BENTLEY REID
PERSONAL WEALTH. PERSONAL SERVICE.

Cat Bonds Alternatives Allocation Update

Q2 2026

In a Nutshell

Strong El Nino conditions likely to suppress (but not eliminate) Atlantic hurricane activity

Summary

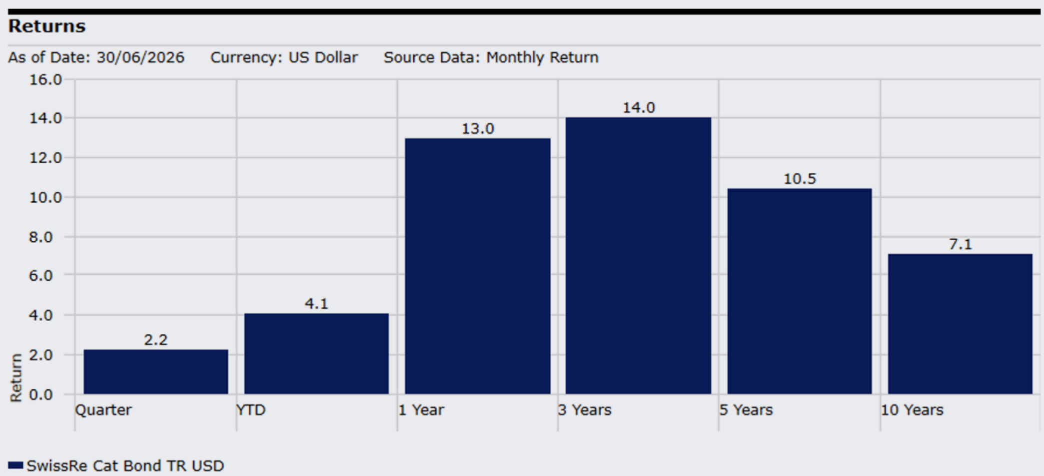
The Cat bond index was up another 2% (in USD terms) in Q2, bringing the YTD return to 4%. The allocation helped reduce overall portfolio volatility in the first half of the year as geopolitical risk spiked in the Middle East. Rising oil prices posed a challenge to both equities and bonds during this period.

Climate conditions look favourable as we enter hurricane season, which is the dominant risk in Cat bond markets. Atlantic sea surface temperatures are below last year and there is increasing likelihood of strong El Nino conditions which hinder the formation and intensification of Atlantic hurricanes.

The total yield on the index has risen to 9.5% as spreads have widened a little despite strong performance. We retain the Cat bond allocation at 5% in balanced portfolios.

Performance

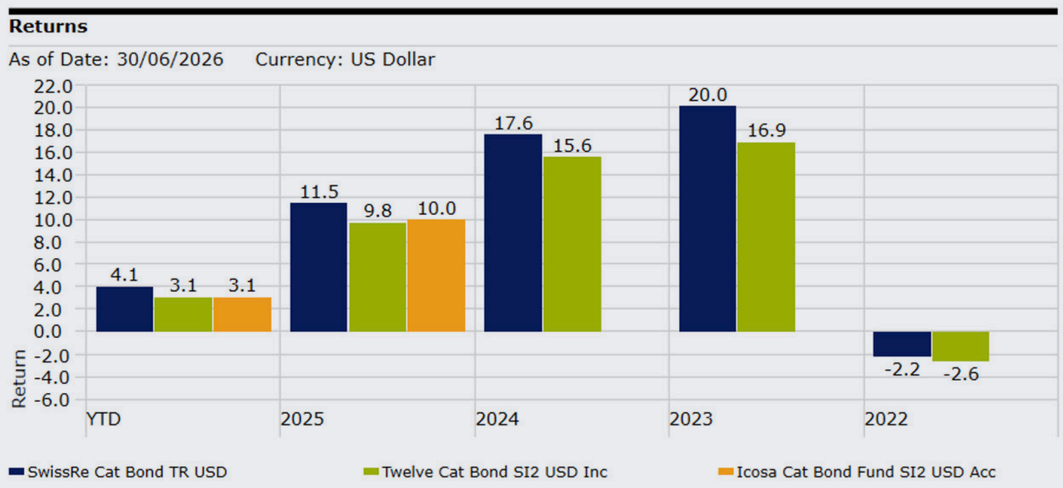
The SwissRe Cat bond index gained 2.2% this quarter in USD terms. The Cat bond index has compounded at 14%pa over the past three years (to end June 2026), due to a combination of high starting yield and spread tightening. Over the past ten years, Cat bonds have delivered a 7%pa annualised return with very low levels of volatility, making them an attractive source of diversification within balanced portfolios.



