

Not Many Happy Returns –

Where Can Disappointed With Profits and Property Investors Head Now?



In a recent survey carried out by YouGov¹ and George Street Research², the UK-based market research companies, when questioned, more than half of the holders of a With-Profits investment were reported as being “Unhappy with its performance”. Recent press reports have demonstrated the effects of a slowdown in Property fund performance as leading insurers begin to value assets on a “bid basis”, effectively slapping exit penalties of up to 6% on investment bonds as a way of slowing the outflows of money that could create difficulties if allowed to continue unchecked. What has brought these two stalwarts of the “low risk brigade” to this position? What are investors searching for smooth-and-steady returns going to do now?

Historically, insurance companies had earned well on the back of their equity holdings which, despite some volatility, had always managed to produce returns in excess of other assets. Following the sustained bear market of 2000 – 2003, however, these insurance companies were now finding themselves struggling to match their reserves to their liabilities. In other words, promises made by respected and venerable life offices like Equitable Life just couldn’t be kept. The good ones reduced payouts by applying market value adjustments or MVAs. The bad ones went out of business with retirees having to pull in their belts as their pension incomes fell. More recently, as it became harder to make good returns from property, many such funds began to record dismal or even negative numbers and many former With-Profit Bond holders who had fled to property to re-group, suddenly found themselves back where they were before. Paying through the nose to get their own money back.

There is, however, an asset class which utilises the skill and expertise of the mighty insurance company sector but relies less upon the uncertainties of the stock and bond markets and more upon one of life’s absolute certainties. Not to put too fine a point on it, death!!

A Very Important Asset Class

Traded Life Policies (TLPs) are unfamiliar to many but form an asset class that in recently published figures formed a market that exceeded \$50 billion in 2006 with every sign that these volumes will continue to grow. In recent years, the market

has become very sophisticated and current trading in these plans mainly features “seniors”, those of advanced years who, in exchange for a fair price, exchange their contracts with life companies for a sum of money up-front. Upon their eventual death, the new owner of the contracts pockets the proceeds for a healthy profit.

By buying these policies as assets of an investment fund, managers are investing in something that has an assured value (policy payout) upon the incidence of a known event (death of the life assured). What they don't know with any certainty, of course, is the date when the person will die and which will then trigger the payment of the sum assured. However, using similar highly sophisticated actuarial calculations of the nature that have kept the World's life assurance majors ploughing very profitable furrows for many years, fund managers have managed to produce some very nice and very smooth returns.

The AURORA Defined Benefits Fund is one such vehicle which is satisfying the investment needs of clients seeking good, above-deposit-account returns from a low risk base. Expertly-managed, Aurora invests only in high-quality life policies purchased at deep discounts to their actual values. Exclusively buying policies from the US and UK's strongest life companies, the fund's managers aim for a target return between 7 and 9% net of charges and since its launch in October 2006, it has produced some great results.

In fact, it's on target to achieve this within its very first year, currently heading towards 7.5% annualised growth with a very healthy stock-list of high-quality policies from some of the World's largest insurers.*

Smoother Returns Are Harder to Find

In an environment where established sources of smoothed returns are becoming harder to find, new asset classes are being sought. For the time being, With-Profits and Property may not be answering the call for those seeking safe, steady returns. As a major component of a balanced portfolio, however, traded life policy funds such as Aurora can provide just the kind of numbers that investors are looking for. Not just that, but Aurora gets investors off to a cracking start with a 10% enhanced allocation from day one to accelerate performance and maybe give those MVA-afflicted With-Profits bond holders a bit of a leg up.

We are looking forward to Aurora's next Anniversary and expecting some very happy returns!

- *Extrapolated from actual returns from Oct 06 to June 07 Source: Private Client Portfolio Investment Management Ltd
- 1 YouGov questioned 2,438 people during April and May 2007
- 2 George Street Research questioned 207 IFAs between March and May 2007