

Twelve Capital Event Update 2: Hurricane Florence

Update – Thursday, 13 September 2018

- The forecast strength of Hurricane Florence at landfall has weakened to a category 2, from a previous category 4. Landfall is forecast at approximately Friday 02:00 AM local time.
- Industry loss expectations have been reduced to mean values of USD 3.2bn (RMS) and USD 3.3bn (AIR).
- Substantial damage is still expected from wind, storm surge and inland flooding. A significant number of residential and commercial properties remain at risk.
- The biggest risk for the Cat Bond market appears to be within indemnity trigger structures. Loss statements will be needed from the cedents before the ultimate impact on portfolios is clear.

Event details

Hurricane Florence’s forecast strength at landfall has now weakened to a category 2 hurricane from a previous category 4. From the perspective of expected industry losses, these lower wind speeds would mean that losses from direct wind impact would be less than previously estimated. While this seems to be a positive development from a news headline perspective, it underlines the forecasting uncertainty associated with tropical cyclone systems. It also means that, given Hurricane Florence’s large wind extent (Figure 1) and overall size (Figure 2), damage is still likely to be substantial and spread over a large area.

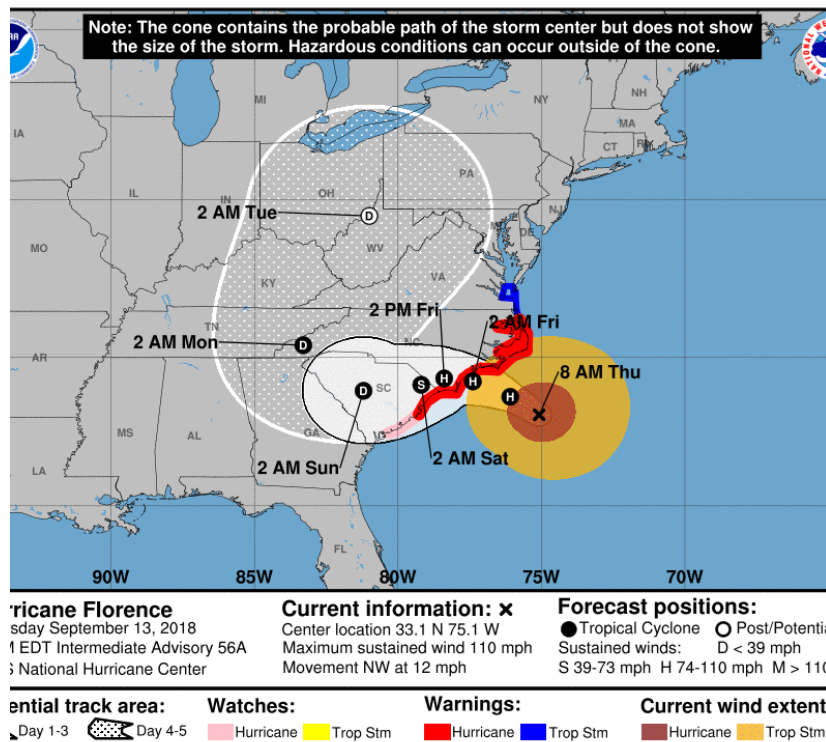


Figure 1: Hurricane Florence’s probable path and current wind extent.
Source: Official forecast by the National Hurricane Center as at 0800EDT 13 September 2018.

The danger from storm surge and inland flooding due to high rainfall has not substantially reduced and a significant number of residential and commercial properties remain at risk.



Figure 2: Overall size of Hurricane Florence.
Source: NASA as at 13 September 2018.

Industry loss expectations

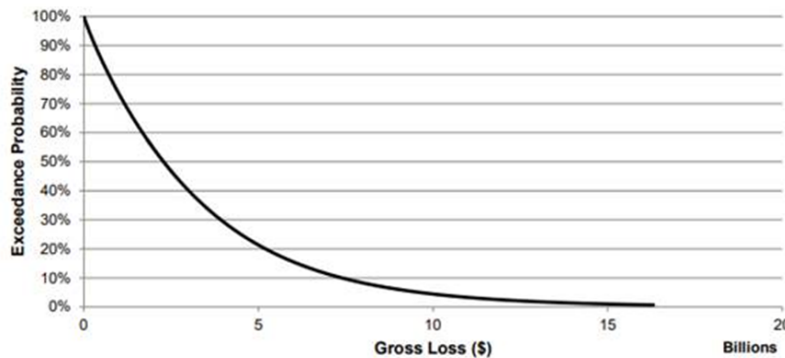


Figure 3: Hurricane Florence – gross industry loss expectations.
Source: RMS data, as at 13 September 2018.

