

Raising Capital and the Outlook for Insurance Linked Securities

Luca Albertini
Chief Executive Officer
Leadenhall Capital Partners

ABI 2009 Economics and Research Conference

London, 27th March 2009

Important Information

General information:

This presentation does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or purchase, any investment, nor shall it or the fact of its distribution or communication form the basis of, or be relied on in connection with, any contract therefor. Applications for an investment in a fund pursuing one of the Strategies (the "Investment") can only be made at the relevant time on the basis of the offering documents available. Any person subscribing for an Investment must be able to bear the risks involved and must meet the suitability requirements relating to such Investments. Some or all alternative investment programmes may not be suitable for certain investors.

The information and opinions contained in this presentation are for background purposes only, do not purport to be full or complete, and do not constitute investment advice, arranging deals in investments or making arrangements with a view to transactions in investments.

The indicative terms and other information included in this presentation are provided for discussion purposes and are subject to completion or amendment. Certain information included in this presentation is based on information obtained from sources considered to be reliable. However, any projections or analyses provided to assist the recipient of this presentation in evaluating the matters described herein may be based on subjective assessments and assumptions and may use one among alternative methodologies that produce different results. Accordingly, any projections or analyses should not be viewed as factual and should not be relied upon as an accurate prediction of future results. Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the investments represented do not represent actual investments, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity or market disruptions. Simulated investments in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any investment will or is likely to achieve profits or losses similar to those shown. No reliance may be placed for any purpose on the information and opinions contained in this presentation or their accuracy or completeness. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this presentation by Leadenhall or any of its members, officers or employees and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions.

No representation is being made by the inclusion of the investment examples and strategies presented herein that the Strategies will achieve performance similar to the investment examples and strategies herein or avoid losses. There can be no assurance that the investment examples and specific strategies described herein will meet their objectives generally, or avoid losses. Past performance is not a reliable indicator of future results. An Investment involves a significant degree of risk. Potential investors must familiarize themselves with the offering documentation and similar materials and must meet certain eligibility requirements in order to make such investment and must be able to fully absorb the risks associated with such investment. The offering documentation and related materials will be made available in due course to those persons eligible for participation who demonstrate the capacity to evaluate the risks and merits of such investment.

Communication of this presentation by Leadenhall:

Leadenhall is authorised and regulated by the Financial Services Authority of the United Kingdom. This presentation constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (the "Act") and the handbook of rules and guidance issued from time-to-time by the Financial Services Authority of the United Kingdom ("FSA Rules"). This presentation refers to the Funds, which are unrecognised collective investment schemes for the purposes of Section 235 of the Act, the promotion of which is restricted by law. This presentation is being issued inside and outside the United Kingdom to and/or is directed at persons who are Professional Clients or Eligible Counterparties for the purposes of the FSA Rules. The investments and investment services to which this presentation relates are only available to such persons and other persons must not act or rely on it. This document is exempt from the restrictions in Sections 238 of the Act on the communication of invitations or inducements to participate in unregulated collective investment schemes on the grounds that it is being issued only to the types of person referred to above. Recipients of this document who intend to apply for Shares are reminded that any such application may be made solely on the basis of the information and opinions contained in the relevant offering documentation when available, which may be different from the information and opinions contained in this document. Prospective investors should inform themselves and take appropriate advice as to any applicable legal requirements and any applicable taxation and exchange control regulations in the countries of their citizenship, residence or domicile which might be relevant to the subscription, purchase, holding, exchange, redemption, disposal or taxation of any investments. This document is not intended to constitute, and should not be construed as, investment advice. Potential investors in the Funds should seek their own independent financial and tax advice. Leadenhall neither provides investment advice to, nor receives and transmits orders from, investors in the Funds nor does it carry on any other activities with or for such investors that constitute "MiFID or equivalent third country business" for the purposes of the FSA Rules.

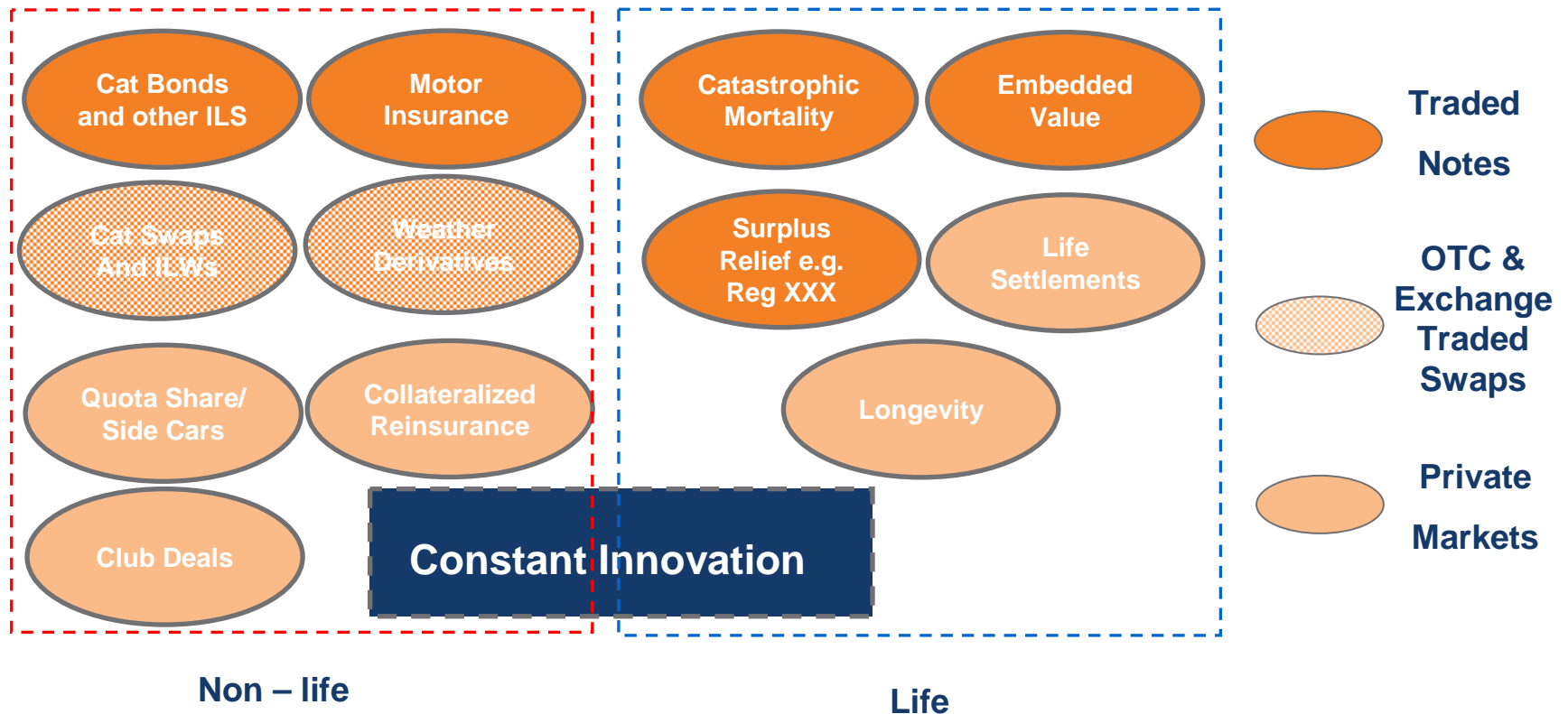
Notice:

Acquiring Shares may expose an investor to a significant risk of losing all of the amount invested. Any person who is in any doubt about investing in the Funds should consult an authorised person specialising in advising on such investments. The material contained in this presentation is based upon proprietary information and is provided purely for reference and as such is confidential and intended for private use only. The text and statistical data or any portion thereof contained in this presentation may not be stored in a computer, published, rewritten for broadcast or publication or redistributed in any medium, except with the express written permission of Leadenhall. Leadenhall will not be liable for any inaccuracies, errors or omissions in the material or in the transmission or delivery of all or any part thereof or for any damage arising from any of the foregoing.

