



Newsletter March 2013

Best February Performance since 2010

The average ILS fund was **up by 0.73% in February** as measured by the **Eurekahedge ILS Advisers Index**.

Meanwhile the cat bond market was **up in February by 0.60%** for the Swiss Re Cat Bond **Price Index** and **1.30%** for the **Total Return Index**.

Following a strong January, this was the best February performance for the Eurekahedge ILS Advisers Index since 2010. What also continued from January was the lack of supply in the primary cat bond market. At the same time investor demand remained strong and capacity in the traditional markets was ample. As a result of the disappointing new issuance activity, the secondary market tightened further and was *the* main driver for February's strong performance.

The primary market saw just one deal in February. It was the Caelus Re. This cat bond is providing protection against US wind and US earthquake risk for Nationwide Mutual. The issue was meant to raise USD 200m but was able to attract USD 270m although the pricing guidance was adjusted twice during the marketing phase from an initial range of 675-775 basis points (bp) to 600-675bp and eventually closed at 525bp. This just shows how desperate some of the managers are to put to work the cash they have received from existing and new investors.

At the time of this writing in late March, additional supply of cat bonds has finally started to come to the market, which should help to alleviate somewhat the imbalance of supply and investor demand. However since most of the new issuances are covering US risks diversification will remain an issue especially for funds operating under regulated fund regimes.

All 29 funds represented in the Eurekahedge ILS Advisers Index reported positive numbers for February, reflecting the developments in the ILS market described above.

Given the tight supply/demand situation and absent any large insured event, we expect another strong index performance for the month of March.



Stefan K. Kräuchi,
ILS Advisers



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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.

