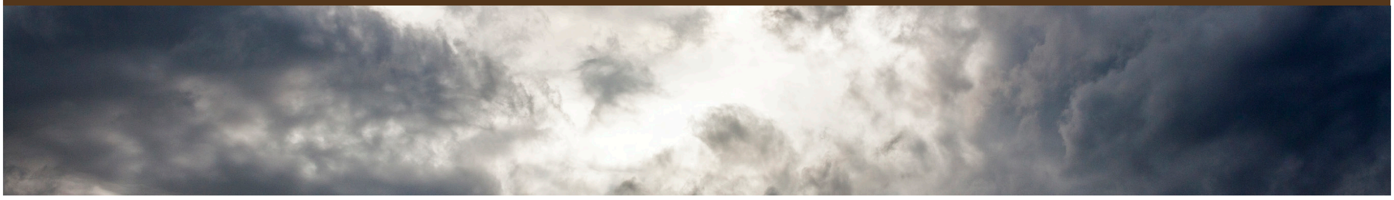

TWELVE-FALCON CAT BOND STRATEGIES | INTERVIEW

Q.1

At the beginning of this month we experienced Hurricane Joaquin as a serious threat for the US east coast. At the end, no CAT Bonds were triggered. What was your worst case calculation from Joaquin to the CAT Bond portfolios?

A.1

There are various prediction models related to hurricane tracks; the uncertainty might be high. In a situation of a hurricane in the water, we monitor very closely the development of the storm, and consider the model forecasts. In the Joaquin case, it became clear to us when the storm was near the coast that with high likelihood, the storm will not be a threat to any cat bond. This was based on an internal analysis which took into account the model prediction data. The portfolios actually took advantage of some opportunities and bought bonds on the secondary market at attractive price, because some sellers were concerned. "Thanks" to this storm, our analysis and our strong trading capabilities, we could source the bonds.

Q.2

Since September 2015 you can invest more than 25% in non rated bonds. How important is the official rating for your investment process?

A.2

This change was very important and helpful. Initially the constraint prospectus imposed a categorization into rated and non-rated bonds. For us, however, the main reference is the natural catastrophe modelling and not the external rating. Moreover, we developed our own rating system that ranks the quality of each transaction from a viewpoint of its legal structure and accounts for other soft factors. Therefore, the external rating per se caused some 'artificial' constraints, and those constraints were not adding much value from a risk-management or portfolio-management perspective. Also, very importantly, there are less and less new issuances of rated bonds. This is driven by the costs that can be saved by the sponsors (as rating costs money) and the limited value it adds to investors. Attached a chart (courtesy of Artemis.bm)

Q.3

The fund volume of the Twelve Falcon Insurance Linked Strategy fund is close to 300 Mio USD. What is your maximum volume capacity in the fund and can you give us an overview of the traded weekly volume in CAT Bonds?

A.3

Indeed, the fund experienced a substantial growth in the last 12 months and we continue seeing much interest from various clients: banks, institutional investors, family offices and so on. At the moment, we do not experience any capacity constraints and manage the portfolio with very little cash, as of today it is less than 3%. Moreover we maintain a very strict level of discipline and follow a comprehensive investment process; despite of the intense inflows, we happened to decline 2 recent cat bond deals in the primary market, as we considered the risk-adjusted value of those opportunities to be too low.

For the current cat bond market size (i.e. USD 25bn), we believe that the fund can be as large as USD 600.

In terms of traded bonds - we are very active on the secondary market, and our trading desk has an important function in our investment process; Both in terms of providing efficient ramp-up for new inflows and also in terms of generating return via trading techniques. We bought about USD 50m in the last quarter for the fund, and sold USD 15m.

Q.4

The European Winterstorm season starts in November – what is the anticipation for the fund in regards to the spreads on CAT Bonds while the US Hurricane season is ending and European Winterstorm is starting.

A.4

What usually happens is that price of US Hurricane bonds increase after the summer (because the season is almost over and there is less instantaneous risk), which had a positive impact on the performance in the last few months. At the same time, the bonds exposed to EU Wind start experiencing a decline in their mark-to market prices, I.e. Spreads widen, because the season starts in November. The spread at issuance of bonds exposed to European storms are typically lower and hence the spread change is not as strong as for the U.S. Hurricane peril. Also the fund does not allocate as much to EU wind bonds, so the impact on performance is expected to be limited.

Q.5

The Monte Carlo Meeting, the most important event for the industry took place in September. What are your most interesting topics from this conference – are there any new trends or innovations which influence your investment process?

A.5

The Monte Carlo meeting is an important (re)insurance/ILS forum gathering senior executives, portfolio managers and underwriters representing the largest and most prominent organizations in the sector.

There are 3 main items which were of importance for our investment process:

- Growth and Capacity: the cat bond space continues to steadily grow and match the growth of the fund and interest of investors. Hence we do not forecast capacity limitations in the near term.
- Innovation and Diversification: new sponsors, novel structures and trigger types will continue to appear in the cat bond space (which is what we are experiencing in 2015). This will help us continuing to have a strongly diversified fund.
- Private Cat Bonds: The industry appreciates Twelve Capital's leading role in sourcing and structuring new private cat bonds (Dodeka series). We see a demand from cedants', we continue our efforts and the fund will allocate to the new (or renewed) Dodeka cat bonds.

Q.6

How do you expect the spread development of CAT Bonds for the next 12 months – December is always an important month for renewals of reinsurance business – what are your expectations?

A.6

We believe that cat bonds reached their floor in terms of spreads and we do not anticipate major changes in the pricing dynamics (on risk-adjusted basis) in the near future.

We are also pleased to comment that many brokers and investment banks share a similar view and indicate the end of spread compression for the near term for cat bonds.

In the next few months the renewal season will take place and we anticipate a pipeline of newly cat bonds as well, not less than USD 750mm until year end.

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