

Reinsurance

CATCo Reinsurance Opportunities* – 5.737c annual distribution, and 2.887c in relation to Japan

- **Year-End NAV:** CATCo's NAV at 31 December was \$1.1059, representing an increase of 21.9% in 2013. In Q4, CATCo purchased some additional portfolio protections at a cost of around 2%, leading to slightly lower NAV growth for the year than had previously been projected.
- **Annual distribution:** CATCo has a target annual distribution of Libor plus 5% of the year-end NAV. Reflecting this, the Board has declared a dividend of 5.737c which will be paid on 31 January (ex-date 22 January). This is in addition to the 20c per share distribution (\$74m) that can be treated either as a capital or income payment by shareholders (with the option to elect for reinvestment up to an overall cap of \$25m).
- **Distribution in relation to Japan:** In August 2012, CATCo declared a contingent distribution to Ordinary shareholders relating to any recovery in value from the reinsurance contracts linked to the New Zealand earthquake in February 2011 and the Japan earthquake in March 2011. This facilitated the merger of the Ordinary and C share classes, as investors in the original IPO had exposure to these events, whereas investors in the C share did not. CATCo has now announced that a distribution of 2.887c will be payable to Ordinary shareholders on 24 January 2014 (with an ex-date of 8 August 2012).
- This payment relates to the Master Fund's exposure to the Tohoku earthquake in Japan, following an agreement with a reinsurance counterparty. CATCo had two reinsurance counterparties with potential exposure to the event. It took a full provision for one counter party, representing 30% of the Japanese exposure, in January 2012. The other counterparty had ILW protections that were expected to shield CATCo from any losses, but subsequently increased its loss reserves as the costs of the earthquake/tsunami continued to escalate (leading to a full provision by CATCo). However, the loss reserve was subsequently reduced, enabling CATCo to renegotiate a partial recovery of value (which we estimate to be c.50%). The exposure to the NZ earthquake is a crystallised loss.
- **Numis views:** CATCo's current share price of \$1.126 represents a premium of 1.8% to the year-end NAV. The relatively high returns available from catastrophe reinsurance in relation to fixed income products have attracted significant investor capital into Insurance-Linked Strategies this year, and the Guy Carpenter Global Property Catastrophe Reinsurance Rate-on-Line Index fell 11% at the 1 January 2014 renewal. We believe that CATCo's potential returns in 2014 will inevitably be impacted by the pricing environment. However, the managers recently indicated that they expected only a modest reduction in pricing, helped by the fund's unique multi-pillar UNL strategy focused on retrocessional reinsurance. It has confirmed that the Master Fund has deployed collateralised retrocession reinsurance capacity at rates in excess of the company's target returns (Libor plus 12-15% pa), and we expect further details of the 2014 portfolio in the near future.
- Since CATCo's launch, there has been an extraordinary series of events around the world, with 2011 being the highest year for insured losses on record (\$120bn), including the earthquakes in Japan and NZ. This was followed by \$80bn of insured losses in 2012, including Superstorm Sandy. Munich Re estimates that insured losses from natural events were \$31bn in 2013, in-line with the long term, but below the ten-year average of \$56bn. In our view, it was encouraging that CATCo had a "clean" year and its NAV return of 21.9% illustrates the fund's attractive potential returns relative to the other listed reinsurance vehicles. We estimate that CATCo has delivered positive NAV total returns of 8.5% pa for

14 January 2014

investors at IPO (including the contingent distribution) and 15.3% pa from the C share in May 2011 and 13.9% pa from the secondary issue in December 2011. The bulk of the fund's capital raised (75%) was via the two C share issues in 2011.

* Denotes that this company is a corporate broking client of Numis Securities.

Note: all prices, NAVs and discounts as at close of business at 13 January 2014 unless otherwise stated.

The research analysts who prepared this report were Charles Cade, Ewan Lovett-Turner and Colette Ord

For UK regulatory purposes, this is a marketing communication. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Non independent research is not subject under MiFID to any prohibition on dealing ahead of the dissemination of investment research. However, Numis is required by the Financial Conduct Authority to have policies in place to manage the conflicts of interest which may arise in its production, which include preventing dealing ahead. Neither past performance nor forecasts are a reliable indicator of future results.

Important disclosure information relating to Numis Securities Limited may be found at <http://www.numiscorp.com/x/us/regulatory.html>