Investment

- Fund to be officially launched on Sept.1st
- Targeted AuM: **USD 500mn**
- Targeted annual net returns: **8-10% in base currency**
- Targeted at: **pensions, endowments, institutional, HNWI investors**
- Recommended investment period to optimise returns: **min. 5 years**

- Base currency: **USD, other currencies available in EUR, CHF**
- Geographic restrictions: **apply**
- Complexity for an investor: **moderate**
- Transparency: **negotiable**

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## COLLECTABLES

### INVESTING IN STAMPS AND AUTOGRAPHS...

#### Does investing in stamps or autographs distinguish itself from investing in other collectables such as vintage cars, wines and art?

The rare stamp and autograph markets have an enviable price history, this sets them aside from other alternative investments. There is full data available, year by year, on every stamp ever printed. This amounts to over 4 mn stamps worldwide. Our investors are able to track the performance of any rare stamp over 140 years as prices have been carefully documented in Catalogues dating back to 1865. Each stamp (and every variation) is also given a Stanley Gibbons reference number (eg Great Britain SG2) and this reference is recognised globally.

Our markets are very much collector driven. This is very important. There are an estimated 48mn stamp collectors around the world, including 18mn in China alone. Our website received over 4mn unique visitors last year, 7.5% of those came from China. This is an exciting new market.

It is these collectors who underpin prices for the investor. I can't think of another alternative investment that has such an underlying body of collectors offering such stability to the market.

The financial barriers to entry are possibly much lower too. Investment Grade rare stamps are available from as little as GBP1,000. We have a minimum investment level of just GBP5,000 which makes this type of collectable attractive to a broader spectrum of investors.

#### "Headline risk" and capacity constraints are often cited as constraints to investing in this asset class? Do you agree?

As both the rare stamp and rare autograph markets are collector driven, 'headline risk' is minimal. The fact that the market is driven by long term 'collector' holders rather than short term 'investor' holders, means that the market has much less volatility than some other alternative investment markets.

#### How suitable is it as an asset class for pension funds?

As the British Rail Pension Fund showed, collectibles can be a profitable holding as part of a pension fund. Liquidity is not immediate and stamps are not priced on a daily basis - but there is no reason why a holding of top quality rare stamps, of a highly collectable country, should not make up part of a fund. The long term stability of the market is well documented.

Our indices show that rare stamp prices have not dipped in any five year period since 1970. We have a handful of pension fund managers investing with us personally on an individual basis. Collectable investments are all about diversification. The current corrections on the world stock markets and the worries over US house prices have confirmed the need to have a well balanced investment portfolio.

#### How much would you recommend, an investor should allocate (per cent) to stamps and autographs in order to optimise portfolio diversification?

The Merrill Lynch Wealth Report suggests 10% of a portfolio should be in alternatives in general. We certainly wouldn't suggest any more than 5% in a particular alternative. We are stamp and autograph experts and not financial advisers so we leave it to our clients to decide.

#### Is there a scientific approach involved in the valuation of stamps? Or is it an art?

The valuation of rare stamps is based on the quality of the individual items. Those that we offer, for investment purposes, tend to be of known quantities with a provenance. For example we can tell you there were 225,000 printed but only 6 are known to exist. There have been 1,000s of reference books written on the subject. It's another factor that gives investors confidence in this type of investment. Another scientific element is the rise in importance of grading stamps, particularly in the US. Stamps there are graded by a professional grader according to condition. Obviously those of a higher grade are rarer. We have seen that the price of a stamp just one or two grades above the norm can be significantly higher.



Adrian Roose

## COLLECTIBLES

### INVESTING IN STAMPS AND AUTOGRAPHS...

#### The role of your performance monitoring indices ...

We have various indices that track the performance of the rare stamp and autograph markets. They include over 140 years of data, we have made these available to the investor as a snapshot of the market.

The SG30 rarities index is the most pertinent to the rare stamp investment market. It tracks the performance of the 30 rarest Great Britain stamps available on the market. It shows a 149.1% compound return since 1999 and has returned in excess of 10% pa. in each of the last 5 years. Because the constituents of this index remain unchanged we are able to back test the index over time. Over 50 years this index returns over 10% per annum.

The Frasers100 Index tracks the 100 most sought after autographs, it shows a 257% return in the last 10 years.

#### "Guaranteed minimum return contracts"... assumes you can „forecast“ how much a certain stamp or series would be worth over different time frames. Is this really possible? What is the accuracy level of the forecasts ... why?

The Guaranteed Minimum Return Contracts offer investors easy entry into the rare stamp market, with the comfort of a guaranteed return. The shortest option available is a 3 year contract at 4% per annum. This will return a minimum 12% capital gain at the end of the contract period - at par with a bank deposit rate, but with an unlimited upside.

