CHIEF FINANCE OFFICERS *network*

May 2014

Debt Capital for Mutuals

For professional/qualified investors use only, 16th May 2014

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Twelve Capital – An Introduction

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Return on Insurance

- Independent specialist insurance investment manager, now with AuM over USD 3bn
- Experienced insurance investment team with complementary skill sets coming from sourcing, analytics, portfolio management and risk management
- Covering multiple insurance investments such as Insurance-linked Securities (Private ILS & Cat Bonds) and Insurance Debt (Insurance Bonds & Private Debt)
- 32 employees with excellent multi-year track record. Recent hires in operations, credit and legal analysis, sales & marketing
- Swiss regulator (FINMA) authorized and regulated
- Partnership structure providing alignment of interest in remuneration and ownership

Company Milestones

2007

January
Dr. Urs Ramseier builds ILS team at Horizon21

2010

September
Twelve Capital spins off from Horizon21

October
Twelve Capital launches two Luxembourg based Funds

2011

July
PKA appoints Twelve Capital

September
Sarasin launches Insurance Bond Fund managed by Twelve Capital

2012

March
Sarasin launches Cat Bond Fund managed by Twelve Capital

December
USD 1bn AuM

2013

June
FINMA regulated

Investment Management for ILS Funds of Falcon Private Bank

November
Launch of Twelve Insurance Private Debt

2014

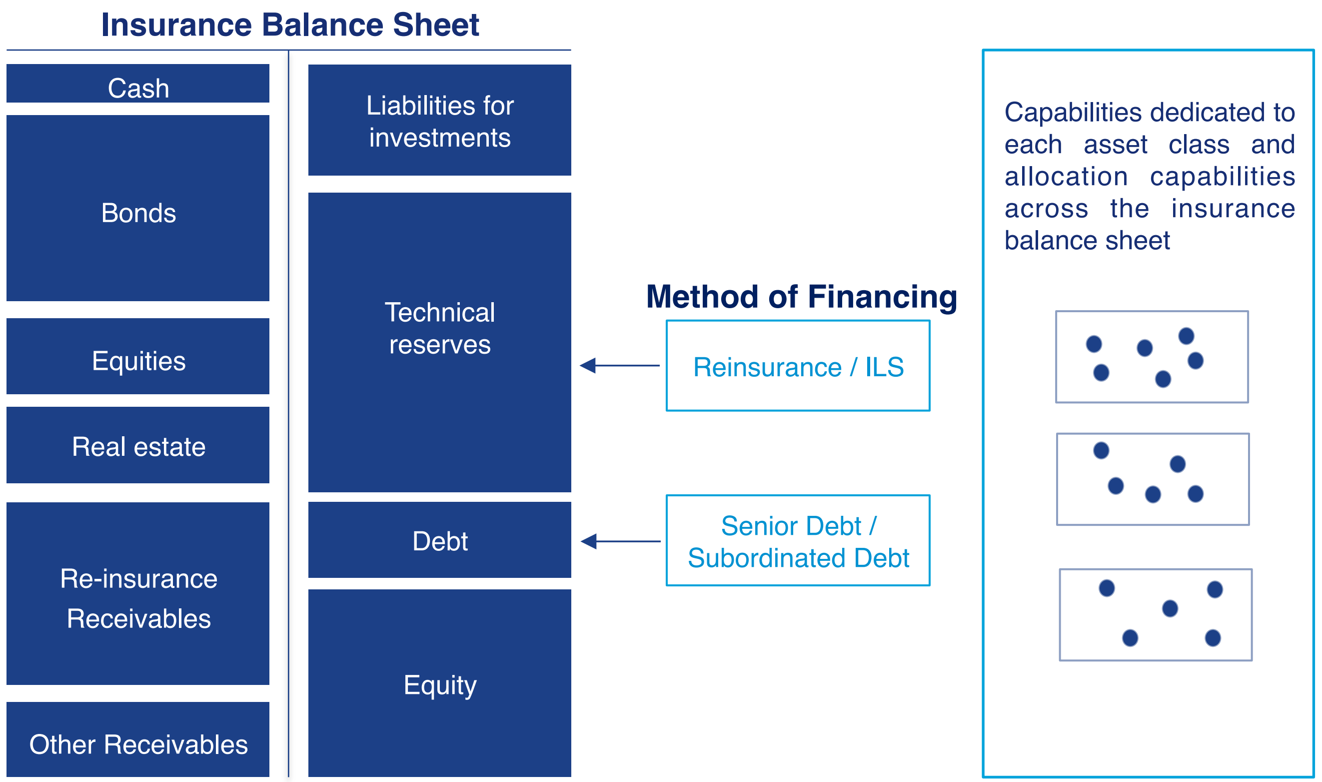
April
USD 3bn AuM

Source: Twelve Capital. As of 5th May 2014.

Twelve Capital – An Introduction

Objectives

Offering Best Relative Value Portfolios in Insurance-based Investments within and across Sub-classes



- Twelve Capital is an insurance investment manager with dedicated capabilities in and across Insurance-linked Securities and Insurance Debt
- We offer a broad range of investment vehicles to cater to every client's needs
- Twelve Capital has in-depth capabilities in each asset class and also the capacity respectively experience to combine the most attractive opportunities across various strategies and capabilities

Insurance-linked Securities

