Schroder GAIA Cat Bond
The case for insurance-linked securities (ILS)

Benefits for investors

- Attractive return profile
  - 8.5% annualised return with a volatility of 2.6%
  - ILS attract a premium over corporate bonds with similar default probabilities

- Low correlation to equities, fixed income and the business cycle
  - Diversification within asset class – one event (e.g. Japan earthquake) does not impact all ILS at the same time

- Floating rate structure
  - Protection against rising interest rates
  - Provides investors with a built-in inflation hedge

Source: Secquaero Advisors. Return and volatility for Swiss Re Cat Bond Total Return Index from 2002 till 31 December 2013
The case for ILS
Attractive returns and excellent diversification

<table>
<thead>
<tr>
<th></th>
<th>Cat Bonds</th>
<th>Equities</th>
<th>IG Bonds</th>
<th>Hedge Funds</th>
<th>Commodities</th>
<th>High Yield Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ann. return (USD)</td>
<td>+8.6%</td>
<td>+6.1%</td>
<td>+5.7%</td>
<td>+2.2%</td>
<td>+11.6%</td>
<td>+9.7%</td>
</tr>
<tr>
<td>Volatility (p.a.)</td>
<td>2.9%</td>
<td>15.1%</td>
<td>6.8%</td>
<td>5.0%</td>
<td>23.5%</td>
<td>9.6%</td>
</tr>
<tr>
<td>% positive months</td>
<td>92%</td>
<td>65%</td>
<td>70%</td>
<td>65%</td>
<td>61%</td>
<td>75%</td>
</tr>
<tr>
<td>Cat bonds positive, if index negative</td>
<td>-</td>
<td>88%</td>
<td>89%</td>
<td>84%</td>
<td>93%</td>
<td>86%</td>
</tr>
<tr>
<td>Worst month</td>
<td>-3.9%</td>
<td>-16.8%</td>
<td>-14.9%</td>
<td>-9.9%</td>
<td>-27.8%</td>
<td>-17.0%</td>
</tr>
<tr>
<td>Date of worst month</td>
<td><strong>Mar 11</strong></td>
<td><strong>Oct 08</strong></td>
<td><strong>Oct 08</strong></td>
<td><strong>Oct 08</strong></td>
<td><strong>Oct 08</strong></td>
<td><strong>Oct 08</strong></td>
</tr>
</tbody>
</table>

Data from January 2002 to 31 December 2013. Cat Bonds: Swiss Re Cat Bond Index, equities:S&P500 Total Return Index, IG bonds: JP Morgan IG Corporate Total Return Index, commodities: S&P Goldman Sachs Commodity Index, hedge funds: HFRX Equally Weighted Index, high yield bonds JP Morgan Global High Yield Index. Cat bonds positive if index negative refers to monthly performance of Swiss Re Can Bond Index vs. other indices.
What risks are transferred
ILS can be broader than just cat bonds

- **Catastrophe risks** – largest segment, high level of standardisation
  - Hurricanes, tornados, typhoons (US, Japan)
  - Winter storms (Europe)
  - Earthquakes (US, Japan, Europe)
  - Other (e.g. Australian cat risks)

- **Other non life-related risks** – smaller but growing
  - Aviation, marine, motor
  - Other perils

- **Life related risk** – less standardised, longer maturity
  - Mortality / Extreme mortality (pandemia)
  - Embedded Value – (life insurance policy pools)
  - Longevity
  - Life settlements – *WE ARE NOT ACTIVE IN THIS AREA*
Everglades Re Ltd. 2013-1 A
- Term: 3 years
- Risk: Florida Hurricane
- Coupon: money market yield + 10.0%, paid quarterly
- Rating (S&P): B
- Size of issue: $250 million
- Current yield: 6.73%

- Florida Citizens Insurance Corp would have to incur >$5 billion in losses before the bond is triggered
- Cat bonds trade on a daily basis via brokers (OTC), similar to corporate bonds

Claims paying sources:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Everglades Re 2013-1 A</td>
<td>$250 m</td>
</tr>
<tr>
<td>Traditional reinsurance</td>
<td>$604 m</td>
</tr>
<tr>
<td>Florida Hurricane Cat Fund</td>
<td>$3.04 bn</td>
</tr>
<tr>
<td>Own risk</td>
<td>$1.5 bn</td>
</tr>
</tbody>
</table>

Source: Secquaero Advisors. Actual market loss depends upon location of landfall and relative market share at that location. Current yield based on bid yield as at 29 November 2013
Performance impact from single events
Cat bonds are a relatively stable asset class

Impact of events on the Swiss Re Global Cat Bond Index

Source: Bloomberg, Swiss Re Global Cat Bond Total Return Index from 4 January 2002 (start date) till 31 January 2014
Why Schroders & Secquaero

