Aon Benfield

Insurance-Linked Securities

Fourth Quarter 2014 Update

Risk. Reinsurance. Human Resources.

AON
Empower Results®

2014—A Record-Breaking Year for ILS

The end of the 2014 calendar year marked a new record for annual property catastrophe bond issuance with a total of USD8.0 billion of limit placed. The groundbreaking period successfully continued the ascension of the catastrophe bond market since the financial crisis to surmount its prior annual peak of USD7.9 billion established in 2007. Although a record for property catastrophe bond issuance, the year fell just short of the record for total issuance (when including life and health transactions). Total issuance for 2014 reached USD8.2 billion.[1]

As of December 31, 2014, total catastrophe bonds on-risk stood at USD24.3 billion—yet another record for the market and an 18 percent increase over the prior year period. This emphasizes the magnitude of the market's expansion over a relatively short space of time.

During the second half of 2014, seven catastrophe bond transactions closed totaling USD2.3 billion. The range of risks included territories such as stand-alone California, North America and Japan. The peril of earthquake was well represented amongst the issuances, featuring in all seven transactions.

The table below summarizes the terms of the deals that closed during the second half of 2014.

Third and fourth quarter 2014 catastrophe bond issuance

Beneficiary	Issuer	Series	Class	Size (millions)	Covered Perils	Trigger	Rating	Expected Loss[2]	Interest Spread
Third Quarter									
State Compensation Insurance Fund	Golden State Re II Ltd.	Series 2014-1	Class A	$250	US EQ	Modeled Loss	BB+ (S&P)	0.25%	2.20%
Fourth Quarter									
Everest Reinsurance Company ("Everest Re")	Kilimanjaro Re Limited	Series 2014-2	Class C	$500	US/CAN EQ	Industry Index	BB- (S&P)	1.46%	3.75%
California Earthquake Authority	Ursa Re Ltd.	Series 2014-1	Class A	$200	CAL EQ	Indemnity	Not Rated	1.18%	3.50%
			Class B	$200				2.55%	5.00%
United Services Automobile Association	Residential Reinsurance 2014 Limited	Series 2014-II	Class 4	$100	US HU, EQ, ST, WS, WF, Others	Indemnity	Not Rated	1.79%	4.80%
Amlin AG	Tramline Re II Ltd.	Series 2014-1	Class A	$200	US HU, EQ & EU Wind	Industry Index	Not Rated	5.71%	9.75%
American International Group, Inc.	Tradewynd Re Ltd.	Series 2014-1	Class 1-B	$100	US/CAN/MEX/ CB/Gulf HU & US/CAN/ MEX/ CB EQ	Indemnity	B (Fitch)	2.41%	6.75%
			Class 3-A	$100			BB- (Fitch)	1.24%	5.00%
			Class 3-B	$300			B (Fitch)	2.36%	7.00%
National Mutual Insurance Federation of Agricultural Cooperatives ("Zenkyoren")	Nakama Re Ltd.	Series 2014-2	Class 1	$175	JP EQ	Indemnity	Not Rated	0.58%	2.125%
			Class 2	$200				0.70%	2.875%
Total Closed During Q3 and Q4				$2,325					

**All $ figures are USD unless otherwise stated*
Source: Aon Benfield Securities, Inc.

Legend

CAL – California
CAN – Canada
CB – Caribbean
EU – Europe
Gulf – Gulf Coast
JP – Japan
MEX – Mexico
US – United States
EQ – Earthquake
HU – Hurricane/Named Storm
ST – Severe Thunderstorm
WF – Wildfire
WS – Winter Storm

[1] *Aon Benfield Securities' 2014 issuance figure excludes almost USD500 million in new issuance through private ILS structures*
[2] *Expected loss represents one-year annualized figures with WSST sensitivity when applicable*

Everest Re's Kilimanjaro Re Limited Series 2014-2 Class C notes successfully pushed the boundaries of the market and represented the first deal to be brought to market in the fourth quarter. The transaction, which was Everest Re's second time in the market during 2014, is the largest transaction with a term of five years. The notes provide Everest Re with USD500 million of earthquake coverage in Canada and the United States.

