

Cat Bonds Alternatives Allocation Update

Q1 2026

In a Nutshell

Equity like returns with bond like risk over past four years, since our first purchase in balanced portfolios

Summary

The Cat bond index was up 2% in Q1 (in USD terms), helping reduce overall portfolio volatility as geopolitical risk spiked in the Middle East. They were one of a handful of assets to generate a positive return in March when equities and bonds both sold off in unison, in response to higher oil prices.

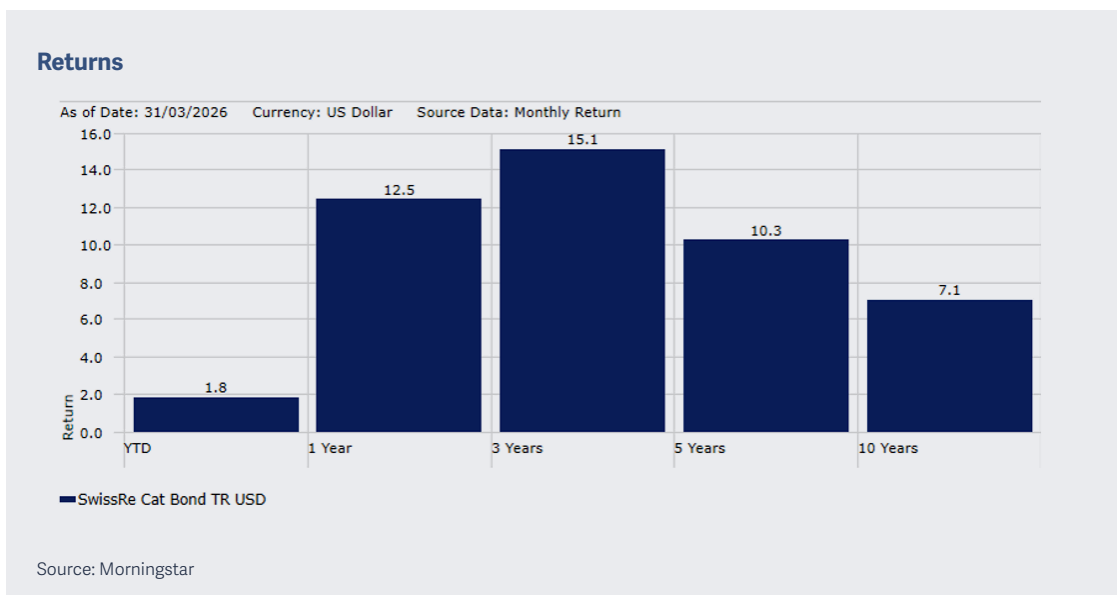
We first bought Cat bonds for balanced funds four years ago. Since purchase, the Cat bond index has compounded at nearly 12%pa which is comparable to equity markets but with a much lower level of risk. During that period, the Cat bond index has volatility under 6%pa, similar to US treasuries and TIPS (inflation linked bonds); however, the Cat bond index has produced a far superior return to bonds given the same level of risk. They have also provided valuable diversification benefits, with low correlation to traditional asset classes.

The Atlantic hurricane season is the dominant risk in Cat bond markets. Peak hurricane season occurs between August and November each year. The 2026 Atlantic hurricane season forecasts are still being published, but the average forecast is for 5 hurricanes and 2 major hurricanes. This is below the 10-year average of 8 hurricanes and 4 major hurricanes. Sea surface temperatures are below last year's levels and there is increasing likelihood of El Nino weather conditions which hinder the formation and intensification of Atlantic hurricanes.

The total yield on the index has fallen to 9% as spreads have narrowed. Should yields and spreads continue to fall we will revisit our Cat bond allocation in balanced portfolios.

Performance

The SwissRe Cat bond index gained 1.8% in Q1 in USD terms. The Cat bond index has compounded at 15%pa over the past three years (to end March 2026), due to a combination of high starting yield and some spread tightening. Over the past ten years Cat bonds have delivered a 7%pa annualised return with very low levels of volatility, making them an attractive source of diversification within balanced portfolios.



Cat bonds delivered extremely strong returns over the past three years

We first bought Cat bonds for balanced funds four years ago, in April 2022. Since our initial purchase, the Cat Bond index has provided equity like returns, with bond like volatility / drawdowns as shown in the table below. The Cat Bond index has compounded at 11.8%pa which is slightly above both the S&P 500 and FTSE All World indexes measured in USD. The Cat Bond index has volatility under 6%pa, similar to US treasuries and TIPS (inflation linked bonds), but has produced a far superior return given the same level of risk.

