

Insurance-Linked Securities

Aon Securities 4Q21 Quarterly Report

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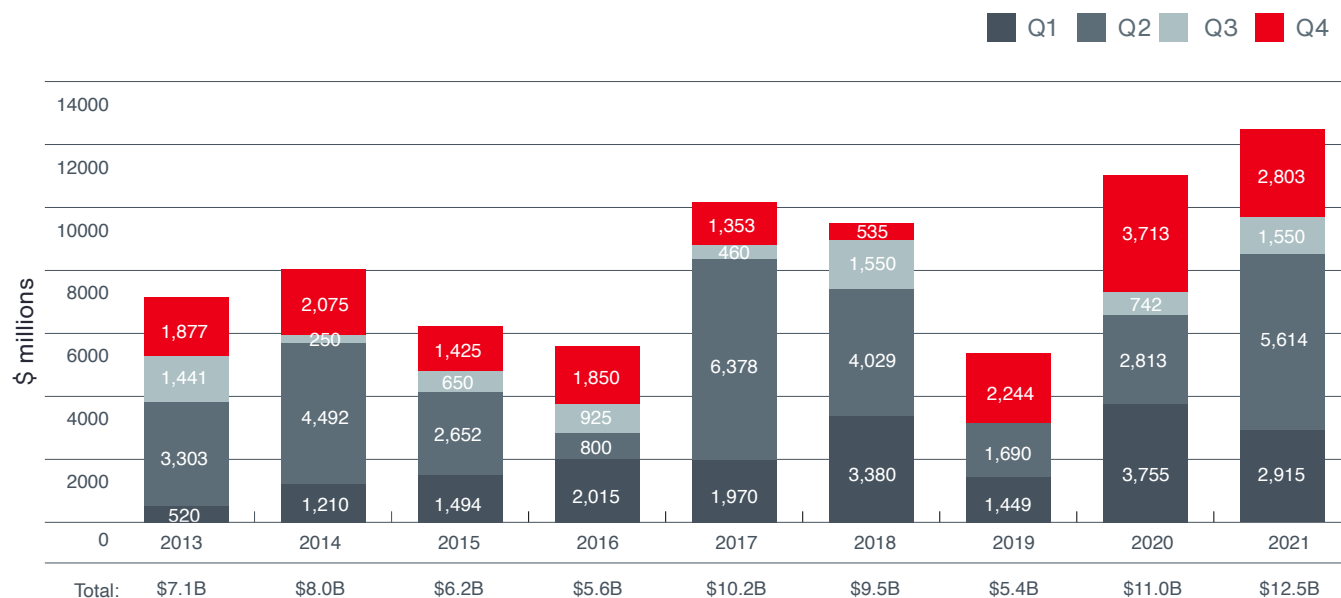
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Primary Market

The cat bond market demonstrated strength on strength and finished the year strongly to post a second consecutive record-breaking year of issuance volume at \$12.50 billion, exceeding the previous record of \$11 billion set in 2020. The market was driven largely by a combination of new and repeat sponsors, increases in deal volumes, record maturities and spread compression. Over \$10.15 billion in maturities combined with healthy ILS Manager cash positions led to an attractive primary market and record issuance volume.

Property Catastrophe Bond Issuance by Quarter



Source: Aon Securities

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Many sponsors are finding attractive execution in the ILS market relative to the traditional market. The inflow of capital has tightened pricing multiples and created a favorable environment for both sponsors and investors with new sponsors providing additional diversification benefits. Upsizes of new issuances have accounted for \$3.18 billion in additional capacity ceded to the capital markets in 2021. Approximately 70% of the property catastrophe bond classes issued in the primary market priced at their low ends of guidance or better. Approximately 70% of classes of notes brought to market by Aon Securities upsized, underscoring the strong demand currently in the market.

This strong momentum is expected to continue into 2022. Given the rate hardening market environment, the large volume of capital coming off-risk \$5.17 billion in the first half of 2022, and \$1.85 billion in the second half of the year, 2022 is poised to be yet another strong year for the property catastrophe bond market with continued investor inflows and competitive pricing. Additionally, the market could see the entrance of more non-(re)insurance entity sponsors as catastrophe bonds continue to prove their advantage as a viable alternative risk transfer mechanism for government and corporate entities.

Secondary Market

Trading was dynamic in the fourth quarter with over 220 trades, supporting the active primary market. Some riskier US wind and multi-peril bonds traded at discounts following hurricane Ida. As losses developed, some investors favoured less risky index bonds. Investors' demand for occurrence structures continued to grow over the quarter. The aggregate notes may likely remain less liquid as the market takes in the loss reports. Diversifying perils and regions showed strong demand while Florida bonds received few bids. Over the quarter, some bonds rebounded from the heavily discounted trades seen in the third quarter and approached pre-Ida levels. The issuance pipeline for 2022 is developing, so we expect trading to continue to be vigorous in the new year.



