



Newsletter March 2019

First terrorism cat bond brought to market Rate increase in Japanese renewals

The average ILS fund was **down by 0.05% in February** as measured by the **Eurekahedge ILS Advisers Index**.



Stefan K. Kräuchi,
ILS Advisers

February was relatively quiet in terms of natural disasters. Widespread flooding hit western Queensland in the mid of February. More than 22 thousand claims were filed and insured losses were estimated to be over USD 635m. California was struck by strong winter storm that led to heavy rain and flooding. More than 2,000 homes were damaged. Total economic losses of USD 250m and insured losses of USD 100m were estimated to incur. Central and Eastern US experienced severe weather that brought tornados, hail and floods. Insured losses could reach hundreds of million dollars. Latin America experienced two strong earthquakes, M 6.6 in Mexico and M 7.5 in the border of Ecuador and Peru. Fortunately both resulted in little damage. Events during the month didn't have material impact to ILS but loss creep remained a concern. Insured loss of Japanese typhoon Jebi is now estimated to be around USD 12.5bn. Claims of Hurricane Michael went up by 10% to USD 6bn according to FLOIR.



David Yao, CFA, FRM
ILS Advisers

On the primary market, the UK government backed facility Pool Re came to the market with an issuance of GBP 75m to cover terrorism risk. The expected loss was 2.71% and the coupon was finally set at 5.9%, at the top end of the initial guidance. The diversifying benefits of the first terrorism cat bond made it attractive to investors. Another major transaction was upsized to USD 450m, covering North Carolina named storm & severe thunderstorm. On the secondary market, loss creep from Jebi pulled down the prices of some bonds. Particularly, a Japanese wind covering bond was down by around 40%. As a result, cat bond price was down 0.56% and the total return was down by 0.07% (Swiss Re Cat Bond Indices). Subrogation related to 2017 and 2018 California Wildfires gave some relief to investors for potential recovery of some claims. After two year significant losses, retro manager Catco is set for orderly run-off of its flagship Reinsurance Opportunities Fund, upon investors' almost unanimous approval. Early estimates for Japanese renewal indicated a 25% rate increase for lower loss affected wind layers and 5-10% for higher layers. Overall 8-10% rate increase is anticipated.

16 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 2.14 percentage points, which was lower than previous month's figure. Pure cat bond funds as a group were down by 0.02% while the subgroup of funds whose strategies include private ILS decreased by 0.07%. Private ILS funds underperformed pure cat bond funds by 2.96 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 February 2019)

Annualized Return (%)	4.54	Standard Deviation (%)	3.37
2019 Return (%)	0.47	Downside Deviation (%)	2.94
2018 Return (%)	-3.92	Upside Deviation (%)	0.63
Last 3 Months (%)	-0.50	Maximum Drawdown (%)	-11.27
Return Since Inception (%)	79.52	Sharpe Ratio (X)	0.75
Best Monthly Return (%)	1.60	Sortino Ratio (X)	0.86
Worst Monthly Return (%)	-8.61	Percentage of Positive Months (%)	89.31

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	0.51	-0.05											0.47
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