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ILS Managers struggle in February but manage to grind out a positive month



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The average ILS fund was **up by 0.17% in February** as measured by the **Eurekahedge ILS Advisers Index**. The positive February numbers were achieved against continuously strong head winds from the secondary cat bond market. The cat bond market was down for the month by 0.74% as measured by the Swiss Re Cat Bond Price Index and flat for the Swiss Re Cat Bond Total Return Index (-0.03%) as coupon returns were able to compensate softening prices. Main reason for the negative price performance were again widening spreads in the secondary market as a result of the strong new issuance, which was exacerbated by the sale of USD 150mn of cat bonds by one of the managers in the secondary market. Prices in the secondary market stabilized in the second half of the month but are likely to remain volatile over the next few months as more transactions come to the market and managers continue to adjust their portfolios in order to make space for the new issues.

As expected the ILS issuance activity continued to be strong with approximately USD 1.5bn being placed year to date, which will make this the strongest first quarter ever. The deal directory on Artemis confirms the still very strong U.S. focus. From the 12 new transactions listed for 2012, ten include U.S. risks, mostly wind and only two cover Japanese risks, one earthquake and one wind and flood losses.

On the M&A front the sale of the Clariden Leu insurance-linked investment strategies team, with approximately USD 2bn under management was announced early March and ended several months of speculation about the future of the boutique. It will be interesting to see how LGT will manage the existing multimanager platform side by side with the newly acquired in-house capabilities.

Higher yields and an attractive new issuances pipeline continue to provide an attractive environment for the insurance linked investment space. The interest in the space among institutional investors continues to grow. At a recent industry conference inflows into the ILS space over the recent months were estimated as high as USD 3 to 4bn.