The California Earthquake Authority (CEA) returned to the catastrophe bond market in the fourth quarter, introducing a new program, Ursa Re Ltd. The latest transaction for the CEA is the largest yet by USD100 million and provides California earthquake indemnity coverage on an annual aggregate basis.

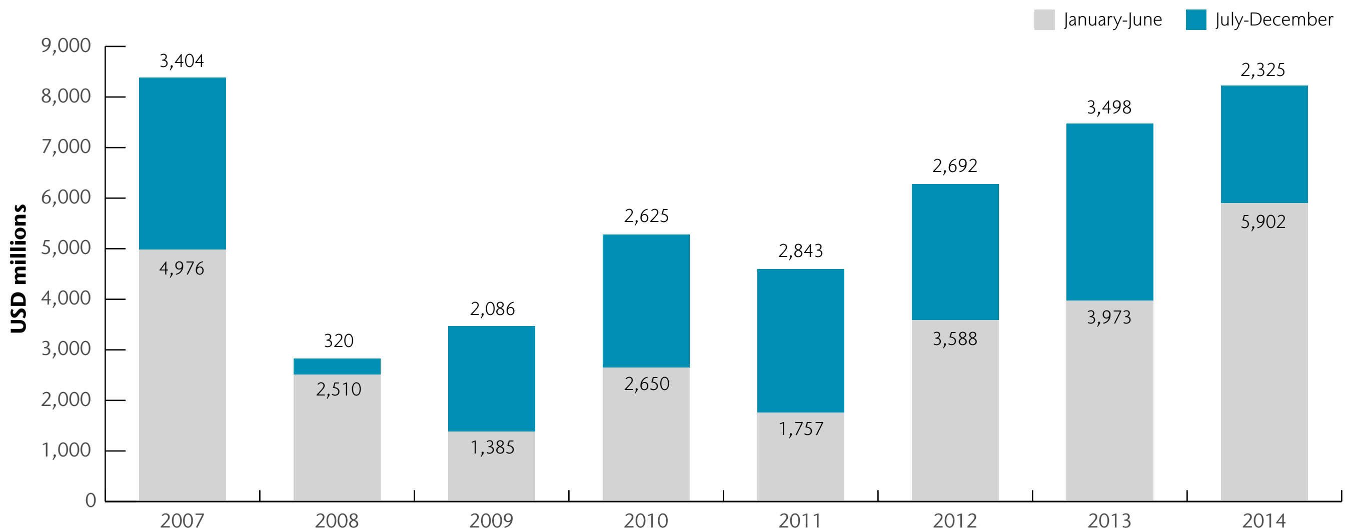
Through its second issuance, Tramline Re II Ltd. provides Amlin AG U.S. named storm and earthquake coverage along with Europe windstorm for a higher risk layer than was typically seen in 2014 issuances. The transaction has an expected loss of 5.71 percent and closed at an interest spread of 9.75 percent. Strong investor demand during the marketing period for the higher yielding transaction resulted in it closing below initial guidance.

Tradewynd Re Ltd. Series 2014-1 provides American International Group with expanded indemnity coverage to now include named storms in Canada and Mexico, as well as earthquakes in Mexico. The USD500 million transaction includes three classes of notes with maturities ranging from one to three years. The latest transaction brings the total from Tradewynd Re Ltd. to over USD1 billion.

Finally, to close the year, Nakama Re Ltd.'s Series 2014-2 issuance provides Zenkyoren USD375 million in coverage split between a four-year per occurrence and five-year floating three-year term aggregate structure. Total issuance for the Nakama Re Ltd. program in 2014 was USD675 million.

The chart below shows catastrophe bond issuance by half year since 2007.

Catastrophe bond issuance by half year



Source: Aon Benfield Securities, Inc.

