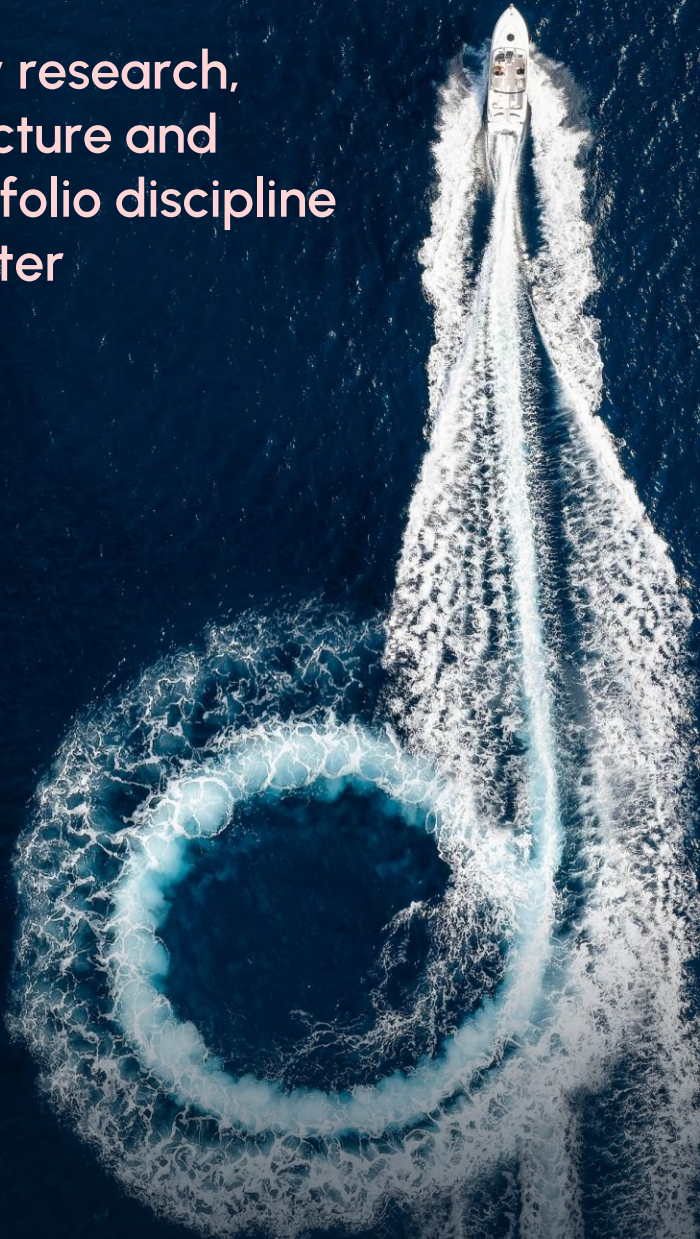


# Competing in a Normalising ILS Market

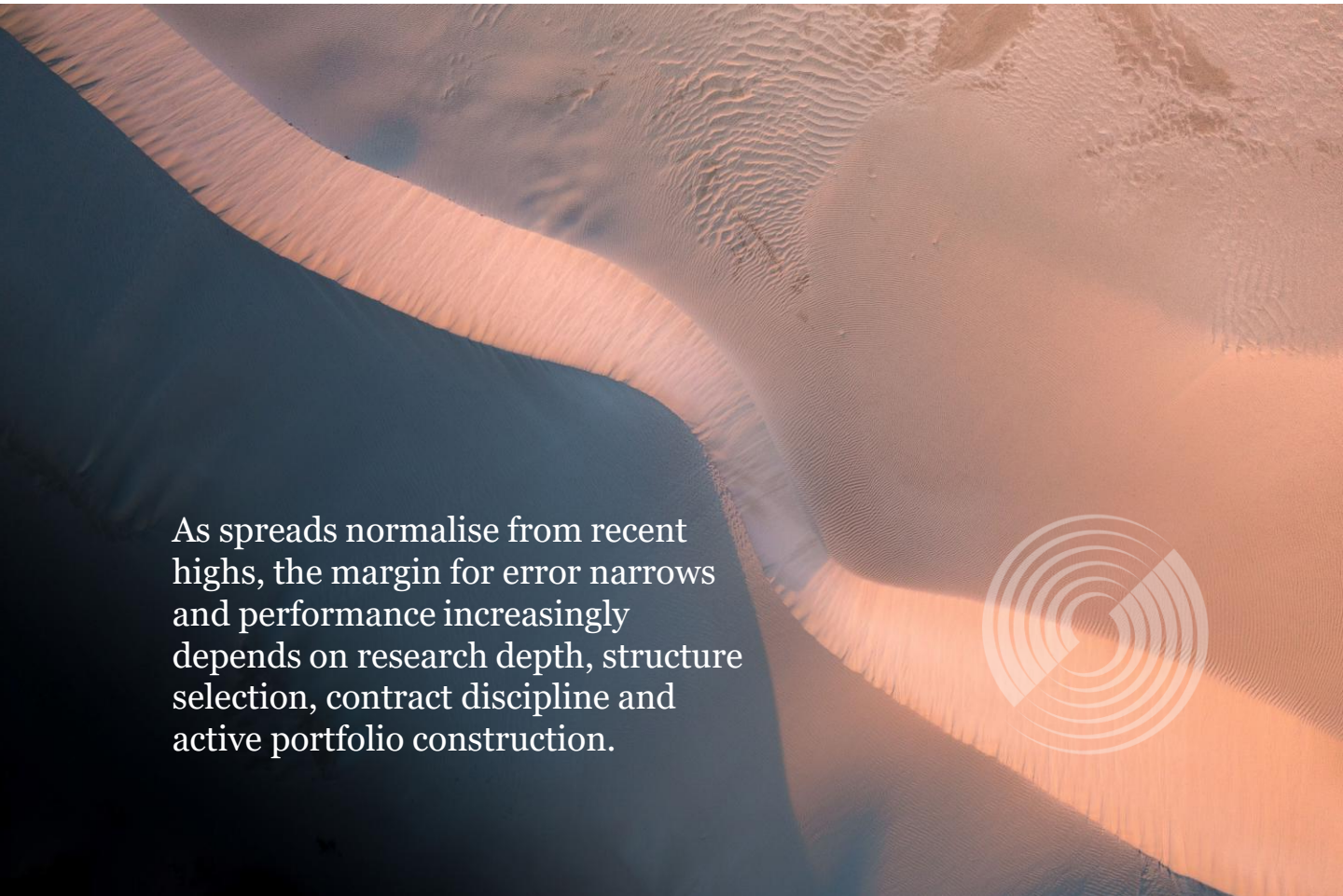
Why research,  
structure and  
portfolio discipline  
matter



## Executive Summary

Insurance-Linked Securities (ILS) remain a structurally attractive asset class. Yet the investment environment is evolving. As spreads normalise from recent highs, the margin for error narrows and execution quality becomes more important. In this environment, sustained performance depends on deep research capabilities, a stable and independent View of Risk, careful contract design, disciplined portfolio construction and active capital rotation.

