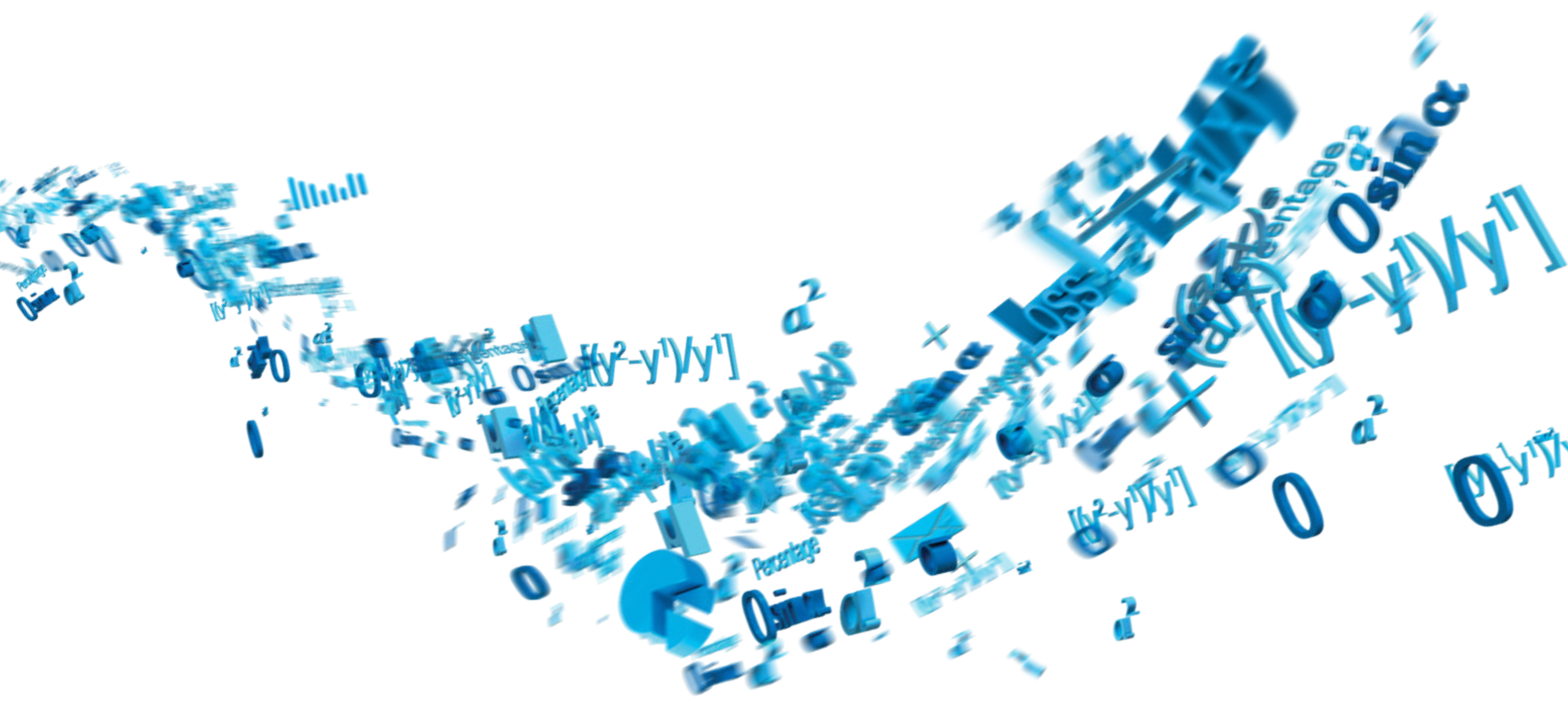
Aon Benfield

Insurance-Linked Securities

Second Quarter 2015 Update



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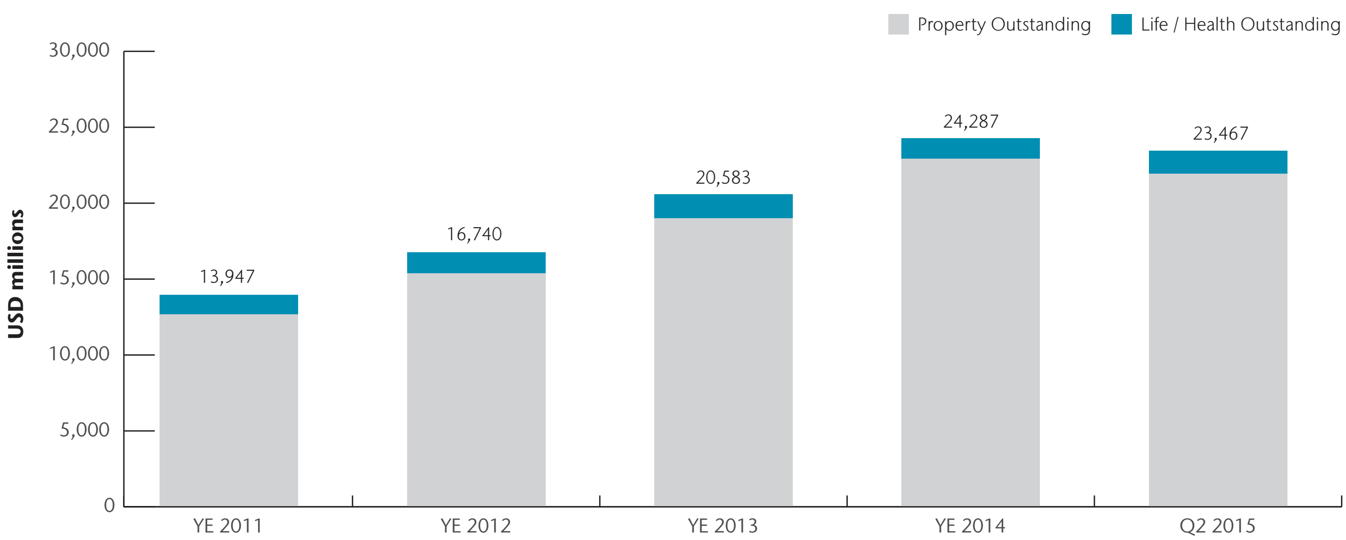
Second Quarter 2015 Catastrophe Bond Transaction Review

The second quarter of 2015 saw USD2.96 billion of catastrophe bond issuance through ten transactions. The quarter followed the most active first quarter to date, with issuance for the first half of the 2015 calendar year reaching USD4.66 billion – a 21 percent decrease over the same period in the record prior year.

By the end of the second quarter, outstanding catastrophe bonds had increased by six percent over Q1 as the market continued to build back to its peak established at year end 2014, following maturities in the first quarter of 2015 totaling USD3.87 billion. Total catastrophe bonds on risk stood at USD23.47 billion as of June 30, 2015.

Outstanding Catastrophe Bond Volume



Source: Aon Securities Inc.

With the second quarter of 2015 came the inaugural issuance from new entrant UnipolSai Assicurazioni S.p.A (“UnipolSai”). The UnipolSai transaction, Azzurro Re I Limited, provides dedicated coverage for Europe earthquake and is the first catastrophe bond to do so with an indemnity trigger.

Ahead of the 2015 Atlantic hurricane season eight sponsors returned to the market in the second quarter to issue catastrophe bonds that include the peril of U.S. hurricane. Six of the transactions provide regional cover across territories including Florida, Louisiana, Texas, Massachusetts and the Northeast. American International Group, Inc. (“AIG”) and United Services Automobile Association (both top five sponsors of catastrophe bonds based on current outstanding notional volume), secured coverage inclusive of the majority of the U.S. Atlantic coast. Of note, the Compass Re II Ltd. transaction from AIG utilizes a more unique parametric index trigger based on the reported maximum sustained wind speed and radius of windstorms crossing the boundary points of the covered area over a six-month term. This is the first parametric U.S. wind transaction since 2005 and delivers relative cost savings versus AIG’s indemnity 2014 Tradewynd Re Ltd. North America multi-peril transaction.