Aon Benfield Securities expects 2015 will be another active year for catastrophe bond issuance, fueled by the continued growth in alternative capital, and cedants' increasing comfort with utilization of insurance-linked securities in their risk transfer programs.

Aon Benfield ILS Indices

The Aon Benfield ILS Indices are calculated by Bloomberg using month-end price data provided by Aon Benfield Securities.

In 2014, all Aon Benfield ILS indices posted gains. The Aon Benfield All Bond and BB-rated Bond Indices posted returns of 4.96 percent and 2.45 percent, respectively. The U.S. Hurricane and U.S. Earthquake Bond Indices returned 8.01 percent and 3.46 percent, respectively. Ending 2014, the Aon Benfield ILS Indices had mixed results relative to comparable fixed income benchmarks. The All Bond, U.S. Hurricane and U.S. Earthquake Bond indices outperformed all comparable fixed income benchmarks, while the BB-rated index underperformed these benchmarks. The S&P 500 Index, however, produced superior returns with increases from the prior annual period of 11.39 percent.

As spreads have continued to tighten, interest payments to investors are lower on average than those received in prior years. With lower interest spreads, price increases in the secondary market will be muted relative to previous periods—the ability for spreads to continue tightening to the same degree is reduced. This dynamic, however, is not limited to ILS; fixed income investors face similar situations in other markets as interest rates have tightened over the past several years.

Aon Benfield ILS Indices

Index Title	Return for Quarterly Period Ended December 31		Return for Annual Period Ended December 31	
Aon Benfield ILS Indices	2014	2013	2014	2013
All Bond Bloomberg Ticker (AONCILS)	0.88%	2.16%	4.96%	11.16%
BB-rated Bond Bloomberg Ticker (AONCBB)	0.06%	1.54%	2.45%	7.60%
U.S. Hurricane Bond Bloomberg Ticker (AONCUSHU)	1.63%	1.97%	8.01%	11.12%
U.S. Earthquake Bond Bloomberg Ticker (AONCUSEQ)	0.76%	1.01%	3.46%	6.47%
Benchmarks				
3-5 Year U.S. Treasury Notes	0.88%	-0.40%	2.21%	-0.98%
3-5 Year U.S. Corporate BB	0.75%	3.09%	2.99%	7.24%
S&P 500	4.39%	9.92%	11.39%	29.60%
ABS 3-5 Year, Fixed Rate	0.89%	0.47%	2.90%	0.36%
CMBS 3-5 Year, Fixed Rate	1.03%	0.63%	3.24%	0.90%

Source: Aon Benfield Securities Inc., Bloomberg

[3] *The 3-5 Year U.S. Treasury Note Index is calculated by Bloomberg and simulates the performance of U.S. Treasury notes with maturities ranging from three to five years.*

The 3-5 Year BB Cash Pay U.S. High Yield Index is calculated by Bank of America Merrill Lynch (BAML) and tracks the performance of U.S. dollar denominated corporate bonds with a remaining term to final maturity ranging from three to five years and are rated BB1 through BB3. Qualifying securities must have a rating of BB1 through BB3, a remaining term to final maturity ranging from three to five years, fixed coupon schedule and a minimum amount outstanding of $100 million. Fixed-to-floating rate securities are included provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transactions from a fixed to a floating rate security.

The S&P 500 is Standard & Poor's broad-based equity index representing the performance of a broad sample of 500 leading companies in leading industries. The S&P 500 Index represents price performance only, and does not include dividend reinvestments or advisory and trading costs.

The ABS 3-5 Year, Fixed Rate Index is calculated by BAML and tracks the performance of U.S. dollar denominated investment grade fixed rate asset backed securities publicly issued in the U.S. domestic market with terms ranging from three to five years. Qualifying securities must have an investment grade rating, a fixed rate coupon, at least one year remaining term to final stated maturity, a fixed coupon schedule and an original deal size for the collateral group of at least $250 million.