The opportunity in ILS remains compelling. But success increasingly belongs to research-driven, actively managed platforms capable of navigating a more analytical and selective market environment.

An aerial photograph of sand dunes in a desert, showing the intricate patterns of wind-eroded sand. A semi-transparent circular graphic with concentric lines is overlaid on the right side of the image.

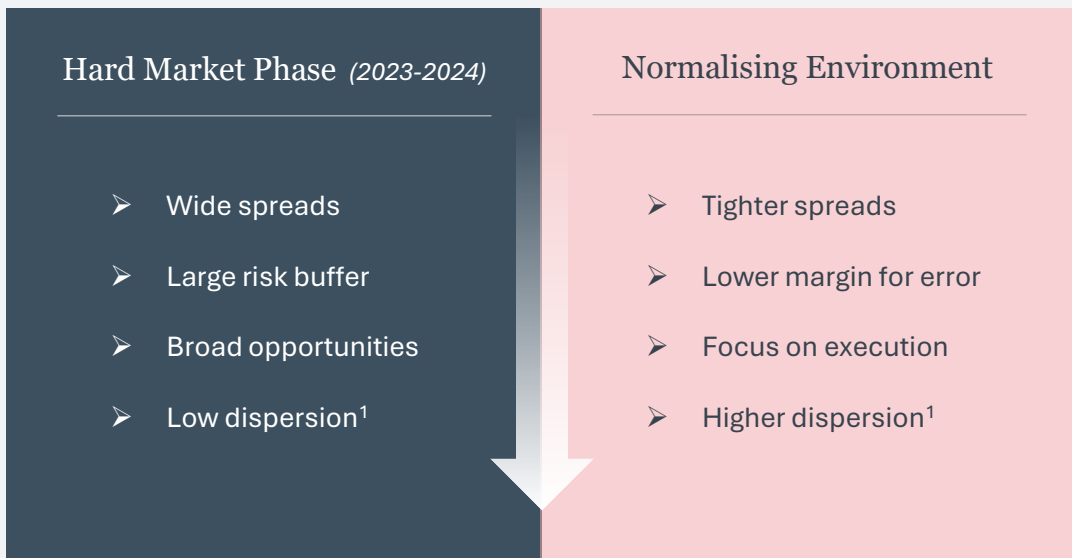
As spreads normalise from recent highs, the margin for error narrows and performance increasingly depends on research depth, structure selection, contract discipline and active portfolio construction.

