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I. ILS MARKET SNAPSHOT

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7 out of the top 10 US insurance companies
7 out of the top 10 global reinsurers
3 of the top 3 government catastrophe pools worldwide*
  - Florida Citizens (70% of insured residential risk “on the beach” in South Florida)
  - California Earthquake Authority (70% of insured residential risk in California)
  - Turkish Catastrophe Insurance Pool (100% of insured residential risk in Turkey)
55 sponsors:
  - 42 Insurers / 11 Reinsurers / 2 Corporates
  - 14 of 55 issuers are governmental entities
  - 5 first-time issuers in 2015

CAT BOND INVESTOR MIX

- Majority of investors are outside of the U.S., though U.S. investors have been active since the beginning of the cat bond market and remain strong with promising future growth.

- Significant presence of global top 20 national pension funds and sovereign wealth funds.

- Growing participation from ultra-high net worth and multi-family offices, private wealth investment advisors, charities, small-to-medium pension, endowment and insurance companies.

- Typical cat bond allocations, when they occur, are 1–4% of total assets under management (AUM), with 1–2% of AUM the most typical.

- ~25 core investment managers (most often specialist ILS managers) manage ~75% of the cat bond market. ~125 non-core investment managers (e.g., life insurers, fixed income mutual funds, endowments) manage the remaining ~25% of the cat bond market.

- These ~150 investment managers represent thousands of end investors through mutual funds and tens of millions of pension fund members through separately managed accounts.

Sources: Fermat Capital, Trading Risk Magazine and Artemis.bm.
II. ESTIMATE OF ILS MARKET TERRORISM CAPACITY

- CAT BONDS EXPOSED TO TERRORISM RISK
- OBSERVED CAT BOND TERRORISM CAPACITY
- ESTIMATE OF ILS MARKET TERRORISM CAPACITY

= Terrorism was the major consideration in this bond.

= Other natural perils were included in the coverage as well.

= Brought to market only 2 years after 9/11.

= No renewal as traditional market capacity responded.

Extreme mortality/morbidity bonds. General class of cat bonds, providing coverage to life reinsurers/health insurers for extreme mortality/morbidity developments in countries such as the US, UK, Germany, France, Italy, Switzerland, Japan, Canada and Australia. Average Coupon 3mo Treasuries + 3.18% (outstanding bonds as of 1 June 2016).

= Terrorism is a minor consideration in these bonds; however,...

= Terrorism risk is explicitly stated and frequently modelled in the offering circular.

= First brought to market only 2 years after 9/11.

= Commonly renewed as a complement to traditional market capacity.
OBSERVED CAT BOND TERRORISM CAPACITY

Two main assumptions used for estimate:

- ILS market ex-cat bonds are at least as accepting of terrorism exposure as the cat bond market.
- Fermat Capital’s capacity for explicit terrorism risk is similar to the aggregate of investors in the cat bond market.

Summary of observations:

- Cat bond terrorism exposure observed at ~5 to 13% of outstanding bonds.
- Fermat Capital has additional capacity of 5% of AuM for explicit terrorism risk.
- ILS market size is currently ~$70 bn.

Estimate of current ILS market terrorism capacity:

- ~$3.5 to 9 bn of capacity for terrorism exposure.
- ~$3.5 bn of additional capacity for explicit terrorism exposure.