The CMBS 3-5 Year, Fixed Rate Index is calculated by BAML and tracks the performance of U.S. dollar denominated investment grade fixed rate commercial mortgage backed securities publicly issued in the U.S. domestic market with terms ranging from three to five years. Qualifying securities must have an investment grade rating, at least one year remaining term to final maturity, a fixed coupon schedule and an original deal size for the collateral group of at least $250 million.

The performance of an index will vary based on the characteristics of, and risks inherent in, each of the various securities that comprise the index. As such, the relative performance of an index is likely to vary, often substantially, over time. Investors cannot invest directly in indices.

While the information in this document has been compiled from sources believed to be reliable, Aon Benfield Securities has made no attempts to verify the information or sources. This information is made available "as is" and Aon Benfield Securities makes no representation or warranty as to the accuracy, completeness, timeliness or sufficiency of such information, and as such the information should not be relied upon in making any business, investment or other decisions. Aon Benfield Securities undertakes no obligation to update or revise the information based on changes, new developments or otherwise, nor any obligation to correct any errors or inaccuracies in the information. Past performance is no guarantee of future results. This document is not and shall not be construed as (i) an offer to sell or a solicitation of an offer to buy any security or any other financial product or asset, or (ii) a statement of fact, advice or opinion by Aon Benfield Securities.

Catastrophe Bond Sales and Distribution

Demand from investors for new issuance in the catastrophe bond market remained strong as the year came to a close. Investors secured USD2.3 billion of catastrophe bond transactions in the second half of 2014 via the primary market. With a record amount of bonds outstanding in the catastrophe bond market and USD5.5 billion maturing in the first half of 2015, investors sought to make room for new deals in their portfolios by selling existing holdings in the secondary market. A relatively active secondary market enabled investors to access extra capacity and helped to further support the primary market.

High demand from investors resulted in many sponsors increasing the size of transactions during the fourth quarter. The demand also helped secure pricing at the midpoint or below initial spread guidance. Despite no new sponsors accessing the market during the period, returning sponsors brought perils and terms not seen in their previous transactions. For instance, Everest Re's North America earthquake transaction, Kilimanjaro Re Limited Series 2014-2 Class C, followed the successful placement of its Southeast named storm transaction and North America multi-peril transaction earlier in 2014. As another example, Zenkyoren utilized a rolling term aggregate structure to cover Japan earthquake exposures. Sponsors maximized capacity by pursuing these different structures from their previous transactions.

The secondary market for catastrophe bonds proved to be a valuable source of liquidity to investors looking to participate in the record volume of new issuances. After the U.S. hurricane season came to a close, most trading throughout the fourth quarter involved hurricane transactions with less than six months until maturity. Specifically, institutional investors sought to purchase these securities to achieve yields higher than would be realized by holding cash or cash-like instruments. Sellers used the freed capital to invest via the new issue market and extend portfolio duration.

While liquidity for short-dated transactions was robust in the fourth quarter, investors' demand in the secondary market for longer dated, relatively low-yielding transactions was somewhat tepid. This reflected the lack of high-yielding and abundance of lower-yielding primary issuance that closed over the preceding 24 months. Investors were able to source remote risks in the primary markets and as a result had less demand to purchase similar risks in the secondary market. Investors trying to rebalance portfolios with remote risks therefore had difficulty finding attractive bids. The lack of supply for high-yielding deals in the secondary market allowed sponsors such as Amlin AG to upsize its higher risk Tramline Re II Ltd. Series 2014-1 issuance below initial interest guidance.

As we enter 2015, Aon Benfield Securities expects another strong year in the catastrophe bond market, as funds continue to attract new capital, a large number of existing bonds mature, thereby freeing up investor capital, and sponsors seek to expand their use of ILS in their reinsurance programs.

An Interview with Augustin Gas, Retrocession Manager, SCOR Global P&C

Aon Benfield Securities recently spoke with SCOR's Retrocession Manager, Augustin Gas, about SCOR's views on the insurance-linked securities market.

1. SCOR was an early entrant into the ILS space. Have your thoughts evolved in regard to ILS vs. traditional retrocession?

