



Newsletter March 2012

ILS Funds up in March and first quarter - Wide performance dispersion



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The average ILS fund was **up by 0.39% in March and 0.78% for the first quarter** as measured by the **Eurekahedge ILS Advisers Index**. March was the strongest month for the index since October 2011.

Meanwhile the cat bond market was down for the month by -0.41% and fell to its lowest level since July 2009 as measured by the Swiss Re Cat Bond Price Index. The main reasons for the negative price performance in the secondary market were the highest amount of quarterly cat bond issuances ever and the fact that larger ILS funds were net sellers as they were taking advantage of opportunities in other market segments such as industry loss warranties and collateralized reinsurance. Additionally, the price decline starts to reflect the typical seasonal pattern at this time of the year as the US hurricane season approaches. The Swiss Re Cat Bond Total Return Index was up by +0.32% for the month as coupon returns compensated softening prices.

With almost USD 2bn of new issuances and 12 transactions, the first quarter was the strongest on record. Despite the absence of a major event, March proved to be quite challenging as managers had to select between the attractive new issuances and opportunities in other market segments while protecting their portfolios from the continuous price decline in the secondary market. As a result the monthly returns varied by almost 1.8% between the best and the worst performing fund in March.

The overall environment for investing in ILS and ILS funds remains very attractive. Reflecting the hardening market, the average yield for ILS and ILWs (Industry Loss Warranties) has increased from seven to nine percent in the first three months of this year, based on a recent industry review. More importantly, the same report shows that the uptrend in yields had been even greater than the increase in expected losses, which has led to an increase in the expected market returns (yield minus expected losses).



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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 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 27 constituent funds¹. 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.

¹ As at 26 April 2012

Statistics (as at Mar 2012)

Summary Data		Risk/Return	
Annualised Return (%)	6.98	Sharpe Ratio (x)	1.97
Best Monthly Return (%)	1.66	Annualised Std Deviation (%)	2.53
Worst Monthly Return (%)	-3.99	Downside Deviation (%)	1.79
2011 Return (%)	-0.30	Sortino Ratio (x)	2.79
2012 Return (%)	0.78	Maximum Drawdown (%)	-4.00
Return since Inception(%)	52.49	Percentage of Positive Mths (%)	90.67
Last 3 Months (%)	0.78		
Last 12 Months (%)	3.95		

Performance Table

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	0.20	0.19	0.39*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.78
2011	0.69	-0.01	-3.99	0.05	0.23	0.70	0.68	0.16	0.60	0.75	-0.02	-0.05	-0.30
2010	0.95	0.95	0.46	0.49	0.30	0.17	0.52	0.75	1.15	0.92	0.29	0.40	7.59
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 59.26% of funds which have reported Mar-2012 returns as at 26-Apr-2012