HALF YEAR REVIEW AND UPDATE OF EXPECTATIONS FOR 2024

JULY 2024

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Executive Summary

- Cat Bonds registered a positive start into 2024 and continue to show attractive gross yields. H1 2024 was marked by a buoyant new issuance activity and we expect the growth trend of the ILS market to continue, also driven by innovation in the Private ILS space.
- Insurance Debt positive returns benefited from spreads tightening in H1 2024 thanks to investors' optimism about economic and sector growth. We expect net inflows to remain positive, driven by expectations of additional rate cuts towards the end of the year.
- Insurance Equity was up in H1 2024, outperforming the broader European benchmark, despite some volatility towards the end of the quarter.

As the first half of 2024 has passed, it is an opportune moment to reflect on the performance of the asset classes in which Twelve Capital operates. We aim to assess whether our outlook, published in January, held true and to discuss our expectations for the remainder of 2024. To keep this half-year update simple and concise, we will focus only on the liquid segments of our investment universe: namely Cat Bonds, Liquid Insurance Debt and Listed Insurance Equity.

By examining market indexes, we observe sound performance across various asset classes both in absolute levels and relative to non-sector specific indexes.

Cat Bonds	Insurance Debt	Insurance Equity
USD +5.8%	EUR +4.0%	EUR +8.1%

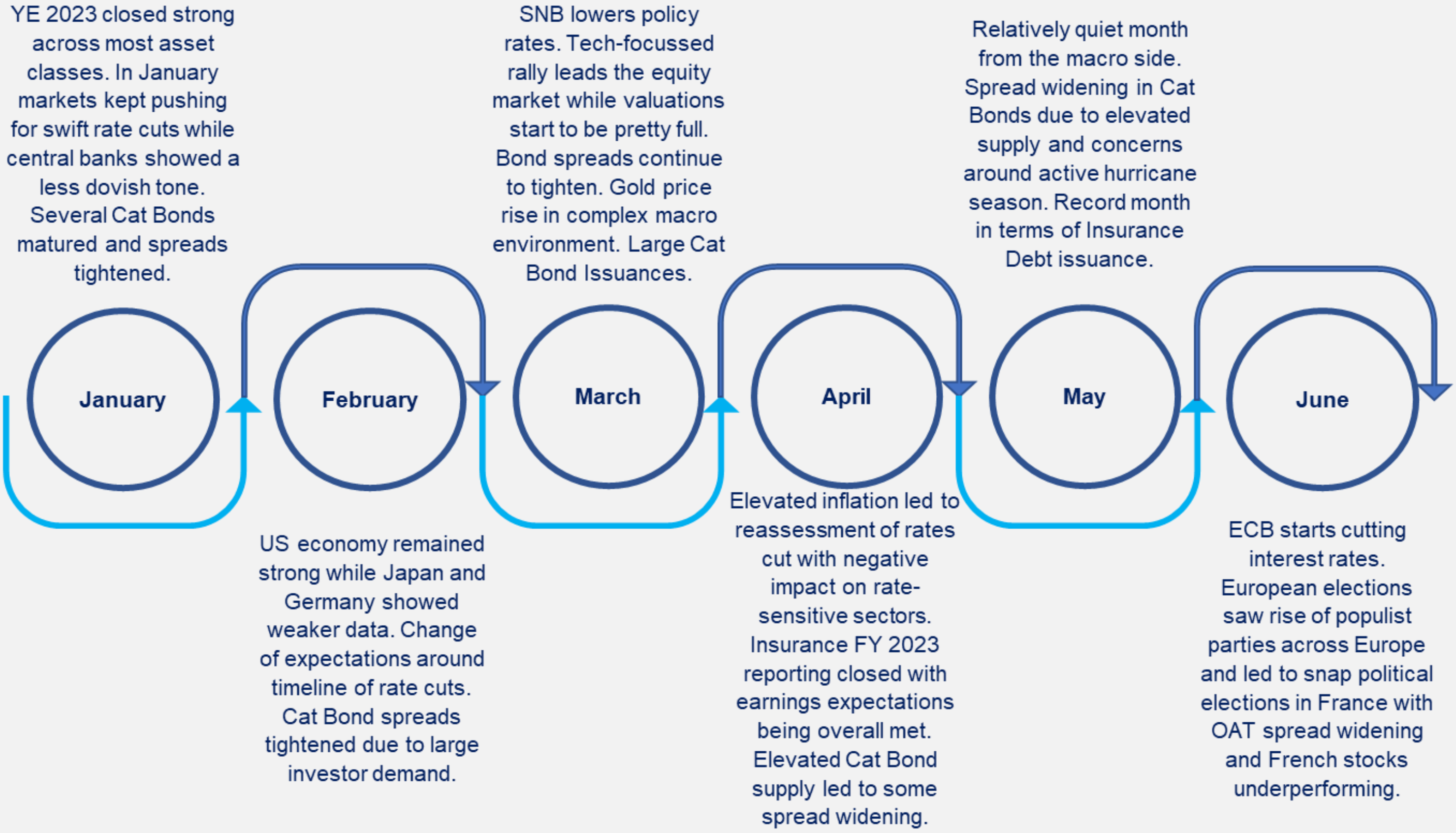
Source: Twelve Capital, Bloomberg. As at 30 June 2024. Past performance is not indicative of future returns. Capital invested may increase or decrease in value. Please refer to the information at the end of the document for index descriptions.

