



Newsletter February 2018

Largest cat bond issue since 2014 Cat bond price improvement continued

The average ILS fund was **up by 0.56% in January** as measured by the **Eurekahedge ILS Advisers Index**.



Stefan K. Kräuchi,
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At the beginning of January, extratropical cyclone Burglind (Eleanor in the UK and Ireland) hit Northern Europe and Benelux countries. It brought strong wind and flooding and caused severe damages. The PERILS estimates the industry losses to be EUR 643m. Later on, a more powerful windstorm Friederike struck British Isles, Belgium, the Netherlands and Germany on January 17th and 18th. The latest estimated insured losses were over EUR 1.4bn. Flooding and mudslides struck California and cost 17 lives and hundreds of million dollars. This event, however, could add to the losses of previous wildfires if they are defined as a “proximate cause” by burning down plants that hold up the land. Heavy rainfall caused flooding in the Seine in Paris and the Île-de-France region. Insured losses were estimated to be EUR 1.4bn.



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ILS Advisers

In January, World Bank issued a series of cat bonds with parametric triggers to provide earthquake protection to Peru, Mexico, Colombia and Chile. Given the merit of diversification, they received huge investor interest and were upsized to USD 1.36bn finally, the largest issue since 2014. Prices were also set to the lower band of price guidance. On the secondary market, because the likelihood of payout reduced as the losses became clearer, some aggregate bonds that have been trading at discount are now showing price pick-ups. The reset feature also allows some cat bond exposures back to normal level. As a result, the total return was up 1.35% while the price was up 0.83% (Swiss Re Cat Bond Indices). On the private ILS side, quite a number of funds set up side pockets at the yearend due to previous events. Some funds selected to only report the performance of main shares to third party database. Although new investors will not be impact by previous events, the performance data reported could exclude potential fluctuation in side pockets.

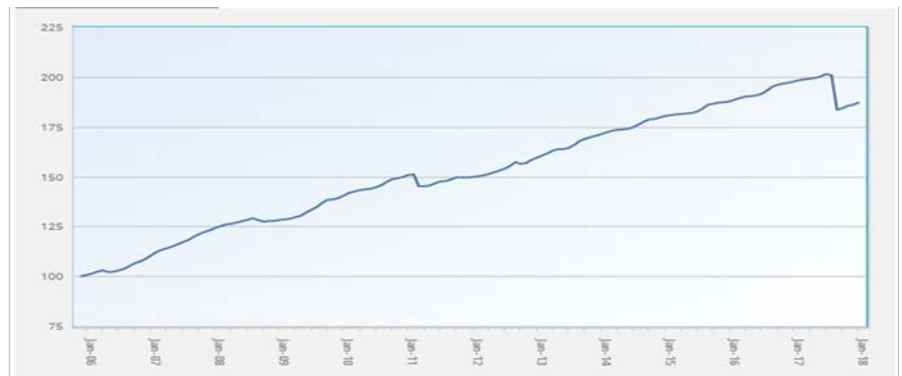
27 of the 32 funds represented in the Eurekahedge ILS Advisers Index were positive for the month. The difference between the best and the worst performing fund was 3.19 percentage points, which was lower than previous month's figure. Pure cat bond funds as a group were up by 1.00% while the subgroup of funds whose strategies include private ILS increased by 0.21%. Private ILS funds underperformed pure cat bond funds by 10.10 percentage points on annualized basis year-to-date.



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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 32 constituent funds. The index is designed to provide a broad measure of the performance of underlying hedge fund managers who explicitly allocate to insurance linked investments and have at least 70% of their portfolio invested in non-life risk. The index is base weighted at 100 at December 2005, does not contain duplicate funds and is denominated in local currencies.

| (as at January 2018) | | | |
|----------------------------|-------|-----------------------------------|-------|
| Annualized Return (%) | 5.32 | Standard Deviation (%) | 3.25 |
| 2018 Return (%) | 0.56 | Downside Deviation (%) | 2.83 |
| 2017 Return (%) | -5.59 | Upside Deviation (%) | 0.64 |
| Last 3 Months (%) | 1.53 | Maximum Drawdown (%) | -8.90 |
| Return Since Inception (%) | 87.03 | Sharpe Ratio (X) | 1.02 |
| Best Monthly Return (%) | 1.60 | Sortino Ratio (X) | 1.17 |
| Worst Monthly Return (%) | -8.61 | Percentage of Positive Months (%) | 93.10 |

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|------|------|------|-------|------|-------|------|------|-------|-------|-------|-------|-------|-------|
| 2018 | 0.56 | | | | | | | | | | | | 0.56 |
| 2017 | 0.36 | 0.32 | 0.23 | 0.15 | 0.19 | 0.40 | 0.56 | -0.31 | -8.61 | 0.43 | 0.68 | 0.28 | -5.59 |
| 2016 | 0.21 | 0.54 | 0.40 | 0.40 | 0.04 | 0.26 | 0.41 | 0.86 | 1.03 | 0.42 | 0.31 | 0.18 | 5.19 |
| 2015 | 0.39 | 0.24 | 0.21 | 0.08 | 0.16 | 0.15 | 0.40 | 0.84 | 1.03 | 0.27 | 0.31 | 0.07 | 4.24 |
| 2014 | 0.50 | 0.50 | 0.45 | 0.32 | 0.08 | 0.21 | 0.41 | 0.81 | 0.86 | 0.60 | 0.14 | 0.42 | 5.42 |
| 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 |