



## Newsletter January 2019

### Above average insured losses in 2018 Loss and capital trapping support rate rise

The average ILS fund was **down by 0.97% in December** as measured by the **Eurekahedge ILS Advisers Index**.



**Stefan K. Kräuchi,**  
ILS Advisers

December was relatively quiet regarding natural disasters. Significant hail struck Sydney region, Australia and incurred insured losses of USD 485m, which is expected to rise. Volcano activity increased during the month. Indonesia's Anak Krakatau erupted and the resulting landslides under water caused a fatal tsunami that killed 437 and led to economic losses of millions of dollars. Central and Southern United States encountered damaging powerful winter storms that caused insured losses of USD 200m. Annual global insured losses in 2018 are currently estimated at over USD 90bn, 25% more than the 12 year average of USD 71.9bn. Tropical cyclone was the top peril costing USD 29.09bn. Second worst was severe weather, costing USD 21.75bn. Wildfires ranks 3rd place and cost USD 18.27bn for the year. The two consecutive catastrophic years have significant impact to ILS market and leave historical losses to ILS funds.



**David Yao, CFA, FRM**  
ILS Advisers

With regards to new issuance, a number of small sized bonds coming to the market, totalled about USD 300m. Total new issuance of USD 13.85bn makes 2018 the most productive year in terms of risk transferring. The outstanding volume of cat bonds also reached a record high of USD 37.83bn. On secondary market, price pressure extended towards year end. Cat bond price was down by 1.15% while the total return was reduced by 0.60% (Swiss Re Cat Bond Indices). For the full year, cat bonds delivered total return of 2.53%, less than the 17 year average of 7.37%. The private ILS was under more pressure with a full year loss of 6.15%. Some ILS funds have set up side pockets to allow trapped collateral to develop without impacting new investors. Broker JLT estimates that up to USD 20bn or 20% of ILS assets will be trapped at 2019 January renewal. 10%-25% rate increase is expected for loss affected and retrocession contracts, as some discipline seems to return to the market. We can expect improvement on April and June renewal as well.

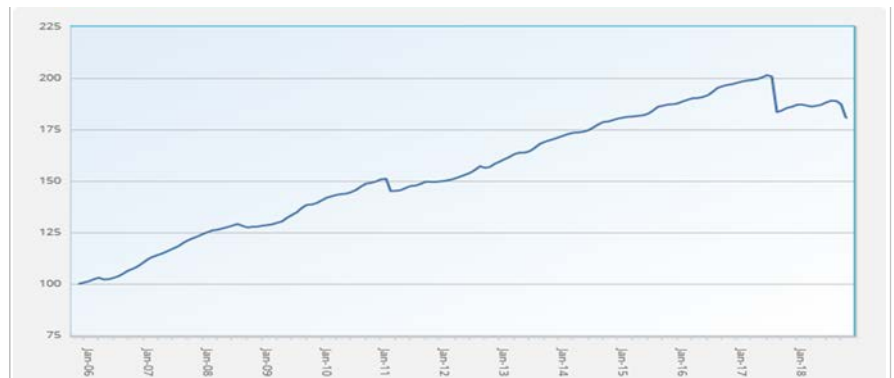
7 of the 33 funds represented in the Eurekahedge ILS Advisers Index was positive for the month. The difference between the best and the worst performing fund was 13.81 percentage points, which was lower than previous month's figure. Pure cat bond funds as a group were down by 0.40% while the subgroup of funds whose strategies include private ILS decreased by 1.39%. Private ILS funds underperformed pure cat bond funds by 8.43 percentage points on annualized basis year-to-date.



## Newsletter January 2019

### 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 33 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 December 2018)			
Annualized Return (%)	4.58	Standard Deviation (%)	3.38
2018 Return (%)	-3.92	Downside Deviation (%)	2.96
2017 Return (%)	-5.60	Upside Deviation (%)	0.64
Last 3 Months (%)	-5.46	Maximum Drawdown (%)	-11.27
Return Since Inception (%)	79.72	Sharpe Ratio (X)	0.76
Best Monthly Return (%)	1.60	Sortino Ratio (X)	0.87
Worst Monthly Return (%)	-8.61	Percentage of Positive Months (%)	89.81

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
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