

Dear investors

As you may have heard from different media outlets, the east coast of the U.S. is facing a potential threat of landfall of the major hurricane named Florence in the coming days.

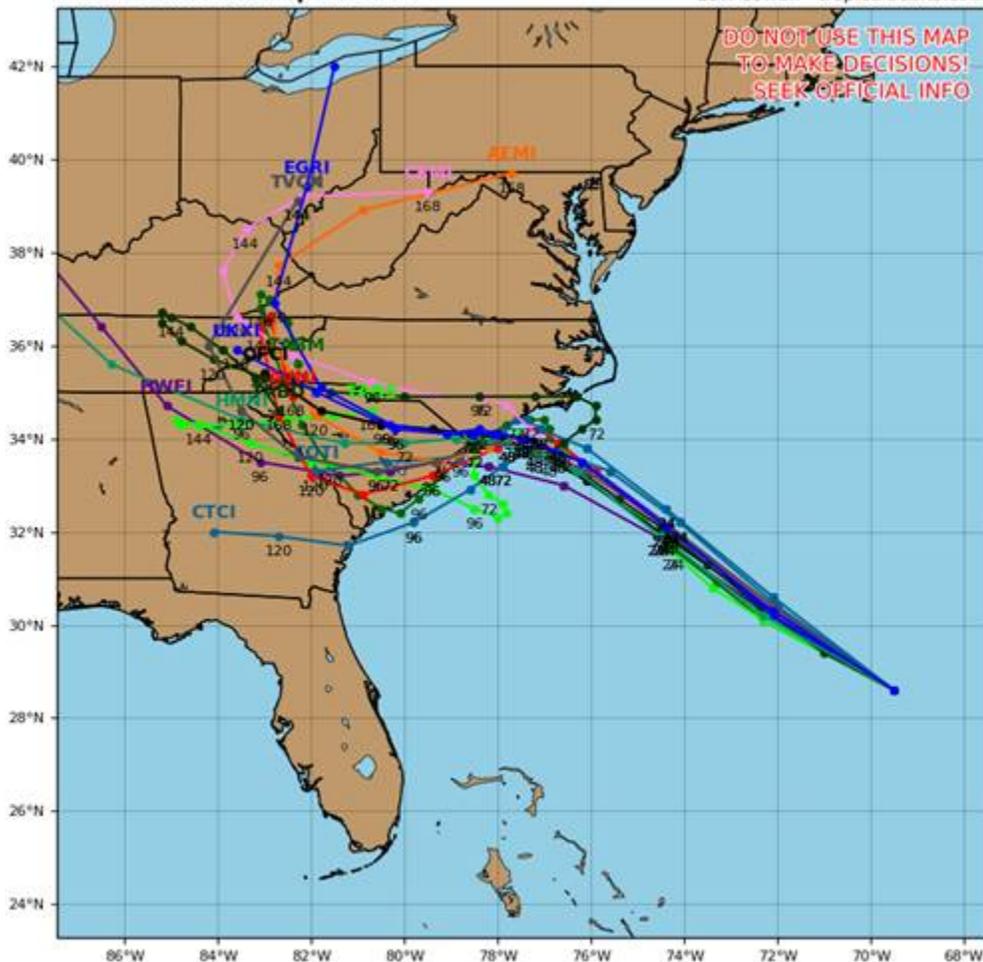
The storm is currently about 385 miles/620 KM southwest of BERMUDA and about 625 miles/1005 KM southeast of Cape Fear North CAROLINA, moving to the direction of North and South Carolina. The intensity is currently Cat 4, with maximum sustained wind speed very close to 140 mph. As the storm moves to the coast, the wind will intensify to Cat 5 and maximum sustained winds can reach 155 mph.

Timing is more difficult to predict now as many meteorologists suggest Florence will slow on approach to the coast, with a possible stalling that could exacerbate the impacts for the area it nears the shore. Catastrophe risk modeller RMS said, "Florence will be the strongest hurricane to make landfall over North Carolina since Hazel in 1954 – this would be a major event for the insurance industry. As with all hurricanes of this intensity, Florence poses significant impacts due to damaging hurricane-force winds and coastal storm surge, but inland flooding is becoming an increasing threat. Forecasts include the possibility of Florence slowing down after landfall and causing as much as 20 inches of rain in the Carolinas. While very significant, this remains much lower than the amount of rainfall observed last year during Hurricane Harvey."

