



Newsletter January 2014

2013 best year for ILS Funds since 2010 January renewals confirm softening trend

The average ILS fund was **up by 0.36% in December** and **7.56% for the year 2013** as measured by the **Eurekahedge ILS Advisers Index**.

Meanwhile the cat bond market was **down by 0.28% in December** for the **Swiss Re Cat Bond Price Index** and **up by 0.43%** for the **Total Return Index**.

2013 was the best year for ILS funds since 2010 and the fourth best year in the eight year's history of the Eurekahedge ILS Advisers Index. The index showed very strong performance in the first four month of the year and then again from August to October. The strong performance early in the year was due to strong inflows into the asset class while new supply of cat bonds only seriously came to the market from March. We observed the typical seasonal weakness in May in the pre-hurricane season. While June performance was impacted by the European floods. Spread widening depressed performance in July. The realization of a benign hurricane season among market participants pushed the index higher in August and September. The latter being the best month for the index in 2013 and since September 2009. The cat bond rally lost momentum in October and November which resulted in the index being driven by current yield instead of price appreciation. The coverage of the index increased over the last twelve months from 29 funds at the end of 2012 to 32 funds.

The important January 1st 2014 renewal is over. It has been one of the most challenging in recent years as rates in the traditional reinsurance market fell in almost all regions and business segments between 10% to 15%. The reason for the softening market conditions were comparatively low insured losses in 2013, strong balance sheets of reinsurance companies and the competition from the capital market as a result of the continued inflows in the asset class.

31 out of 32 funds (one fund returned its money to investors in December and was therefore removed from the index) represented in the Eurekahedge ILS Advisers Index were positive for the month. The difference between the best and the worst performing fund, was 1.27 percentage points, which was again lower than previous month's figure. Pure cat bond funds as a group were up by 0.31% while the subgroup of funds whose strategies include private ILS increased by 0.40%, reflecting the higher yield on private ILS transactions.



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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.

