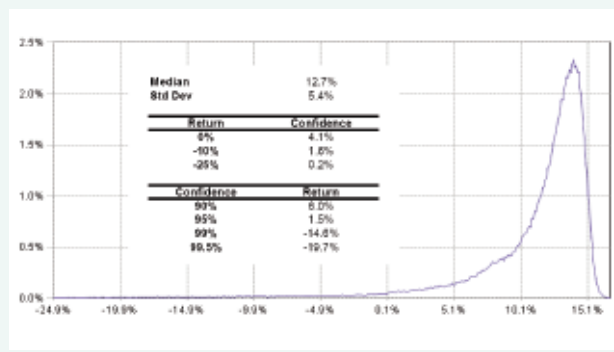


## INSURANCE LINKED SECURITIES



Portfolio return distribution

Source: Securis Investment Partners LLP

## SECURIS I FUND

### Focus:

- Open-ended insurance fund, diversified by type of risk, geography and issuer
- Consider all types of insurance events, but have a preference for low-severity, high-frequency risks over high-severity, low frequency risks.
- Particular interest in junior tranches of (life) insurance securitisations
- Target minimum 12% net return with low volatility and tail risk

### Strengths:

- Strong team and investment platform
- Combines life risks with non-life risks
- Strategic partnership and capital commitment from Swiss Re

### Weaknesses:

- Suited to investors with a relatively long term time horizon (restricted liquidity)

### Opportunities: Non-life:

- Cycle represents significant opportunities,
- Regulatory /rating agency arbitrage
- (Re)insurers place high value on capital market capacity
- Complementary to life strategy (frequency of opportunities)
- Provides liquidity (traded market; short term pvt. market)

### Life and pensions:

- At an early stage of dramatic restructuring, strong strategic interest in developing market
- Increasing rating agency pre-occupation with structure and quality of capital
- Securitisation emerging as a high-quality, low cost form of capital

### Sustainable returns

- Strategic value to issuer allows for in pricing, novelty premium, liquidity premium,

### Threats:

- There may be times when there is a lack of attractive investment opportunities - this could result in lower re-investment returns

Risk Management		<input type="checkbox"/> = low <input type="checkbox"/> = low/moderate <input type="checkbox"/> = moderate <input type="checkbox"/> = moderate to high <input type="checkbox"/> = high				
• Ability to source investment opportunities:	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	• Portfolio Volatility:				
• Ability to analyse potential investment opportunities:	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	• Valuation risk:				
• Ability to analyse individual securities and optimise their contribution within the portfolio:	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	• Pricing of OTC instruments: <i>done by administrator with market makers</i>				
• Actuarial and mathematical expertise:	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	• Counterparty risk:				
• Expertise in structuring of cash flow by tranching:	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	• Currency risk:				
• Financial leverage related risk:	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	• Market risk:				
		• Event risk: <i>exists, but well diversified - robust portfolio</i>				
		• Key man risk:				

Performance Parameters		<input type="checkbox"/> =insufficient <input type="checkbox"/> =adequate <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> = satisfactory <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> = good <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> = outstanding				
• Positions currently held in the portfolio:	approx. 50	• By issuer: <i>(insurers, reinsurers, investment banks and other risk aggregators)</i>				
• Efficiency in putting investor capital to work - <i>focus on achieving a sensible growth rate</i>		• By maturity (avg): 5 years				
• Diversification:		• Ability to sustain targeted performance in rising, sideways and falling markets:				
• By strategy: life 54.8%; listed non-life (property and casualty) 26.1%, private non-life 19.1%		• Since inception, consistency in delivering targeted returns:				
• By types of insurance risk ( <i>catastrophe, mortality, longevity, health, property and motor</i> )		• Ratio of expense (ex fees) to NAV:				
		In January 2007 approx 2.5 bps per month (NAV USD199.20mn)				

Outlook		<input type="checkbox"/> upside potential <input type="checkbox"/> upside to range bound <input type="checkbox"/> range bound <input type="checkbox"/> range bound to down <input type="checkbox"/> downside potential				
• Barriers to entry: <i>expertise, infrastructure</i>		• Ability of the fund being able to deliver targeted returns over the next:				
• Outlook on investing in the insurance sector:	<input type="checkbox"/> <input type="checkbox"/>	• 1 year:				
• Scope for a fund such as Securis:	<input type="checkbox"/> <input type="checkbox"/>	• 3-5 years:				
• Threat of competition:	<i>non-issue</i>	• Worst case scenario: <i>a global pandemic - flu</i>				

## Investment Insights

- Fund is primarily targeted at: *institutional investors*
- Investment horizon: *min of 1 year and up to 5 years*
- Geographic restrictions: *traditional hedge fund structure*
- Fund's base USD and other currencies it is available in: *EUR*
- Fund complexity for an investor: *relatively complex*
- Transparency provided to investor: *high*
- Securis Investment Partners LLP is registered with the *FSA*



## ELECTRICITY, WATER &amp; WEATHER RELATED INVESTING

## “... cause for pause ...”

Would you say investing in electricity, water and weather is still considered “exotic”? Why or why not?