## From hard market tailwinds to a more balanced environment

The ILS market experienced a significant repricing of catastrophe risk during 2023 and 2024. Capacity contraction and elevated loss experience drove spreads to unusually high levels. These conditions created strong tailwinds for investors. However, as strong capital inflows return to the ILS market and the (re)insurance sector rebuilds its capital buffers, pricing has

stabilised, with spreads compressing back toward their long-term historical averages. During 2023-2025, wide spreads provided investors with substantial protection buffers. As spreads tighten, that cushion naturally declines. Performance dispersion between managers is therefore likely to increase.

**Figure 1: The shift in the market environment**



Source: Twelve Securis. 1. Between managers.

## Climate-linked risk premia

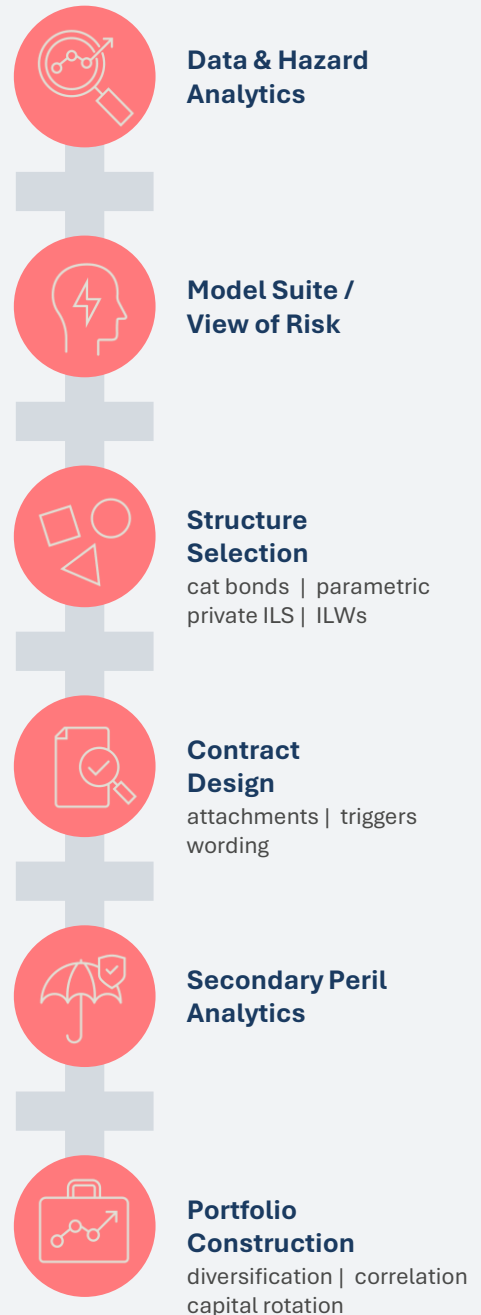
One of the defining characteristics of ILS is its exposure to catastrophe risk driven by physical hazards rather than exposure to traditional financial markets or economic cycles. The climate risk premium represents the compensation investors demand for assuming exposure to natural catastrophe events such as hurricanes as well as more frequent, yet similarly destructive events particularly when cumulated over a year such as severe convective storms, wildfire and floods.