On the life and health side, AXA Global Life's France, Japan and U.S. extreme mortality transaction Benu Capital Limited brought total life and health catastrophe bond issuance in 2015 to the highest level for a single calendar year since 2007. This is AXA's first extreme mortality catastrophe bond since 2006 and joins its outstanding Calypso Capital II Limited Europe wind transaction issued in 2013 for AXA Global P&C. The trigger is a mortality index weighted by age and gender over a five-year term.

Second Quarter 2015 Catastrophe Bond Issuance

Beneficiary	Issuer	Series	Class	Size (millions)	Covered Perils	Trigger	Rating	Expected Loss[1]	Initial Interest Spread
Second Quarter									
Heritage Property & Casualty Insurance Company	Citrus Re Ltd.	Series 2015-1	Class A	$150.0	FL HU (Initially)	Indemnity	Not Rated	1.41%	4.75%
			Class B	$97.5			Not Rated	2.79%	6.00%
			Class C	$30.0			Not Rated	5.64%	9.00%
Louisiana Citizens Property Insurance Corporation	Pelican III Re Ltd.	Series 2015-1	Class A	$100.0	LA HU	Indemnity	Not Rated	3.51%	6.00%
AXA Global Life	Benu Capital Limited		Class A	€135.0[2]	FR JP US Mortality	Parametric Index	BB+ sf (S&P)	0.64%	2.55%
			Class B	€150.0[2]			BB sf (S&P)	1.33%	3.35%
Massachusetts Property Insurance Underwriting Association	Cranberry Re Ltd.	Series 2015-1	Class A	$300.0	MA HU, ST, WS	Indemnity	B sf (Fitch)	1.38%	3.80%
Citizens Property Insurance Corporation	Everglades Re II Ltd.	Series 2015-1	Class A	$300.0	FL HU	Indemnity	BB sf (S&P)	1.55%	5.15%
Texas Windstorm Insurance Association	Alamo Re Ltd.	Series 2015-1	Class A	$300.0	TX HU	Indemnity	B+ sf (Fitch)	2.68%	5.90%
			Class B	$400.0			BB- sf (Fitch)	1.58%	4.60%
The Travelers Indemnity Company	Long Point Re III Ltd.	Series 2015-1	Class A	$300.0	NE HU, EQ, ST, WS	Indemnity	BB- sf (Fitch)	1.18%	3.75%
United Services Automobile Association	Residential Reinsurance 2015 Limited	Series 2015-I	Class 10	$50.0	US HU, EQ, ST, WS, WF, VE, MI	Indemnity	Not Rated	7.28%	11.00%
			Class 11	$100.0			Not Rated	2.50%	6.00%
American International Group, Inc.	Compass Re II Ltd.	Series 2015-1	Class 1	$300.0	US HU	Parametric Index	B+ sf (Fitch)	undisclosed	undisclosed
UnipolSai Assicurazioni S.p.A	Azzurro Re I Limited		Class A	€200.0[3]	EU EQ	Indemnity	BB+ sf (Fitch)	0.31%	2.15%
Total Closed During Q2 2015				$2,962.3					

Source: Aon Securities Inc.

[1] Expected loss represents initial one-year annualized figures with warm sea surface temperature sensitivity when applicable
[2] Converted at €1 = $1.0873 as of April 24, 2015
[3] Converted at €1 = $1.1244 as of June 17, 2015

Legend

EU – Europe
FL – Florida
FR – France
JP – Japan
LA – Louisiana
NE – Northeast
MA – Massachusetts
TX – Texas
US – United States

EQ – Earthquake
HU – Hurricane
ST – Severe Thunderstorm
MI – Meteorite Impact
VE – Volcanic Eruption
WF – Wildfire
WS – Winter Storm

