



Newsletter April 2019

Loss creep continued to suppress ILS returns Cat bond multiples improved as rates hardened

The average ILS fund was **down by 0.12% in March** as measured by the **Eurekahedge ILS Advisers Index**.



Stefan K. Kräuchi,
ILS Advisers

In March tropical cyclone Idai struck Mozambique and other parts of southern Africa. The maximum wind speed reached 115 mph. The cyclone caused significant rainfalls, strong winds and huge storm surge. Economic losses were estimated to be over USD 1bn and a significant number of 1,100 fatalities was projected. Flooding in Missouri and Mississippi River Basins caused significant damages. Total economic losses were over USD 4bn and insured losses could amount up to USD 1bn. Windstorm Eberhard hit western and central Europe, causing damage to tens of thousands of homes and power blackout to about one million households. The event was considered to be the most expensive winter storm for 2018/19. On 10 March, a Boeing 737 MAX 8 airplane of Ethiopian Airlines crashed after taking off from Addis Ababa. The tragedy led to 157 deaths. The exact cause of the accident is still under investigation.



David Yao, CFA, FRM
ILS Advisers

In the primary market spreads kept tightening for new issuances. One major deal came from Allstate, a multiperil bond of USD 300m covering U.S. (ex-Florida) named storms, earthquake, severe weather, fire and other perils. The bond was finally priced at the upper band of initial guidance of 12.25% against an expected loss of 1.57%, making a multiple of 7.8. Another major deal of USD 300m came from State Farm to cover the peak peril U.S. earthquake. Secondary trading was very active as investors were reallocating their portfolios before the hurricane season. Some Michael and Jebi exposed cat bonds faced further markdowns, from 10% to 30% MoM. As a result, overall cat bond price return was down 0.46% while the total return was slightly up 0.06% (Swiss Re Cat Bond Indices). The outstanding cat bonds reached a new high of USD 37.86bn. Average multiples improved significantly from 2.01 to 3.8. On private ILS side, the Ethiopian Airlines crash is expected to have slight impact on specialty line of business through some aviation contracts. According to Aon, even after significant losses, total ILS assets grew by 9% to USD 97bn during 2018, accounting for over 16% of global reinsurance capital.

8 of the funds represented in the Eurekahedge ILS Advisers Index were positive for the month. The difference between the best and the worst performing fund was 1.75 percentage points, which was lower than previous month's figure. Pure cat bond funds as a group were down by 0.21% while the subgroup of funds whose strategies include private ILS decreased by 0.06%. Private ILS funds underperformed pure cat bond funds by 1.23 percentage points on an 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 31 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.

(at March 2019)			
Annualized Return (%)	4.51	Standard Deviation (%)	3.36
2019 Return (%)	0.39	Downside Deviation (%)	2.94
2018 Return (%)	-3.92	Upside Deviation (%)	0.63
Last 3 Months (%)	0.39	Maximum Drawdown (%)	-11.27
Return Since Inception (%)	79.37	Sharpe Ratio (X)	0.75
Best Monthly Return (%)	1.60	Sortino Ratio (X)	0.85
Worst Monthly Return (%)	-8.61	Percentage of Positive Months (%)	88.68

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	0.52	-0.01	-0.12										0.39
2018	0.54	0.08	-0.24	-0.28	0.19	0.27	0.61	0.45	-0.08	-0.81	-3.68	-0.97	-3.92
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