

## The STORM interview

### Synthetically speaking

David Rawson-Mackenzie, director of Centurion Fund Managers, answers STORM's questions



**Q: Which sector of the synthetic transfer of risk markets is your firm primarily involved with?**

A: We specialise in the management of life settlements or longevity risk. Our Life Settlement Strategy Fund (LSSF) invests in both physical policies and synthetics and of our three longevity funds is the one that focuses on using synthetics to optimise its portfolio of physical policies. This requires customised synthetics, which is an area where few fund managers have invested.

A synthetic is similar to a physical life settlement in that it has a life assured, a premium cash flow stream and death benefits. However, it brings with it additional advantages such as the ability to select our counterparty risk and match premium stream and expected death benefits to our investment objectives.

**Q: When, how and why did you/your firm become involved in the sector?**

A: Centurion Fund Managers launched one of the market's first life settlement funds in 2002, having spent the best part of 2001 researching the asset class. As the market matured, we saw the opportunity for synthetics and created LSSF in 2006, which allows for investment in both physical and synthetic longevity products.

**Q: In your view, what has been the most significant development in the markets you cover in recent years?**

A: One interesting development has been the gradual emergence of customised synthetic trades. We started looking at doing trades using synthetics back in early 2007, but it was not until early 2008 that we completed our first one, which I think shows that the synthetics micro longevity market itself is still very new, with very little market penetration in customised synthetic trades.

Another issue that has been in the spotlight has been the recent life expectancy extensions, which coupled with the general lack of liquidity in the market stress tested a lot of investment managers' valuation methodologies. US taxation also reared its ugly head earlier in the year and highlighted the problem to those fund managers who had, until now, just ignored it.

Finally, looking ahead, with investment banks increasing their presence in both physical life settlements and synthetics, we will be seeing more convergence and greater transparency in the micro longevity market.

**Q: How has this affected your business?**

A: With the volatility in the foreign exchange markets in the third and fourth quarters of 2008, having liquidity in our funds became key to funding our hedging requirements. So we were able to turn to our synthetics trades to provide this facility, which enabled us to retain our forex hedging strategy. In addition, our valuation methodology and the concept of a reserve have gone a long way towards us being able to continue to meet our investment goals, even with the extended longevity produced by all the underwriters.

**Q: What are your key areas of focus today?**

A: We expect further changes in taxation, so our focus is to ensure that any changes to US tax law, the EU savings directive and the UK offshore fund legislation, to be introduced on 1 December 2009, do not catch us unaware. In the near to medium term, our investment strategy will focus on synthetics products in both the extended longevity protection and macro longevity markets.

**Q: What is your strategy going forward?**

A: We are looking to enhance our LSSF capital protected range with the introduction of an income product combining partial capital protection with an interest rate swap. In addition, our Luxembourg SICAV SIF will look to introduce some macro longevity exposure into its portfolio.

**Q: What major developments do you need/expect from the market in the future?**

A: As the market starts to understand this asset class, investment managers will need to be much more transparent with the information

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they provide enabling investors to understand and evaluate the risks of investing in a life settlement fund. Typically, this information will include the valuation methodology and any inherent assumptions made, policy origination and liquidity management.

We also expect that the physical life settlement market will turn to the synthetics market to enhance its product offerings and meet investors' increasing demands, with more macro longevity trades being introduced over the next 12-18 months.

**About Centurion Fund Managers**

Centurion Fund Managers is an alternative investment house specialising in longevity, including life settlements and longevity derivatives as an asset class. It also offers a range of bond, equity and liquidity funds.

Active in the market since 1999, its diverse management team has over twenty years of combined market experience and over US\$400m in longevity funds under management.

[www.centurionfundmanagers.com](http://www.centurionfundmanagers.com)

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