



## Newsletter June 2012

### ILS funds up in June as cat bond prices keep rising on strong investor demand



**Stefan K. Kräuchi,**  
ILS Advisers

The average ILS fund was **up by 0.60% in June and 2.34% for the first six months** as measured by the **Eurekahedge ILS Advisers Index**. June was the strongest month for the index since October 2011. The performance for the H1 2012 was mainly driven by strong numbers in May and June after a rather slow start in the first four months.

The cat bond market was up in June by **1.04%** as measured by the Swiss Re Cat Bond **Price Index** and by an impressive **1.80%** in the **Total Return Index**. The reason for this was the continued strong inflow of money into the sector combined with the typical seasonal slowdown in primary market issuance. The combination of these two factors kept pushing up prices in the secondary market at a time when seasonality should actually imply falling prices. As a result the cat bond market continued its rebound that had started in mid May. Bonds issued in 2012 are trading at a premium, with indicative pricing as high as 105 cents to the dollar for some. There was just one new transaction of USD 100m announced in June for a US hurricane and Europe winter storm cover.

Out of the 29 funds represented in the Eurekahedge ILS Advisers Index, two reported a negative performance for the month. One of them reported a high single digit drawdown, which shaved off over 30bp of the performance of the Eurekahedge ILS Advisers Index. In both cases the negative performance was not related to any major event in June but was the result of upward adjustments of loss reserves for the New Zealand earthquake from February 2011 and the Japan earthquake from March 2011 respectively.

Despite a good performance in June, the Eurekahedge ILS Advisers Index was not able to match the impressive total return numbers for the cat bond market in June. The main reasons for this, besides the two special situations mentioned above and the management fees, is diversification. Most ILS fund managers whether they run a pure cat bond fund or more broadly diversified ILS funds try to build portfolios that are well diversified across different geographies and perils. The Swiss Re Cat bond index in contrast has a very strong concentration in relatively well paying US hurricane risk. Based on a recent industry report 75% of current outstanding cat bonds are exposed to US hurricane risk.



## Newsletter June 2012

### 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 securities 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.

Eureka hedge ILS Advisers Index



The Eureka hedge ILS Advisers Index is an equally weighted index of 29 constituent funds<sup>1</sup>. The index is designed to provide a broad measure of the performance of underlying hedge fund managers who exclusively allocate to insurance linked investments. The index was base weighted at 100 in December 2005, does not contain duplicate funds and is denominated in local currencies.

<sup>1</sup> As at 27 July 2012

#### Statistics (as at Jun 2012 )

Summary Data		Risk/Return	
Annualised Return (%)	6.95	Sharpe Ratio (x)	2.01
Best Monthly Return (%)	1.66	Annualised Std Deviation (%)	2.47
Worst Monthly Return (%)	-3.94	Downside Deviation (%)	1.73
2011 Return (%)	-0.30	Sortino Ratio (x)	2.86
2012 Return (%)	2.34	Maximum Drawdown (%)	-3.94
Return since Inception(%)	54.77	Percentage of Positive Mths (%)	91.03
Last 3 Months (%)	1.62		
Last 12 Months (%)	4.43		

#### Performance Table

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	0.19	0.19	0.32	0.43	0.59	0.60*	n/a	n/a	n/a	n/a	n/a	n/a	2.34
2011	0.71	-0.01	-3.94	0.06	0.22	0.72	0.68	0.13	0.54	0.74	-0.03	-0.04	-0.30
2010	0.91	0.94	0.46	0.49	0.29	0.16	0.51	0.75	1.17	0.91	0.29	0.42	7.54
2009	0.37	0.31	0.28	0.59	0.51	1.33	1.04	1.03	1.58	1.06	0.14	0.52	9.11
2008	0.96	0.77	0.68	0.28	0.47	0.53	0.56	0.59	-0.71	-0.58	0.25	0.06	3.92
2007	1.66	1.64	0.98	0.81	0.75	1.01	1.01	0.98	1.42	1.13	0.97	0.78	13.93
2006	0.69	0.67	1.02	0.77	-0.95	0.15	0.65	0.85	1.39	1.44	0.91	1.26	9.20

\* Based on 100.00% of funds which have reported Jun-2012 returns as at 27-Jul-2012