Risk (4yrs)

Time Period: 01/04/2022 to 31/03/2026 Currency: US Dollar Source Data: Monthly Return

	Return	Std Dev	Sharpe Ratio	Max Drawdown
SwissRe Cat Bond TR USD	11.76	5.83	1.21	-8.99
Bloomberg US Treasury TR USD(1987)	0.77	5.92	-0.58	-9.81
Bloomberg US Treasury US TIPS TR USD	0.79	6.39	-0.53	-10.92
Markit iBoxx Liquid IG TR USD	1.59	10.12	-0.22	-14.90
Markit iBoxx Liquid High Yield TR USD	5.37	7.86	0.16	-10.51
S&P 500 TR USD	11.19	15.77	0.48	-20.20
FTSE All World TR USD	10.56	14.99	0.46	-21.14

Source: Morningstar

Cat bonds delivered extremely strong returns since purchase four years ago

They have also provided valuable diversification benefits, with low correlation to other asset classes (see column 1 below). Correlation of returns has been under 0.5 versus nearly every other major asset class, which helps to lower overall portfolio volatility,

Correlation Matrix (4yrs)

Time Period: 01/04/2022 to 31/03/2026

Currency: US Dollar Source Data: Monthly Return

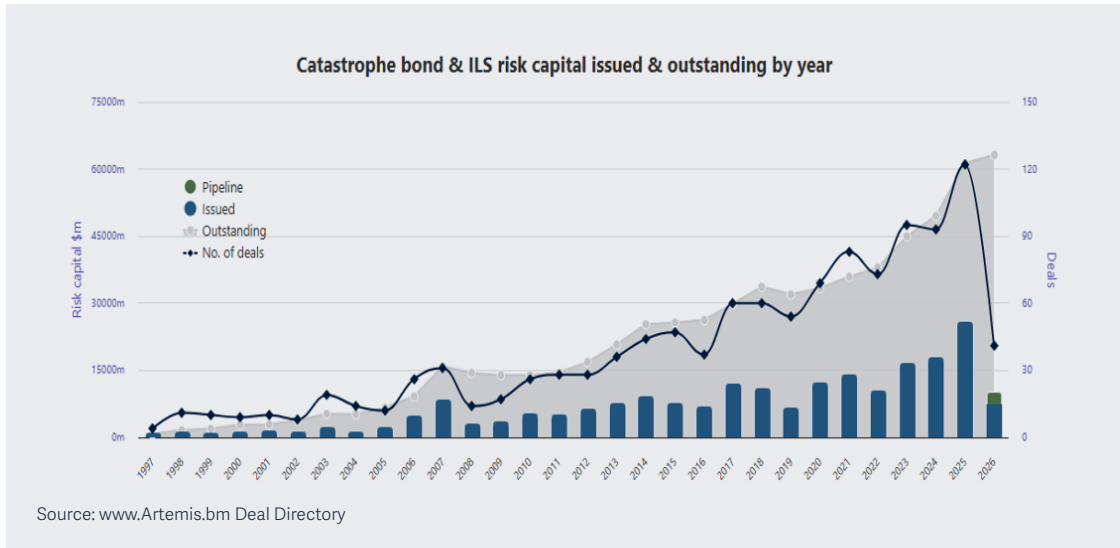
	1	2	3	4	5	6	7
1 SwissRe Cat Bond TR USD	1.00						
2 Bloomberg US Treasury TR USD(1987)	0.29	1.00					
3 Bloomberg US Treasury US TIPS TR USD	0.52	0.86	1.00				
4 Markit iBoxx Liquid IG TR USD	0.34	0.95	0.87	1.00			
5 Markit iBoxx Liquid High Yield TR USD	0.35	0.69	0.83	0.82	1.00		
6 S&P 500 TR USD	0.39	0.61	0.74	0.76	0.87	1.00	
7 FTSE All World TR USD	0.40	0.70	0.78	0.83	0.88	0.97	1.00

1.00 to 0.80
 0.80 to 0.60
 0.60 to 0.40
 0.40 to 0.20
 0.20 to 0.00
 0.00 to -0.20
 -0.20 to -0.40
 -0.40 to -0.60
 -0.60 to -0.80
 -0.80 to -1.00

Source: Morningstar

Issuance

Primary market issuance set a record in 2025, approaching \$25bn. This year has started in a similarly strong vein, with over \$6bn issuance in 2026 across 41 deals (source: Artemis deal directory). In addition to natural catastrophe risks, issuance also included non-traditional risks such as cyber. As a result, the total Cat bond market has grown to \$63bn in size.



2026 issuance is off to a healthy start

Hurricane Season Forecast

The Atlantic hurricane season is the dominant risk (or peril) in Cat bond markets. Peak hurricane season occurs between August and November each year. The 2026 Atlantic hurricane season forecasts are still being published, but the average forecast is for 5 hurricanes and 2 major hurricanes. This is below the 10-year average of 8 hurricanes and 4 major hurricanes.

