

Time to Shine for Insurance Linked Strategies (ILS)

Stagflation and Recessionary Fears Drag on Traditional Markets

Traditional asset classes are currently facing a number of headwinds. The prospect of stagflation (the combination of rising inflation and falling economic growth) has seen the value of equities, corporate bonds and government bonds all fall at the same time over 2022.

The war in Ukraine (a key producer of grain), sanctions on Russia (a key producer of fuels), Covid lockdowns in China (a key exporter to the West in general) combined with workforce hiring pressures and supply chain disruptions have seen inflation hit investment markets. Furthermore many of these factors will likely take time to resolve and create price volatility in the meantime.

However pension funds still need to target their required rate of investment return, manage risk and pay pensions as they fall due.

At this point in the cycle assets that provide genuine diversification from cyclical investment markets and also compensate holders with an attractive yield can help address these issues but are difficult to find.

Insurance Linked Strategies Can Provide Welcome Relief

ILS, like many types of fixed income investments, provides holders with a return from their regular coupons. (Re)insurers transfer insurance risks to the capital markets with ILS coupons comprised of an insurance risk premium and a floating risk free base rate.

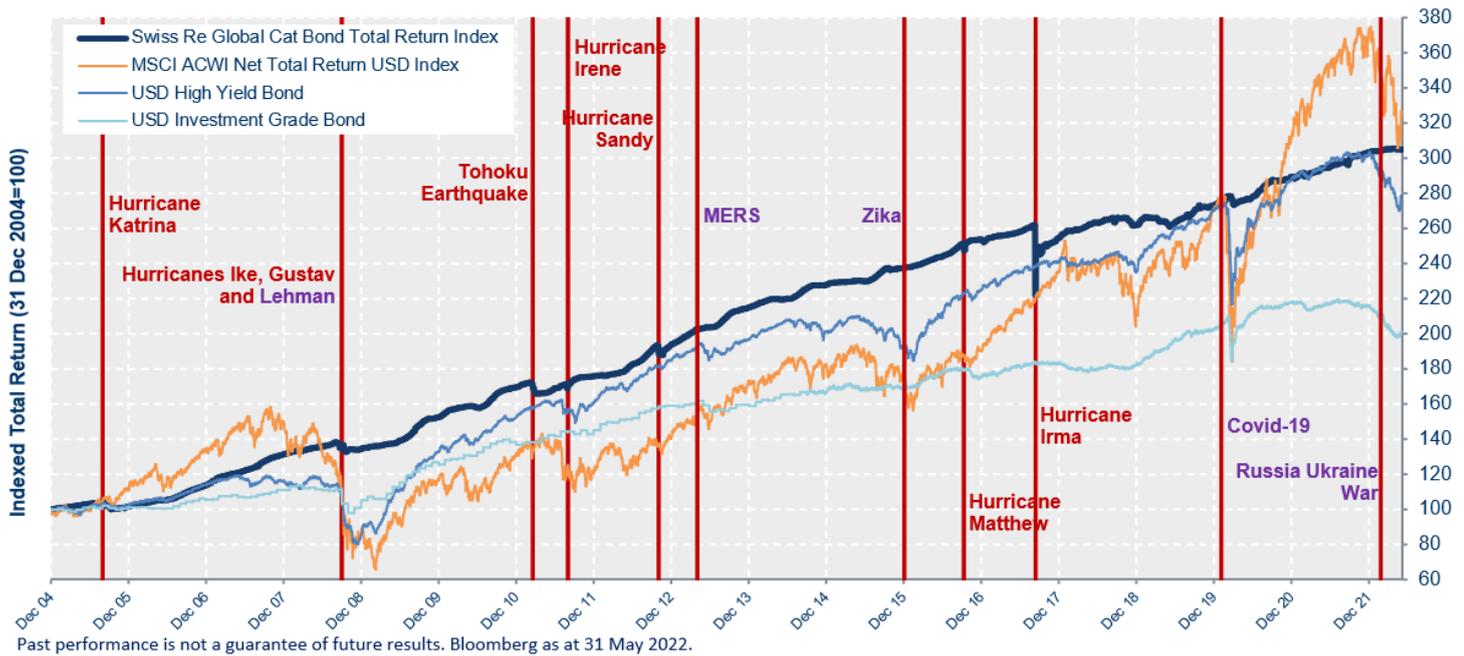
Corporate bonds can lose value if their issuer loses financial strength or their perceived default risk increases. ILS, on the other hand, are not linked to the fundamental financial strength their issuers but, instead have returns linked to the specific insurance risks underlying them.

