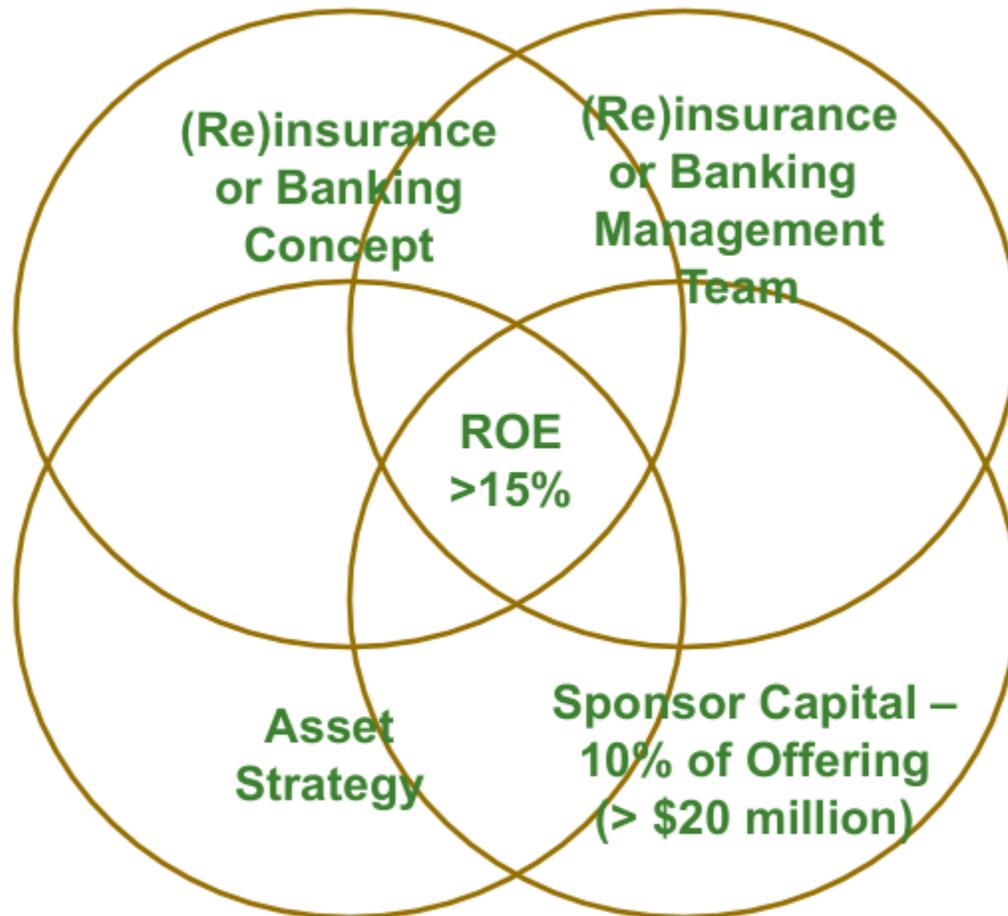


# Outperformance & Permanent Capital

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## The General Idea



With all 4 elements in place, IRRs should exceed the ROEs of a fund or managed account with the same asset strategy as well as the ROEs of a traditional (re)insurer or bank that is in the same line of business

Via a 144A offering, the asset manager should secure \$200 million to \$5 billion in permanent capital (some or all of which would be new AuM) with a high degree of certainty

# Why the Idea Works

- **Buffett – from hedge fund manager to (re)insurer/banker**
- **Capital in fund structure works only once**
  - ❑ In at NAV; Returns compound; Out at NAV
  - ❑ High levels of taxation for investors in the UK, Canada, and the U.S.
- **Same Capital in insurer, reinsurer, or bank works twice**
  - ❑ Once – equity capital is invested in the given asset strategy
  - ❑ Twice – allows premiums or deposits to generate operating profits
  - ❑ If operations break even, (re)insurer or bank earns the same as fund
  - ❑ 4 million people in the U.S. generate 10% ROEs in operating profits
  - ❑ Traditionals – buy and hold high grade fixed income to maturity
  - ❑ Fixed income (5%) + operating profits = pre-tax 15% (a-tax 8%-10%)
  - ❑ Fund strategy+operating profits = higher ROEs than fund/traditionals
  - ❑ In addition to higher ROEs, shares should trade at premium to book
  - ❑ No K-1s and capital gains treatment in the UK, Canada, and the U.S.
- **Proof of concept – Greenlight Capital Re (symbol – GLRE)**

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# 144A Offerings

- Hybrid private placement and public offering
- Simpler/quicker/cheaper than private placements or IPOs
- Primarily used for structured products and foreign equities
- 91 U.S.- centric equity offerings in last 10 years - \$25 billion
- FBR has done 51 of the 91 offerings totaling \$16 billion
  - FBR treats 144A like a business – all other IBs treat it as a hobby
  - Qualified institutional/accredited/offshore investor universe of 1,200
  - Dedicated sales force specializing in 144A offerings
  - Commits own capital to market making via NASDAQ's Portal System
- Profile of FBR transactions
  - Minimum of \$200 million – (One \$1 billion + deal in each of last 3 years)
  - 70% are financial services – 50% are startups
  - 3 Bermuda reinsurance startups totaling \$1.25 billion in equity capital

# (Re)Insurers Needing Sponsors

## ■ Insurance and reinsurance without letters of credit

- Private placement variable universal life insurance (operational)
- Cat reinsurer/ILS hybrid (1 startup, 2 acquisitions)
- GigaLife – PPVULs of \$1 billion or more (1 startup) \*
- Residual value insurance (1 startup, 1 acquisition)
- Trade finance insurance (MGA conversion)
- Letter of credit liberation (early stage operational – Berkshire connection)
- Risk Retention Groups paired with matching reinsurers (multiple startups) \*
- Sharia compliant reinsurer (1 startup)

## ■ Insurance and reinsurance requiring letters of credit

- GLRE clones (virtually unlimited number but a crowded trade) \*
- Life and annuity reinsurance (1 acquisition, 2 books of business)
- Assuming Pension liabilities and running them off (1 startup) \*
- Synthetic acquisitions (virtually unlimited number) \*
- Reinsuring captives (1 strategic relationship, several acquisitions)
- Point of sale reinsurance (car rentals, trip, warranties, credit life) \*
- MGA profit sharing (startup)

\* Will need to recruit a management team

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# Banks Needing Sponsors

## ■ Commercial Banking

- Converting asset based lending funds into banks (virtually unlimited number)
- Specialty Lenders – all would be startups
  - Litigation (2); Trade finance (3); Libraries (2); Hospital receivables (1)
- Point of Sale Lending
  - Time share receivables (1); Manufacturers (1)
- Commercial mortgages (1 startup); Residential mortgages (1 startup)
- Corporate loans (1 startup); Leveraged loans (2 startups); DIP loans (1 startup)

## ■ Private Banking

- Traditional Swiss private bank (1 startup, 2 acquisitions)
- Providing portfolio financing for clients of other private banks \*
- Serving Swiss Independent Asset Managers \*
- Rolling up Swiss Independent Asset Managers \*
- Swiss private bank that only serves Americans \*
- Private bank serving clients of major deferred compensation provider

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\* Will need to recruit a management team