Highlighted Transactions

Sanders Re II Ltd. Series 2021-2 A & Sanders Re II Ltd. Series 2021-2 B

Allstate returned to the market for its second transaction in 2021 with Bermuda based Sanders Re II Ltd. seeking \$350 million of cover on a per-occurrence and aggregate basis. It provides cover against losses from named US multi-perils across all states except for Florida, all on an indemnity trigger basis. The \$250 million tranche of Class A notes provides per-occurrence reinsurance protection for an approximately three-year risk period, attaching at \$3.75 billion, and exhausting at \$4 billion with an initial attachment probability of 0.98% and an initial expected loss of 0.8457% all on a base case basis. The \$150 million Class B tranche of notes provides per-occurrence protection up to the end of April 2022 and then both per-occurrence and annual aggregate reinsurance across the next three years. The notes attach at \$3.75 billion while on a per-occurrence basis, exhausting at \$3.975 billion, but then also attach at \$2.50 billion on an aggregate basis exhausting at \$3 billion for those three annual risk periods. The transaction upsized and the Class A notes priced at 3.25%, below the initial mid-point. The Class B notes, saw their pricing fixed at 3% for the per-occurrence only term and then at 12.50% for aggregate reinsurance cover.

Titania Re Ltd. Series 2021-2 A

Titania Re Ltd., domiciled in Bermuda, issued its second cat bond, and provided Ariel Re with a three-year source of retro reinsurance for its Lloyd's Syndicate 1910 operation. It covers named storm or earthquake losses from all fifty states of the US, the District of Columbia, Puerto Rico and the US Virgin Islands and Canada. The single tranche of notes uses an industry loss trigger on an annual aggregate basis. It attaches at an index loss level of \$1.05 billion up to \$1.383 billion, after a \$45 million per-event deductible with an initial attachment probability of 4.22%, an initial expected loss of 3.32% and an initial exhaustion probability of 2.56% all on a base case basis. The transaction was well received by the market and the target size was increased from \$150 to \$175 million and priced below the low-end of the initial guidance at 6.50%.

Four Lakes Re Ltd. Series 2021-1 A

American Family Mutual Insurance Company, S.I. came back to the market for its second Four Lakes Re Ltd. transaction covering named storms, earthquakes, severe thunderstorms, winter storms, wildfires, volcanic eruptions, and meteorite impacts across the US on an indemnity basis. The single class of notes has an initial modeled attachment probability of 2.07% and initial expected loss of 1.37% on a base case basis. The transaction was well received by investors and upsized to \$125 million with the price in the bottom-half of the initial guidance at 4.75%.

Orange Capital Re DAC Series 2021-1 A

Orange Capital Re DAC, domiciled in Ireland, provided first-time sponsor NN Re, with indemnity reinsurance protection on a per occurrence basis over a three-year term. The single €75 million tranche of Class A notes offers protection against European windstorms and severe thunderstorms in the Netherlands and Belgium. The notes attach at \$325 million of losses and exhaust their coverage at \$650 million with an initial attachment probability of 3.20%, an initial expected loss of 2.02% and an initial exhaustion probability of 1.30% on a base case basis. The transaction was well received by investors and priced at 3.25%, the low-end of initial guidance with the notes offered at 101.115% to reflect the use of EBRD collateral.

4Q21 Issuances

Transaction	Beneficiary	Perils	Size (million)	Interest Spread
Power Protective Re Ltd. 2021-1A	LADWP	Cal WF	\$30	15.00%
SD Re Ltd. 2021-1A	Sempra Energy	Cal WF	\$45	8.75%
SD Re Ltd. 2021-1B			\$135	9.25%
Acorn Re Ltd. 2021-1	Oak Tree Assurance, Ltd.	US EQ	\$475	2.50%
Residential Reinsurance 2021 Limited 2021-2 2	USAA	US NS, EQ, ST, WTS, WF, VE, MI, OP	\$175	11.75%
Residential Reinsurance 2021 Limited 2021-2 3			\$125	5.50%
Hexagon III Re Pte. Ltd. 2021-1 A	Cov��a Group	France WS, HS, OP	��100	2.50%
Hexagon III Re Pte. Ltd. 2021-1 B			��53	11.00%
Sanders Re II Ltd. 2021-2 A	Allstate	US NS, EQ, ST, WF, VE, MI (excl. FL)	\$250	3.25%
Sanders Re II Ltd. 2021-2 B			\$150	12.50%
Phoenician Re Ltd. 2021-1	Alphabet	Cal EQ	\$275.5	2.50%
Topanga Re Ltd. 2021-1 A	Farmers Insurance Group	US NS, EQ, SW, WF	\$100	4.75%
Topanga Re Ltd. 2021-1 B			\$60	15.00%
Titania Re Ltd. Series 2021-2 A	Ariel Re	US/CAN NS, EQ	\$175	6.50%
Logistics Re Ltd. 2021-1 A	Prologis, Inc.	US EQ	\$95	3.50%
Matterhorn Re Ltd. 2021-1 A	Swiss Re	US NS, US/CAN EQ	\$150	5.75%
Bonanza Re Ltd. 2021-1 B	American Strategic	US NS, WS, WF, EQ, ST	\$80	14.58%
3264 Re Ltd. Series 2022-1 A	Hannover Re	WW MP	\$100	19.00%
Four Lakes Re Ltd. Series 2021-1 A	American Family	US NS, EQ, WF, WS, ST, VE, MI	\$125	4.75%
Orange Capital Re DAC Series 2021-1 A	NN Re	Belgium & Netherlands Wind, ST	��75	3.25%

 Aon Securities Transactions

Source: Aon Securities



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About

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

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