I. The insurance Linked Securities Market

The Insurance Linked Investments Market

- Many instruments are being used to transfer insurance linked risk to the capital markets
- We believe all instruments have a role in a reinsurance/retrocession and portfolio strategy to ensure liquidity, profitability and growth



Insurance Linked Securities – Key Sponsor Motivations

- ***Diversification of credit exposure:***
 - Collateral posted for full limit (stricter criteria in recent transactions)
 - Credit assessment most important for 1% expected losses (or lower) due to severity of covered event
 - With 1 year CDS of the larger reinsurers currently being mostly above 1% (and in some cases by several percentage points) counterparty credit risk assessment is of growing relevance

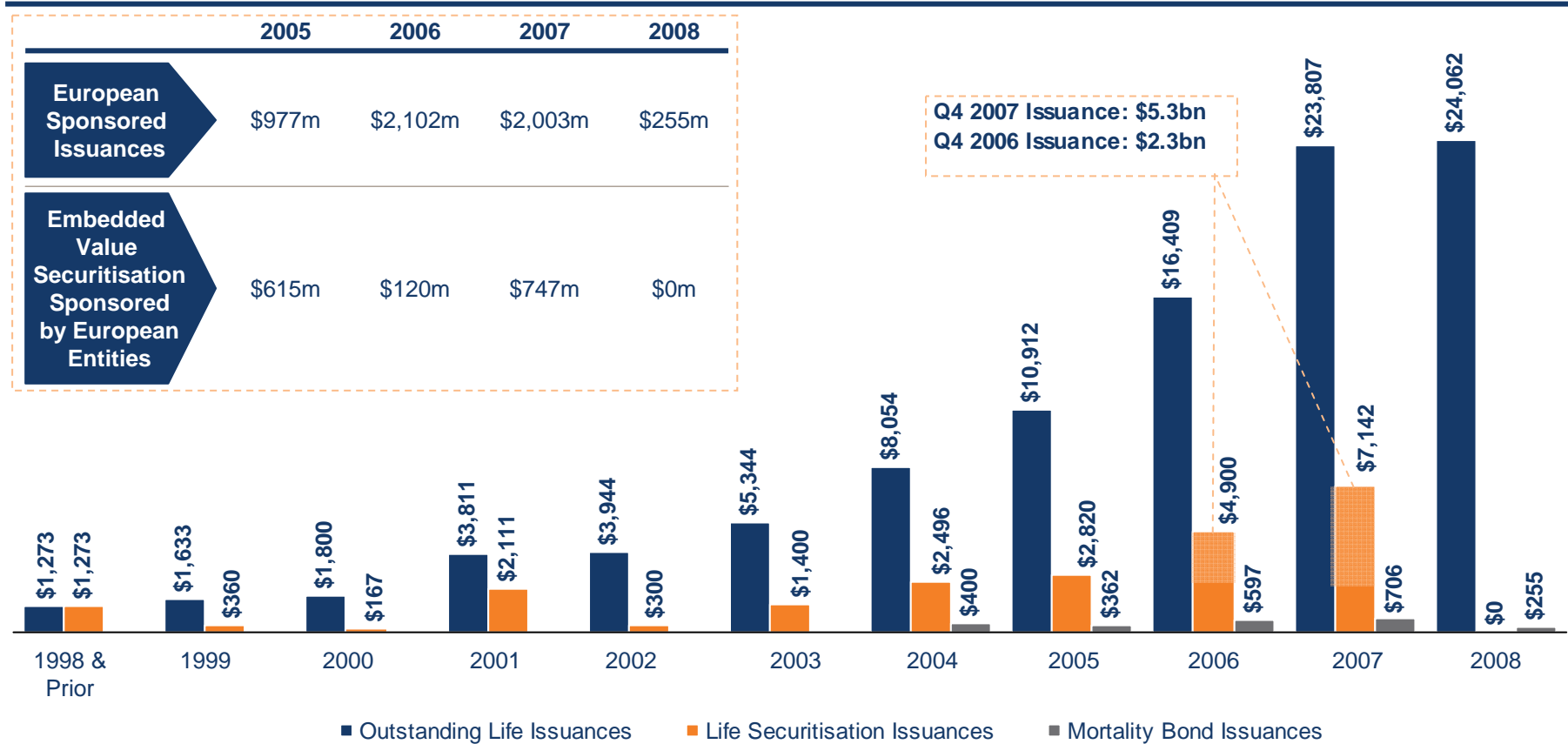
- ***Multi-Year protection:***
 - Lock in capacity and price
 - Ensure not all cover (and capital relief) expires in same period

- ***Diversification of capacity providers / access to additional capacity***
 - Capital markets has proven (post 9-11 and post Katrina) to be able to provide sizeable capacity via cat bonds and other markets
 - Capital markets have been less accessible in current financial turmoil
 - Traditional retrocession market has been difficult and unreliable for some time
 - Lesson learned: ability to access both the reinsurance and capital markets is key to ensure access to capacity in distressed times

- ***Data and claim process (non indemnity transactions)***
 - Some transactions are structured on the basis of industry losses or other parameters independent from claims experience of protection buyers
 - Such transactions require minimum data disclosure about the protection buyer to the market
 - Claim process is fast (normally between three to 6 months) and objective