- Insurance-linked securities such as Cat Bonds and Collateralized Treaty provide an interesting opportunity in a portfolio context given its attractive risk/return profile
- Low correlation to other asset classes
- In addition, the correlation within the various risk sectors is close to zero
- Attractive return potential (3 – 8% for Cat Bond & 8 – 20% for Private ILS)

Insurance Debt

- Changes in the industry regulation with Solvency II as well as structural changes in the financial industry (bank de-leveraging) provides very interesting opportunities to invest in liquid and less liquid structures of insurance companies
- Investing in subordinated bonds of European insurance companies that will likely not qualify under Solvency II, now being replaced with bonds that will be Solvency II compliant
- Superior returns (attractive coupon yield of approx. 5 - 6% p.a. and an expected uplift from current market prices to par of approx. 3% over an estimated period of 3 years, due to redemptions in anticipation of Solvency II)
- Zero-default history for hybrid debt (no non-payment of coupon, only compounding deferral, and no defaults)
- Additional opportunities arising from the advent of Solvency II with smaller/medium-sized insurance companies (Insurance Private Debt)

Source: Twelve Capital. Potential annual returns showed gross of fees.

The Market for Insurance Debt

The Market for Insurance Debt

Debt Format

Insurance Listed Public Debt	Insurance Private Debt
Fully fledged, detailed prospectus	Lighter transaction documentation
Market maker appointed	Small number of investors
Active secondary trading	Low volume trading
High issue costs, EUR 500'000+	Moderate issue costs
Minimum size EUR 100'000'000s	Financings from EUR 2.5m up to c. EUR 100m
Recent issues Royal London GBP 400m Nov 2013 LV Friendly Society GBP 350m May 2013	Less liquid market

Source: Twelve Capital.

The Market for Insurance Debt
Sources of financing

- Twelve Capital has USD 350m funding and commitment from investors for Private Insurance Debt
- Most investment will come from our own funds, now in ramp-up
- For larger financings, we can partner with third party private investors
- We expect investors' appetite to increase
- Other investors have supported similar deals on a one-off basis

Source: Twelve Capital. As of 30th April 2014.