Holders earn regular coupons. However if a covered insurance event to which the ILS is linked occurs then capital is used to pay losses and principal reductions are incurred, similar to a corporate bonds default.

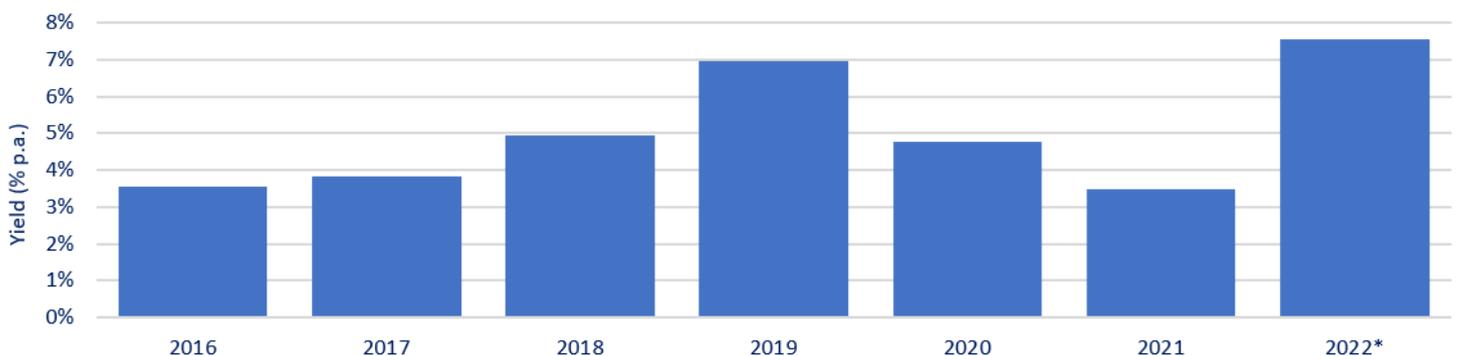
Two key advantages of ILS compared to other asset classes are:

- Insurance markets have been shown to operate on a different cycle to traditional investment markets, such as equities, corporate bonds and property, as shown in the first chart below. ILS can therefore help diversify asset risk in an overall investment strategy
- ILS currently rewards investors with a target yield which is the most attractive in many years, as shown in the second chart

The Total Return on Catastrophe ‘Cat’ Bonds (Tradable ILS) Compared to Equity and Credit Markets



Cat Bond Yields Above Expected Losses Are at Highs



Sources: Swiss Re Capital Markets, Leadenhall Capital Partners. In each year the weighted average issuance spread is shown gross of 3 month US Libor and net of expected losses. *For current rates in 2022 3 month US Libor is used at 1 July 2022.