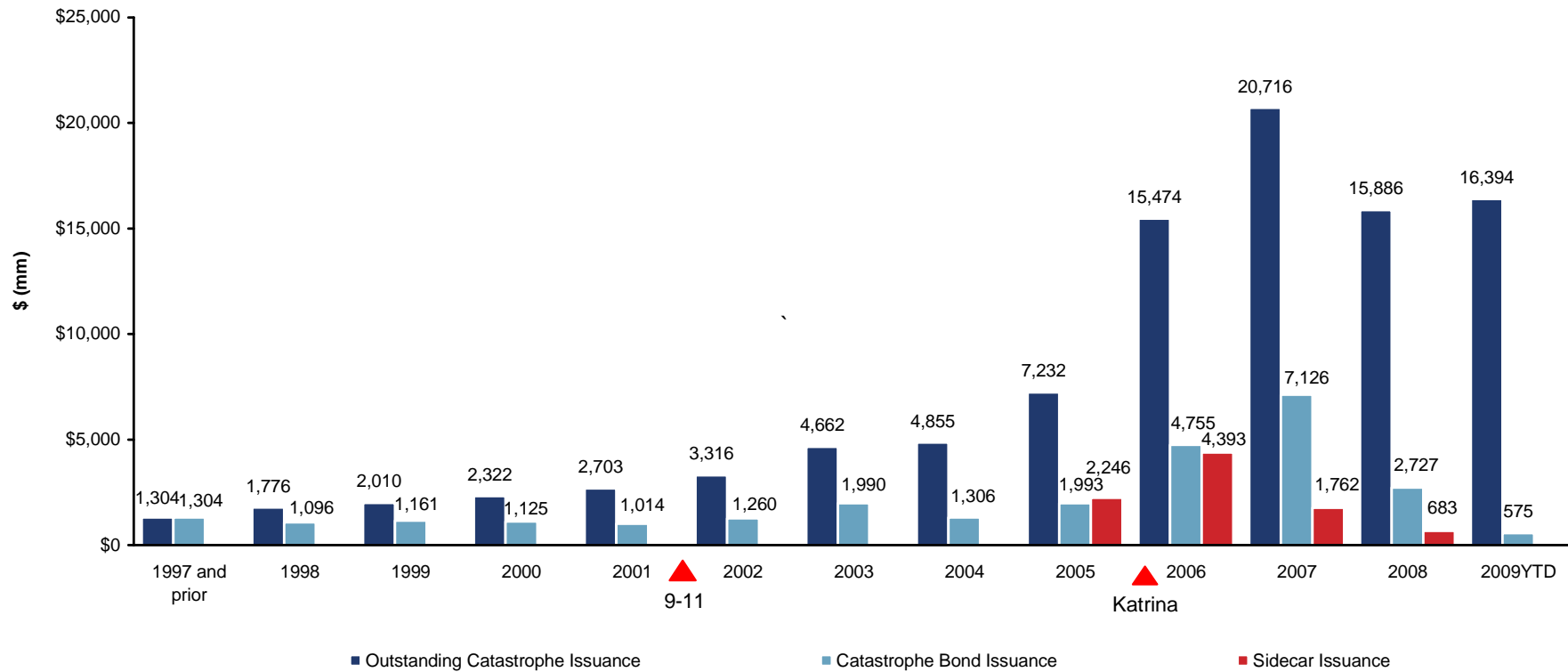
Life-Linked Market Overview

Total Life Transactions (\$m)



Source: Goldman Sachs, 2008

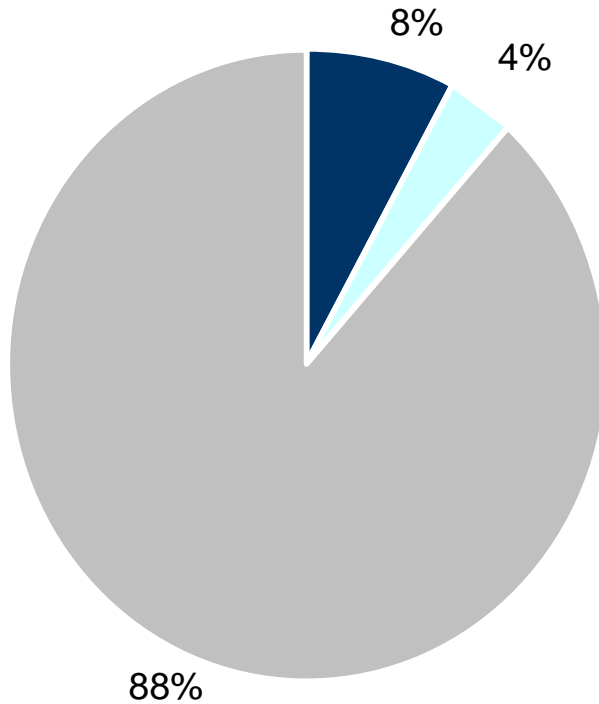
Catastrophe-Linked Market Overview



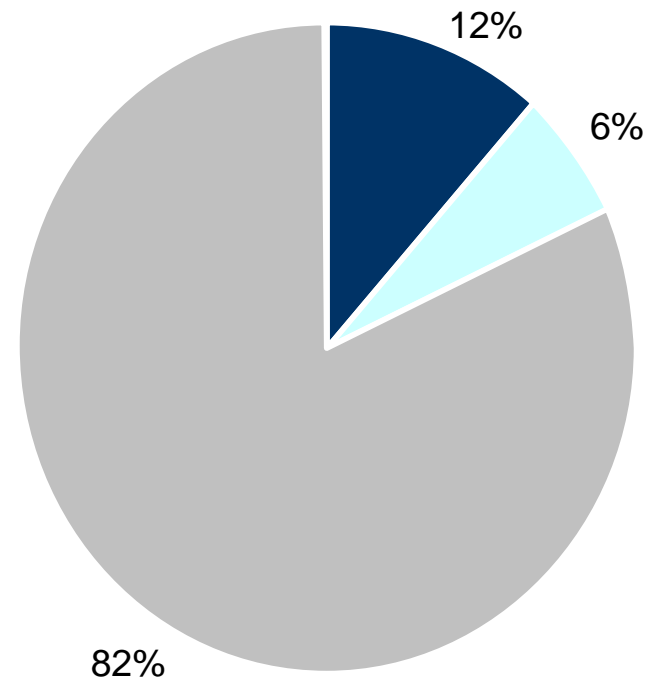
Source: Goldman Sachs, March 2009

Traditional and Non-Traditional Markets

Global Property Limits: \$169 B



U.S. Only Property Limits: \$81 B



 Catastrophe Bonds  Industry Loss Warranties  Traditional Reinsurance Limit

- Source: Estimated reinsurance and ILW limits sourced from Guy Carpenter & Company, LLC (2008)
Cat bond limits from Guy Carpenter Securities Proprietary Database (2008)
- Note: Chart does not differentiate traditional reinsurance limits and sidecar capacity