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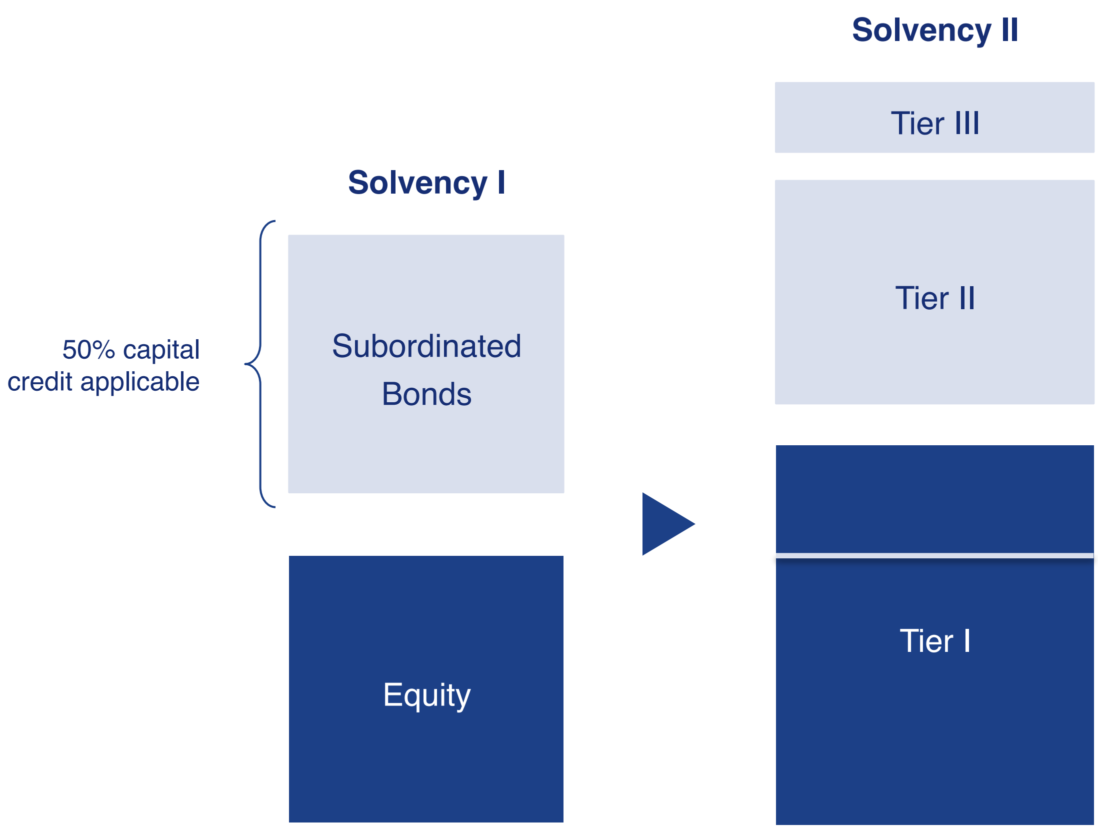
Debt in the Solvency II Context

Solvency II will increase Capital Requirement



- Under Solvency I, the current European regulatory regime, long dated subordinated bonds are accepted as regulatory capital
- The new European regulatory regime - Solvency II - will become effective on the 1st January 2016
- Solvency II still allows long dated subordinated debt to account as regulatory capital, but introduces a tiering approach
- Insurance debt issued under Solvency I regime is expected to be largely non-compliant under Solvency II
- Insurance debt that has been issued since 2012 is mostly Solvency II compliant

Source: Twelve Capital.

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Debt in the Solvency II Context

Key Solvency II Requirements

	Tier I	Tier II
Subordination	Most deeply subordinated in winding-up	Effectively subordinated in winding-up
Loss Absorbency	First to absorb losses	Must absorb losses to some degree
Sufficient Duration	Minimum of 10 years	Minimum of 5 years
Incentives to Redeem	None Call subject to regulatory approval	Moderate Call subject to regulatory approval

Source: Twelve Capital.