Global risk modelling and analytics firm, RMS, has released updated model estimates for wind damage only. The mean modelled industry loss is currently estimated at USD 3.2bn (Figure 3), which is a substantial reduction from loss estimations seen previously, when landfall as category 4 hurricane was expected. AIR, another risk modelling firm, has similarly lowered their industry loss estimate to USD 3.3bn. Please note that there is still a large amount of uncertainty involved and there remains a substantial risk for higher loss numbers.

Impact on insurance-linked securities market and Cat Bond portfolios

While Hurricane Florence’s recent weakening is most certainly positive, it is too early to alter portfolio loss estimates at this point. Significant uncertainty on the track and intensity of the storm remains, as seen by the substantial changes that have taken place over the last few hours. The rainfall and storm surge threats have not changed in a meaningful way and continue to drive uncertainty. This uncertainty is likely to remain for some time, even after landfall.

The biggest risk from Hurricane Florence appears to be within indemnity trigger structures. This means that loss statements will be needed from the cedents before getting more clarity on the ultimate impact on portfolios.

Outlook

Twelve Capital continues to monitor the situation extremely closely. Further updates will be provided as the situation becomes clearer, particularly post-landfall.

Twelve Capital AG

Dufourstrasse 101
8008 Zurich, Switzerland
Phone +41 (0)44 5000 120

Twelve Capital (UK) Ltd

Moss House, 15-16 Brook's Mews
London W1K 4DS, United Kingdom
Phone: +44 (0)203 856 6760

info@twelvecapital.com
www.twelvecapital.com

About Twelve Capital

Twelve Capital is an independent investment manager specialising in insurance investments for institutional clients. As at 30 June 2018, the firm had approximately USD 4.5bn in assets under management. Twelve Capital's investment expertise covers the entire balance sheet of insurance companies, including Insurance Bonds, Insurance Private Debt, Catastrophe Bonds, Private Insurance-Linked Securities and Insurance Equity. The firm also structures portfolios of its Best Ideas. Twelve Capital was founded in October 2010 and has offices in Zurich and London.

This material has been furnished to you solely upon request and may not be reproduced or otherwise disseminated in whole or in part without prior written consent from Twelve Capital AG, Twelve Capital (UK) Limited or their affiliates (collectively, "Twelve Capital"). The information herein is based solely on the opinions of Twelve Capital and includes information based on estimates and should in no circumstances be relied upon. All information and opinions contained in this document may be subject to change without notice. Source for all data and charts (if not indicated otherwise): Twelve Capital. Twelve Capital does not assume any liability regarding incorrect or incomplete information (whether received from public sources or whether prepared internally or not). This material does not constitute a prospectus, a request/offer, nor a recommendation of any kind, e.g. to buy/subscribe or sell/redeem investment instruments or to perform other transactions. The investment instruments mentioned herein involve significant risks including the possible loss of the amount invested as described in detail in the offering memorandum(s) (where applicable) for these instruments which will be available upon request. Past performance is no indication or guarantee of future performance. The products and services described herein are not available nor offered to US persons and may not (and will not) be publicly offered to persons residing in any country restricting the offer of such products or services. In particular, any products have not been licensed by the Swiss Financial Market Supervisory Authority (the "FINMA") for distribution to non-qualified investors pursuant to Art. 120 para. 1 to 3 of the Swiss Federal Act on Collective Investment Schemes of 23 June 2006, as amended ("CISA"). Accordingly, pursuant to Art. 120 para. 4 CISA, the investment instruments may only be offered and this material may only be distributed in or from Switzerland to qualified investors as defined in the CISA and its implementing ordinance. Further, the investment instruments may be sold under the exemptions of Art. 3 para. 2 CISA. Investors in the investment instruments do not benefit from the specific investor protection provided by CISA and the supervision by the FINMA in connection with the licensing for distribution. Where distribution is to EU members states such distribution is carried out by Twelve Capital (UK) Limited in accordance with the terms or its authorisation and regulation by the Financial Conduct Authority. Twelve Capital AG is incorporated in Switzerland, registered number 130.3.015.932-9, registered office: Dufourstrasse 101, 8008 Zurich. Twelve Capital (UK) Limited is Incorporated in England & Wales: company number 08685046, registered office: Moss House, 15-16 Brook's Mews, London, W1K 4DS and is also registered as a Commodity Pool Operator by the Commodities Futures Trading Commission in the United States of America.

© 2018 Twelve Capital. All Rights Reserved.