



Newsletter June 2019

Peru earthquake led to cat bond payout Cat bond secondary market under pressure

The average ILS fund was **down by 1.13% in May** as measured by the **Eurekahedge ILS Advisers Index**.



Stefan K. Kräuchi,
ILS Advisers

Severe weather in the U.S. continued. It was another record breaking May, mainly across the Great Plains in the middle and eastern part of the U.S., causing economic losses of nearly USD 2bn. India and Bangladesh were struck by Cyclone Fani. The cyclone made landfall in the state of Odisha as a Cat 4 and reached an average wind speed of 115 mph. The storm finally killed 89 people, destroyed thousands of buildings and led to economic losses of billion dollars. Insured losses were estimated to be USD 500m. China suffered from severe flooding that cost up to USD 165m. 1.3m acres were burnt down by wildfires in Canada as of end of May. Economic losses of over USD 100m were expected. The most intense M8.0 earth-quake in past 12 years struck Peru. Luckily the area is sparsely populated and little losses were incurred.



David Yao, CFA, FRM
ILS Advisers

In the primary market, the biggest deal was a USD 316m bond covering mortgage risk in the MGIC Investment Corporation. Another major issuance came from SCOR Global P&C SE, a USD 250m bond to cover the U.S. named storm, U.S. and Canada earthquake and European wind-storm. The bond pays between 11.75% to 12%, against an expected loss of 5.46%, a multiple above 2. The cat bond market experienced some turmoil due to further loss creep of typhoon Jebi. Some of the bonds dropped as much as 90%. One IBRD bond was expected to pay out 30% of the principal due to Peru quake. Cat bond price return was down by 1.47% while the total return dropped by 1.18% (Swiss Re Cat Bond Indices), bringing the YTD performance down to -0.41%. The secondary market fell also because investors traded existing bonds for newly issued bonds which now pay higher coupons. On the private ILS side, loss creep caused some fund side pockets to decrease further in value, although main shares still enjoy positive premium payment. The mid-year renewal is coming to completion. Some sources estimated 10%-30% rate increase on loss affected Florida contracts while the loss free contracts would remain flat to as much as 10% increase.

5 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 19.74 percentage points, which was higher than previous month's figure. Pure cat bond funds as a group were down by 0.86% while the subgroup of funds whose strategies include private ILS decreased by 1.33%. Private ILS funds underperformed pure cat bond funds by 2.81 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 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 May 2019)			
Annualized Return (%)	4.31	Standard Deviation (%)	3.38
2019 Return (%)	-1.39	Downside Deviation (%)	2.94
2018 Return (%)	-3.92	Upside Deviation (%)	0.63
Last 3 Months (%)	-1.89	Maximum Drawdown (%)	-12.50
Return Since Inception (%)	76.20	Sharpe Ratio (X)	0.69
Best Monthly Return (%)	1.60	Sortino Ratio (X)	0.79
Worst Monthly Return (%)	-8.61	Percentage of Positive Months (%)	87.65

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	0.52	-0.01	-0.08	-0.69	-1.13								-1.39
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