These risk premia exhibit several characteristics that make them attractive for a traditional investment portfolio diversification:

- limited correlation with traditional market risk.
- as securities are floating rate, they have limited interest rate and counterparty risk exposure to climate derived risk premia. They, depend on several factors, including supply and demand, capital available, climatological and population dynamics.

However, these factors do not automatically translate in attractive investment opportunities. If hazards, exposures or correlations are poorly understood, the apparent premium may reflect mispriced or uncompensated risk. Effective ILS investing therefore requires strong analytical capabilities and careful contract design.

**Figure 2: Where analytics create value in ILS investing**



Source: Twelve Securis.

## The structural advantage of a diversified ILS platform

Many institutional investors access ILS through liquid catastrophe bond (cat bond) allocations, often in UCITS format. These structures offer transparency, liquidity and operational simplicity. However, the broader ILS universe extends well beyond liquid cat bonds. Additional instruments include collateralised reinsurance, industry loss warranties (ILWs), structured quota shares, parametric reinsurance.

Although spreads across these segments tend to move directionally together over the cycle, they rarely reprice in perfect synchronisation. A diversified ILS platform therefore provides additional flexibility in capital allocation to investors that can accommodate less frequent dealing terms than cat bonds.

### Practical allocation levers

#### *Indemnity / Index Cat Bonds*

High transparency

Strong liquidity

Low basis risk

#### *Parametric Structures*

Faster settlement

Reduced trapped collateral risk

Trigger engineering to minimise basis risk

#### *Private ILS / Collateralised Reinsurance*

Access to larger market and larger number of counterparties

Broad risk / return spectrum

## Active capital rotation becomes more important

In a compressing spread environment, the ability to rotate capital dynamically becomes a key driver of performance. Instead of maintaining static exposures, managers with a broader spectrum of investment capabilities can adjust allocations across structures, perils,

geographies and attachment points as relative value evolves.

This flexibility allows investors to respond to changing market conditions and maintain portfolio efficiency as spreads tighten.

Secondary perils have become increasingly important drivers of insured losses. The key investment challenge is therefore selectivity rather than avoidance.



## Secondary perils and model evolution

Most of the risks being transferred to capital markets by mean of ILS still focuses on so called primary perils, or severe and infrequent risk impacting highly populated areas with high values at risk, the typical examples being hurricane and earthquakes in the USA. Twelve Securis has historically focussed on these risks but acknowledges evolution in the modelling of several other perils.

Secondary perils including severe convective storms, wildfire and flood have become increasingly important drivers of insured losses. Historically, these perils were often approached cautiously due to higher event frequency, limited historical data or lower model maturity.

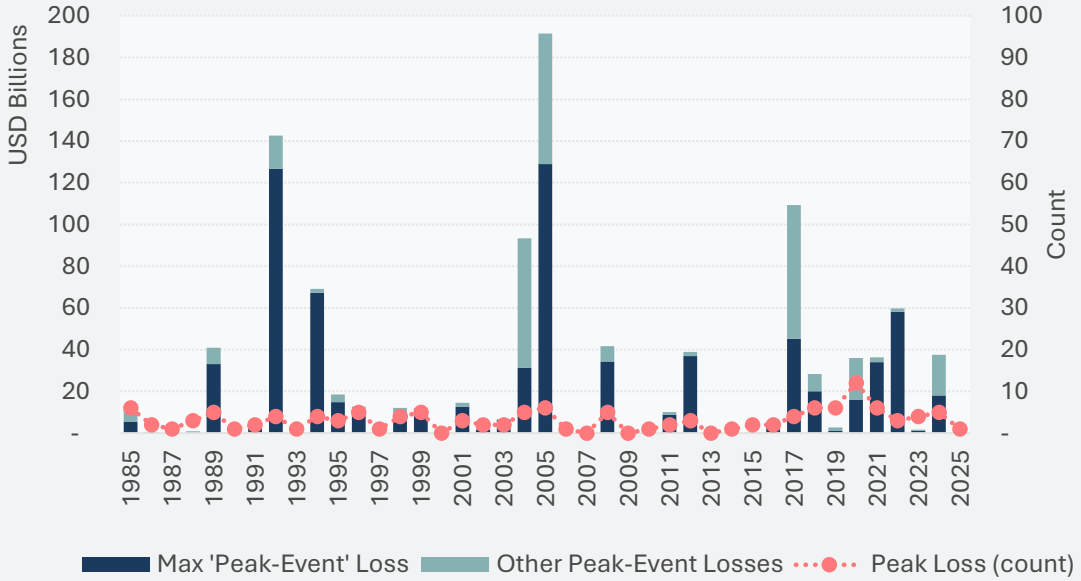
Recent advances in hazard analytics and exposure datasets have significantly improved modelling capabilities. Updates to catastrophe risk models from leading modelling firms and enhanced property-level data now allow investors to differentiate more effectively between:

- **Attritional loss patterns:** frequent small losses accumulating over time.
- **Systemic secondary-peril events:** large events capable of generating industry losses above USD 10 billion.