I would say that investments in these markets are still considered “exotic” for the great majority of investors. It is not, of course, that the underlying physical manifestation of any of these markets is exotic - in fact, they are all quite ordinary. It is that the financial and derivative instruments created and used to trade various facets of them have not historically been widely followed. It is a bit of a Catch-22, in that markets like these tend to be bucketed in the realm of “exotic” because they don’t fall within a more traditional sector categorisation (such as agriculture, metals, energy, etc.); which further elongates the maturity cycle of these markets. If you don’t fit within someone’s pre-defined list of buckets, they aren’t always willing to take the time to figure out what you do. To some extent, this is also a function of market size.

I think investors have come to recognise the potential and that there are opportunities in water, weather and electricity related investments. But a lot are getting the whole long-only talking head version that we see in the media. It is quite one-sided and sensational, and for serious, professional investors, this type of euphoria is always cause for pause. In fact, the latter are waiting for the downside to materialise to really understand the risks and how they are not always linked to the fundamental story of a particular market.

## Why did you choose to invest in these markets?

Our research in the commodity and natural resource space strongly suggests that diversification among as many niche and specialty strategies has the ability to dramatically improve one’s risk-adjusted performance. Combine that with the fact that, generally, opportunities outside the mainstream markets can be those with a better or more asymmetric reward/risk profile and you have the makings for a portfolio that bundles a variety of higher volatility alpha opportunities into a return stream that can be attractive on a risk/return basis. The reality is that not everyone can focus on these types of markets because they are so different and eccentric, but for those who can there is an opportunity.

## Isn’t everybody chasing the same names...?

Certainly this is true to some extent, but what tends to happen is you develop a “have- and have-not” scenario play out. One or two players will get majority of the attention - maybe they have a great marketing staff or just serendipitously become the “go-to” for that particular market segment. Asset flows follow and then you have “me-too” type investors piling into that particular manager. That does not always mean that the manager is the best trader or portfolio manager. If you can vet the space thoroughly and not always be concerned with having the “name brand” in your portfolio, or have the risk monitoring capabilities in place to handle smaller managers that are not on the institutional radar, then you can uncover some of these great hidden talents.

## What are the different investment vehicles available to investors interested in this space?

Our focus here has been on the active managers, whether they are traders who are directly involved with the futures markets or those that access securities via markets and companies engaged in the space. There are other options, like ETFs for the water universe, but these are basically a long-only play that provides beta to a long term story. This is acceptable if your investment horizon is long and you are able to cope with some pretty sizable volatility in the short-term. But a closer look at these markets suggests that one of their most attractive features is their short-term volatility and the trading opportunities this presents. Many of the investment opportunities arise

from the less liquid side of the investment opportunity set - through private equity or venture capital deals. Although it is an option that probably masks some of the short term volatility, it none the less can be thought of as a beta play. Then you also have a fund like ours, that attempts to bundle a wide variety of these markets into a comprehensive resource-based fund structure that attempts to capitalize on the long- and shorter- term opportunities.

## What are the risks in each case, and are the rewards commensurate?

One of the largest risks you have in these markets is the “newness” of them and trying to anticipate how different market participants are going to respond to any variety of different fundamental scenarios. You don’t necessarily have a long history of commercial participants that you can look at, to understand how they have responded historically. It is far more a realm of the speculators, and market psychology is going to drive prices in a way that may be very difficult to anticipate, or even react to. A case in point is what happened with the emissions markets last year; prices dropped about 70% in the early stages of trading.

This year, it will be interesting to see how the uranium market responds to the introduction of uranium futures trading. Now that there is a two-way market; what does it imply for all the bulls that have been chasing the uranium story for the last four years? You also have regulation issues in terms of governments stepping in and disrupting the markets.

I think the rewards are there, but only for those who have the ability to navigate and not just assume market risk because of what might be happening in China in 2015. On the one hand you need to have the expertise to understand, focus and follow these markets. Whilst on the other, it is imperative to be able to trade in order to react to the changes. Otherwise it is more like a big bet on the commodity bull story. Some of the commodity prognosticators are well known for saying that commodity prices can never go to zero. That may be true, but in 2006 natural gas was down more than 70%. That is close enough to 100% for me to know I don’t want to be just riding out market beta. More over, that was in a “non exotic” market - let alone, in something, that is far more esoteric with a lot less players.

