



Newsletter September 2014

Best month for ILS funds in 2014 as returns bounce back strongly

The average ILS fund was **up by 0.82% in August** as measured by the **Eurekahedge ILS Advisers Index**.

Meanwhile the cat bond market was **up by 0.67% in August** for the **Swiss Re Cat Bond Price Index** and was **up by 1.30%** for the **Total Return Index**.

A Mw 6.0 earthquake hit Napa California and caused an insured loss of around USD 250m but very limited impact for ILS funds, if any. A more severe incident was an Mw 6.1 earthquake in Yunnan Province, China, which caused at least 380 deaths and 80,000 damaged houses. However, given the low insurance penetration in China, insured losses were minimal. Another earthquake took place in Peru, Mw 7.0, with no insured losses. Two tropical storms hit Hawaii and caused insured losses of less than USD 100m. Several storms struck Japan, China and South Africa. None of them caused meaningful losses to the ILS funds.

Since we are in the middle of the US wind season, cat bond issuance activity was very quiet. The major transaction for the month was a USD 250m from Golden State Re II Ltd., covering workers compensation claims resulting from California earthquakes. The deal was upsized 66% and priced at the low end of 2.2% versus expected loss of 0.25%. At the same time the volume of ILWs (Industry Loss Warranties) decreased significantly due to the current oversupply of capital resulting in a stronger willingness of the market to sell UNL (Ultimate Net Loss) covers (less basis risk for cedants) at more attractive prices reducing demand for ILWs.

In August private ILS funds delivered above average returns driven partially by seasonality but also the fact that they can still access deals that enjoy relatively more attractive premiums than cat bonds. Also pure cat bond funds bounced back as cat bond prices in the secondary market recovered strongly. While August was the best month so far in 2014, performance for ILS funds is slightly below the historic average for the first eight months with 3.32%. It is the second lowest since inception, reflecting the softened market conditions this year. All of the 33 funds represented in the Eurekahedge ILS Advisers Index were positive for the month. The difference between the best and the worst performing fund was 2.16 percentage points, which was higher than previous month's figure. Pure cat bond funds as a group were up by 0.67% while the subgroup of funds whose strategies include private ILS increased by 0.98%.



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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.



The Eureka hedge ILS Advisers Index is ILS Advisers and Eureka hedge's collaborative equally weighted index of 33 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 is base weighted at 100 at December 2005, does not contain duplicate funds and is denominated in local currencies.

¹ As at 30 September 2014

Statistics (as at Aug 2014)

Summary Data		Risk/Return	
Annualised Return (%)	6.75	Sharpe Ratio (x)	2.17
Best Monthly Return (%)	1.60	Annualised Std Deviation (%)	2.18
Worst Monthly Return (%)	-3.94	Downside Deviation (%)	1.51
2013 Return (%)	7.61	Sortino Ratio (x)	3.14
2014 Return (%)	3.32	Maximum Drawdown (%)	-3.94
Return since Inception (%)	76.07	Percentage of Positive Mths (%)	92.31
Last 3 Months (%)	1.43		
Last 12 Months (%)	6.14		

Performance Table

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	0.50	0.50	0.45	0.32	0.08	0.21	0.40	0.82*	n/a	n/a	n/a	n/a	3.32
2013	0.67	0.74	0.64	0.85	0.44	-0.00	0.40	0.92	1.20	0.61	0.48	0.42	7.61
2012	0.18	0.19	0.32	0.43	0.58	0.57	0.61	0.94	1.18	-0.51	0.27	1.01	5.93
2011	0.70	0.18	-3.94	0.06	0.21	0.72	0.68	0.13	0.54	0.74	-0.03	-0.04	-0.14
2010	0.92	0.94	0.45	0.49	0.28	0.16	0.51	0.75	1.16	0.90	0.29	0.42	7.52
2009	0.36	0.22	0.28	0.59	0.51	1.33	1.03	1.03	1.58	1.06	0.14	0.52	8.99
2008	0.93	0.75	0.67	0.27	0.46	0.53	0.56	0.59	-0.71	-0.59	0.25	0.06	3.83
2007	1.60	1.56	0.92	0.75	0.74	0.95	0.95	0.96	1.37	1.09	0.85	0.74	13.22
2006	0.65	0.63	0.93	0.70	-0.82	0.15	0.62	0.81	1.32	1.37	0.84	1.18	8.68

* Based on 100.00% of funds which have reported Aug-2014 returns as at 30-Sep-2014