



Newsletter September 2017

Harvey brought historical floods to Houston Cat bond market reacted mildly

The average ILS fund was **down by 0.34% in August** as measured by the **Eurekahedge ILS Advisers Index**.



Stefan K. Kräuchi,
ILS Advisers

At the end of August, typhoon Hato hit Southern China cities of Zhuhai, Hong Kong and Macau. Hurricane Harvey made landfall between Port Aransas and Port O'Connor, Texas as a Cat 4 hurricane. It's the first major hurricane making landfall in the US in the past 12 years and the most powerful one to hit Texas in 60 years. Harvey moved in a rather slow fashion, brought record breaking rainfall and resulted in significant flooding in the Houston area. At the time of writing, the hurricane is estimated to have caused economic losses ranging from USD 85bn to USD 180bn and insured losses of up to USD 40bn, most of which will be a result of the severe flooding. With this scale, Harvey ranks as the 2nd costliest hurricane since 1950s, only after Hurricane Katrina. Hurricane Irma that followed in September and caused economic losses of up to USD 80bn, will rank as number four after Hurricane Sandy.



David Yao, CFA, FRM
ILS Advisers

In the middle of the 3rd quarter, issuance activity was almost frozen. Few new bonds came to the market. Hurricane Harvey had slight impact to secondary trading. No actual losses were directly triggered yet, although retentions to some bonds may be eroded. As a result, some bonds were marked down to reflect the possibility of payout while the whole cat bond market didn't react dramatically to the event. On the private ILS side, due to the complexity of Harvey, very little actual loss information is available at this point in time. Therefore ILS managers have to resort to modelled losses to assess the impact of the recent events on their portfolios. As a consequence, there is still a high level of uncertainty surrounding the model outputs. Accuracy is deemed to increase in the coming months with more actual claims data becoming available. Therefore, investors should expect further performance adjustment for most funds, either upwards or downwards.

22 of the 34 funds represented in the Eurekahedge ILS Advisers Index were positive for the month. The difference between the best and the worst performing fund was 7.65 percentage points, which was higher than previous month's figure. Pure cat bond funds as a group were up by 0.51% while the subgroup of funds whose strategies include private ILS decreased by 0.96%. Private ILS funds underformed pure cat bond funds by 1.16 percentage points on annualized basis.

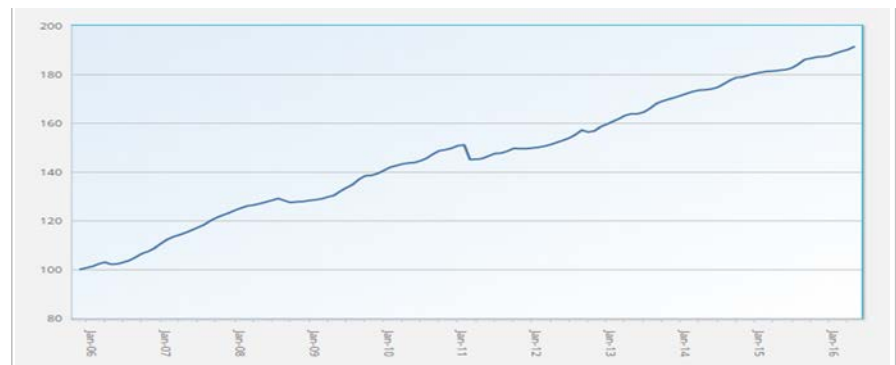
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The Eureka hedge ILS Advisers Index

The Eureka hedge ILS Advisers Index tracks the performance of the participating Insurance Linked Investment funds. It is the first benchmark that allows a comparison between different insurance-linked investment funds in the insurance-linked securities, reinsurance and catastrophe bond investment space. The index is calculated and maintained by Eureka hedge. It includes funds that allocate at least 70% of their assets to non-life risk. The index was base weighted at 100 in December 2005. It does not contain duplicate funds and is denominated in local currencies.



The Eureka hedge ILS Advisers Index is ILS Advisers and Eureka hedge's collaborative equally weighted index of 34 constituent funds. The index is designed to provide a broad measure of the performance of underlying hedge fund managers who explicitly allocate to insurance linked investments and have at least 70% of their portfolio invested in non-life risk. The index is base weighted at 100 at December 2005, does not contain duplicate funds and is denominated in local currencies.

Statistics (as at August 2017)			
Annualized Return (%)	6.15	Standard Deviation (%)	1.96
2017 Return (%)	1.83	Downside Deviation (%)	1.31
2016 Return (%)	5.18	Upside Deviation (%)	0.62
Last 3 Months (%)	0.59	Maximum Drawdown (%)	-3.94
Return Since Inception (%)	100.54	Sharpe Ratio (X)	2.11
Best Monthly Return (%)	1.60	Sortino Ratio (X)	3.17
Worst Monthly Return (%)	-3.94	Percentage of Positive Months (%)	94

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	0.36	0.32	0.23	0.15	0.19	0.40	0.57	-0.34					1.83
2016	0.21	0.54	0.40	0.40	0.04	0.26	0.41	0.86	1.03	0.42	0.31	0.16	5.18
2015	0.39	0.24	0.21	0.08	0.16	0.15	0.40	0.84	1.03	0.27	0.31	0.07	4.24
2014	0.50	0.50	0.45	0.32	0.08	0.21	0.41	0.81	0.86	0.60	0.14	0.42	5.42
2013	0.67	0.74	0.64	0.85	0.44	0.00	0.40	0.92	1.20	0.61	0.48	0.42	7.61
2012	0.18	0.19	0.32	0.43	0.58	0.57	0.61	0.94	1.18	-0.51	0.27	1.01	5.93
2011	0.70	0.18	-3.94	0.06	0.21	0.72	0.68	0.13	0.54	0.74	-0.03	-0.04	-0.14
2010	0.92	0.94	0.45	0.49	0.28	0.16	0.51	0.75	1.16	0.90	0.29	0.42	7.52
2009	0.36	0.22	0.28	0.59	0.51	1.33	1.03	1.03	1.58	1.06	0.14	0.52	8.99
2008	0.93	0.75	0.67	0.27	0.46	0.53	0.56	0.59	-0.71	-0.59	0.25	0.06	3.83
2007	1.60	1.56	0.92	0.75	0.74	0.95	0.95	0.96	1.37	1.09	0.85	0.74	13.22
2006	0.65	0.63	0.93	0.70	-0.82	0.15	0.62	0.81	1.32	1.37	0.84	1.18	8.68