## What are the peculiarities of investing in these markets as opposed to investing in traditional markets?

As discussed about risk, these markets don’t always have a historical data set to mine from in terms of the commercial participants. That is additional risk on the speculative side. You also have a limited talent pool - ie few people have been following a particular or these specific markets for a long time and understand its nuances. Or you may have someone who has been involved in the water industry for 20 years, but in a non-investment capacity. So one could be a water specialist but can they manage a portfolio? Can they assess risk and trade and structure investment activities with a realistic reward/risk ratio?

## To/for whom are such investments suited and the benefits they can hope to accrue?

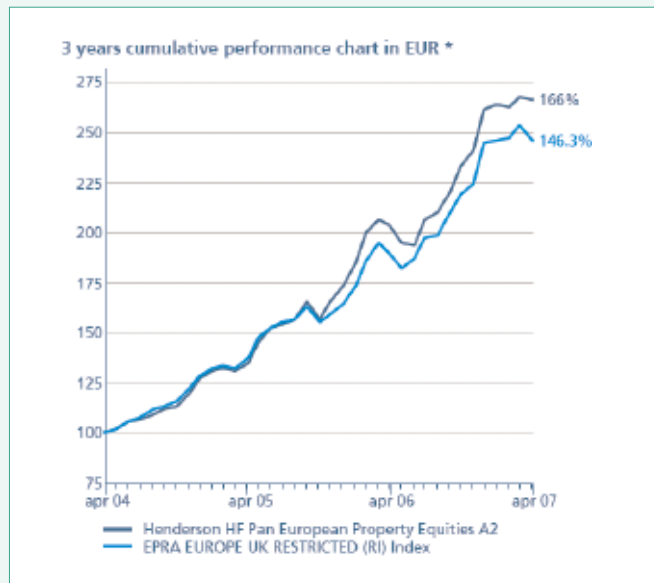
I would think that anyone who is a “professional investor” would be equipped to, ultimately, understand that opportunities that exist in these markets. You don’t have to necessarily understand the market microstructure of emissions trading on a day-to-day basis to get that exposure; there are managers who can take on that facet of the task. But you should have an understanding of what that manager’s view and trading style is, how they are managing risk, and how they are responding to the market dynamics.



Rian Akey  
COO Cole Partners

## REAL ESTATE

## HENDERSON HORIZON PAN EUROPEAN PROPERTY EQUITIES FUND



source: Henderson Global Investors

**Focus:** The fund invests at least 75% of its assets in quoted equity\* securities of companies or Real Estate Investment Trusts (or its equivalents), whose registered offices are EC listed or are traded on a regulated market and derive the main part of their revenue, from the ownership, management and/or development of real estate in Europe

(\*The Pan European property equities in Henderson's portfolios are closed-ended companies that are listed on European stock markets, and provide exposure to a variety of property sectors. These include retail properties, offices, industrial units, hotels and residential properties. The majority of property equities provide exposure to commercial property in the form of the retail and office sectors, which have the lowest risk profiles of the property market, and where returns are primarily in the form of income from rents. The highest potential risks and returns are to be found among developers, where projects tend to be more speculative and returns are primarily in the form of capital growth.)

**Strengths:**

- Liquidity and flexibility to exploit a wide variety of opportunities in European property markets
- Relative transparency of listed property versus unlisted
- Depth of experience on the team, knowledge of markets and participants, exploiting market inefficiencies and asymmetries of information
- Performance track record

**Weaknesses:**

- Volatility of share prices
- Imperfect representation of underlying property markets

**Opportunities:**

- Growth of sector due to REITs and emerging property market opportunities
- Ability to exploit new enhanced UCITS III powers

**Threats:**

- Potential liquidity constraints due to size of fund
- Unexpected inflation
- Excessive inflows, leading to price overshoot

### Risk Management

□ = low    □ = low/moderate    □ = moderate    □ = moderate to high    □ = high

• The fund's major risk: over-exposure to high beta stocks in a sustained market downturn		• Ability to contain transaction costs	□□□□□
• Expertise in evaluating real estate stocks - including presence of management skills	□□□□□	• Event risk	□□□□□
• Ability to identify and invest in under valued real estate stocks	□□□□□	• Market risk	□□□□□
• Ability to enter and exit stocks - in order to optimise valuation:	□□□□□	• Currency risk	□□□□□
Accuracy of research	□□□□□	• Leverage risk	□□□□□
		• Key man risk	□□□□□