They are limited to a level, the company could comfortably repurchase each year out of normal working capital. The stamps within the contracts are of the highest quality and highly sought after.

The actual returns which will be achieved, indeed are being achieved - are expected to exceed the minimum returns based on the quality and rarity of items included within investment contracts and are backed by a 50 year history of long term price appreciation in the rare stamp market averaging 10% per annum.

We are already witnessing a squeeze on the quality of the stock in the open market, it is becoming increasingly difficult to source quality items. The Guaranteed Minimum Return Contracts are designed to offer us a pipeline of quality stock over the next 3 to 10 years.

#### What would you say the total stamp market is currently worth... avg. annual rate of growth over the last decade ... and your views on what it could be over the next decade?

The SG30 rarities index shows an increase in excess of 10% per annum in each of the last 5 years.

The rarer the stamp, the better the return. Bill Gross, head of the world's largest fund, recently sold part of his collection in auction in New York. Purchased in 2000 for approximately USD2,5mn, it sold for USD10.5mn.

#### Comments/remarks...

It's a very interesting time for the market.

The sheer size and potential of the China market is hard to comprehend. Add to that an Indian population that is already having an impact on the global stamp market and the potential for the rare stamp market is huge.

We recently auctioned an India collection containing many rarities. Every lot sold. A 100% success at auction is almost unheard of.

It's a healthy barometer for the current rare stamp market.

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## WINE

Portfolio % change since inception as at 31 July 2007				
Tranche	Term	Total Return	Average per Month	Annualised Returns
2003	Aug 2003 to Aug 2008	148.58%	3.10%	37.15%
2004	Aug 2004 to Aug 2009	152.19%	4.23%	50.73%
2005(1)	Aug 2005 to Aug 2010	100.53%	4.19%	50.27%
2005(2)	Dec 2005 to Dec 2010	83.14%	4.16%	49.88%
2006(1)	May 2006 to May 2011	50.48%	3.37%	40.38%
2006(2)	Jun 2006 to Jun 2011	47.86%	3.42%	41.02%
2006(3)	Aug 2006 to Aug 2011	25.46%	2.12%	25.46%
2006(4)	Nov 2006 to Nov 2011	32.47%	3.61%	43.29%
2007(1)	Apr 2007 to Apr 2012	6.45%	2.15%	25.80%

Fund's performance  
Source: © 2003 - 2007 The Wine Investment Fund.

## THE WINE INVESTMENT FUND

### Focus:

- The fund aims to deliver absolute returns by buying, storing and selling some of the finest wines in the world
- The wines are stored in a UK government licensed, bonded warehouse
- Follows a proprietary investment philosophy, "Price Step Theory" that suggests fine wines, in limited supply, tend to experience quick, short price bursts as opposed to a linear progression in their value, over time

### Strengths:

- "Wine" picking (27 years of experience)

### Weaknesses:

- Better suited to investors with a medium term outlook, capacity constrains

### Opportunities:

- The consumption of fine wines is on the rise, globally

### Threats:

- Limited in stock

## Risk Management

Low Low / Moderate Moderate Moderate to High High

- Ability to forecast which wines are likely to appreciate:
  - Accuracy of forecasts:
- Ability to source the above wines at a competitive price:
- Ability to "time" wine sales:
  - Entry
  - Exit
- Valuations: independent, by Liv-ex

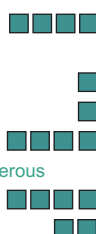


- Liquidity:
  - Currency risk:
  - Key man risk: – if the manager disappeared then all funds already invested are under no risk.
- New funds would have to be invested by finding a new stock picker of the funds could be returned to the investor.

## Performance Parameters

Low Low / Moderate Moderate Moderate to High High

- No. of different wines in a portfolio: 25 - 45
- Ability to structure a well balanced wine portfolio:
- Diversification:
  - Origin: we buy predominantly the best Bordeaux wines
  - grape variety
  - vintage: there are 3 to 4 great harvests per decade
  - duration :allowing 5 years for the wine to perform is quite generous
- Correlations in times of a bull market :
- Correlation to :



- Stock markets:
- Bonds:
- Real Estate:
- Hedge Funds:
- Annual expense ratio: including insurance for storage, theft, spoilage 0.05%

## Outlook

- Barriers to entry: expertise, network
- Threat posed by competition: limited
- Potential for a wine fund such as The WIF: high
- Ability to continue identifying wine trends: high
- Fund tends to outperform when: stocks owned are appraised by the wine critiques in the global press
- Fund tends to underperform when wines sometimes sit on a price plateau while stocks continue to diminish and then become so low that another trigger point is reached
- Ability to deliver targeted returns over:
  - Next 12 months: realistic
  - Next 3-5 years: sustainable

