



Opalesque Premium Alternative News

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Title: A premium finance program through a zero coupon bond

Category: Hybrid

Interview with **Nicholas Edwards**, CEO of **Alternative Asset Management Limited** - specialist manager and advisor in principal protection.

Why did you choose "the construct" of offering a premium finance program through a zero coupon bond, ZCB, offering?

We have engineered many fund and bond structures with 100% principal protection and 100% collateral backing using life settlements but in this instance we were asked specifically to engineer an offering of high yield with zero risk.

Given that Insurance in today's markets can be very expensive - we have been able to structure and market a unique offering for an institution seeking to raise premium lending finance. A ZCB or accrual bond is the natural construct for such an exercise. The +7.2% yield is implied throughout the bond life until lump sum repayment on due date in year 10. Liquidity is important to our client and thus our offer has 30 month breaks.

How did you identify premium financing? Is investing in life settlement portfolios also included?

Our clients application of funds raised is premium financing and the ZCB terms do include the opportunity for investment in the underlying life settlement policies every 30 months.

You say: "we have the ability to offer investors a 10 year term (with 2.5 years breaks) ZCB with an implied yield to maturity of +7.2%. This is fully insured and guaranteed by AAA institution. "

: how do you mitigate mortality/respectively longevity risk?

In an ordinary construct we would look to a combination of over collateralisation and the possible addition of an instrument such as a credit default swap. In this instance our client's own highly rated name - and principal "time certain" guarantee stand behind the offer.

: how do you mitigate counterparty risk - i.e. is there really a guarantee -AAA ratings can be revised?

You are correct.

Our client can command this high approval at this time and an implied yield in excess of 7% in current conditions.

Given US Treasury yield is at circa 2% - is what makes it currently compelling.

: for whom would this product be particularly appealing and why?

As far as the AAA guarantee is concerned; life assurance companies and pension funds are keen on purchasing high yielding paper; of which there is plenty to choose from amongst the corporate bond market but very little without high counterparty risk attached.

The fact that we have an insured bond backed by a AAA institution should attract them to our offer.

- Mezzanine finance and or private equity houses looking to offer their clients de-risked asset plays.

Many such funds have cash burning a whole in their balance sheets - i.e. they do not know what to spend the money on and they risk losing the cash if they don't act. As in the point above, our offer can be purchased with certainty of AAA insured guarantee. In simple terms a USD500mn investment can be purchased today for USD250mn, thus leaving USD250mn for active alpha investment in their own robust model.

- Private banks and ultra high net worth wealth advisors seeking low risk diversification - i.e. the ease of entry/access to life settlements' portfolio ("LSP") management business.

The LSP business is of interest to many sophisticated investors but barriers to entry include, in my opinion, a dire shortage of skilled professionals who really understand this market.

Do you have competition in this space?

With regard to this specific ZCB construct we believe not; in the sophisticated LSP modelling space there will be a handful of teams who can compete - we utilise two such that we hold in high esteem.

Is this product geographically constrained?

No. We do not see any geographical constraints. Indeed even within one of the fastest growing sectors in the markets today, Islamic finance, a ZCB by its nature lends itself to sharia compliant structures - possibly via a sukuk instrument. For these reasons we believe our product has a universal appeal.

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