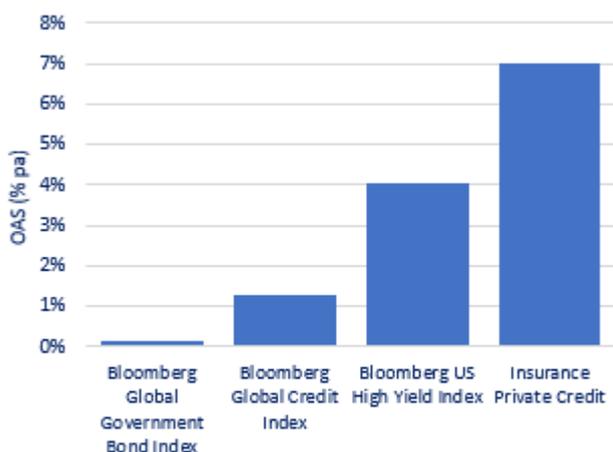
Time to Shine for Insurance Linked Strategies (ILS)

Insurance Private Credit Can Provide Pension Schemes With Further Risk And Return Benefits

Another insurance linked strategy that can benefit pension schemes is insurance private credit. Private credit, in general, has been a popular investment with pension schemes in recent years as it can provide an attractive yield pick-up compared to public corporate credit markets together with a relatively low level of volatility.

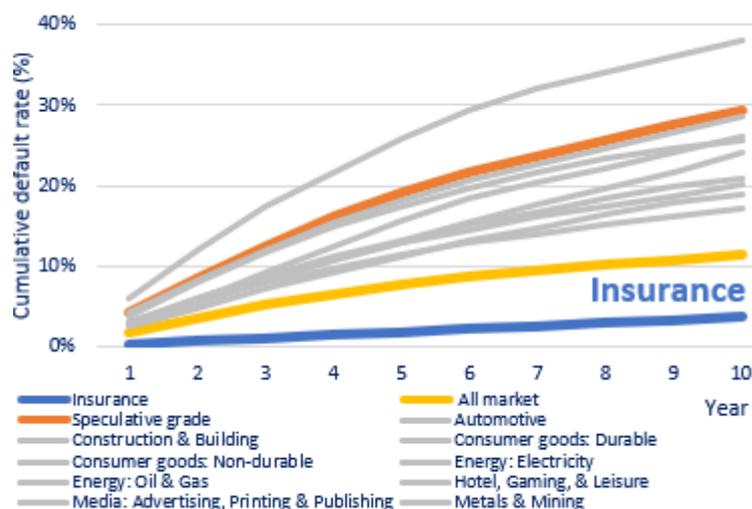
The advantage of insurance private credit is that a similar attractive level of yield can be targeted, such as cash + 6-8% pa, as shown in the left hand chart below. However insurance-related companies have historically had significantly lower default rates compared to wider credit markets as shown in the right hand chart.

Insurance Private Credit Currently Provides An Attractive Yield Pick-up Over Government Bonds Compared To Liquid Corporate Credit



Source: Bloomberg as at 31 May 2022. The return target of SOFR + 6-8% pa gross of fees represents the Leadenhall Insurance Finance Fund. An average of SOFR + 7% pa is shown.

Insurance Credit (Public) Has Had A Low Cumulative Default Rate Compared To The Wider Credit Market And Selected Sectors



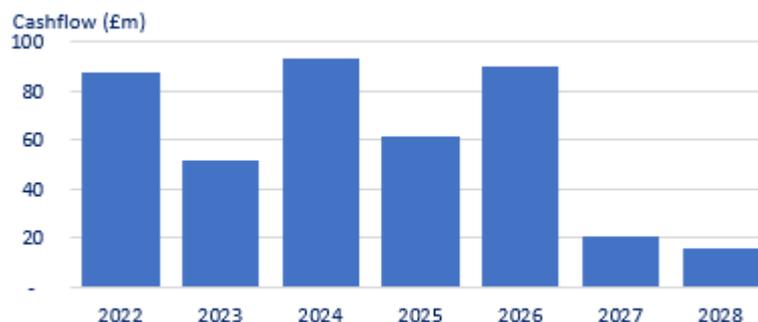
Source: "Annual Default Study 2020" by Moody's Investor Service (February 2021) which analyses rating histories of companies Moody's rated as of 1 Jan 1970 or first rated between that date and 31 Dec 2020. Average cumulative issuer-weighted global default rates over 10 years from 1970 to 2020 are shown.