Basic own Funds…

Effectively subordinated in winding-up	▪ rank after the claims of all policyholders and beneficiaries and non-subordinated creditors ▪ should not cause or accelerate the insolvency of the insurance or reinsurance undertaking ▪ should not be taken into account for the purposes of determining whether the institution is insolvent
Non-payment does not constitute a trigger of default	▪ have an original maturity of at least 5 years
Maturity of min. 5 years, repayable subject to supervisory approval	▪ are only repayable at the option of the insurance undertaking, subject to approval from the supervisory authority and can include moderate incentives to redeem or repay that item ▪ must provide for the suspension of its repayment if the insurance undertaking breaches its Solvency Capital Requirement or would breach it if the instrument is repaid or redeemed ▪ must provide for the deferral of payments of interest if the insurance undertaking breaches its Solvency Capital Requirement
Moderate step-ups – call subject to regulatory approval	▪ step-ups must not exceed either the higher of 100 bps or 50% of the initial credit spread in order to be considered moderate

Source: European Commission, QIS5 Technical Specifications.

Debt in the Solvency II Context

Debt is preferential for Mutual Insurers

Collateralized reinsurance and subordinated debt provide various advantages in comparison to surplus

Capital Instruments in comparison

	Collateralized Reinsurance	Subordinated Debt	Mutual Surplus	Equity
Term	Annually renewable	Min. 5 years	Perpetual	Perpetual
Payments	Fixed, upfront	Floating, quarterly in arrears	None	Variable, annual in arrears
Voting rights	No	No	No	Yes
Taxability	Deductible	Deductible	Accrued from taxed surplus	Not deductible
Dilution to existing members	No	No	Indirect	Yes
Use of profits / losses	Ceded to reinsurers -> P&L smoothing effect	Stay within the entity -> No P&L smoothing effect	Passed on to members in increased premiums	Stay within the firm -> No P&L smoothing effect
Administrative work to enter or exit	Low	Medium	Low	High

Raising mutual surplus…

- Increases costs to members, so …..
- Is against the philosophy of a mutuality

Source: Twelve Capital.

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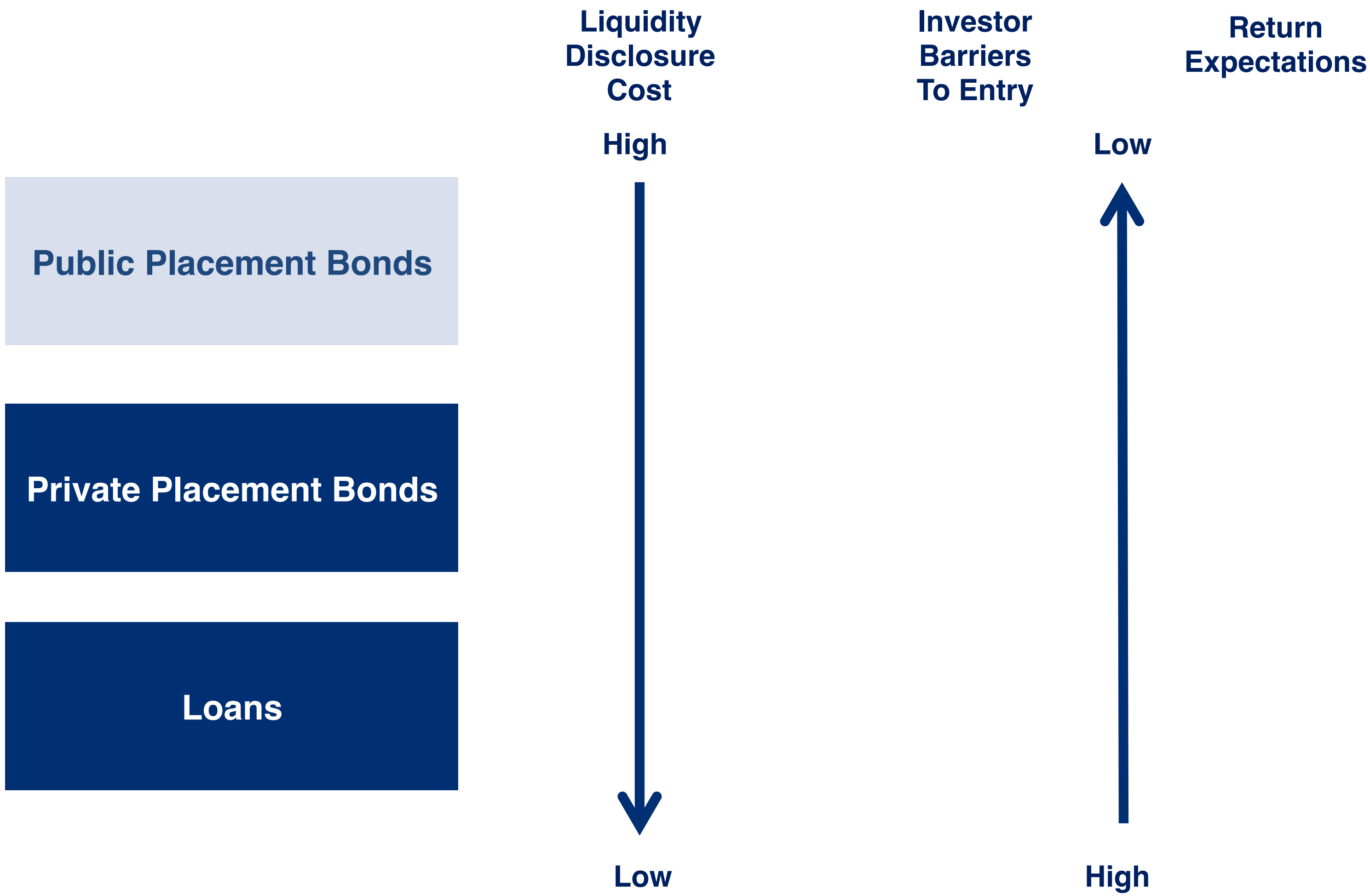
Structures for Private Debt

