Media Release

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Institutional Investors should look to insurance for investment opportunities in a low-yield environment, says Twelve Capital at its annual Insurance Investment Forum

Investors will increasingly be forced to take on more risk and even turn to less familiar asset classes to generate healthy returns as the risk premium on conventional assets has narrowed significantly over the last twelve months, according to specialist insurance investment manager Twelve Capital.

As the wider financial market becomes more competitive and volatile, insurance is the last “great opportunity” for investors – one of the few areas with well-regulated entities and where understanding of the pricing of risk is more than adequate, Twelve Capital said.

Institutional investors, such as pension funds and the like, can also no longer rely on solid yields from risk-free investments as they have done for the last 20 years, and will need to fundamentally change the way they allocate capital.

“Investors can’t ride the wave of guaranteed returns anymore,” Urs Ramseier, Chairman and Chief Investment Officer at Twelve Capital told delegates at it’s annual Insurance Investment Forum, held on Thursday 16 April 2015 at the Swiss Re Centre for Global Dialogue in Rueschlikon, Zurich.

“As investors are forced to diversify into previously unfamiliar asset classes, risk premiums will come down, meaning there is less room for error in the investment process. The key success factor moving forward in financial markets will be to have a fundamental understanding and thorough evaluation of the investments people are making,” Ramseier said.

Twelve Capital – which provides investment opportunities in liquid and private transactions in collateralised reinsurance, catastrophe bonds, private insurance-linked securities (ILS), listed insurance debt and private insurance debt – said there are four insurance-related investments strategies that will be attractive to institutional investors.

- Insurance Bonds: Insurance bonds are fixed income instruments issued by insurance companies worldwide for regulatory capital purposes. The insurance sector offers much higher yields than any other corporate bond sector, according to Twelve Capital.

"We believe the spread tightening in the insurance bonds market will continue, because investors are being forced to take on more risk in the search for higher returns and yields, which will lead to significant capital gains on top of the coupon payments for these types of bonds," Ramseier said.

- Private debt: Thousands of insurance companies worldwide do not have access to capital markets because of their relatively small size. The introduction of Solvency II capital rules for the European insurance industry in January 2016 will mean that capital requirements for these smaller companies will go up because the rules are structured in such a way that they find themselves penalised for a lack of balance sheet diversification.

  "Given that these companies do not have access to capital markets, they need more regulatory capital. We provide such capital to these smaller insurance companies and our private debt strategy is producing extra yield," explained Ramseier.

- Seasonality of U.S. wind investments: The volatility of ILS is very low because natural catastrophes are fundamentally uncorrelated to financial markets.

  "We believe that investing in ILS makes a lot of sense in the context of an institutional investment portfolio to reduce volatility, which will significantly increase in the next 2-3 years in financial markets," Ramseier said.

- Equity: Insurance companies have the highest dividend yield in the equity sector. The insurers which need less capital under Solvency II will likely increase their payout ratios and up their level of dividends.

  "We expect dividend payments to increase among the big insurance companies and for dividend yields to go up. Investing in dividend stocks in the insurance sector is very attractive," said Ramseier.

For additional information please contact:

Investors:
Dr. Urs Ramseier, Chairman, Twelve Capital, Tel. +44 20 369 36170,
urs.ramseier@twelvecapital.com

Media:
Sarah Mortimer, Account Director, rein4ce, Tel: +44 (0)7718 882011,
sarah@rein4ce.co.uk

Dr. Werner Vogt, Press & Media, Tel. +41 44 577 12 07, Mobile + 41 79 470 35 68,
werner.vogt@wevcom.ch

About Twelve Capital

Twelve Capital is an independent investment manager specialised in insurance-related investments. The core business of the company is the management of insurance-linked securities (ILS) portfolios as well as portfolios of liquid and private debt instruments, issued by insurance companies. These strategies take advantage of the team's deep and long-term expertise in insurance risks, insurance regulation and insurance company balance sheets. Twelve Capital makes insurance-related investments accessible to institutional investors and thereby aims to generate attractive risk adjusted returns for its clients. Twelve Capital is majority owned by the investment team and is based in Zurich, Switzerland and London, UK.

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