Cashflow Generative Assets Can Help Maturing Pension Funds Pay Benefits As They Fall Due

Many Defined Benefit pension funds have seen their funding levels improve in recent years, their membership profile mature and investment strategies revised to target stronger long term funding levels. In this context insurance private credit adds a further benefit:

Visibility of when insurance private credit repayments will be made enables **cash inflows to be matched with when schemes' benefit outflows need to be paid** - of increasing concern as pension funds continue to mature.

Projected Cashflows From Example Insurance Private Asset Fund



Source: Leadenhall. Expected cashflows are shown for the Leadenhall Life Insurance Linked Investments Fund II LP.

Environmental, Social & Governance (ESG) Benefits

With UK pension schemes' increasing focus on Environmental, Social and Governance (ESG) issues ILS provides another benefit – providing societies, communities, residents and small & mid-sized businesses with resilience to disaster events including from the effects of climate.

For more information on how Insurance Linked Strategies can help your investment strategies please contact Lorenzo or Alistair at Leadenhall:



Lorenzo Volpi
Managing Partner, Deputy CEO

Lorenzo.Volpi@leadenhallcp.com

+44 (0) 772 592 4836



Alistair Jones
Managing Director, Business Development

Alistair.Jones@leadenhallcp.com

+44 (0) 7706 342 827

Time to Shine for Insurance Linked Strategies (ILS)



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, account, mandate or SPV pursuing one of the strategies engaged in by Leadenhall Capital Partners LLP ("Leadenhall") (the "Strategies") or participation in a transaction involving one of the Strategies (the "Investment") can only be made at the relevant time on the basis of the latest offering or transaction documents and application form available. Any person subscribing for or entering into 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 and informational purposes only, do not purport to be full or complete, and do not constitute a recommendation or 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 and Leadenhall has no obligation to provide any updates or amendments. Although certain information included in this presentation is based on information obtained from sources considered to be reliable, Leadenhall does not guarantee its accuracy or completeness. Leadenhall has relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources. 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 construed or relied upon as research, investment advice or a prediction of future results, which may vary. 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 guarantee or a reliable indicator of future results, which may vary. Investing or participating in the Investments may expose an investor to significant risk of losing the entire amount invested.** Prior to an Investment, potential investors must carefully read and familiarize themselves with the latest offering or definitive transaction documentation, application form 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 or definitive transaction documentation, application form and related materials will be made available in due course and prior to investing to those persons eligible for participation who demonstrate the capacity to evaluate the risks and merits of such Investment. This document does not take into account the investment objectives, financial situation or needs of any particular person and is not intended to constitute, and should not be construed as, investment advice. Potential purchasers or participants in the Investments should assess whether any Investment is appropriate in light of their own financial circumstances and should seek their own independent financial and tax advice before making any such Investment in order to determine whether any such Investment would be suitable for them.

Notice: Investing or participating in the Investments may expose an investor to a significant risk of losing the entire amount invested. Any person who is in any doubt about investing 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.

United Kingdom Specific Information: 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 Conduct Authority of the United Kingdom ("FCA Rules"). 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 FCA 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 Section 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. To the extent that this document is issued by Leadenhall (which is authorised and regulated by the Financial Conduct Authority of the United Kingdom ("FCA")), the Investments are only available to such persons and this document must not be relied or acted upon by any other persons. Any recipient of this document who is not an authorised person may not distribute it to any other person. Recipients of this document who intend to apply for participation in the Investments are reminded that any such application may be made solely on the basis of the information and opinions contained in the relevant and latest offering or transaction documentation and application form available, which may be different from the information and opinions contained in this document. Prospective investors should inform themselves and take appropriate legal, financial and tax 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 does not constitute an offer or solicitation in any jurisdiction where or to any person to whom it would be unauthorised or unlawful to do so. Leadenhall neither provides investment advice to, nor receives and transmits orders from, clients 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 FCA Rules.