## Investment

- Current AuM: GBP10mn
- Targeted AuM: GBP 100mn
- Structure: unincooperated association
- Targeted at: institutions, private investors
- Available to investors: periodical - usually 4 times per year
- Complexity for an investor: simple
- Recommended avg. holding time to optimise returns: 5 years
- Base currency: GBP
- Transparency: high
- Fund's operator is FSA approved

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## FOREIGN EXCHANGE

### FX SERIES WITH HATHERSAGE CAPITAL – II

#### Can foreign exchange (FX) investing be designed as an “all weather strategy”?

Last week the Financial Times ran an article titled “Currency Funds Fail to Fly,” yet there are many managers with double digit returns. A common mistake is to confuse objectives - managing risk or volatility versus seeking absolute return. Managing FX risk is formulaic and inexpensive. It is important to distinguish skilled absolute return FX managers from those hedging FX risk in non-base currency (international) assets. Mixing objectives and hiring hedgers to produce returns can be dangerous, but if done correctly, FX is the perfect “all weather” overlay strategy.

We are a group of independent thinkers, who have worked together for over two decades, but we are only one of many, small, non-traditional, long time, successful FX managers. An analysis of FX managers reveals that different firms, different strategies, different styles, make money at different times, trading different currency pairs. There are periods of flat performance for even the most successful FX absolute return managers. Key is: risk management, in particular, downside variance.

The uncorrelated and positive returns among FX traders imply that a portfolio of FX traders would improve any portfolio's total risk return - if “correctly” executed.

#### Based on your experience at Hathersage Capital, site instances and periods in the past when investing in currencies has delivered uncorrelated returns.

Over the past 10 years, 3 periods of extreme market turmoil stand out:

- August 1998 the LTCM Crisis
- September 2001 terrorist attacks; and
- The current July 2007 sub-prime loan/CDO credit crisis.

At times when traditionally, non-correlating market sectors correlate and market participants experience unexpected losses, our LTC fund has returned unfunded, net of fees: +3.79% in August 1998; + 5.05% in September 2001; and +4.40% in July 2007. We remember October 1987 - a period of high returns for FX absolute return traders.

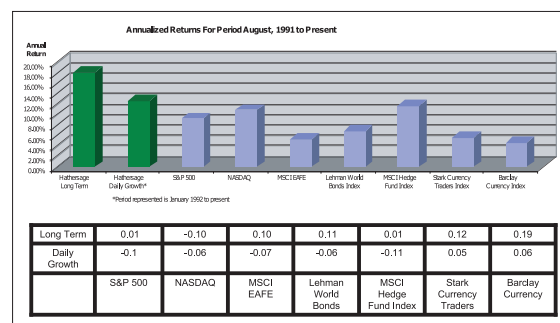
Every period of market turmoil is different, the September 11th event in 2001 was truly unique - US equity markets, fixed income, and futures exchanges all suspended trading but the Over-The-Counter (OTC)FX markets continued to trade.

Our experience, as early FX option market makers has taught us to be long as opposed to being short gamma, since extreme events or markets can wipe out option sellers. Last week (starting August ,13th) witnessed the USDJPY Dollar Yen implied volatility rise from historic lows of 8.5% to '98 levels of 30% - in the span of a month. “Bad news” for those that were positioned short.

The 13% move in the NZD New Zealand Dollar and the near 5% move in the JPY over the past few days have severely hurt highly leveraged players. We believe it is important, particularly during periods of market stress, not to be in the same trade as the rest of the market; too big for the market; or dependent on leverage; which can quickly drown you.

We enter a trade, with a variety of exit strategies (eg. spot, forward, and option trades....) in mind and closely manage our exposure, which is simply the amount we are willing to risk. Our overall exposure is generally slightly de-leveraged to the size of the account, which gives us even more opportunities, during periods of market turmoil and price dislocations. Strict adherence to risk management, good operations and a keen understanding of when and how to take on risk exposure has not only ensured our survival through a variety of market cycles, but we have been able to repeatedly deliver uncorrelated returns.

No one can predict market events. Moves can be quick and strong, driving all asset prices down at once. While it may take months to fully understand true asset values in illiquid markets or how highly leveraged non-transparent managers are, there is no uncertainty regarding valuation in FX and there are no mysteries that shroud leverage owing to the full transparency afforded.



Returns are not correlated with traditional or alternative returns, including systematic FX traders

Source: Hathersage Capital Management

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