### Performance Parameters

□ = insufficient    □ = adequate    □□□ = satisfactory    □□□□ = good    □□□□□ = outstanding

• Fund's current asset under management (AuM):	EUR 2.1bn	• Ability to sustain funds performance in:	
• No. of positions in the portfolio:	40 -75	• Rising market	□□□□□
• Diversification: locations & properties owned by companies		• Falling market	□□
• Countries (56.5%UK)	□□	• Sideway trending market	□□□□
• Sectors	□□□□□	• Mean correlation between 1990 -2006, source: EPRA, May 2007	
• Capitalisation	□□□□□	• FTSE EPRA/NAREIT Europe Total Return Index and MSCI Europe Total Return Index 0.72	
• Avg. holding period	□□□	• FTSE EPRA/NAREIT Europe TRI and UK Total All Lives DS Govt Total Return Index -0.15	
• Manager's ability to pinpoint and uncover stocks that show potential (illiquidity premium)	□□□□□	• FTSE EPRA/NAREIT Europe Total Return Index and Reuters Commodities Price Index 0.06	
• Efficiency of putting capital to work:	□□□□□	• Since inception, consistency in delivering targeted returns	□□□□□

### Outlook

↑ upside potential    ↗ upside to range bound    ↔ range bound    ↘ range bound to down    ↓ downside potential

• Barriers to entry: expertise, research		• Fund tends to outperform benchmark when perceived risk is low and market returns are positive	
• Outlook on investing in Pan European real estate equities	↗	• Fund tends to underperform benchmark when general investor sentiment is averse to property equities	
• Scope for a fund such as Henderson's PE real estate equity fund:	↗	• Fund's worst case scenario inflation is stronger than expected, risk premium rises and liquidity dries up - recession leading to weak tenant demand	
• Threat posed by competition:	↔		
• Fund's ability to deliver target returns over			
The next 12 months: fairly high			
The next 1 -3 years: fairly high			

### Investment Insights

• Fund's target audience: retail and institutional investors	• Fund's base EUR and other currencies: USD, GBP
• Targeted AuM: capacity should be limited to 3%EPRA free float (currently approx. EUR4.5bn)	• Available to investors: in Europe and Asia
• Suited to investors looking for:	• Fund's complexity for an investor: low
long-term total returns in the 10-15% range from diversifying asset class	• Transparency provided to investors: high
• To optimise returns, recommended avg. holding period: indefinitely	• Rating/ awards: 5 star rating by Morningstar; S&P Fund Management Rating 'A'
• Trading frequency: daily	

## SOCIALLY RESPONSIBLE INVESTING / TIMBER

### “More than mere producers of pulpwood and saw logs”

**Leif Olsson, Managing Director and CEO, Ecotrust Forest Management, Inc. shares his views on how forests can be managed for both timber production and conservation**

*Is it possible to accomplish socially responsible investing and still provide consistent, low volatility, returns?*

I believe a timberland fund can be managed in a socially responsible manner, such that it contributes to conservation and restoration, while still being an unparalleled investment opportunity. This goal is actually achievable, if one were to embrace disciplined, selective logging practices that ensure continuous forest cover. It is also important to educate investors to recognise that both from an environmental and return perspective, a myopic approach – ie logging timberlands to payout short term dividends, detracts from the ability to optimise a timberland potential returns (cumulative cash flow generation over a longer cycle of say 10 years). Of course, trees need to be felled to maintain a healthy forest, but this distinguishes itself from being required to fell, to secure short term cash flows.

Further by managing forests on longer rotations and thus with greater timber volume on the landscape, one sequesters significantly more carbon on the land than landscapes being managed under the current industrial regime. In fact, our estimates based on initial analyses indicate that our fund's lands will sequester an additional six metric tons of carbon per acre, per year - a total of over three million metric tons of carbon over the first twenty years for a 25,000-acre forest. At a projected price of USD5 per ton, this asset has the potential to generate significant returns for investors.

