Insurance-Linked Securities

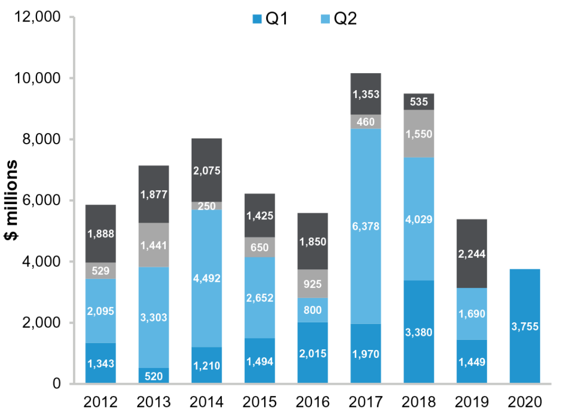
Q1 2020 Update

Empower Results®

ILS Primary Market

The first quarter of 2020 was the strongest Q1 in ILS history in terms of total catastrophe bond issuance, with USD3.8 billion issued, not including life and health transactions. After just three months of 2020, sponsors had already ceded more than two-thirds of the total catastrophe bond volume issued in 2019. The strong supply was met with equally strong demand, as over half of the 27 tranches that came to market priced within the midpoint of their respective guidance, and 12 of the 14 deals that had room in their layers upsized. With only USD2.3 billion of maturities in the first quarter, it was reassuring to see strong investor acceptance of the robust pipeline. Demand seemed to be a byproduct of favorable capital positions and positive fund flows within the market. Another trend which began to materialize towards the latter half of 2019 and continued into this year is that investors have shifted to a more calculated investment approach, favoring cleanly structured deals from high quality sponsors. There has been an expressed preference for per occurrence transactions due to the recent loss activity across aggregate bonds covering high frequency perils.

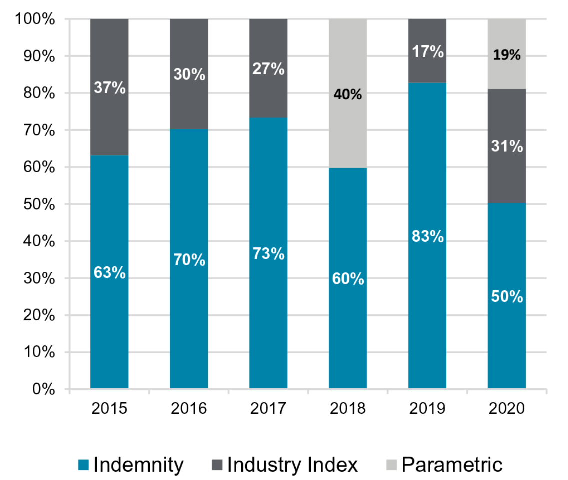
Property Cat Bond Issuance by Quarter



Source: Aon Securities

Over the past five years, indemnity transactions have made up the majority of first quarter issuances. Indemnity transactions' share of total new issuances had also been growing somewhat consistently, but in Q1 2020, we saw index transactions make up nearly a third of total new issuances, with indemnity decreasing to 50 percent. The increased usage of index transactions is reflective of reinsurers seeking to access capacity with relatively more stable and liquid instruments, following a series of loss-affected years. Along with the growth in index transactions, we also saw per-occurrence structures continue to rise, accounting for approximately 70 percent of all new issuances during the first quarter of 2020. This growth is reflective of investors' desire for cleaner transactions, and represents the market's present aversion to aggregate models.

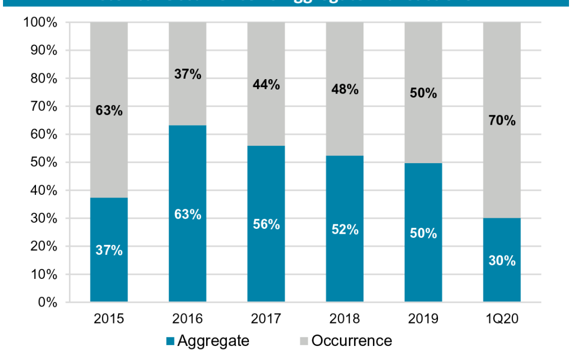
First Quarter Issuances by Trigger



Source: Aon Securities

Towards the end of Q1, the worry over the economic impact of COVID-19 intensified, with some investors expressing concern about potential outflows, while others elected to implement conservative short-term strategies to maintain fund liquidity. The volatility surrounding the effects of COVID -19 on the market has caused a few deals to be postponed until the market reflects more stability. With USD4.1 billion expected to mature in the second quarter of 2020, we expect to see another busy quarter with a strong transaction pipeline.