Cat Bonds registered a positive start into 2024: the second best first half of the year since 2004. We witnessed intense carry and spread compression in the first quarter of the year, followed by some spread widening in the latter part of Q2 2024. This shift was primarily due to elevated supply and a partially reduced investor appetite ahead of the hurricane season that is predicted to be relatively active. These adjustments in spreads have brought Cat Bond gross yields to levels not seen since Q4 2023 (around 15% in USD for the entire market) highlighting the continued appeal of the asset class.

Insurance Debt positive returns benefited from spreads tightening in H1 2024 thanks to investors' optimism about economic and sector growth. This was despite the political uncertainties in Europe and the large supply of new deals. In fact, the abundant flow of new deals has been well received by the market and oversubscribed, particularly more junior structures like restricted Tier 1 bonds. Nevertheless, new issuance spreads remain attractive in absolute and relative terms to other fixed income classes. With a total return of 4.0% our investment universe of European Insurance Debt has outperformed European BBB corporate indexes by approximately 3.3% in H1 2024. Supporting reference rate cuts will provide tailwinds to returns in the upcoming months.

Insurance Equities have performed well, the STOXX 600 Insurance Index was up 8.1%, 1.3 points ahead of the broader European equity benchmark. Stocks of reinsurance companies and the major multiline carriers have also performed well despite some intra-semester volatility, buoyed by their disciplined underwriting and reserving policies, strong capital positions and attractive dividend yields. Moreover, insurance stocks fared better than the broader market in the month of June, when the parliamentary elections in France generated some widespread volatility.

H1 2024 Review of Cat Bonds, Insurance Debt and Insurance Equity



Source: Twelve Capital. As at 30 June 2024. Past performance is not indicative of future returns. Capital invested may increase or decrease in value.

Twelve Capital State of the Market

Cat Bonds

Twelve Capital January 2024 Outlook	Current situation at HY	Outlook for H2
Longer-lasting heightened pricing environment. Spreads normalising towards an elevated level	Traditional market participants have continued a prudent approach towards pricing and risk exposures, making this strong cycle a particularly long-lived one. Capital inflows from alternative players and more capacity for risk-remote layers have led to some decrease in Cat Bond excess spreads, which settled at around 7.5% at HY 2024.	Much will depend on the total catastrophe bill for 2024 and the development of the hurricane season. A mild season in terms of insured losses might lead to a some softening of the (re)insurance cycle and then of spreads. Conversely a particularly loss-heavy season or an increase in secondary peril losses would lead to sustained or higher spreads.
Growth in the market. Diversity of perils covered and new cedants	We recorded north of USD 12.5bn in Cat Bond new issuances in H1 2024, marking another record year after a positive 2023, propelling the total market size to around USD 48bn. Several new cedants tapped the market and we observed an increase in cyber transactions.	Under current market dynamics, we expect this growth trend to continue, also driven by innovation in the Private ILS space.
Returns in the USD 10% area for liquid Cat Bonds	The Swiss Re Cat Bond Index registered a USD 5.8% performance in H1 2024. It recovered in June, after a short dip in May driven by some spread widening, mostly on Industry Loss Warrant (ILW) transactions.	With most of the risk premium harvested during the hurricane season, in a no-loss scenario, we expect investors to be on track to achieve returns at or above our initial expectation. For reference, we flag 2024 gross yields for the Cat Bond market in the USD 15% area with a 2.15% EL.
Continued inflows of capital	We have observed a more widespread investor base approaching the Cat Bond asset class, attracted by the uncorrelated nature of returns, appealing gross yields, and a solid longterm performance history.	Under current market dynamics, we expect this popularisation of the asset class to continue. We remind investors that in case of a very active hurricane season with elevated insured losses, market conditions would be optimal for new capital to harvest attractive spreads.