Second Quarter 2015 Catastrophe Bond Transaction Review

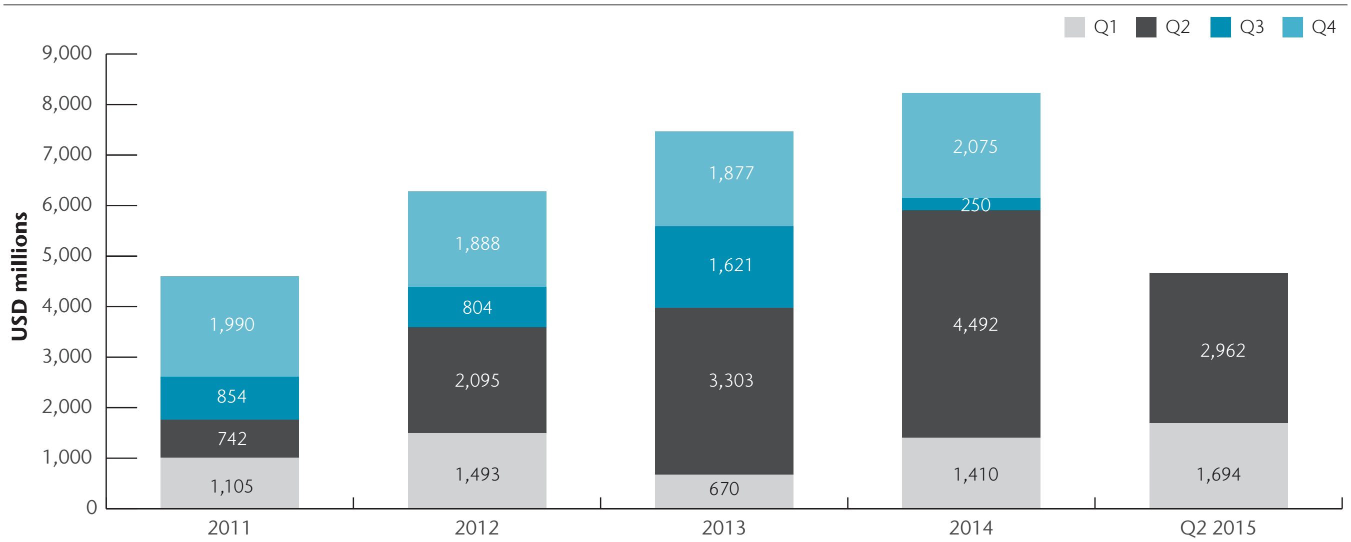
Heritage Property & Casualty Insurance Company ("Heritage"), was first to return to the catastrophe bond market in the second quarter with its third transaction under its Citrus Re Ltd. program. Again, the transaction covers Florida hurricane risk on an indemnity basis, however, this time with newly introduced Class B and C notes positioned relatively lower in the reinsurance tower to replace part of Heritage's Florida Hurricane Catastrophe Fund ("FHCF") reinsurance cover. Overall, Heritage was able to reduce its reliance on the FHCF and secure coverage at a more competitive cost through use of the alternative market notes' capacity.

The Texas Windstorm Insurance Association ("TWIA") again returned to the alternative market through ceding reinsurer Hannover Rück SE's retrocession agreement with Alamo Re Ltd. The indemnity triggered annual aggregate Texas hurricane transaction significantly increased in capacity compared to the prior year's transaction, closing at USD700 million in coverage across two classes, and represents a 75 percent increase in limit from 2014.

Long Point III Ltd. Series 2015-1 is The Travelers Indemnity Company's fifth catastrophe bond transaction. Unlike the prior transactions which all covered Northeast tropical cyclone, this is the first to provide multi-peril coverage including earthquake, severe thunderstorm and winter storm events in addition to tropical cyclone.

The chart below shows catastrophe bond issuance by quarter since 2011.

Catastrophe Bond Issuance by Quarter



Source: Aon Securities Inc.

Aon ILS Indices

The Aon ILS Indices are calculated by Bloomberg using month-end price data provided by Aon Securities.

During the quarter, Aon ILS Indices posted mostly positive results. The Aon All Bond, U.S. Hurricane Bond and U.S. Earthquake Bond Indices were positive for the quarter with gains of 0.53 percent, 0.33 percent and 0.37 percent, respectively. The BB-rated Index posted a negative result for the quarter of -0.04 percent. The Aon All Bond Index outperformed relative to comparable fixed income benchmarks except the 3-5 Year BB U.S. High Yield Index. The Aon ILS Indices also outperformed the S&P 500 index during the second quarter.