Market Conditions and Impact on ILS

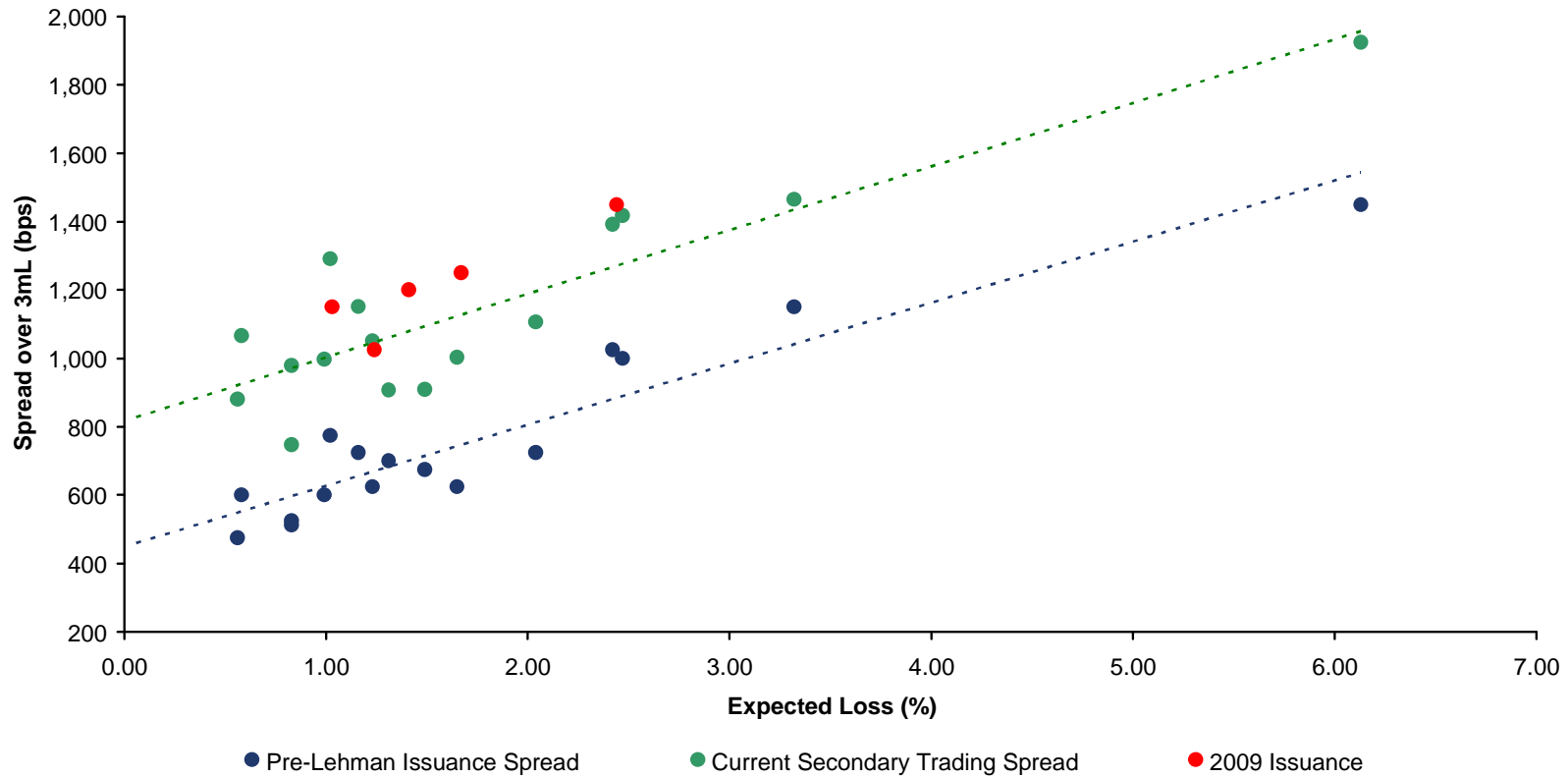
Impact on Issuance

- *Non Life* ILS issuance has been partially affected by the market turmoil:
 - Healthy primary market till summer 2008 (traditionally securitisation market at the time has been closed to new issuance for some time)
 - Market turmoil (accelerated by the Lehman collapse) pushed mostly non specialised investors to sell their ILS holdings, with secondary market volumes being larger than primary market
 - Secondary market oversupply caused increase in ILS spreads, which put off any new issuance in diversifying perils (such as Eurowind and Japanese perils) for the remainder of 2008
 - Q1 2009 issuance started again with a focus on higher risk layers, which was met with healthy investor reception, which –alongside a lower supply of secondary market paper- points to a market recovery at least for US perils

- *Life* insurance securitisation have been partially affected:
 - Such transactions targeted mainly general securitisation investors as the un-leveraged return of most life ILS paper is too tight for specialised investors
 - Monolines are no longer available to credibly support this market
 - EV securitisations have a greater component of market and credit risk embedded in their risk profile
 - ILS funds (with leverage) currently with not sufficient capacity to support new primary ILS issuance

