



Newsletter September 2012

Sweet September - Excellent Month for ILS Funds Across the Board



Stefan K. Kräuchi,
ILS Advisers

The average ILS fund was **up by 1.18% in September and 5.13% year-to-date** as measured by the **Eurekahedge ILS Advisers Index**. This was the strongest month for the index since September 2009.

The cat bond market was up in September by **1.25%** as measured by the Swiss Re Cat Bond **Price Index** and by **1.95%** in the **Total Return Index**.

Performance in the ILS market continued to be driven by positive market impact of the recovery which we have observed since June. In particular the secondary market prices for cat bonds exposed to US windstorm showed strong increases during the month of September, which marked the peak of a so far benign hurricane season.

During the month a new cat bond covering European wind with a volume of EUR 100m was closed and an issue covering earthquake and wind-storm in Mexico with a volume of USD 315m came to the market. Both issues were oversubscribed. The bond covering European wind risk was placed at a spread to Euribor that marked a historical low for this level of expected loss. While this example shows the pressure on ILS pricing, it is important to keep in mind, that pricing pressure on cat bonds does not automatically indicate a similar pressure on private transaction pricing. This means that in the current environment funds which are flexible in terms of investment instruments might find more attractive investment opportunities than the ones restrained to cat bonds.

All funds in the Eurekahedge ILS Advisers Index reported positive performances for September. While most index constituents achieved very strong numbers, the top performers were the funds with the highest allocations to US wind risk due to the seasonal factor explained above.

Strong investor demand combined with a continuation of the favorable hurricane season will lead to further increases in prices of the majority of cat bonds. This in return will continue to support the performance of ILS Funds. Absent any major event in October we expect another good month for the asset class but probably not quite as strong as September, which historically is the best month for the Eurekahedge ILS Advisers Index.

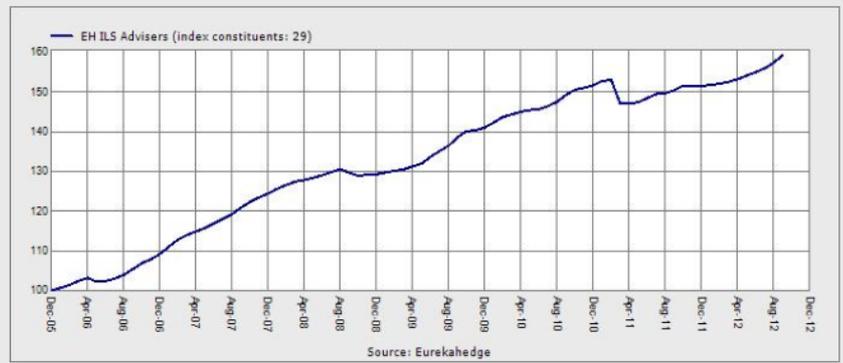


Newsletter September 2012

The Eurekahedge ILS Advisers Index

The Eurekahedge 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 Eurekahedge. 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.

Eurekahedge ILS Advisers Index



The Eurekahedge 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 19 October 2012

Statistics (as at Sep 2012)

Summary Data		Risk/Return	
Annualised Return (%)	7.14	Sharpe Ratio (x)	2.11
Best Monthly Return (%)	1.66	Annualised Std Deviation (%)	2.43
Worst Monthly Return (%)	-3.94	Downside Deviation (%)	1.70
2011 Return (%)	-0.12	Sortino Ratio (x)	3.02
2012 Return (%)	5.13	Maximum Drawdown (%)	-3.94
Return since Inception(%)	59.28	Percentage of Positive Mths (%)	92.59
Last 3 Months (%)	2.75		
Last 12 Months (%)	5.84		

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	1.18*	n/a	n/a	n/a	5.13
2011	0.71	0.18	-3.94	0.06	0.22	0.72	0.68	0.13	0.54	0.74	-0.03	-0.04	-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	0.47	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 86.21% of funds which have reported Sep-2012 returns as at 19-Oct-2012