*Why is the approach you take different? How do you access and quantify returns?*

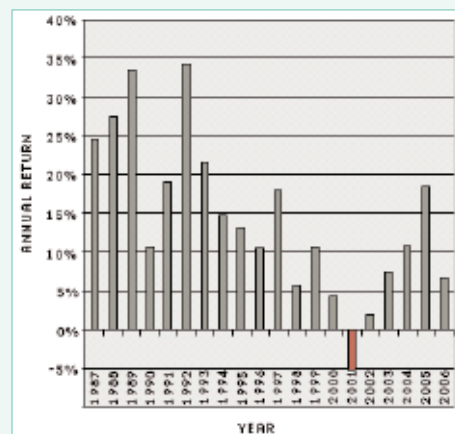
The purpose of a fund like ours is to acquire forestlands in the Pacific Northwest - we will protect sensitive environmental features, create local economic opportunities; restore watershed health and produce long-term value for investors. We target a real annual return of at least 6 percent over the long term and strive to be as tax efficient as possible. Our fund aim's to minimise ordinary income by maintaining long-lived forestland assets that continuously increase in value, hedge inflation and generate cash returns.

We estimate that logging and underlying appreciation will yield a 5–6 per cent real annual return, while conservation easements and other revenue streams will yield an additional 1–3 per cent, for a total projected annual return of 6–9 per cent before inflation. Historically timberland investment returns are comparable to those of the S & P 500 but at lower risk. Since the tracking of timberland investments began in 1987, average annual returns have been 14.4 per cent. In recent years returns have declined, and were negative in 2001. We believe that timberland investing will continue to produce low-risk returns, result in a negative beta compared to other investments and generate a return above that of long-term bond yields.

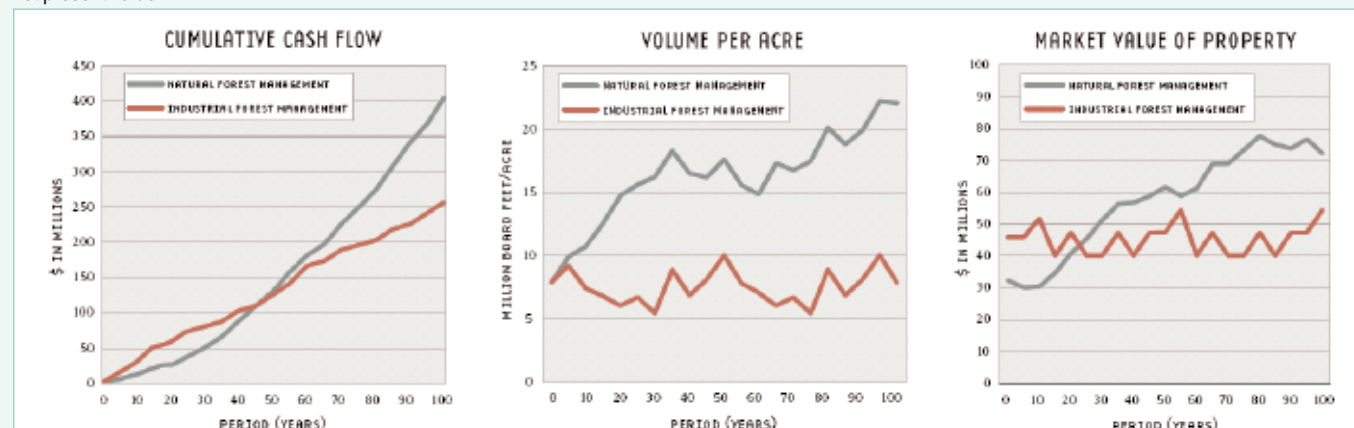
*Why isn't it just "lip service"... and how does the fund implement and achieve environmentally friendly investing?*

A fund like ours employs practices consistent with natural forest succession. These practices encourage a diversity of native species, age classes and forest structures. Logging has been refined to mimic natural patterns of disturbance that optimise natural regeneration, lengthen rotations and minimise the need for chemical fertilizers and herbicides. We marry science and technology to support rather than replace nature's energies - this helps us reduce the overall costs of forest management. The risks associated with epidemic levels of insects, disease and fire, as well as exposure to environmental regulation and litigation are also curbed.

So, if one compares our fund's approach (natural forest management) to an industrial approach for a typical forest in the Pacific Northwest region, our analysis and research show that over a period of one hundred years, natural forest management produces a greater cumulative timber harvest and more cash flow while resulting in a significantly more valuable forest. The industrial approach results in higher harvests in the early years and thus, using a discount rate of 7 per cent, a higher net present value.



NCREIF Timberland Index US Annual Returns 1987- 2006  
 Source: Ecotrust Forest Management



Source: Ecotrust Forest Management

Assuming that a fund like ours was successful in selling the other benefits that natural forest management provides (greater carbon storage, enhanced habitat, better recreational opportunities and more scenic value) then, the net present value of our management is expected to be higher than the industrial model.

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**© Opalesque Ltd.  
8 Samou Street  
St. Omologites  
Nicosia 1640  
Cyprus**

**+49-89-2351 3055  
info@opalesque.com**