Events such as Winter Storm Uri (2021) and the Los Angeles wildfires (2025) demonstrate that certain secondary perils can exhibit peak-peril characteristics. The key investment challenge is therefore selectivity rather than avoidance.

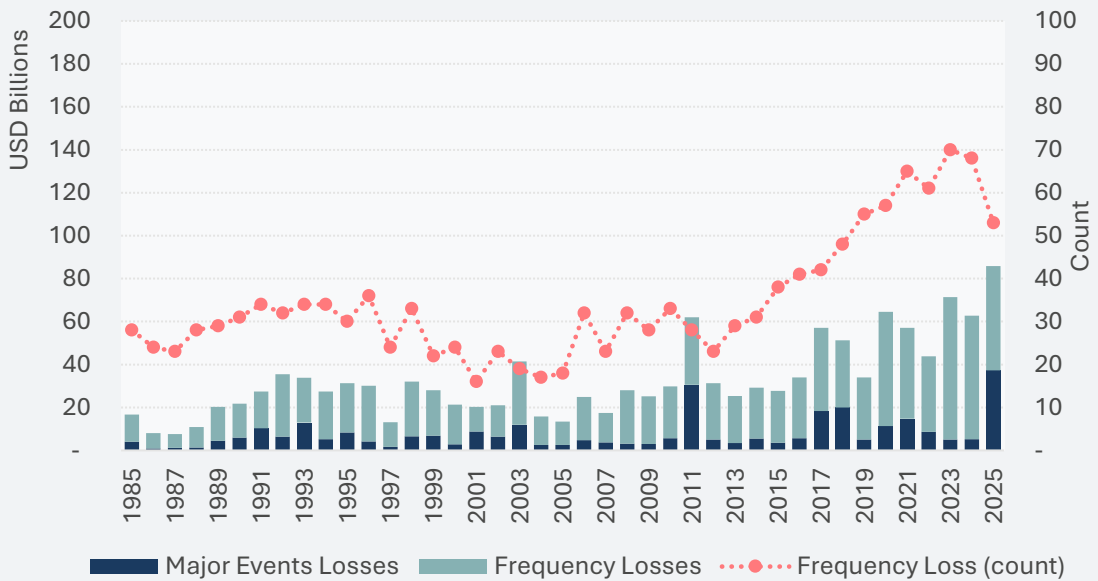
**Figure 3: Peak Peril Losses:** low frequency, single events typically dominate the total annual losses.

All losses are normalised to present day values.



**Figure 4: Non-Peak Peril Losses:** high frequency, attritional events typically dominate the total annual losses. Rare 'major loss' events approach the level of moderate peak-peril losses.

Major Losses = Sum of event losses > USD10bn or Maximum loss if no individual event > 10bn. All losses are normalised to present day values.



Source: PCS, Twelve Securis. As at March 2026. For informational purposes only. No representation or warranty is made as to the accuracy or completeness of this data.

## Parametric structures and capital efficiency

Parametric reinsurance is another area of structural innovation within the ILS market where Twelve Securis has been one of the trailblazers in incorporating this within its fund offering. Unlike traditional indemnity contracts, parametric structures link payouts to predefined physical parameters such as wind speed or earthquake magnitude. This design can offer several advantages such as faster claims settlement, reduced uncertainty around

