



Newsletter October 2012

Hurricane Sandy spoils the party



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The average ILS fund was **down by -0.51 in October** and **up by 4.62% year-to-date** as measured by the **Eureka hedge ILS Advisers Index**.

Meanwhile the cat bond market was **down in October by -2.38%** for the Swiss Re Cat Bond **Price Index** and **-1.59%** for the **Total Return Index**.

The landfall of Hurricane Sandy spoiled an otherwise benign Atlantic Hurricane season. Most of the damage from Sandy results not from strong winds but rather from flooding, which was the result of high tide combined with full moon, which led to a historic storm surge. Since residential damage from the flood will be mostly picked up by the National Flood Insurance Program, the primary driver of the losses will be business interruptions. Since Sandy made landfall just before October month end it will take more than one month until the full impact will be reflected in the index performance. The fall in the Swiss Re Cat Bond Indices was mainly a mark-to-market reaction as a result of the uncertainty with respect to the full damage and its impact on certain cat bonds.

Before the industry focus shifted to Sandy, three new issues were marketed. Swiss Re came to the market with its second Mythen cat bond which is an innovation as it combines property catastrophe with mortality risk. The French reinsurer Scor launched a cat bond where one tranche covers US wind and earthquake and the other European windstorm risk. A new issue by Munich Re covering US and European wind risk brought the cat bond issuance for 2012 to USD 4.94bn, the highest level since 2007.

The results for the funds in the Eureka hedge ILS Advisers Index were quite mixed for the month with a difference in the monthly reading of more than five percentage points between the best and worst performing fund. The reason being that some funds suffered greater mark-to-market losses than others depending on their exposure to the US Northeast and especially to commercial policies in that area for the reasons stated above.

Based on a first estimate from insurance industry loss aggregator PCS from late November, the insured damage from Sandy is around USD 11bn. Based on past experience however, PCS is very likely to revise its numbers upwards going forward.



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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 29 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 12 December 2012

Statistics (as at Nov 2012)

Summary Data		Risk/Return	
Annualised Return (%)	6.89	Sharpe Ratio (x)	2.00
Best Monthly Return (%)	1.66	Annualised Std Deviation (%)	2.45
Worst Monthly Return (%)	-3.94	Downside Deviation (%)	1.70
2011 Return (%)	-0.12	Sortino Ratio (x)	2.88
2012 Return (%)	4.62	Maximum Drawdown (%)	-3.94
Return since Inception(%)	58.51	Percentage of Positive Mths (%)	92.77
Last 3 Months (%)	0.69		
Last 12 Months (%)	4.55		

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	0.57	0.61	0.94	1.19	-0.51	0.02*	n/a	4.62
2011	0.71	0.18	-3.94	0.06	0.22	0.72	0.68	0.13	0.54	0.74	0.00	-0.06	-0.12
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	0.46	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 24.14% of funds which have reported Nov-2012 returns as at 12-Dec-2012