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Credit Suisse Insurance Linked Strategies Ltd

Investor Letter

Update accompanying the weekly performance estimates published on 3 November 2017

Dear Investor,

Around a month has passed since our last Investor Letter. Therefore, we want to provide you with an update on the market and the past events.

Market Update

Over the last weeks, the negotiations and preparations around the important year-end renewals have intensified. Most of the leading catastrophe reinsurers globally have published first estimates of what they expect their loss from hurricanes Harvey, Irma and Maria to be. Reported losses amount to between 7.7% and 15.1% of Shareholder Funds.[i] (Note that the Shareholder Funds include Equity/Risk Capital also for non-catastrophe business.)

Initially, cedents (i.e. insured parties) seemed to have intended to pay only modest premium increases despite the high insured losses during the third quarter of 2017. However, as more information about the extent of losses to the reinsurance industry but also to the ILS market becomes available, early renewals and cat bond placements show market demand for a significant correction in pricing.

On the cat bond side, recent new placements have confirmed our initial expectation of only moderate premium increases. Especially new cat bonds with lower risk/return profile only offered smaller margin increases, e.g. between 7% and 10%. As a result, recent placements were not as well received by investors and were not upsized in stark contrast to Q2 2017 when most cat bonds were still heavily oversubscribed and often upsized. In general, riskier tranches saw higher premium increases than less risky tranches in comparison to similar cat bonds placed last year. Recently placed lower risk cat bond tranches, still priced more at the lower end of the initial price range due to the persistently high demand from investors potentially under pressure to replace maturing investments. In contrast, a high risk tranche of a current cat bond placement is expected to price at the top-end or above the initial price guidance. Nevertheless, recent cat bond placements have confirmed our expectation that the cat bond market is unlikely to experience the same level of premium increases that we expect for the traditional reinsurance market or the retrocession market where we still expect to see the highest premium increases.

On the traditional reinsurance market we have observed a different trend so far: in early renewals of programs for markets in which we had seen significant premium decreases in the last few years, reinsurers are now pushing for sizeable premium increases. This was true even for markets such as Europe and Australia which have not experienced large losses this year.

Frequency Risk – A Valuable Diversifier to Reduce Drawdown Risk

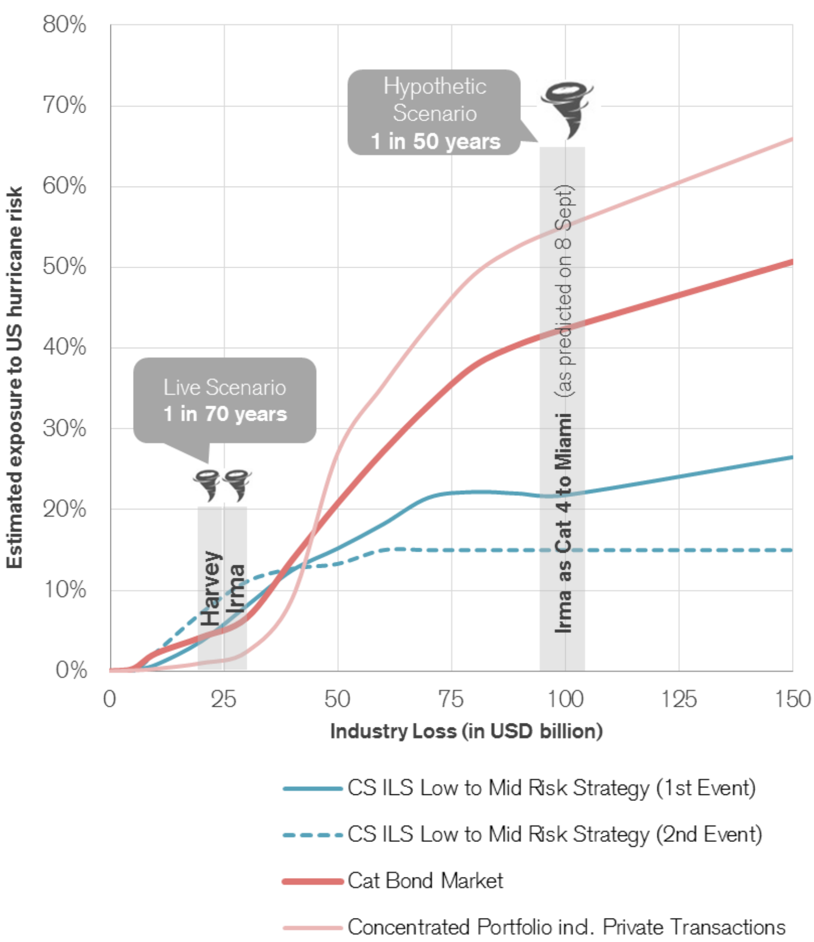
The year 2017 has seen an unprecedented frequency of severe and destructive hurricanes. “Frequency risk” as the term implies reflects the risk that the number of severe or medium-severe catastrophe events may cause a loss to a transaction or portfolio. Transactions with frequency risks can be attractive from a standalone risk/return perspective and they have another interesting effect for an insurance-linked portfolio: they typically reduce the tail risk, i.e. the maximum drawdown risk in the portfolio, simply because they cannot be triggered by a single event, in spite of such event’s severity.

The illustration on the next page highlights the different impact of catastrophe events on ILS strategies with different underlying portfolios. Hurricanes Harvey and Irma – both medium-severe to severe catastrophe events – impacted the CS ILS strategy disproportionately as it follows a diversified investment strategy that seeks to limit the maximum drawdown risk by allocating across risk classes and also by allocating to 2nd/subsequent event or aggregate transactions (i.e. frequency risks).

[i] Source: Company news and reports, Credit Suisse

In comparison, the cat bond market and the more concentrated ILS strategies seem to have been less adversely affected by the events (though still have suffered sizeable losses) as their concentrated US hurricane exposure starts at industry loss levels of $40 billion. Looking at other event scenarios, the situation could have been very different: on September 8, two days before hurricane Irma made landfall, the forecast track of the storm showed a direct hit on Miami as a category 4 hurricane with wind speeds in excess of 150 mph. At that time, insured industry losses were estimated to reach $100 billion. There was activity in the ILS hedging market with participants looking to buy protection at industry loss levels of $80 billion or even $100 billion. However, before landfall in Florida, Irma's track shifted west. While it caused widespread damages and flooding across Florida, Miami was spared the worst impact and the insurance industry avoided the "worst case" scenario. Under such a scenario, the CS ILS strategy would have suffered a significant loss due to a "$100bn Irma" but because of the portfolio diversification and limitation of the maximum drawdown risk from a single event, it would have lost significantly less compared to the cat bond market or a concentrated ILS strategy.

Impact scenarios from US hurricane events



Historical performance indications or any other data from the past, as well as simulations, target return, forecasts, estimations and expectations are no reliable indicator for current or future performance. Data as of July 2017. Source: Credit Suisse

Summary

We believe that portfolio diversification across risk classes, regions and trigger structures (including 2nd/subsequent events and aggregate) is a prudent investment approach to limit the drawdown potential from any catastrophe event and aim to ensure that the drawdown is not too large to recover. Even though the last two months have been very challenging with the unprecedented frequency of destructive hurricanes that have disproportionately impacted our strategies, we still feel comfortable that the market has turned in favor of ILS investors and that the more attractive premium levels to be expected for 2018 and thereafter will help to recover losses incurred in 2017.

We will keep you updated on the development in the CS ILS portfolios as well as in the ILS and reinsurance market. If you have questions, do not hesitate to contact your Relationship Manager or us.

Kind regards,

Your Credit Suisse Insurance Linked Strategies Team

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