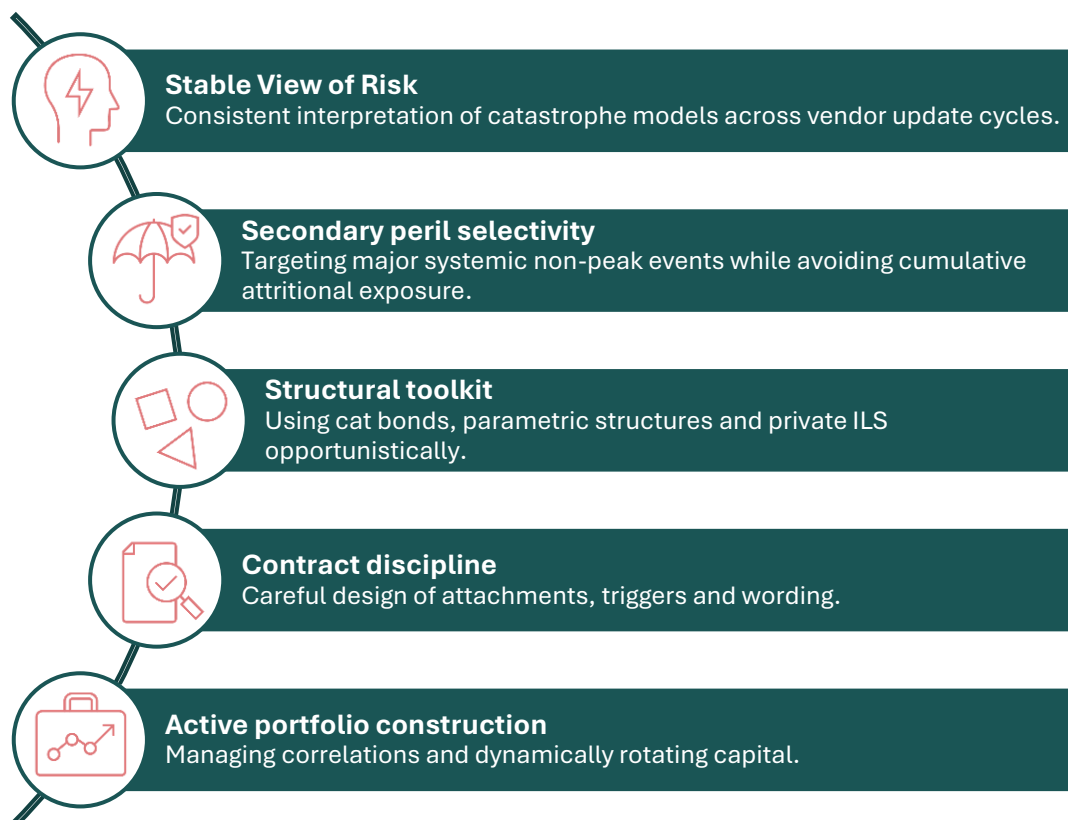
loss adjustment or lower trapped collateral risk.

From a modelling perspective, parametric structures isolate hazard components of catastrophe models, enabling more flexible analytical approaches. When structured carefully, parametric transactions can enhance portfolio resilience and capital efficiency.

## The importance of a stable View of Risk

Catastrophe models are evolved rapidly. Major updates to hurricane and earthquake models can significantly change expected loss estimates. Without a stable analytical framework, managers risk allowing vendor model updates to dictate capital allocation decisions. A proprietary View of Risk provides consistency across model cycles.

Rather than replacing third-party catastrophe models, it interprets them within a coherent analytical framework informed by empirical experience and structured stress testing. This approach also allows managers to evaluate the impact of model updates across entire portfolios before reallocating capital.



