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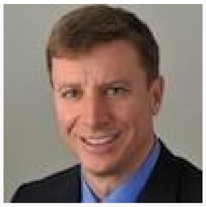

Stable growth from focused reserving practices

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Valuation is a key discussion point in the collateralised reinsurance and catastrophe insurance-linked securities market right now. Over the course of the loss years of 2017 and 2018, Pillar Capital Management Limited (Pillar Capital) has been very focused on its reserving practices and making sure it allocates changes to the NAV into the month that they occur with limited variability. This has been done while following a growth trajectory expected to continue into the year ahead.

Pillar Capital's core investment strategy for its funds involves indirectly taking risk through indemnity based "primary" reinsurance. Advantages of this approach include significant choice of investment opportunity that allows for institutional size investments and taking indemnity risk versus index/parametric risk creates an opportunity for greater return. This investment strategy also allows for optimising a portfolio which creates potential for "alpha".

Pillar Capital has experienced strong and steady AuM growth as a result of better than average performance in relation to peers, in many cases significantly better. "We have continued to build on our position in the market and enhance our portfolio metrics as the market has continued to improve," notes Stephen Velotti, CEO, Pillar Capital.

Founded in 2008, Pillar Capital is headquartered in Bermuda. The firm manages open-ended Bermuda incorporated funds invested in the global property catastrophe risk market. Pillar seeks to identify opportunities in traditional (re)insurance instruments and financial market instruments whose performance is driven by underlying non-life insurance risk. The objective of the firm is to create portfolios with attractive risk-reward characteristics and low-to-no correlation with other asset classes, utilising its extensive reinsurance and capital market experience.

According to a report by Moody's Investor Services, the outlook for global reinsurers is stable going into 2020 with strong capitalisation, rising prices and growing demand buoying the sector.

Velotti comments: “During 2019 we have seen certain sections of the market improve in a strong way and this looks to continue into 2020. In our early analysis of the 2020 renewal periods which are coming up, we are anticipating these sections of the market to further improve while also having some additional sub-sectors start to follow the trend.

“Pillar Capital’s goal will be to move capital into the sections of the market with the best risk/reward ratios to improve investor returns in the space.”

The Moody’s report highlights how reinsurers are increasingly exposed to asset risk as low interest rates encourage investment in lower quality corporate debt and illiquid assets. Further, although cyber insurance presents new opportunities it comes with high risks. And climate change makes the frequency and severity of natural hazards less predictable, making it harder for reinsurers to model and price appropriately, according to the agency.

Despite the industry challenges, Pillar Capital never loses sight of maintaining its strong corporate structure and forward thinking/market-responsive strategy. “This allows us to manoeuvre within the changing dynamics of the marketplace,” says Velotti.

Clients at both ends of the spectrum – investors and insurance companies – benefit from Pillar Capital’s deep track record in the market. “Through us they have access to a long term market participant that is focused on providing a good risk/reward ratio, efficient capital, integrity, and profitable risk transfer to its partners,” Velotti remarks.