

INVESTING UP A STORM

Robin Fuller, Director of Dexion Capital (Guernsey), explains how insurance-linked strategies offer both diversification from more traditional asset classes and potential for stable returns

MANY INVESTORS ARE looking for investment strategies that act as differentiators to equities and bonds. Insurance-linked strategies (ILS) offer an opportunity to diversify investors' portfolios while also providing a long-term stable income with a low-risk profile.

Insurance-linked investments aim to access returns earned from underwriting natural catastrophe insurance risk, either through catastrophe (cat) bonds or private transactions.

Cat bonds are issued into the capital markets by insurers or reinsurers and the capital provided by the investor is used as collateral against the potential losses generated by a defined event. In exchange, investors receive an income stream via premium payments. The longer an insured event fails to occur, the more the investor can benefit from the receipt of these premiums.

Private contracts, on the other hand, are bespoke agreements between investors willing to take on part of the risk in return for a premium, and insurers or reinsurers who wish to lay off the risk.

The income stream that can be generated by ILS investments goes largely untouched by macro-economic events, unlike traditional investments such as property, bonds and equities, and even alternative investments such as hedge funds. This contributes to the diversification benefits of ILS.

However, investors in this asset class must understand the potential for large losses if catastrophic events take place. As with any other type of investment, investors should be aware that different funds investing in portfolios of ILS investments will have different risk/return profiles, and therefore different probabilities of experiencing losses. In general, the trade off is between insuring low-probability events with a high impact, or more frequent events with lower individual impacts. Considerable expertise is required to construct optimal portfolios within this framework.

Introducing DCG IRIS

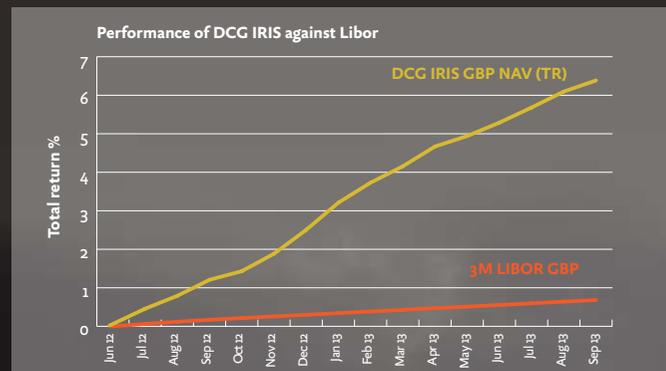
DCG IRIS, from Dexion Capital, is a listed closed-ended investment company that aims to achieve positive returns by investing in insurance-linked contracts and assets carrying exposure to risks related to insured event risks. The company pursues its investment objective by principally investing its assets in CS IRIS Low Volatility Plus Fund Limited, which invests in a broadly diversified portfolio of insurance-linked contracts, securities and derivatives as well as investments related to insurance risks over the long term.

The portfolio has most risk exposure in the private market, in part reflecting the fact that publicly traded cat bonds are less diversified, with higher concentration in US wind and earthquake risk. This allows the portfolio to have enhanced regional diversification, as well as a greater variety of event risks, which have little or no correlation to one another (for example, US wind risk and Japanese earthquake risk). This diversification seeks to achieve reduced tail risk in the portfolio and attractive risk-adjusted

returns being extracted from the reinsurance market over time.

The CS IRIS Low Volatility Plus Fund is managed by Credit Suisse, which has a long and credible track record and \$5.4bn in ILS assets under management as at August 2013. Since inception to the end of August 2013, DCG IRIS has delivered an annualised return of 5.2 per cent, with an annualised volatility of 0.4 per cent.

DCG IRIS offers risk-adjusted returns, a proven investment manager (along with its ability to actively hedge portfolio risk exposures, even as natural catastrophe events are happening), and the opportunity to diversify investors' portfolios by including a return stream largely uncorrelated with other asset classes. ■



About Dexion Capital

Dexion Capital (Guernsey) (DCG) is a highly regarded organisation with a strong reputation for investment management and the provision of principal manager and third-party fund administration services and specialist services to fund boards, as well as acting as an AIFM to third-party fund managers requiring a Guernsey AIFM for their funds. DCG is part of the Dexion Capital Group and is licensed by the Guernsey Financial Services Commission.

For further information on DCG and DCG IRIS please visit www.dexioncapital.com/dcgl