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Insurance Debt

Twelve Capital January 2024 Outlook	Current situation at HY	Outlook for H2
EUR 15-25bn of supply from European insurers under our coverage in different types of structures	Large EUR 12bn of subordinated debt supply YTD plus EUR 4.7bn of senior debt, driven by favourable issuing conditions and increased investors' appetite. EUR 7.7bn net supply after taking into account debt maturities.	We expect an additional EUR 5-10bn of supply for the rest of the year, driven mainly by refinancing needs and the end of Solvency II grandfathering period. Strong new debt supply supports: a) market liquidity, b) diversification, c) deployment of capital at attractive yields.
Material net inflows in credit funds in 2024	Global bond funds saw sound net inflows of EUR 370bn in H1 2024 (+4.1% of global credit). This increase was driven by investor willingness to lock-in elevated rates and spreads, ahead of the planned rate cuts.	We expect net inflows to remain positive, driven by expectations of additional rate cuts towards the end of the year, and a still attractive entry point compared to other asset classes where valuations are fuller or are facing headwinds.
Spread compression of around 30-70bps	We have seen a 40bps spread compression for EUR instruments. European and French elections in June have put some pressure on spreads.	We think that market-wide spread tightening in Q2 2024 was partly held back by geopolitical uncertainties. Election results in France and the UK appear to be neutral to positive for markets. A friendly outcome in the US would support potential further tightening of spreads by 20-30bps.
Base case EUR net returns in the 5.5-7.0% area for liquid Insurance Debt in 2024	Performance YTD is solid with close to +4.0% gross in EUR for our European Insurance Debt universe, while actively managed products by Twelve Capital are up 3.9% net, driven by intense carry and spreads tightening.	Positive expected performance for the rest of the year, driven by spread tightening and a decrease in rates. This should help meet or exceed our initial expectations.

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Insurance Equity

Twelve Capital January 2024 Outlook	Current situation at HY	Outlook for H2
Capital raising and new listings in the insurance space have been limited in 2023, and we expect to remain so in 2024	Only one small US IPO (BOW: USD 0.8bn market capitalisation) with minimal new equity capital raisings.	With ample available capital in the industry and limited capital strain from growth we see new capital raising muted.
Sector's dividend yield to remain overall attractive in the 6% area for European insurance	We calculate EU insurance companies paid dividends of EUR 31.8bn in H1 2024, 4.8% of combined market capitalisation. This accounts for 86% of forecast 2024 dividend, implying a 5.5% FY 2024 dividend yield.	We expect capital return strategy to remain steady given healthy underlying fundamentals. Some large companies increased their payout ratio with FY 2023 results. The sector is currently trading at 7% yield of dividend to be paid in 2025.
The environment remains favourable for M&A	We have already observed a resurgence in M&A activity as companies streamline their structure. Notable examples include Arch acquiring Allianz's middle market operations, Sampo's bid to buy the remaining shares of Topdanmark, and BNP purchasing Fosun's stake in Ageas. Ageas' nearly hostile bid for Direct Line is also significant.	Expect to continue as insurance is a mature industry with limited potential for material organic real premium growth. Additionally, many companies are concluding or initiating new strategic plan cycles. There is evident pressure to simplify business operations, reduce capital intensity, and aim for higher ROE.

➢ Summary

In summary, the first half of 2024 saw positive performance across the asset classes Twelve Capital is mainly active in. Cat Bonds had a solid start, driven by sound carry and some spread compression. Insurance Debt returns were robust, buoyed by tighter spreads and optimistic market sentiment. Insurance Equities also performed well, outpacing broader market benchmarks. Looking ahead, the outlook remains positive. In the absence of major natural hurricanes and unexpected geopolitical events, we see the three asset classes on track to meet or exceed the targets we set at the beginning of the year, maintaining a positive outlook for the remainder of the year.

Index Glossary

Swiss Re Cat Global Bond Index (SRGLTRR) – The index calculated by Swiss Re Capital Markets, is a market value-weighted basket of natural cat bonds tracked by Swiss Re Capital Markets, calculated on a weekly basis.

Stoxx 600 Insurance PR (SXIP) – The SXIP Index is a capitalisation-weighted index that includes European companies that are involved in the insurance sector. The parent index is the SXXP. The index was developed with a base value of 100 as of 31 December 1991.

Stoxx Europe 600 Price Index EUR (SXXP) – The index has a fixed number of 600 components representing large, mid and small capitalisation companies among 17 European countries.

Pan-European Aggregate: Corporate Baa (H02561EU) - Investment grade, Baa corporate total return index hedged in EUR.

Key risks associated with insurance investments include

Concentration in one industry risk: When a portfolio is reliant on one industry or market segment (i.e., insurance industry), this creates concentration risk. Thus, it increases the likelihood that a single impact can have a big effect.

Event risk: Should an insured event occur and the defined threshold values be exceeded, then the value of a specific ILS instrument may decrease to the extent of a total loss.

Liquidity risk: Potentially situationally dependent, certain instruments may not be liquidated in a reasonable time frame.

Model risk: The calculated event probability of certain events is based on risk models. These only represent approximation of reality and may be fraught with uncertainty and errors. Consequently, event risks can be significantly under- or over-estimated.

Valuation risk: Due to a wide variety of market factors, there is no guarantee that the value determined by the Administrator will represent the value that can be realised on the eventual disposition of the investment or that would, in fact, be realised upon an immediate disposition of the investment.

Counterparty risk: The counterparty in a credit, or trading transaction may not fulfil its part of the deal and may default on the contractual obligations.

Interest rate risk: In particular fixed rate securities may be affected by changing interest rates which may reduce or increase the market value of a bond.

Market risk: The price of investments may fluctuate and can decline in value due to factors affecting financial markets generally or particular industries, sectors, companies, countries or geographies represented in the portfolio.

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About Twelve Capital

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