SCOR issued its first cat bond in 2000. Since then, we have been a recurrent issuer, wholly committed to the market. Fundamentally, our views have not changed with regard to ILS. For us, ILS represents a secure source of diversification, which is an integral part of our placement strategy and one that offers multi-year capacity. These key characteristics are paramount for a large and long-term buyer like SCOR and for the strong sense of commitment and partnership at the heart of our strategic approach, both on the outwards and inwards side of the business.

SCOR has always combined ILS with traditional capacity. We do not think in terms of ILS versus traditional. Rather, we see the two products as complementary, whilst offering different value propositions. We very much value both and therefore approach them in a holistic way.

2. How does the current market pricing shape your thoughts on alternative products?

Our approach remains unchanged within the current market environment and we see value in reviewing alternative products, especially where they are more efficient. For us, this ranges from covering well-modeled high severity, low frequency perils to worldwide aggregate cover. Although SCOR is a large player, we continue to be nimble and flexible within our long-term approach to buying reinsurance and retrocession. We want to stay ahead of the game by utilizing innovative products that give us a competitive edge. For example, as part of our strategic plan we have optimized our retrocession strategy, including the creation of a sidecar in 2014.

3. What could sponsors and investors partner on to grow the market?

The market has already grown a lot, maybe too quickly, and some of the current providers will probably need to become more familiar with reinsurance and the genuine nature of insurance risk transfer, which is different from financial market risk. It's not so much about growing the market as it is making it deeper, with investors genuinely partnering with (re)insurers and sharing a common understanding of what risk-taking actually means.

4. With SCOR's touch points in the market as a cat bond issuer, a sidecar issuer, and offering a fund, has ILS developed into a core strategy?

ILS plays a key role in SCOR Global P&C's strategic plan. It contributes to SCOR's position as a key market participant, building expertise and know-how which benefits all of our stakeholders—clients, shareholders, regulators and the rating agencies. We very much intend to stay at the forefront of innovation in this area, as we believe this gives us a competitive edge. In this respect, the recent launch of a new Alternative Solutions business unit reinforces our product offering, to the benefit of our clients, leveraging on the wealth of experience SCOR has accumulated in the alternative risk transfer space.

5. What are SCOR's views on the future of the market and how will they continue to participate through their various endeavors?

With abundant capacity in the market, we believe the long-term over-performers will be those companies which, like SCOR, have a long track-record, deep infrastructure and both broad and long-term market commitment. Being a global, diversified reinsurer brings us this differentiation, gives us all of these qualities and makes SCOR more important to our clients. This differentiation also positions SCOR well to pursue initiatives designed to encourage and stimulate demand and the development of commercial insurance, as well as the transfer of catastrophe risks to reinsurance in both mature and emerging markets, thereby supporting private-public partnerships and enhancing databases and modelling technics.

Contacts

Paul Schultz
Chief Executive Officer, Aon Benfield Securities
+1.312.381.5256
paul.schultz@aonbenfield.com

About Aon Benfield

Aon Benfield, a division of Aon plc (NYSE: AON), is the world's leading reinsurance intermediary and full-service capital advisor. We empower our clients to better understand, manage and transfer risk through innovative solutions and personalized access to all forms of global reinsurance capital across treaty, facultative and capital markets. As a trusted advocate, we deliver local reach to the world's markets, an unparalleled investment in innovative analytics, including catastrophe management, actuarial and rating agency advisory. Through our professionals' expertise and experience, we advise clients in making optimal capital choices that will empower results and improve operational effectiveness for their business. With more than 80 offices in 50 countries, our worldwide client base has access to the broadest portfolio of integrated capital solutions and services. To learn how Aon Benfield helps empower results, please visit aonbenfield.com.