The annual returns for all Aon ILS Indices underperformed the prior one year returns as keeping pace with the historic Aon ILS average annual returns remains challenging given the current market environment without a major catastrophe loss or an increase in the overall level of risk ceded to the market. Despite these decreases, the 10-year average annual return of the Aon All Bond Index, 8.23 percent, again produced superior returns relative to the other benchmarks. This demonstrates the value a diversified book of pure insurance risks can bring to long term investors' portfolios.

Aon ILS Indices[4]

Index Title	Return for Quarterly Period Ended June 30		Return for Year-to-Date Ended June 30	
Aon ILS Indices	2015	2014	2015	2014
All Bond Bloomberg Ticker (AONCILS)	0.53%	0.86%	0.26%	2.37%
BB-rated Bond Bloomberg Ticker (AONCBB)	-0.04%	0.48%	0.39%	1.53%
U.S. Hurricane Bond Bloomberg Ticker (AONCUSHU)	0.33%	0.95%	-0.23%	2.04%
U.S. Earthquake Bond Bloomberg Ticker (AONCUSEQ)	0.37%	0.88%	1.06%	1.92%
Benchmarks				
3-5 Year U.S. Treasury Notes	-0.24%	0.90%	1.24%	1.40%
3-5 Year BB US High Yield Index	0.69%	1.59%	2.75%	3.56%
S&P 500	-0.23%	4.69%	0.20%	6.05%
ABS 3-5 Year, Fixed Rate	0.11%	1.25%	1.71%	2.25%
CMBS 3-5 Year, Fixed Rate	-0.26%	1.35%	1.48%	2.50%

Source: Aon Securities Inc. Bloomberg

[4] *The 3-5 Year U.S. Treasury Note Index is calculated by Bloomberg and simulates the performance of U.S. Treasury notes with maturities ranging from three to five years.*

The 3-5 Year BB Cash Pay U.S. High Yield Index is calculated by Bank of America Merrill Lynch (BAML) and tracks the performance of U.S. dollar denominated corporate bonds with a remaining term to final maturity ranging from three to five years and are rated BB1 through BB3. Qualifying securities must have a rating of BB1 through BB3, a remaining term to final maturity ranging from three to five years, fixed coupon schedule and a minimum amount outstanding of $100 million. Fixed-to-floating rate securities are included provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transactions from a fixed to a floating rate security.

The S&P 500 is Standard & Poor's broad-based equity index representing the performance of a broad sample of 500 leading companies in leading industries. The S&P 500 Index represents price performance only, and does not include dividend reinvestments or advisory and trading costs.

The ABS 3-5 Year, Fixed Rate Index is calculated by BAML and tracks the performance of U.S. dollar denominated investment grade fixed rate asset backed securities publicly issued in the U.S. domestic market with terms ranging from three to five years. Qualifying securities must have an investment grade rating, a fixed rate coupon, at least one year remaining term to final stated maturity, a fixed coupon schedule and an original deal size for the collateral group of at least $250 million.

The CMBS 3-5 Year, Fixed Rate Index is calculated by BAML and tracks the performance of U.S. dollar denominated investment grade fixed rate commercial mortgage backed securities publicly issued in the U.S. domestic market with terms ranging from three to five years. Qualifying securities must have an investment grade rating, at least one year remaining term to final maturity, a fixed coupon schedule and an original deal size for the collateral group of at least $250 million.

The performance of an index will vary based on the characteristics of, and risks inherent in, each of the various securities that comprise the index. As such, the relative performance of an index is likely to vary, often substantially, over time. Investors cannot invest directly in indices.

An Interview with Aon Hewitt Investment Consulting, Inc.

1. **Could you provide an overview of Aon Hewitt's business?**
   Aon Hewitt Investment Consulting partners with organizations globally across a broad range of plan sizes and types to develop and maintain leading-edge investment programs. Our team of 270 world-class investment professionals functions as an extension of our clients' staff and oversight boards to enhance their understanding of market trends and developments, address fund challenges, and capitalize on opportunities. Our multifaceted approach enables us to deliver innovative solutions across the entire investment consulting spectrum. Aon Hewitt Investment Consulting advises over 1,000 clients globally with over USD2.0 trillion of assets.