Historical Occurrence vs Aggregate Transactions



Source: Aon Securities

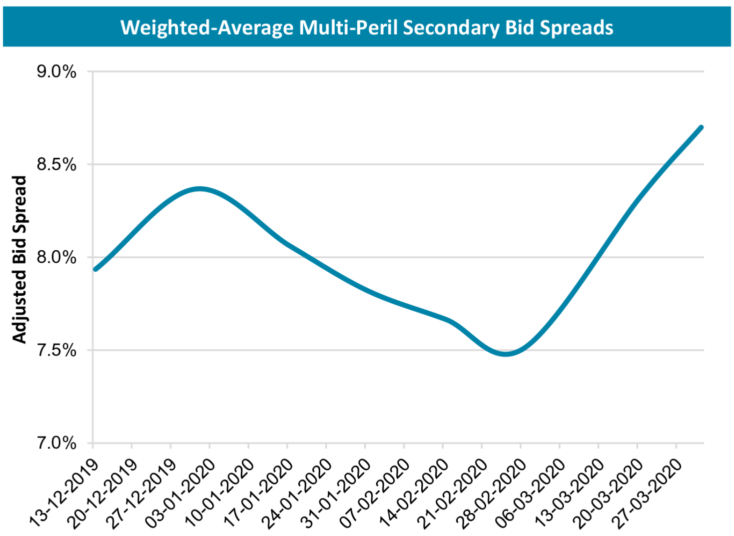
Mona Lisa Re 2020-1

Renaissance Re and DaVinci Re returned to the capital markets using the Mona Lisa Re program for the first time since 2013. The transaction was marketed towards the end of the fourth quarter 2019 and settled at the beginning of 2020 to optimize coverage and capacity. In the current catastrophe bond market, aggregate transactions receive less support than previous years, but Mona Lisa Re 2020-1 was able to secure USD250 million of multi-peril aggregate coverage at the beginning of the first quarter, doubling the launch size. The transaction also had a per-occurrence class to appeal to the broadest array of investors, which was apparent as the class upsized to USD150 million. Even with a fair amount of Florida Named Storm contributing to the Expected Loss, the aggregate and occurrence classes priced towards the tight ends of their respective guidance.

ILS Secondary Market

At the beginning of 2020, we saw average bid spreads begin to tighten slightly as capital inflows were put to work in a steady stream of secondary trading. We saw a strong demand for Index transactions and, in certain cases, observed secondary bid spreads decrease by approximately 100 basis points at the peak of trading activity. It was refreshing to see an active secondary environment with tightening spreads alongside a period of bolstering primary issuances.

More recently, as the pandemic has corrected other markets, some investors have sold in bulk to take advantage of dislocations in asset classes away from the space. The secondary market had continued to be active and fluid throughout the rest of the quarter, but with the increased volatility, we have seen sell interest outweigh the bid interest as buyers command a premium for liquidity. Increased selling interest was met with opportunistic and selective bids and spreads have widened. Fortunately, the bulk secondary selling, which initially saw approximately 70 percent of offers successfully trade, soon lost momentum and execution wavered. We believe that we are approaching, or have already hit, a floor, as most bid spreads have widened past initial levels that we saw before the quarter started. Given the large amount of upcoming maturities in the second quarter of 2020, there may be a good opportunity for bid spreads to return to levels experienced prior to the outbreak, as investors will seek to put their redemptions to work.



Source: Aon Securities RLS Price Sheet

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About Aon Securities

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As one of the most experienced investment banking firms in this market, Aon 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 Securities' integration with Aon's Reinsurance Solutions business expands its capability to provide distinctive analytics, modeling, rating agency, and other consultative services.

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