### Hurricane FLORENCE Model Track Guidance

Initialized at 06z Sep 12 2018

Levi Cowan - tropicaltidbits.com



### Wind

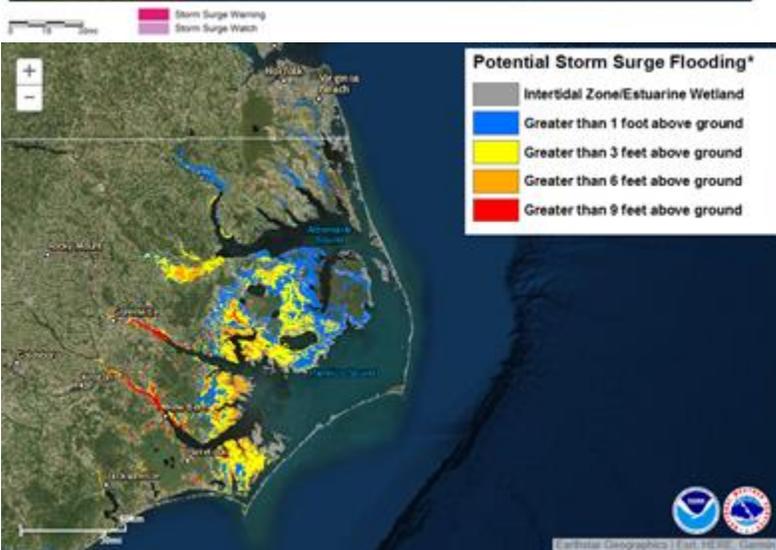
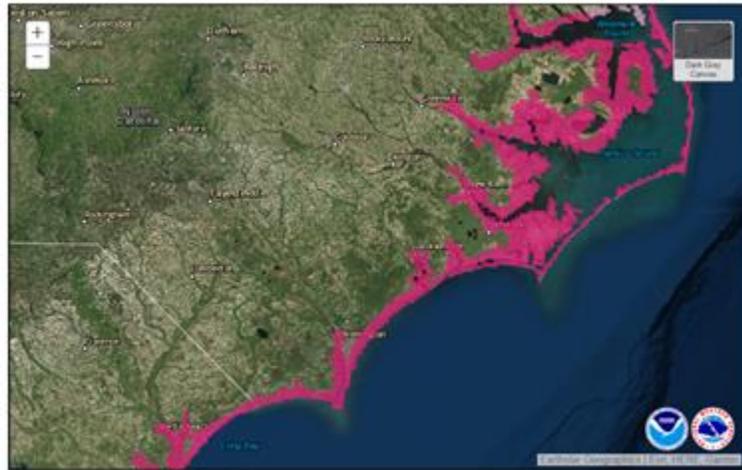
Florence is expected to make landfall as a hurricane between Cat 3 and Cat 4. The wind speed can reach 110-130 mph and central pressure is estimated 962mb. Coastal areas of South and North Carolina are very likely to brace powerful and damaging hurricane force winds. The winds can also extend the influence to more inland in Carolinas and Virginia. The power the wind is strong enough to tear up the roof of homes and knock big trees down along the coast, causing significant damages to residential and commercial buildings.