Our unique selling points

Team

- 15 full-time ILS professionals
- One of the best resourced ILS teams in the industry

Industry expertise

- Strong insurance background: Secquaero founders launched first cat bond in '94
- Unique network: Secquaero advises top (re)insurance companies worldwide on risk management matters

A professional partner

- Extensive group-wide resources to support ILS team: risk management, operational support, client servicing
- Institutional partner with world-wide footprint
- Full suite of systems, including SPOT – a proprietary pricing and optimization software dedicated to ILS

Industry-leading ILS investment team

Source: Schroders, Secquaero, January 2014
Our set-up
Dedicated ILS team of 15 supported by wider organisation

Advisory
- Secquaero Advisors
  - Dirk Lohmann & Peter Boller
  - Team of 11
- Origination
- Risk modelling
- Analysis
- Structuring

Investment management
- Schroder ILS Team
  - Daniel Ineichen
  - Team of 4
- Portfolio management
- OTC trading
- On-desk risk management
- Product management
- Operations
- Legal
- Marketing

Trading and support
- Fixed Income Trading
  - Nick Robinson
  - Team of 6
- Cat bond trading
- Middle & back office
- Compliance monitoring
- Counterparty risk management
- Schroders Luxembourg
- Fund platform
- Restrictions monitoring

Source: Schroders, January 2014
Schroder GAIA Cat Bond

Strong track record in cat bond investing

Fund features:

- Performance objective: 3m Libor + 6% p.a.
- Investing in most liquid part of ILS market, tradable 3x p/month
- Actively managed, risk-controlled approach
- Strong track record since May 2011

Benefits:

- Great diversification against all major asset classes, as different risk driver
- Low duration fixed income alternative – cat bonds are typically floating rate instruments
- Access to specialist area via UCITS fund managed by large asset manager

Source: Schroders. The NGAR Secquaero ILS Fund merged into Schroder GAIA Cat Bond on 21 October 2013.
Schroder GAIA Cat Bond
Positioning as at 31 December 2013

Exposure by market (% of NAV)

<table>
<thead>
<tr>
<th>Region / peril</th>
<th>Contribution to EL (%)</th>
<th>Maximum (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California earthquake</td>
<td>8.0%</td>
<td>20%</td>
</tr>
<tr>
<td>Other US earthquake</td>
<td>5.6%</td>
<td>15%</td>
</tr>
<tr>
<td>Florida wind</td>
<td>22.8%</td>
<td>40%</td>
</tr>
<tr>
<td>Texas wind</td>
<td>7.3%</td>
<td>15%</td>
</tr>
<tr>
<td>Gulf (excl Florida &amp; Texas) wind</td>
<td>8.1%</td>
<td>15%</td>
</tr>
<tr>
<td>US southeast wind</td>
<td>12.7%</td>
<td>15%</td>
</tr>
<tr>
<td>US northeast wind</td>
<td>9.9%</td>
<td>15%</td>
</tr>
<tr>
<td>Mid Atlantic wind</td>
<td>6.7%</td>
<td>15%</td>
</tr>
<tr>
<td>US other wind (incl. Tornado)</td>
<td>3.8%</td>
<td>20%</td>
</tr>
<tr>
<td>Europe wind</td>
<td>10.9%</td>
<td>25%</td>
</tr>
<tr>
<td>Europe earthquake</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Japan wind</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Japan earthquake</td>
<td>0.7%</td>
<td>20%</td>
</tr>
<tr>
<td>Mexico wind</td>
<td>1.6%</td>
<td>10%</td>
</tr>
<tr>
<td>Mexico earthquake</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>World-wide non-peak risks</td>
<td>1.7%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Schroders, Secquaero Advisors, as at 31 December 2013. Natural catastrophe risk contribution to total portfolio EL, numbers may not add up to 100% due to rounding. Exposure by market Other excludes cash allocation.
Schroder GAIA Cat Bond
Strong track record in managing cat bonds

Schroder GAIA Cat Bond vs key competitors

Performance as per 31 December 2013

<table>
<thead>
<tr>
<th>Schroder GAIA Cat Bond USD F</th>
<th>1 Month</th>
<th>3 Month</th>
<th>YTD</th>
<th>Since inception p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schroder GAIA Cat Bond USD F</td>
<td>-0.05%</td>
<td>0.78%</td>
<td>6.84%</td>
<td>6.95%</td>
</tr>
</tbody>
</table>


The NGAR Secquaero ILS fund merged into the Schroder GAIA Cat Bond Fund on 21 October 2013. Performance shown is for Schroder GAIA Cat Bond USD F share class chainlinked to NGAR Secquaero USD A share class.
# Schroder GAIA Cat Bond