Structures for Private Debt

Debt Format



Source: Twelve Capital.

Structures for Private Debt

Debt Format

Listed Public Insurance Debt	Private Placement Bonds	Bilateral Loans
Fully fledged, detailed prospectus	Less detailed prospectus	Bilateral agreement
Market maker appointed	Placement with small number of investors	Single investor / lender
Active secondary trading	Tradable but with limited liquidity	Not tradable but novation possible
High issue costs, EUR 500'000+	Issue costs c. 250 bp	Costs EUR 10'000 to EUR 30'000
Minimum size EUR 100'000'000s	Minimum EUR 10'000'000	Minimum size EUR 2'000'000
Recent issues Royal London GBP 400m Nov 2013 LV Friendly Society GBP 350m May 2013	Small Private Placements are already in the market	Small, little known but active market

Source: Twelve Capital.

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Private Debt Execution

Private Debt Execution

The Structuring Process

Borrower

Identify client's need

Borrower

Approach Twelve Capital for initial triage

Twelve Capital

Credit analysis

Twelve Capital

Legal structuring

Twelve Capital

Initial UW, business plan and operational due diligence

Twelve Capital

On-site due diligence

All Parties

Negotiate terms (financial & legal)

Twelve Capital

Final legal docs & binding of deal

All Parties