Market Conditions and Impact on ILS

Impact on Pricing



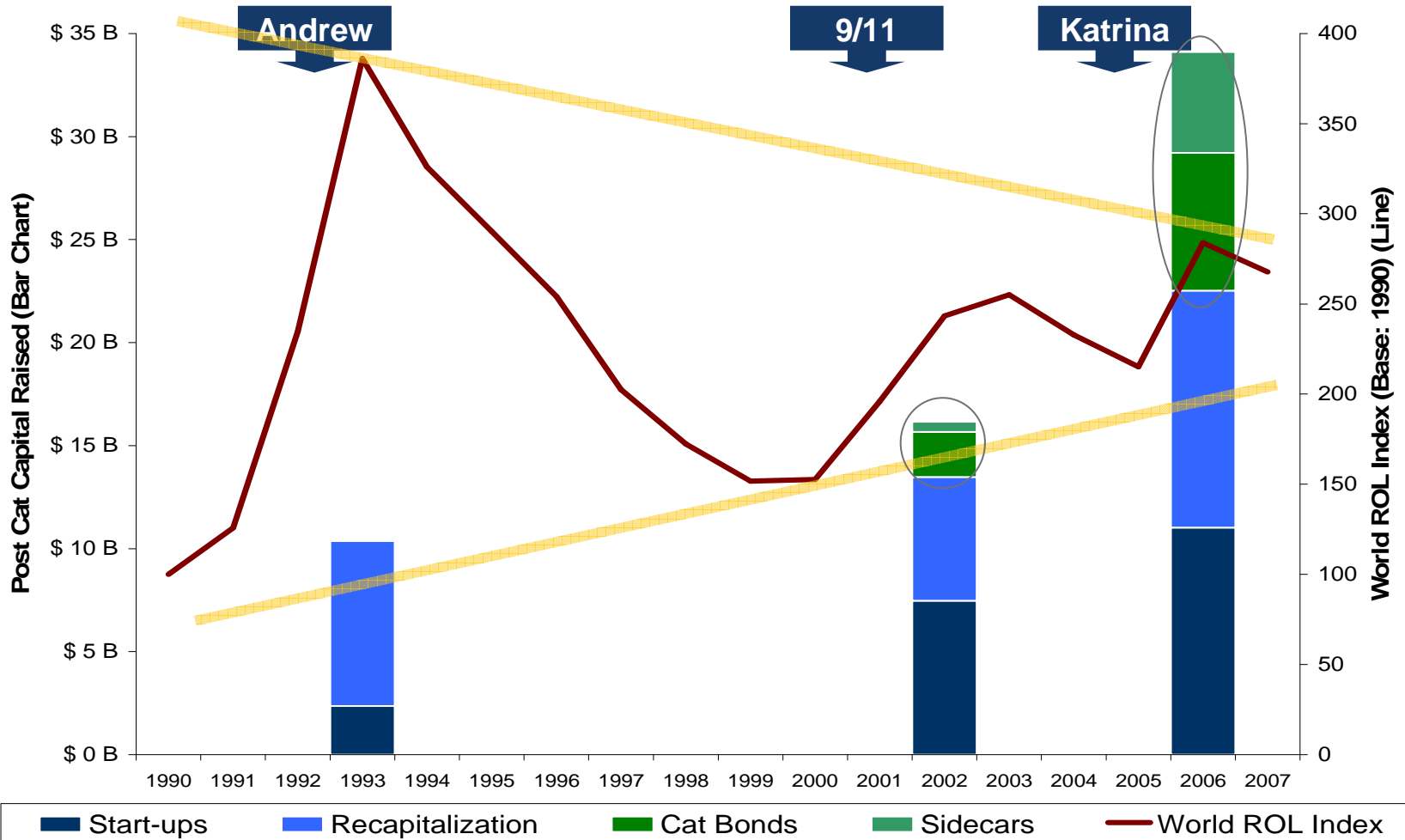
Source: Goldman Sachs

Market Conditions and Impact on ILS

Impact on Collateral Management

- A key benefit of ILS for both investors and protection buyer is that they are fully collateralised with (mostly) AAA/Aaa rated collateral, with any risk on such collateral being further eliminated by a swap with banks rated A/A2 or better
- Before the beginning of the market turmoil market participants and rating agencies considered the risk of a loss on the swapped collateral to be remote, but already at the end of 2007 (with the AAA/Aaa market already in turmoil) structures were enhanced to require swap counterparties to mark the collateral to market (at least monthly) and post additional collateral in case of negative marks
- Lehman Brother was the swap counterparty in 4 ILS structures, which have been affected in various degrees as the structures were “old style” without mark to market and margining requirements, and the collateral was distressed
- The market is determined to avoid further surprises from collateral and further enhancement currently include stricter collateral selection guidelines and more frequent mark to market and margining requirement (up to daily).
- 2009 issuance includes only securities guaranteed by AAA/Aaa governments,
- Like reinsurance companies, ILS have also proven to have an element of counterparty risk for protection buyers, **but**
 - Unlike reinsurance counterparty risk for high severity covers, the loss of cover did materialise post event (i.e. when protection buyers look at the structure to claim) but absent a major , and
 - Structural enhancement have been focused at greatly reducing similar risks in the future.

Evolving Capital Model for Insurance Risks



Source: Guy Carpenter Securities (October 2008)

The Insurance Linked Investments Market

The sustained growth of the insurance linked investment market led to a number of developments:

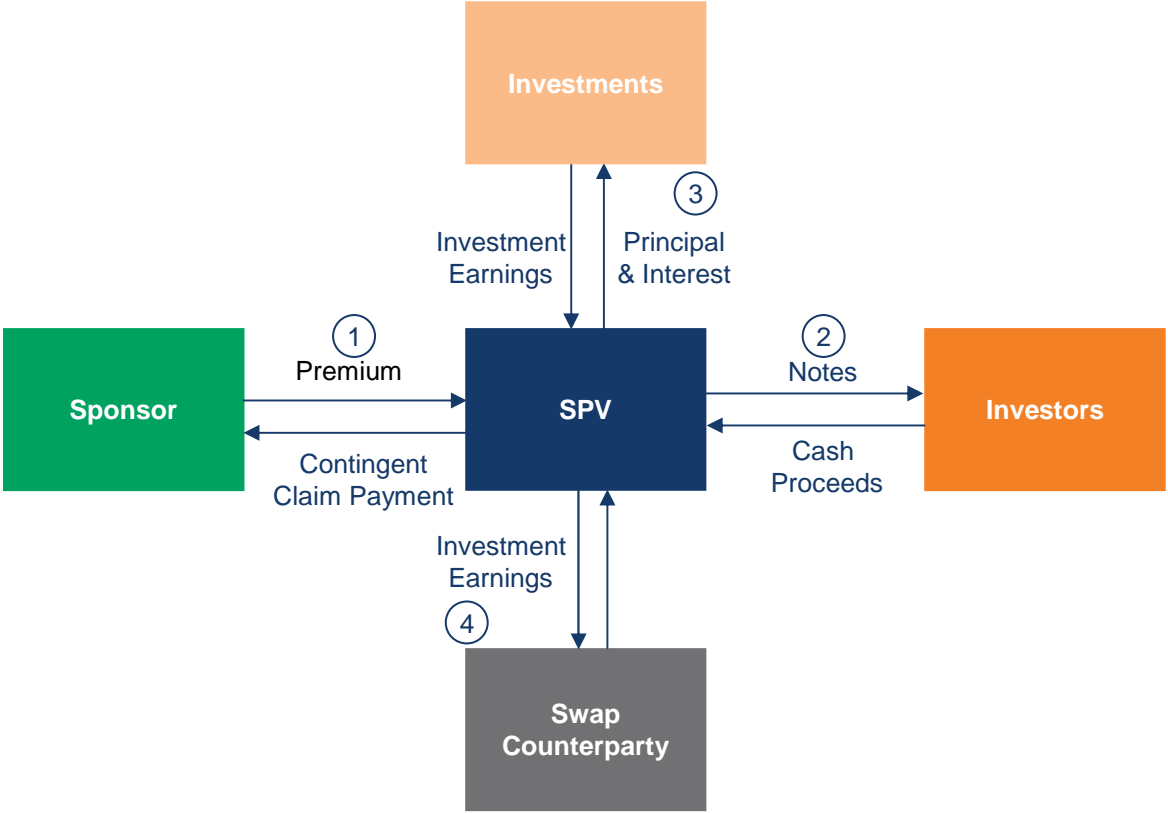
- Different types of **protection buyers** with different needs approach insurance capital markets
- Different types of **instruments** have been developed to address specific needs of protection buyers
- A **dedicated investor base** with specialised knowledge has been developed, also preventing contamination from the turbulent status of the securitised markets
- **Modelling and analysis** of insurance capital markets instruments have expanded, and **rating agencies** have further developed its methodology for insurance capital markets instruments
- **Portfolio management tools** for insurance risk have been developed (albeit with a focus on non life in current status) to facilitate the monitoring of insurance linked investments

The total market (between public and private transaction in life and non life sectors) backed by capital markets investors has grown to the size of a large reinsurance company and has become an integral part of the reinsurance industry landscape

The new insurance linked investments landscape poses investors new challenges and opportunities