### Storm Surge

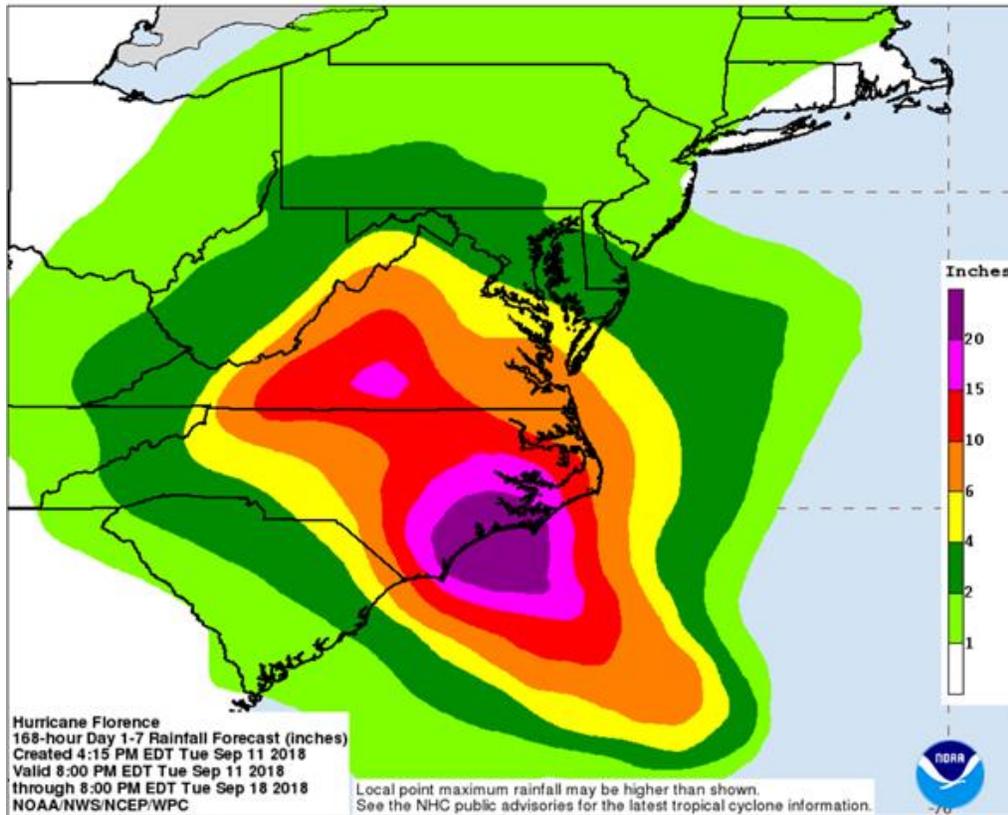
A storm surge warning has been issued by NOAA to almost the entire coastline of the North Carolina and the long bay area of South Carolina. Combined with the lunar force, storm surge will be much more intense. As a cat 3-4 hurricane during landfall, it's reasonable to expect Florence will trigger record high surge, some forecast showing the highest 13-18 feet in the case of cat 4 landfall. Two of the three historical Category 4 Carolina hurricanes generated a storm surge of 18-20 feet - Hugo (1989) and Hazel (1954). The other Cat 4 Carolina landfall was Hurricane Gracie (1959) which hit at low tide significantly reducing the coastal flooding.

Hurricane Florence  
Advisory 051 Issued: 11:00 PM AST Tue Sep 11



### Rainfall and Flooding

Florence is likely to bring significant rainfall as well. In fact, some meteorologists suggest that hurricane Florence could wobble on approach to the coast, perhaps lingering in the eventual landfall area for 48 hours, bringing torrential rains to the area and affecting a wide swathe of the North Carolina coast. NHC forecast possible 15-25 inches of rainfall along the track of Florence over some area of Carolinas. Much of the Carolinas are already too saturated to absorb more water and the coastal areas are actually not very high at all. Therefore, the inland rainfall itself combined with water brought by the storm surge could caused extensive floods to some coastal community.



### Losses

Currently it's still too early to estimate the losses Florence will cause. There are still quite many varieties of potential tracks before the landfall. The location and the magnitude of the landfall is crucial to final loss bill. The general estimates of industry losses now range from USD 8bn to USD 20bn. For ILS market, Florence is definitely the first major threat this year. Since historic losses of HIM last year, ILS market has been refilled and AUM has grown more than 10%. On the cat bond side, quite a number of cat bonds are exposed. However, whether they will be triggered or not highly depends on the wind speed and location of the landfall. Another threat cat bond face is flood loss. FEMA's FloodSmart Re cat bond that covers the NFIP's reinsurance program has the potential to be triggered if massive rainfall caused high flood loss. Meanwhile, some ILS managers who participate NFIP's reinsurance program through private placement would also be impacted. Over all, similar to last year, it's believed that private ILS bear more risk than cat bonds. Collateralized reinsurance, retrocession and quota share products will be more vulnerable since they sit closer to the risks. Some ILW products may also be triggered if the ultimate losses are USD 10bn or above.

### Potential impact on underlying funds

Some of the underlying funds do give us some estimates on their own portfolio. With the industry losses above, the potential impact of Florence ranges from single digit to up to 10% of the NAV of some underlying funds of ILS Diversified Ltd.. The estimates are preliminary and highly dependent of the final track of the hurricane. We will keep a close look as Florence approaches the shore and keep you updated on the further development.