© Aon Benfield Securities, Inc. 2015 | All Rights Reserved

Aon Benfield Securities, Inc. is providing this document, Insurance-Linked Securities 2014: Fourth Quarter Update, and all of its contents (collectively, the "Document") for general informational and discussion purposes only, and this Document does not create any obligations on the part of Aon Benfield Securities, Inc., Aon Benfield Securities Limited and their affiliated companies (collectively, "Aon"). This Document is intended only for the designated recipient to whom it was originally delivered and any other recipient to whose delivery Aon consents (each, a "Recipient"). This Document is not intended and should not be construed as advice, opinions or statements with respect to any specific facts, situations or circumstances, and Recipients should not take any actions or refrain from taking any actions, make any decisions (including any business or investment decisions), or place any reliance on this Document (including without limitation on any forward-looking statements).

This Document is not intended, nor shall it be construed as (1) an offer to sell or a solicitation of an offer to buy any security or any other financial product or asset, (2) an offer, solicitation, confirmation or any other basis to engage or effect in any transaction or contract (in respect of a security, financial product or otherwise), or (3) a statement of fact, advice or opinion by Aon or its directors, officers, employees, and representatives (collectively, the "Representatives"). Any projections or forward-looking statements contained or referred to in this Document are subject to various assumptions, conditions, risks and uncertainties (which may be known or unknown and which are inherently unpredictable) and any change to such items may have a material impact on the information set forth in this Document. Actual results may differ substantially from those indicated or assumed in this Document. No representation, warranty or guarantee is made that any transaction can be effected at the values provided or assumed in this Document (or any values similar thereto) or that any transaction would result in the structures or outcomes provided or assumed in this Document (or any structures or outcomes similar thereto). Aon makes no representation or warranty, whether express or implied, that the products or services described in this Document are suitable or appropriate for any sponsor, issuer, investor or participant, or in any location or jurisdiction.

The information in this document is based on or compiled from sources that are believed to be reliable, but Aon has made no attempts to verify or investigate any such information or sources. Aon undertakes no obligation to review, update or revise this Document based on changes, new developments or otherwise, nor any obligation to correct any errors or inaccuracies in this Document. This Document is made available on an "as is" basis, and Aon makes no representation or warranty of any kind (whether express or implied), including without limitation in respect of the accuracy, completeness, timeliness, or sufficiency of the Document.

Aon does not provide and this Document does not constitute any form of legal, accounting, taxation, regulatory, or actuarial advice. Recipients should consult their own professional advisors to undertake an independent review of any legal, accounting, taxation, regulatory, or actuarial implications of anything described in or related to this Document. Aon and its Representatives may have independent business relationships with, and may have been or in the future will be compensated for services provided to, companies mentioned in this Document. To the maximum extent permitted by law, neither Aon nor any of its Representatives shall have any liability to any party for any claim, loss, damage or liability in any way arising from, relating to, or in connection with this Document.

About Aon

Aon plc (NYSE:AON) is the leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, best reinsurance intermediary, best captives manager, and best employee benefits consulting firm by multiple industry sources. Visit aon.com for more information on Aon and aon.com/manchesterunited to learn about Aon's global partnership with Manchester United.

© Aon plc 2015. All rights reserved.

The information contained herein and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Aon Benfield Securities, Inc. and Aon Benfield Securities Limited (collectively, "Aon Benfield Securities") provide insurance and reinsurance clients with a full suite of insurance-linked securities products, including catastrophe bonds, contingent capital, sidecars, collateralized reinsurance, industry loss warranties, and derivative products.

As one of the most experienced investment banking firms in this market, Aon Benfield Securities offers expert underwriting and placement of new debt and equity issues, financial and strategic advisory services, as well as a leading secondary trading desk. Aon Benfield Securities' integration with Aon Benfield's reinsurance operation expands its capability to provide distinctive analytics, modeling, rating agency, and other consultative services.

Aon Benfield Inc., Aon Benfield Securities, Inc. and Aon Benfield Securities Limited are all wholly-owned subsidiaries of Aon plc. Securities advice, products and services described within this report are offered solely through Aon Benfield Securities, Inc. and/or Aon Benfield Securities Limited.