2. Cat Bonds Structural Considerations

Typical Cat Bond Structure

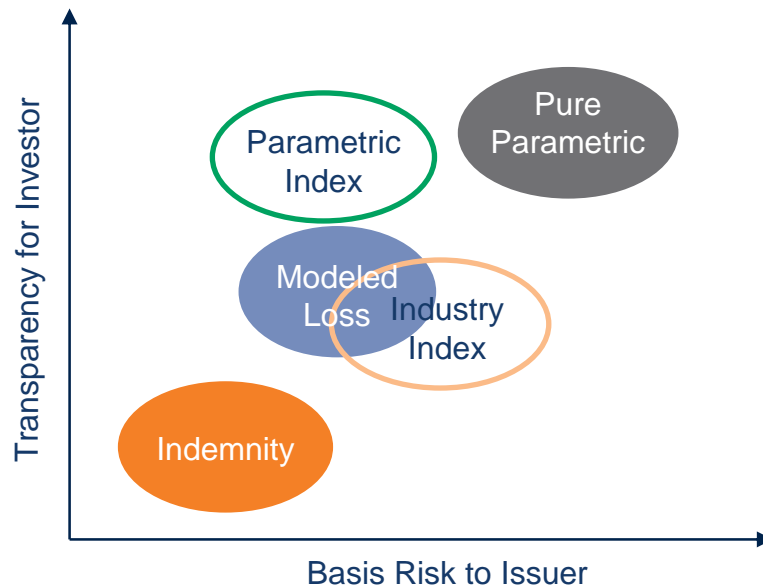


1. The Sponsor enters into a financial contract with a Special Purpose Vehicle (SPV)
2. The SPV hedges the financial contract by issuing Notes to investors in the capital markets
3. Proceeds from the securities offering are invested in high quality securities and held in a collateral trust
4. Investment returns are swapped to a LIBOR -based rate by the Swap Counterparty

Structural Elements

- **Choice of trigger** is an important feature as it has consequences on the basis risk taken by the protection buyer, but also has implication for the transparency of the transaction to investor and the degree of impact of the protection buyer on the risk profile of the note
- **Maturities** have ranged from one to ten years with typical maturities for catastrophe bonds being three to five years
- Covers can be structured on both **per occurrence as well as on an aggregate basis**
- Covers can be provided for **first losses as well as per second and subsequent events**
- Two main structural alternatives
 - **Single issuance** of single-peril and/or multi-peril cat bonds
 - Easy execution, but each subsequent transaction would require separate structuring, rating and legal processes
 - **Shelf programme** with the capacity to issue cat bond tranches on a “when needed” basis
 - Greater flexibility to access the market when needed as well as having the ability to take advantage in a timely fashion of favourable market conditions when they occur
 - Possibility to add new perils, triggers and risk tranches during the lifetime of the transaction

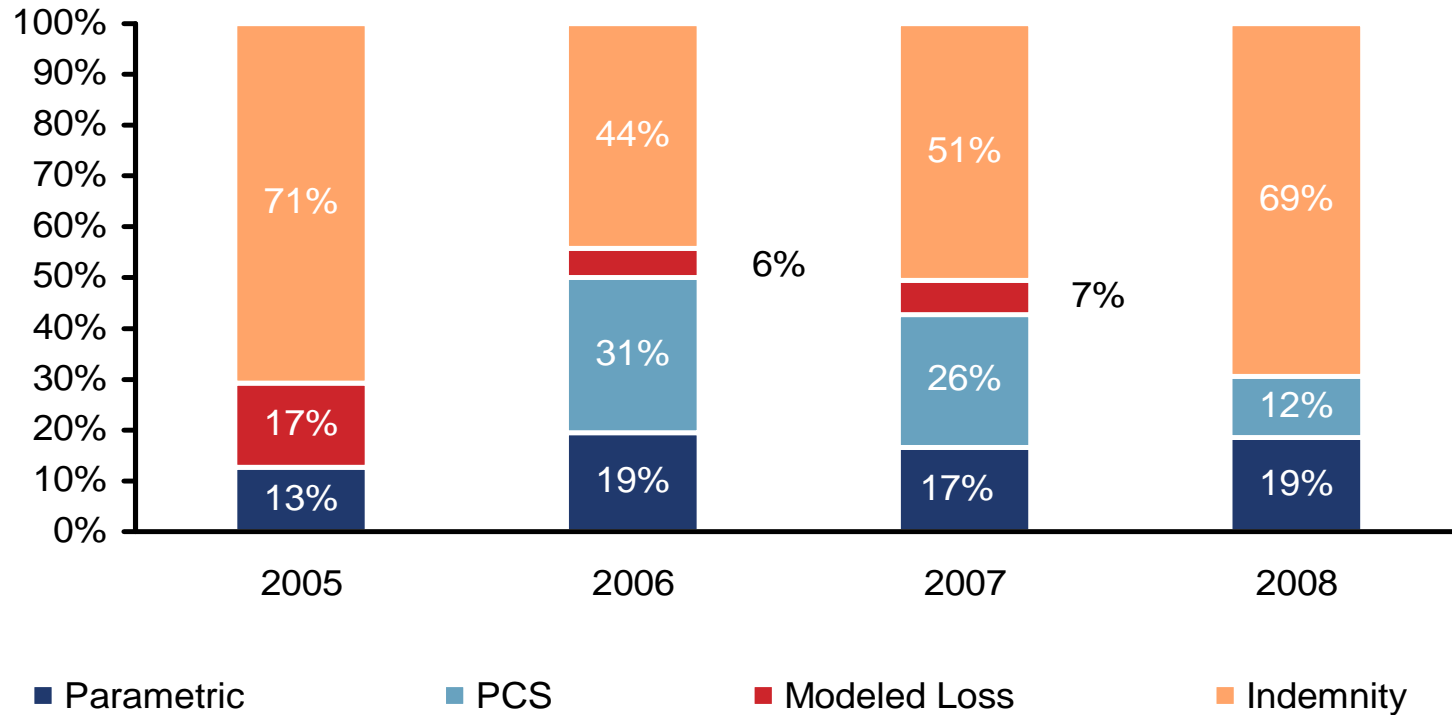
Cat Bond Trigger Types



Source: Swiss Re

- An **indemnity** transaction is based on the actual losses of the sponsor
- An **industry index** transaction is based on an industry-wide index of losses (e.g., Property Claim Services or “PCS” in the United States)
- A **pure parametric** trigger is based on the actual reported physical event (i.e., magnitude of earthquake or wind speed of hurricane)
- A **parametric index** is a more refined version of the pure parametric trigger using more complicated formulas and more detailed measuring locations
- In a **modeled loss** transaction, losses are determined by inputting actual physical parameters into an escrow model which then calculates the loss

Indemnity Triggers A More Dominant Feature^(a)



(a) Please note that Indemnity triggers include sidecars

Source: Goldman Sachs

Indemnity Triggers

A More Dominant Feature

The percentage of ILS with indemnity trigger has increased given greater investor acceptance and given the drive by protection buyers to minimise basis.