2. **We have seen interest build for insurance-linked securities ("ILS"). What's been the feedback from your clients?**
   Our clients have been keenly interested in learning more about the ILS market given the diversification benefits an ILS allocation would add to their portfolios. The majority of our clients are in the educational phase with ILS – i.e., how does ILS fit into my portfolio, when will ILS do well/poorly, who are the ILS managers and how do we evaluate them, what are the key attributes of successful ILS managers, what type of vehicles do we use to access the market (separate accounts versus funds), what are the liquidity terms of ILS investing, etc. We already have had several of our largest clients (multi-billion dollar public pension funds) allocate assets to ILS within their alternatives allocation.

3. **What attracts you to ILS as an alternative asset class?**
   There are three main reasons why ILS is potentially an attractive investment for our clients. Firstly, it offers exposure to a source of investment returns that is very different to the typical assets held in a pension plan portfolio such as equities, bonds, real estate, hedge funds and private equity – in other words there is a real diversification benefit. Secondly, the expected investment return stream is largely uncorrelated with financial markets which is a feature that most plan portfolios would benefit from. Finally, the volatility of the returns is relatively low so that the addition of ILS exposure can help reduce a plan's dependence on equity market sensitivity and volatility.

4. **What characteristics do you look for when recommending an ILS manager?**
   Many of the characteristics we look for are similar to those we would seek in any manager product we recommend e.g. a diverse institutional client base; a meaningful level of financial alignment; a talented, experienced, stable investment staff; a disciplined and repeatable investment process; strong risk management capabilities; a high level of confidence that future returns can be generated consistent with the stated process. Specifically for ILS managers we are also looking for an ability to source transactions in the private markets; sophisticated transaction structuring capabilities; strong data set, modeling and underwriting skills and a high level of retentions at renewal dates.

5. **Could you outline the key steps involved for a typical client when reviewing an ILS investment opportunity?**
   The most important step (and challenge) is to first educate a client's decision-making body (usually a Board or Trustee Group) about the relative advantages and disadvantages of the investment opportunity. As this is often a new topic that is being introduced it is crucial that there is sufficient understanding to be able to implement decisions with confidence. Subsequent steps would include setting objectives for the investment opportunity, discussions around the sizing of a potential investment, meetings with managers to consider different approaches, a manager selection procedure, mandate implementation and finally the ongoing monitoring of products selected. ILS would be included as part of an annual client portfolio review to ascertain continued suitability.

6. **What challenges and opportunities do you see in the ILS markets?**
   As mentioned above, communication and education with clients is a significant challenge. We are encouraged by the institutionalization and growth of investor capital finding its way into the ILS/reinsurance market but are also conscious of capacity constraints at ILS managers and the more difficult pricing environment of recent years. We see the greatest opportunity in the private transaction and less commoditized market. This is where the focus of our manager research has been directed.

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Aon Benfield, a division of Aon plc (NYSE: AON), is the world's leading reinsurance intermediary and full-service capital advisor. We empower our clients to better understand, manage and transfer risk through innovative solutions and personalized access to all forms of global reinsurance capital across treaty, facultative and capital markets. As a trusted advocate, we deliver local reach to the world's markets, an unparalleled investment in innovative analytics, including catastrophe management, actuarial and rating agency advisory. Through our professionals' expertise and experience, we advise clients in making optimal capital choices that will empower results and improve operational effectiveness for their business. With more than 80 offices in 50 countries, our worldwide client base has access to the broadest portfolio of integrated capital solutions and services. To learn how Aon Benfield helps empower results, please visit aonbenfield.com.

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As one of the most experienced investment banking firms in this market, Aon Securities offers expert underwriting and placement of new debt and equity issues, financial and strategic advisory services, as well as a leading secondary trading desk. Aon Securities' integration with Aon reinsurance operation expands its capability to provide distinctive analytics, modeling, rating agency, and other consultative services.

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