

# Max Re joins forces with German bank

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By Sue Stuart

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Max Re Capital has teamed up with HypoVereinsbank, Germany's second largest private commercial bank, to form a new reinsurance company. The new company, Grand Central Re, will invest a sizable amount of its asset portfolio in hedge funds. Grand Central's initial shareholder cap is \$200 million. Hypovereinsbank has put up \$185 million of this and the remaining \$15 million are coming from Max Re. Under the terms of the partnership HypoVereinsbank will act as asset and risk manager and Max Re will lend its underwriting expertise to the venture.

Like its parent Max Re, Grand central will allocate a substantial portion of its portfolio to hedge funds via funds of funds.

Bob Cooney, Max Re's chief executive officer, told the Financial Times recently:

``Our principal investment strategy is to obtain an attractive, risk adjusted return by allocating a significant portion of invested assets to a professionally managed fund of funds incorporating a diversity of alternative investment strategies.

``Our total investment results for fiscal year 2000 a return of 7.8 percent indicate that our risk management emphasis is justified. While the 2000 returns were below historic levels for some of the funds in which we are invested, the portfolio return was higher than the stock market and the average fund of funds."

He added that more than 80 percent of the industry's intellectual capital is traditionally spent on assessing risks of the business, but insurers and reinsurers should seek to make more money from their assets. He feels the insurance industry has been slow to adopt sophisticated asset management strategies of investing in instruments such as long/short equities and hedge funds.

It is not clear yet exactly what percentage of Grand Central's assets will be invested in hedge funds, but the portfolio will include a different mix of underlying managers than those used by Max Re.

Bermuda based ISIS acted as advisor and project manager in structuring Grand Central and Sharon Beesley, ISIS executive director, said, ``This is definitely evidence of continuing convergence between the insurance and alternative investment industries."

Industry observers are reported as saying the launch of Grand Central is an indicator that the convergence between the hedge fund and insurance industries is marching ahead at a rapid pace, and that European institutions are now seeking to participate. Most insurers put as little as two percent in alternative investments and have a more conservative portfolio mix that includes 90 percent high grade bonds and eight percent equities. However a more aggressive investment strategy can produce better returns and provide a portfolio hedge when equities take a downturn.

In 2000, which was Max Re's first full year of operations, the company's investment portfolio gained 7.8 percent. The alternative investment portion of the portfolio picked up 9.6 percent while the more traditional fixed income investments only returned 4.4 percent.

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