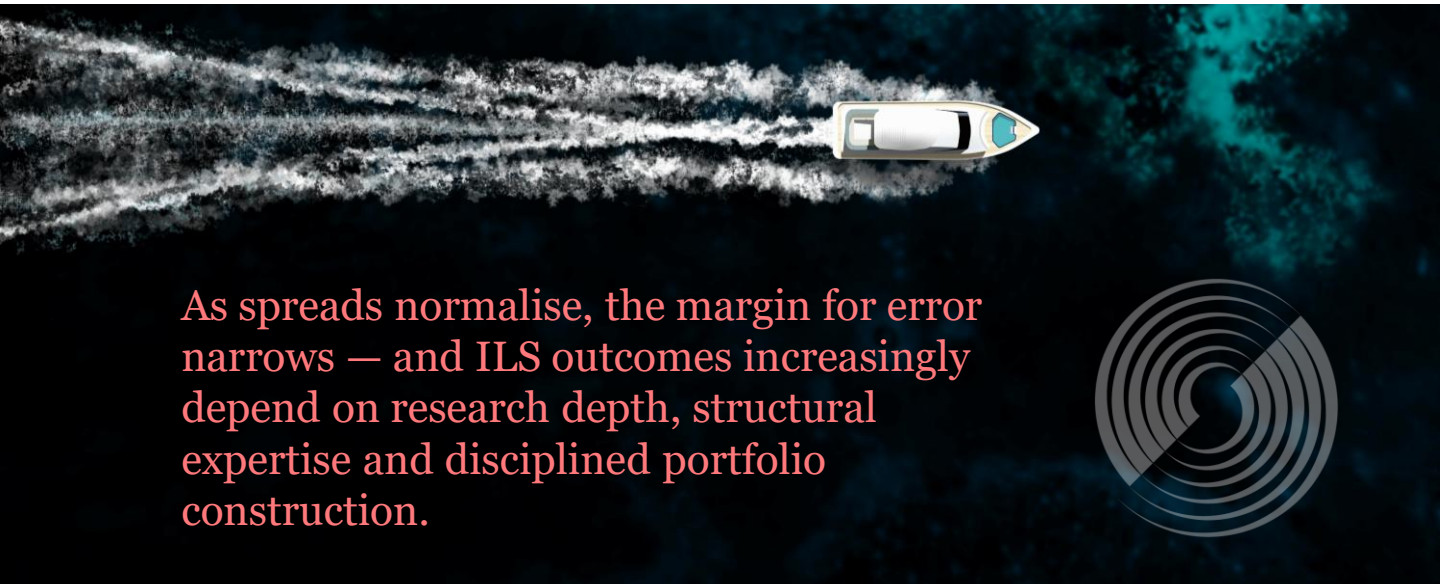
## The strategic case for ILS remains intact

Despite the transition to a more balanced pricing environment, the strategic investment case for ILS remains compelling.

The asset class continues to offer:

- diversification from traditional financial markets
- exposure to climate-related catastrophe risk premia
- expanding analytical capabilities, data quality and incorporation of technology
- ongoing structural innovation

However, as spreads normalise, the sources of return shift. Performance increasingly reflects analytical capability and portfolio discipline and will likely progressively show more dispersion in managers' performance.



**As spreads normalise, the margin for error narrows — and ILS outcomes increasingly depend on research depth, structural expertise and disciplined portfolio construction.**

## Conclusions

Following the repricing of catastrophe risk in 2023, investors in Insurance-Linked Securities (ILS) benefited from unusually wide spreads and strong return buffers.<sup>1</sup> As capital gradually returns to the market and no major events hit the sector, this environment is evolving.

Spreads across parts of the ILS universe have compressed towards averages recorded in the two decades prior to the increase in 2022,<sup>2</sup> signalling a transition from hard market conditions toward a more balanced phase of the cycle.

This shift does not weaken the strategic case for ILS. The asset class continues to offer a distinctive source of return driven by catastrophe risk rather than traditional market, credit or interest rate risks.

However, as spreads normalise, the drivers of performance change. The margin for error narrows, and investment outcomes increasingly depend on research depth, structural expertise and disciplined portfolio construction.

<sup>1</sup>Past performance is not indicative of future returns. <sup>2</sup>Source: Howden 1.1.26 market report.

## Risk Factors

The risk factors described herein are not intended to be exhaustive. Investors should refer to the full list of risk factors set out in the Offering Memorandum.

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**Concentration in one industry risk:** When a portfolio is reliant on one industry or market segment (i.e., insurance industry), this creates concentration risk. Thus, it increases the likelihood that a single impact can have a big effect.

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**Event risk:** Should an insured event occur, and the defined threshold values be exceeded, then the value of a specific ILS instrument may decrease to the extent of a total loss.

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**Liquidity risk:** Potentially, certain instruments may not be liquidated in a reasonable time frame.

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**Model risk:** The calculated event probability of certain events is based on risk models. These only represent an approximation of reality and may be fraught with uncertainty and errors. Consequently, event risks can be significantly under- or overestimated.

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**Valuation risk:** Due to a wide variety of market factors, there is no guarantee that the value determined by the Administrator will represent the value that can be realised on the eventual disposition of the investment or that would, in fact, be realised upon an immediate disposition of the investment.

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