In 2009 only one of the three transactions closed had an indemnity trigger, but with improved general market conditions the trend is expected to continue

Indemnity triggers require a high level of underwriting sophistication by investors, who need to get comfortable with additional elements over a non indemnity transaction such as:

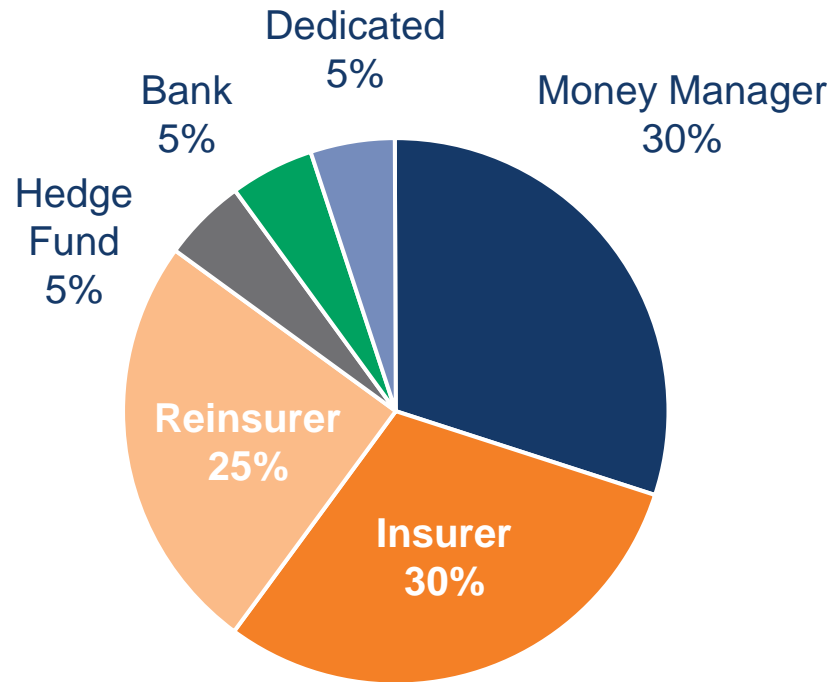
- Data quality forming the portfolio information
- Underwriting rigour and policy of protection buyers
- Protection buyer's standing in the market and any anti-selection risk
- Claim handling procedures
- "Skin in the game"
- Information availability during the life of the transaction (such as change in portfolio exposure)
- Commutation mechanism and extension period

Access to specialised insurance expertise is therefore now critical for investors interested in transactions with indemnity triggers, and....less and less product is available with non indemnity triggers in the market

3. Investor Considerations

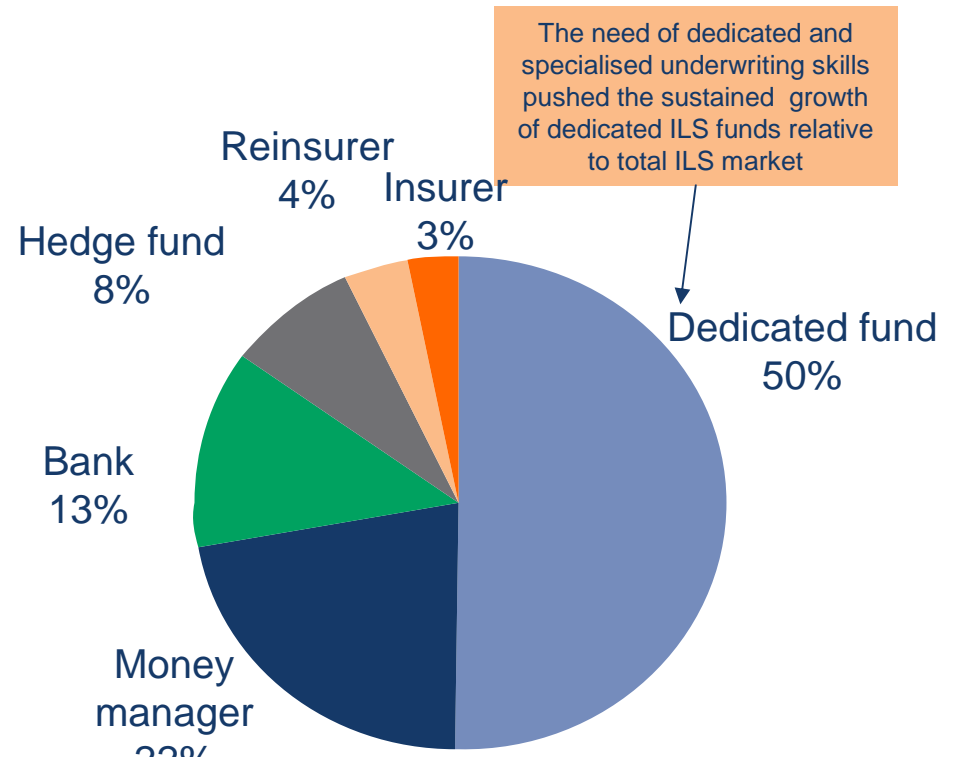
Non Life Investors Landscape

1999



Market Size = USD 1.1 bn

2009



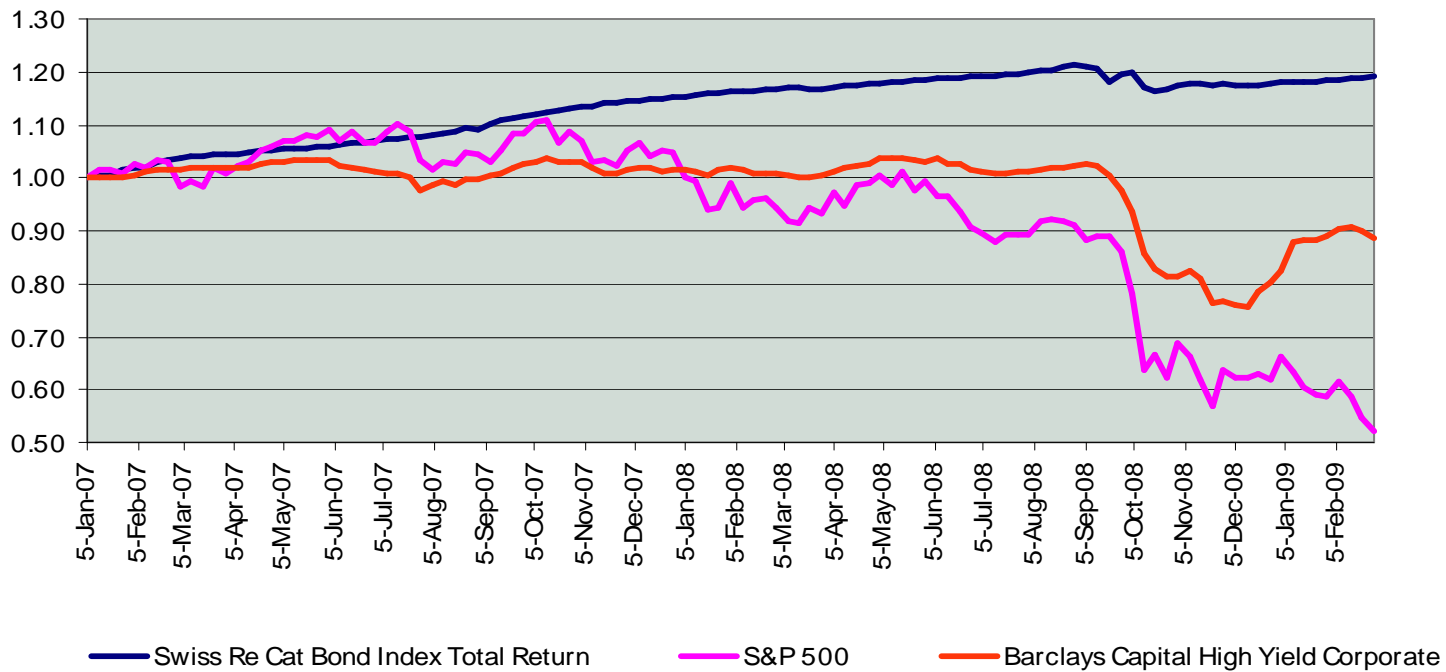
Market Size = USD 16.4 bn

Source (investor breakdown): Swiss Re Capital Markets (March 2009)

