Official Press Release
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For Immediate Release:

Edge Management Has Structured Insurance Linked Security (ILS) to Enable Investors to Wealth Preservation Goals via Diversification and Stable Investment-Grade Returns

Wealth preservation requires not only the use of diversification to lessen asset erosion due to market risk, but also the need to obtain stable after-inflation / after-tax positive returns in order to maintain or grow asset value. Key objectives for wealth preservation then, must include not only planning to minimize market risk, but also to maintain purchasing power of the investment with regular stable income over an extended timeline to achieve targeted investment returns for the portfolio.

Investors seeking attractive investment-grade returns are currently faced with markets wracked by near-zero interest rates. Despite central banks' plans to back the investment-grade corporate markets with large scale purchases, spreads continue to gap and weekly downgrades massively outpace upgrades. Correlations among asset classes have risen toward 2008 levels, due to redemption and margin-driven selling as well as liquidity issues. It is no wonder that investors are becoming increasingly discouraged, opting instead to stockpile cash.

Stable investment grade returns are clearly in short supply. What else could explain the ease with which a BBB-minus rated cruise ship company, unable to find port clearances to offload coronavirus-infected passengers, raised over $4 billion in late March? Or the record amount of investment grade corporate issuance that month – over $260 billion in the US alone – most of it rated one or two notches above junk?

The announcement of a new policy of corporate QE by the US Federal Reserve might have momentarily soothed investor worries, but with a majority of all corporate debt rated in the BBB range, and ratings firms like Moody's placing a negative outlook on the entire market, this is no time to bet that this hoped for deus ex machina will save the day. Goldman's prediction that third-quarter US GDP will experience a slowing in growth, with much economic activity still hampered by coronavirus measures, means cash flows to service this debt are drying up – even for the bonds central banks choose to buy.

A deep pall has fallen over the asset backed world as well. Ratings firms, in an echo of their panicked moves in the synthetic RMBS markets in 2008, have been slashing the ratings on commercial mortgage backed securities – in some cases, by as much as seven notches. The former burgeoning CLO market, backed by leveraged loans that look very likely to default, is likely to follow suit.

Even so, those seeking refuge from this storm can find hope in investments backed by uncorrelated cash flowing assets with iron-clad credit support.

The problems in CMBS, CLOs and other securitizations are not in the structures being employed, but in the collateral and risk management being used in such structures. The key is to find collateral that is not subject to current economic and political vicissitudes, has a stable income stream, and whose risk is not correlated with traditional asset classes. Debt backed by this type of collateral can be structured to obtain enviably low market and credit risk to maintain investment value while simultaneously offering an opportunity for real investment growth.

Edge Capital has both modelled and structured an asset designed to meet both needs. It is an "A" rated insurance-linked security (ILS) with cashflow streams derived from portfolios of life-insurance beneficiary rights. An investment in this specific type of insurance-linked security ("ILS") provides an uncorrelated wealth preservation and growth strategy not dependent on economic growth or market cycles that produces steady stable returns over the projected lifetime of the investment.

Historically, these payment obligations from well rated life insurance carriers, have no correlation with other asset classes (cash flows are within actuarial or mathematical limits). Also, for those concerned with the optics of investing in life insurance payouts during a deadly pandemic, securitized portfolios are "seasoned" – and were purchased and held by investors in good standing for eight years or more. The only collateral that meets our standards already existed well before the COVID-19 crisis broke.

This is the first securitized ILS related to life insurance beneficiary rights to earn an "A" rating from a National Recognized Statistical Rating Organization (NRSRO) due to regulatory transparency of life settlement policy acquisition, superior data regarding mortality and other risk factors, and a rigorous, proprietary approach to evaluating collateral and credit risk, informed by over 20 years of experience in insurance and capital markets transactions. This earned A rating means that analysis of both structure and asset has confirmed that our Edge Capital rated ("A"), insurance-linked securities provide uncorrelated cash flows within a high-yielding (6% ~ 10%), unleveraged investment-grade fixed-income framework.

To achieve an NRSRO / ESMA rating in the single-"A" range, makes this insurance-linked security a "safe money" and a significant "wealth preservation" investment for qualified institutions like hedge funds, family offices, insurers, and other asset managers in an environment where the search for yield has largely been abandoned in favor of capital preservation. The advent of securities with the right type of uncorrelated assets, carefully chosen and analyzed, with solid credit metrics, means investors can still pursue both goals of preservation and growth in this current market.

About Edge: Edge Management develops structured solutions, which offer investors many of the important characteristics of investment-grade fixed income assets, including predicatble and reliable yield, high credit quality, and minimal volatility. These solutions also have the added benefit of underlying cash flows, which have a low correlation to financial markets and general economic conditions.

Directed by its data-driven approach, Edge identifies and exploits inefficient niches within alternative asset markets, which allows the company to be proactive, as opposed to reactive, in terms of price-setting. Edge lends particular focus to the protection of investment principal and its clients' needs to consistently match or exceed general portfolio benchmarks.

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