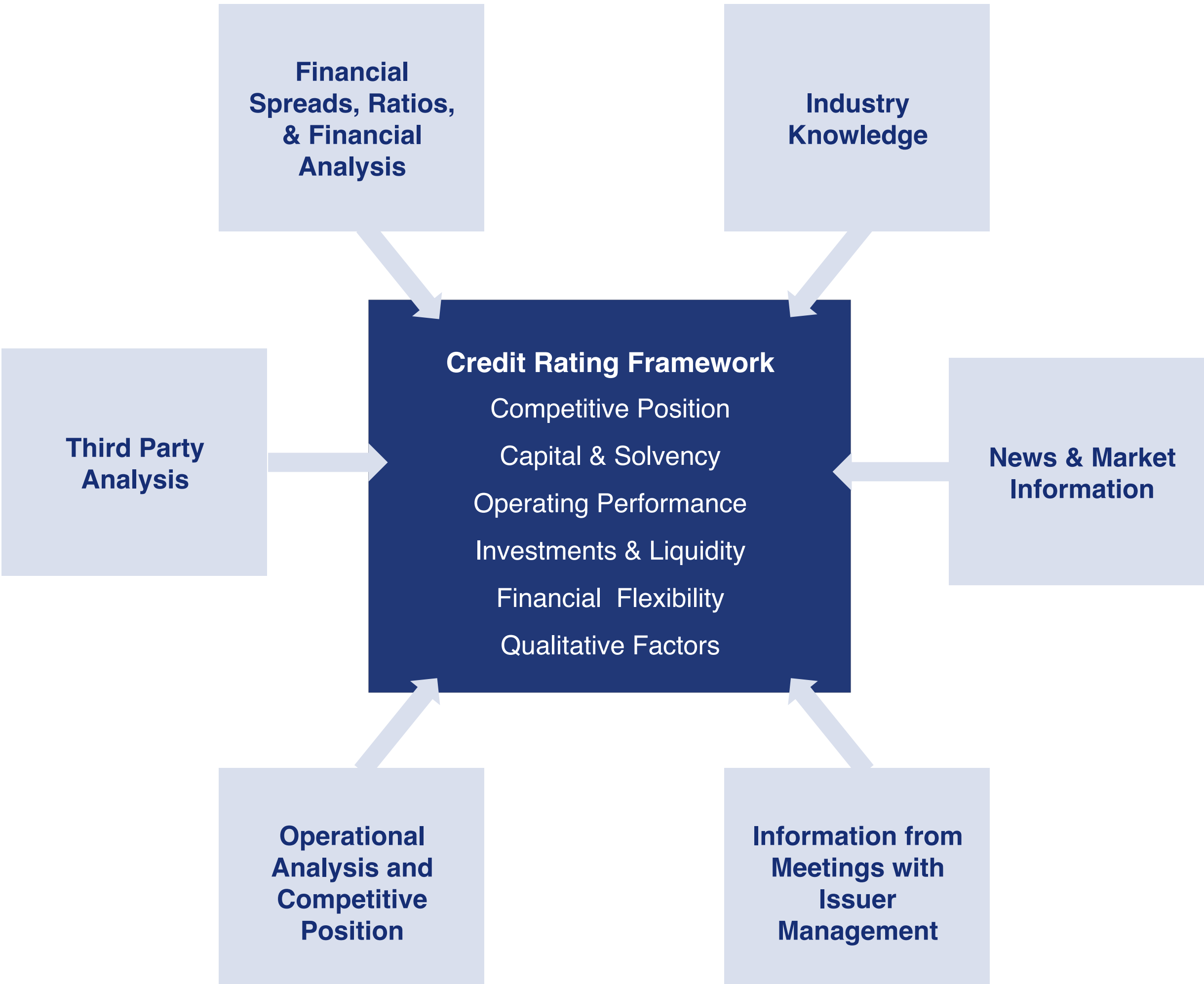
On-going reporting and monitoring for life of deal

Initial process likely to require around 8 weeks

Pre Transaction

- Detailed counterparty credit analysis
- Underwriting analysis
- Model testing
- Analysis of reinsurance
- Legal analysis
- Risk management analysis
- Operational analysis
- On-site visit(s), and eventually, also to the regulator

Private Debt Execution
Credit Rating Methodology



Issuer Rating Scale	
1	Excellent
2	Very Strong
3	Strong
4	Good
5	Marginal
6	Weak
7	Very Weak
8	Default

Source: Twelve Capital.

Monitoring Post-Transaction

- Quarterly reporting on key metrics specified by Twelve Capital (covenants)
- Coupon or interest payments
- Annual visits
- Annual detailed credit analysis
- Regular update of all underwriting analysis and monitoring

Conclusion

Conclusion

- Simple and easily replicable process for providing debt capital to insurers
- Twelve Capital product is provided by a known and expert counterparty
- Debt is a preferential form of funding for mutuals compared to raising members surplus
- Rates are reasonable in the current environment
- Capital can be used flexibly to support Solvency II compliance, growth, M&A, etc.

Thank you for listening

Any questions?

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