Business Case for Investing in ILS

- Insurance linked investments usually have **low correlation** with traditional capital markets investments, making them an **excellent source of diversification** for portfolios of institutional investors
 - The ILS market has remained relatively stable during the recent credit crisis, compared with other traditional investments.
 - Natural catastrophe events have not generated turbulence in the credit markets and the credit spread widening has not materially affected the pricing of natural catastrophe risk.
 - Similarly, while the underlying life risks are not affected by capital market conditions, some life structures embed some market risk, and material life events (such a pandemic) could affect the general economy
- **Insurance linked investments** have consistently represented **good relative value** to similarly rated **credit investments** under normal market conditions
- The volume and variety of insurance investments in the capital markets is expected to grow
- Responsible investment requires an understanding of the underlying and of its market dynamics, so investors should either invest in underwriting expertise and in portfolio management tools, or invest via dedicated fund management companies

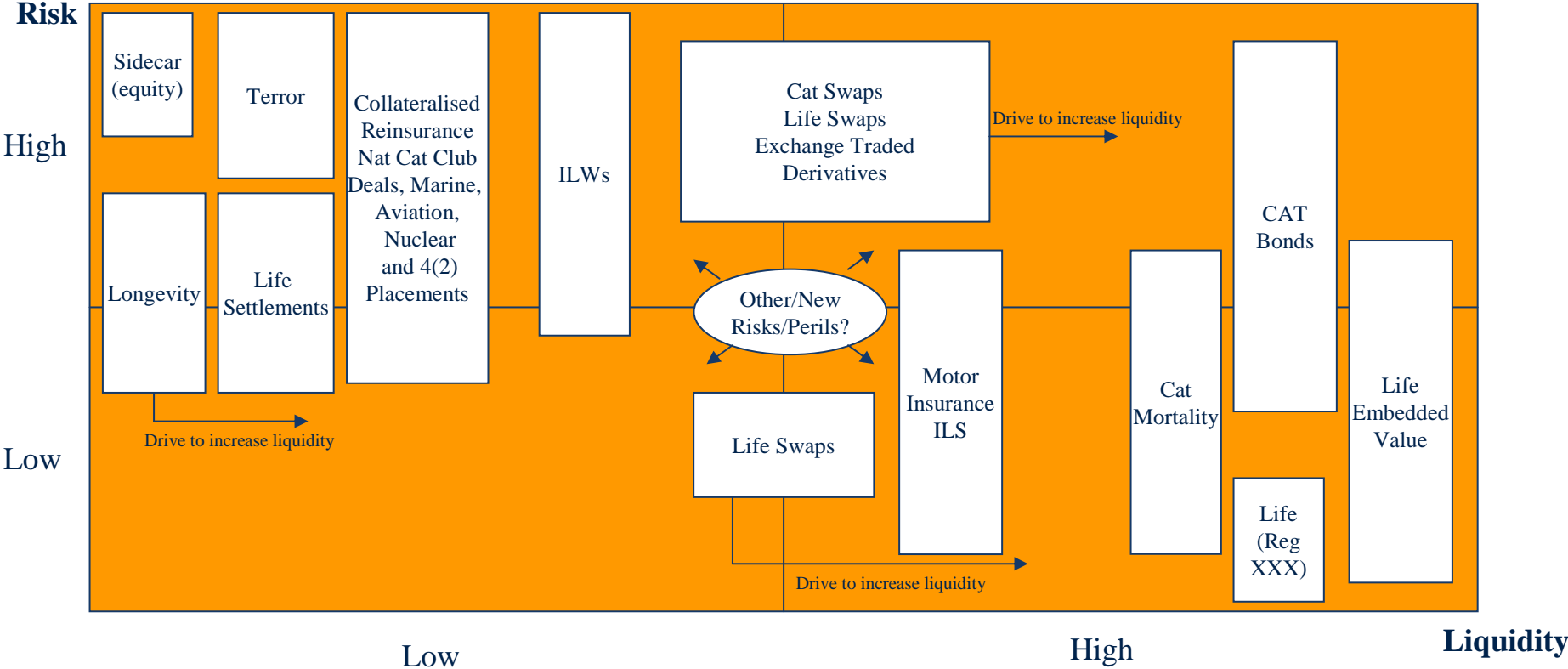
Cat Bonds and Other Asset Classes Returns



"Swiss Re Cat Bond Index Total Return", calculated by Swiss Re Capital Markets, is a market value-weighted basket of nat cat bonds tracked by Swiss Re Capital Markets, calculated on a weekly basis; past performance is no guarantee of future results
Underlying data for Barclays Capital High Yield Index provided by Barclays Capital
Underlying data for "Swiss Re Cat Bond Index Total Return" is based on indicative prices only

Source: Swiss Re Capital Markets

Risk and Liquidity Profile of Investments



4. Outlook on Insurance Linked Investments

Future Trends

- Market participants indicate USD3 billion of new issuance in 2009, of which USD725m has been already done or identified, thus making this year potentially the 3rd largest in history
- Once the investment-grade insurance securitisation market eventually reopens it will bring a wealth of new instruments to market (multi-event transactions, high frequency risks such as motor or home contents, life securitisations)
- The lack of monoline capacity will require more specialised investors to back large issuance of life securitisations
- The constant entrance in the sector of new protection buyers and the repeat issuance from existing participants increases the sustainable issuance level
- Large insurance and reinsurance players have set up dedicated teams of capital markets specialists for their own risk management needs thus indicating that their firms will be a constant presence in the insurance capital markets landscape
- Specialised capital markets investors will be able to take risks in different forms thus moving another step closer to the needs of the protection buyers
- Convergence is here: protection buyers can analyse the relative merit of using capital markets or traditional instruments or –better- a mix of both and take decisions knowing that both markets can be credibly explored to satisfy their needs

QUESTIONS



Contact Details

Luca Albertini
Chief executive Officer
Leadenhall Capital Partners LLP
St Helen's, 1 Undershaft
London EC3A 8ND
United Kingdom

Tel. +44 207 746 1316

Mob. +44 7525 128 176

E-mail: luca.albertini@leadenhallcp.com

Web-site: www.leadenhallcp.com