Specialist hedge fund RessCapital builds consistent gains with esoteric life settlements strategy

BY HUGH LEASK | 29/05/2020 - 2:01PM

RessCapital, a specialist boutique hedge fund manager, is generating consistent uncorrelated returns with a novel investment strategy that focuses on the US life insurance industry.

The Stockholm-based shop's Ress Life Investment fund invests in the secondary market for US life insurance policies, where products no longer required by individual policyholders can be offloaded to third party brokers and brought to market to be traded at a discount.

Jonas Mårtenson, the firm's founder and head of sales, established RessCapital in 2006, initially focusing on real estate, later switching to the more novel life insurance secondary market about a decade ago.

Established in 2011, the Ress Life Investment fund – which today manages around USD185 million in assets – has notched up positive returns in seven of the last nine years, and has outperformed its 7 per cent annual target in four of the last five years.

"It's not linked to the economic cycle in any way," Jonas Mårtenson, the firm's founder and head of sales, says of the strategy's track record, which includes a near 10 per cent return in 2018, followed by a 7.9 per cent gain last year – its most successful years to date. "Mortality is not linked to how equity markets perform. This is what made me interested."

He continues: "Uncorrelated returns can be difficult to find in various alternative investments – a lot of hedge funds claim they deliver it, but often when we have a strong correction everything tends to go down at the same time, as we saw in March."

RessCapital's portfolio typically comprises around 300 life policies, issued by a diverse pool of about 50 US-based life insurers, which it will then typically buy-and-hold until the existing policies pay out.

The investment approach is built around a proprietary portfolio management model which involves longevity calculations on each individual policy in order to determine pricing and anticipated returns on assets.

Specifically, this involves deep-dive analysis from independent medical underwriters on the policy prior to RessCap taking the position, with portfolio risks and limits – determined by issuer, life expectancy, age group, among other things – continually monitored.

The average policyholder age in the portfolio is 79 years, and the fund favours less risky policies held by wealthy individuals who are in good health with lower premiums, Mårtenson explains. More than 90 per cent of the fund's assets are policies issued by insurers with credit ratings of A or above.

"We filter out about 97 per cent of the policies we look at," he adds. "We buy only a few. It's a very OTC, very administrative-intensive market, and we are cherry-picking the best policies."

The total outstanding volume of life insurance in the US is around USD20.5 trillion, with the secondary market sized between USD4 billion and USD5 billion.

"Everyone owns a life insurance policy in the US, with many people owning perhaps more than one policy," Mårtenson says.

"Nine out of 10 policies lapse – they never pay out – and life insurance firms know this. But why should someone who's 78 years old, whose children have grown up, and whose wife may have passed away, still be paying all these life insurance premiums when he doesn't need it anymore?"

Rather than let it lapse, various insurance brokers can bid on the policy in an open market, with the holder potentially being paid 10 times more than surrendering the policy – a "win-win situation" for the individual, according to Mårtenson.

The fund is down slightly so far this year at -0.16 per cent. But despite the ongoing coronavirus pandemic, the secondary and tertiary market for US life insurance policies has continued to function. While the Covid-19 outbreak will see mortality rise, the pandemic is not impacting the fund's performance negatively, according to Mårtenson, since the strategy's exposure tends to be towards healthier, better-off policyholders who are comparatively less affected by the virus.

He maintains the strategy offers attractive, risk-adjusted uncorrelated returns for investors.

"Our investors already own equities, bonds, property. This is something completely different," he explains, noting how the fund's three largest investors account for less than 10 per cent of the investor base. "We bring risk diversification for them. We view this asset class as being similar to alternative fixed income. If we can deliver 7 per cent annually with 4 per cent volatility, it's pretty attractive for investors."