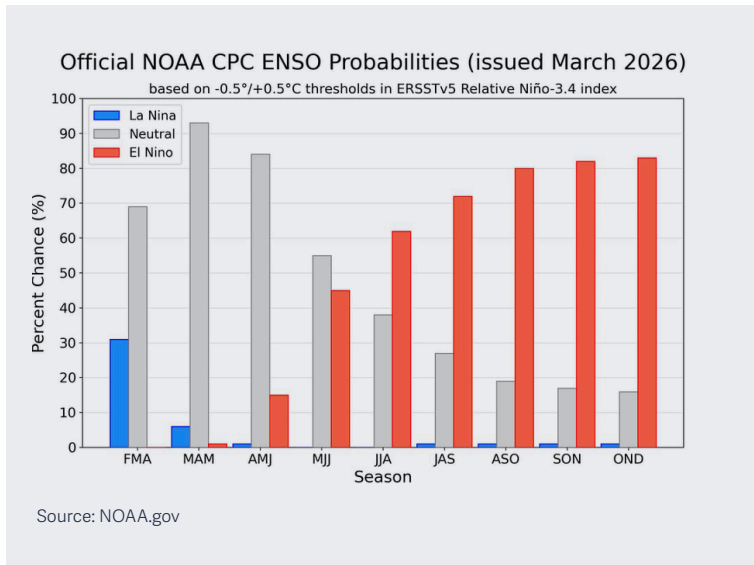
Forecaster	Named storms	Hurricanes	Major hurricanes
NOAA	-	-	-
Colorado State University	13	6	2
Tropical Storm Risk	12	5	1
Accuweather	11 – 16	4 – 7	2 – 4
Weatherbell	9 – 13	3 – 5	1 – 2
UK Met Office	-	-	-
The Weather Company	-	-	-
NC State University	-	-	-
ECMWF (through Oct)	12.4	5.1	-
Artemis Average forecast	12	5	2
2026 Hurricane Season Actuals	0	0	0
1950 – 2024 long-term average	12	7	3
1981 – 2010 median	12	6	3
1991 – 2020 NOAA average	14	7	3
2016 – 2025 recent average (10-year)	18	8	4

Source: www.Artemis.bm

Two major hurricanes forecast in 2026

The forecasts are below average because of two key factors:

- Sea surface temperatures are below last year’s levels (i.e. less energy)
- Increasing likelihood of El Nino climate conditions which hinder the formation and intensification of Atlantic hurricanes



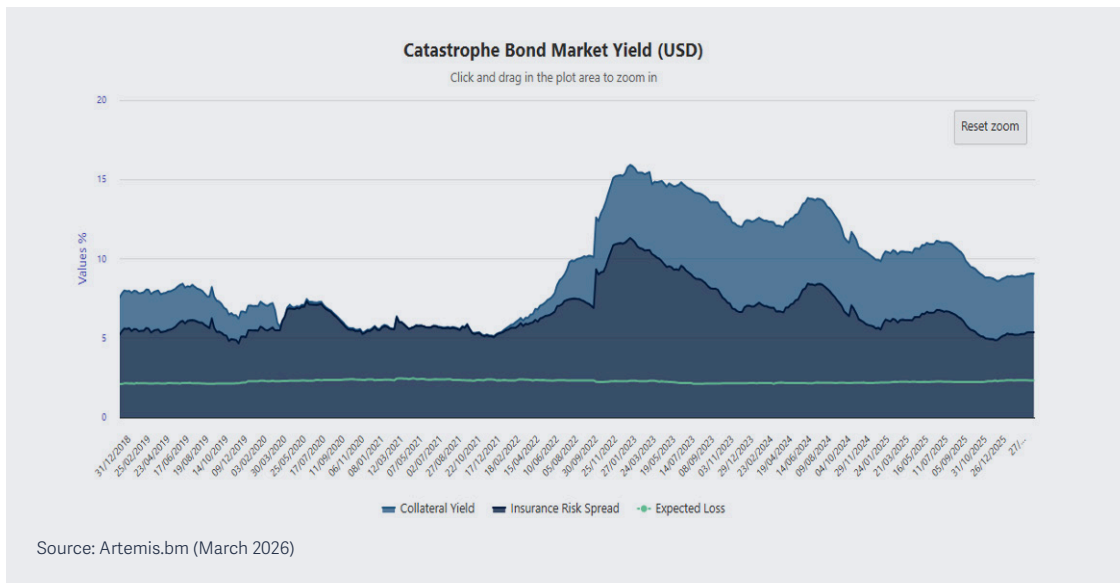
El Niño conditions look increasingly likely

Valuation / Yield

Yields on Cat bonds remain attractive at around 9%. The risk-free rate reduced in line with rate cuts whilst spreads have tightened because of a lack of major hurricanes making US landfall in recent years. Yields are still high in nominal terms, but they are closer to historical averages rather than the very attractive levels seen in recent years. In early 2023 spreads reached 11% and total yield 16%, for example. We have benefited in recent years from this spread compression (hence the strong returns).

As a reminder, the overall yield on a Cat bond comprises two elements:

- Risk free rate – has dropped to 3.7% as central banks have cut rates.
- Credit spread – spreads have tightened to 5.4%, slightly below the long-term average (6%).



Total yields and spreads continue to fall back towards average levels

Positioning

The Cat bond allocation in balanced portfolios remains 5%. We own two specialist Cat bond funds: Icosa and Twelve Securis. Icosa is a specialist Cat bond boutique set up by Florian Steiger, who was previously a portfolio manager at Twelve Capital. Icosa AUM has grown to over \$1bn in just two years, which is great progress. Twelve Capital recently completed a merger with rival ILS firm Securis, forming the new combined firm Twelve Securis. Their fund is now over \$4.5bn in size – one of the largest dedicated Cat bond funds.

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