## Fund summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Schroder GAIA Cat Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory regime</td>
<td>Luxembourg UCITS</td>
</tr>
<tr>
<td>Currency</td>
<td>USD (base currency), CHF and EUR hedged share classes</td>
</tr>
<tr>
<td>Performance objective</td>
<td>3 month US Libor + 6% p.a. net of fees</td>
</tr>
<tr>
<td>Inception date</td>
<td>May 2011 (inception date NGAR Secquaero ILS fund*)</td>
</tr>
</tbody>
</table>

### Investment approach
- Actively managed fund investing in tradable ILS instruments
- Focus on catastrophe bonds (min. 80%)
- Other tradable ILS risks (e.g. aviation or offshore energy) for diversification
- Using proprietary SPOT portfolio management tool

### Permitted instruments
- Cat bonds
- Structured notes
- FX forwards
- Interest rate futures
- Money market instruments

### Minimum subscription
- USD 100,000 (F share class)
- USD 1,000,000 (IF share class)

### Management fee
- 1.50% (F share class)
- 1.10% (IF share class)

### Subscriptions and redemptions
- Bi-weekly, 2nd and 4th Friday and last business day of month

Source: Schroders. The NGAR Secquaero ILS fund EUR-hedged A share class was launched May 2011.

*The NGAR Secquaero ILS merged into the Schroder GAIA Cat Bond fund on 21 October 2013.*
Structure of a cat bond

Tradable ILS

(Re-)insurer

reinsurance treaty

Issuer (SPV)

Risk premium (approx. 3 – 5 x loss occurrence probability)

Coupon = (risk premium & money market return)

Collateral Account

Investor / Fund

occurrence of an insured event?

No: 97% – 98% probability

Yes: 2% – 3% probability

Term: usually 3 years, sometimes 4 or 5 years

Loss payment

Repayment of principal and premium

Term: usually 3 years, sometimes 4 or 5 years
From opportunity to portfolio holding
Drawing upon strengths of two organisations

- ILS Strategy Group
  - Meets weekly or ad-hoc if needed (e.g. post events)
  - Discussing markets, issuing, pricing and opportunities

- Sourcing transactions
  - Communication with brokers and insurers
  - Structural and qualitative analysis
  - Risk assessment
  - Operational, legal and structure risks

- Underwriting Committee
  - Review analysis
  - Provide investment advice

- Portfolio construction & management
  - Validation proposal
  - Optimising portfolio
  - Positioning and rebalancing

- Implementation
  - Cat bond trading
  - Pre-trade risk & compliance monitoring
  - Structuring private transactions

- Portfolio
  - Guideline compliance monitoring
  - Investment reporting
  - Fund / portfolio services

Source: Schroders, December 2013
Risk management

Systems used in managing ILS portfolios

**Analysis of catastrophe risks**
- Analysis of cat risk transactions
- Risk decomposition
- Scenario analysis

**Portfolio analysis**
- Monitoring of portfolio risk limits and parameters
- Scenario analysis and stress testing

**Investment restrictions monitoring**
- Pre-trade compliance
- Monitoring of maturity profile

**Counterparty risk management**
- Proprietary counterparty risk monitoring tool
- Using limits and approval list of Agency Credit Risk team
Why (re)insurers issue insurance-linked securities
4 ways to manage Solvency II capital requirements

- **Raise capital**
  - 1) Equities
  - 2) Subordinated debt

- **Transfer risks**

  - **3) Reinsurance**
    - limited number of reinsurers, relationship driven
    - counterparty risk (promise to pay)
    - contracts renewed annually
    - bespoke solutions possible

  - **4) Cat bonds**
    - unlimited number of counterparties, sometimes no direct relationship
    - no counterparty risk (collateralised)
    - lifespan normally 3 years

Source: Schroders, Secquaero Advisors
Price development in the cat bond market
Yields in historical context

Changes in yield mainly driven by insurance cycle

Source: Lane Financials LLC, Data from July 2003 till September 2013
Price development in the ILS market
Yields in historical context

- Changes in yields mainly driven by insurance cycle
- Low insured losses in recent years mean abundant capital to underwrite insurance risks

Source: Guy Carpenter, Global Property RoL index 1990-2014 and Significant Insured Losses 2011 to year end 2013.
Risk diversification within cat bond universe

Exposure driven by regions with high insurance density and wealth accumulation

- US Hurricane (59%)
- US Earthquake (17%)
- EU Winterstorm (16%)
- Japan Earthquake (2%)
- Japan Typhoon (1%)
- Other (3%)
- US Tornado (2%)

Diversification within US Wind possible in many different ways!

Source: Lane Financials LLC
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