



Newsletter May 2018

Cat bond issuance continued to be active LAE to amplify losses of Hurricane Irma

The average ILS fund was **down by 0.28% in April** as measured by the **Eurekahedge ILS Advisers Index**.



Stefan K. Kräuchi,
ILS Advisers

In early April, the tornadoes in the U.S. were a major focus as we entered the season from April to June. These tornados are usually furious and can cause significant damages. Kenya was struck by continuing flooding, which killed 78 people and caused economic losses of USD 350m. China suffered from cold weather which damaged over 623 thousand hectares of cropland and economic losses were estimated to be USD 1.5bn. Similar weather in Canada also incurred economic losses of USD 360m and insured losses of USD 180m. Events in the month had little impact to ILS. The losses from Hurricane Irma are expected to raise due to significant increase of the Loss Adjustment Expenses (LAE).



David Yao, CFA, FRM
ILS Advisers

The primary market continued to be heated. Strong anticipation of interest rate hikes attracts investors into the asset class for increased coupons. New issuance reached USD 1.4bn for the month and over USD 7bn YTD (including early May). The outstanding volume stands well above USD 34bn. Secondary trading however is relatively quiet. LAE for hurricane Irma took up as much as 20% of total claims of Florida insurers, almost double from normal years. The short interval between Harvey and Irma caused a huge shortage of adjusters who assess claims. This led to record high expenses. Meanwhile, the Assignment of Benefits (AOB), where contractors are allowed to pursue direct payment from insurers on behalf of the insured, also magnified the losses. AOB has been legal in Florida for 100 years and is a strong incentive for contractors to exaggerate actual losses. As a result, losses pile up over time and are eventually passed on to reinsurers and ILS investors. After the 2017 events, discussions on how to curb the deterioration of such trend came up again. Hopefully based on the lessons learnt, changes might be put in place that will enable the ILS market to evolve to a new stage.

31 of the 34 funds represented in the Eurekahedge ILS Advisers Index were positive for the month. The difference between the best and the worst performing fund was 19.68 percentage points, which was higher than previous month's figure. Pure cat bond funds as a group were up by 0.25% while the subgroup of funds whose strategies include private ILS decreased by 0.66%. Private ILS funds underperformed pure cat bond funds by 5.49 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 34 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 April 2018)			
Annualized Return (%)	5.17	Standard Deviation (%)	3.23
2018 Return (%)	0.09	Downside Deviation (%)	2.81
2017 Return (%)	-5.60	Upside Deviation (%)	0.63
Last 3 Months (%)	-0.45	Maximum Drawdown (%)	-8.90
Return Since Inception (%)	86.14	Sharpe Ratio (X)	0.98
Best Monthly Return (%)	1.60	Sortino Ratio (X)	1.13
Worst Monthly Return (%)	-8.61	Percentage of Positive Months (%)	91.89

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	0.54	0.08	-0.24	-0.28									0.09
2017	0.36	0.32	0.23	0.15	0.19	0.40	0.56	-0.31	-8.61	0.40	0.68	0.27	-5.60
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