NEW ZEALAND SUPERANNUATION FUND

FACT SHEET ON CATASTROPHE BONDS

What are Catastrophe Bonds?

- Catastrophe bonds (and other insurance-linked securities) are a way for capital markets to provide reinsurance to the insurance industry. Essentially they cover catastrophic events such as major hurricanes, earthquakes and bushfires in areas where such events present a low but genuine risk.
- Bonds apply to risks occurring only in those places where people can afford insurance.
- They exist as a way to spread the risk and the cost of major catastrophic events that are unlikely to occur but which are very expensive when they do.
- For an investor, the rationale is the income stream derived from the premiums paid on the policies in the pool. The insurance industry values this back-up insurance, and pays attractive premiums to investors to provide it.
- Should a relevant catastrophe occur, the bond may be triggered. Triggering depends on the size and severity of the catastrophe. Triggering constitutes a requirement to pay out, but the size of the payment is capped to a maximum agreed by the investor.
- Risk is also mitigated by investing in different bonds – diversifying across type of event, location etc.

Why have the Guardians of New Zealand Superannuation invested in Catastrophe Bonds?

- We have invested in catastrophe bonds as they are a strong diversification play and offer attractive risk-adjusted returns.
- We have also invested because risk can be mitigated and is capped
- We have made an initial commitment to the strategy of US$125 million with potential to expand to US$250 million. This will mostly be invested in securities that cover US hurricanes and earthquakes, with some products covering European wind storms and Japanese earthquakes.
- The investment is being managed by Chicago-based Elementum Advisors, LLC who have expertise in insurance-linked securities.