Source: Morningstar

Cat bonds delivered extremely strong returns over the past three years

Our two Cat bond funds (Twelve and Icosa) are off to a solid start in 2026, up over 3% YTD (to end June). This follows three excellent calendar years between 2023-25. For example, the Twelve Cat bond fund was up 17% in 2023, 16% in 2024 and 10% in 2025. Icosa is a newer fund with a more limited track record, although the fund manager previously worked on the Twelve fund.



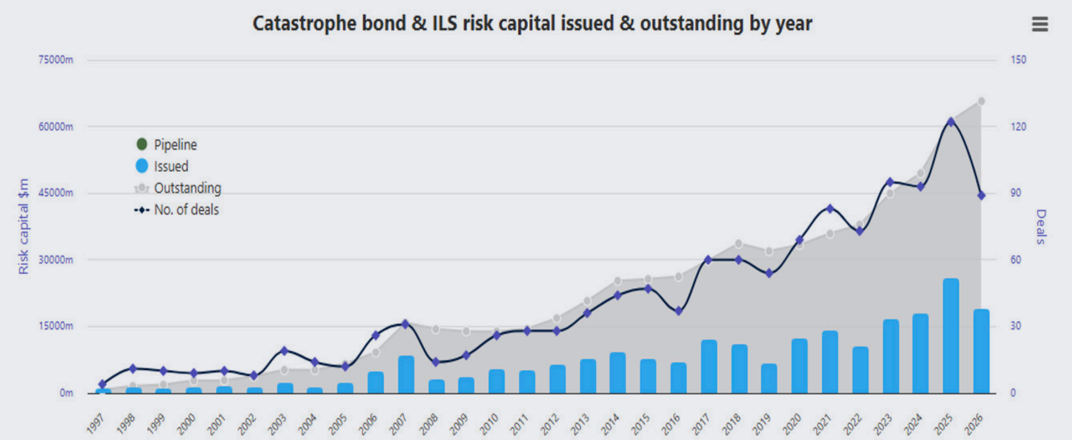
Source: Morningstar

Cat bonds produced double digit gains for the third year in a row in 2025

We prefer the greater diversification (and hence lower risk) of active managers in this specialist area. The Cat bond index is more highly concentrated in US hurricane risk.

Issuance

Primary market issuance set a record in 2025, approaching $25bn. This year has started in a similarly strong vein, with $19bn issuance in 2026 across 89 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 $66bn in size.



Source: www.Artemis.bm Deal Directory

Issuance remains healthy

Hurricane Season Forecast

The Atlantic hurricane season is the dominant risk (or peril) in Cat bond markets. Peak hurricane season occurs between August and October each year. The 2026 Atlantic hurricane season forecasts are for a below average season, with 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	ACE
NOAA	8 – 14	3 – 6	1 – 3	–
Colorado State University	9	4	1	50
Tropical Storm Risk	11	5	2	67
Accuweather	11 – 16	4 – 7	2 – 4	–
Weatherbell	9 – 13	3 – 5	1 – 2	85 – 105
UK Met Office	6 – 12	3 – 7	1 – 3	34 – 110
The Weather Company	12	6	2	–
NC State University	12 – 15	6 – 9	2 – 3	–
ECMWF (through Nov)	12.9	5.7	–	–
Artemis Average forecast	*11*	*5*	*2*	*71*
2026 Hurricane Season Actuals	**1**	**0**	**0**	**0**
1950 – 2024 long-term average	*12*	*7*	*3*	107
1981 – 2010 median	*12*	*6*	*3*	*106*
1991 – 2020 NOAA average	*14*	*7*	*3*	*122*
2016 – 2025 recent average (10-year)	*18*	*8*	*4*	*149*

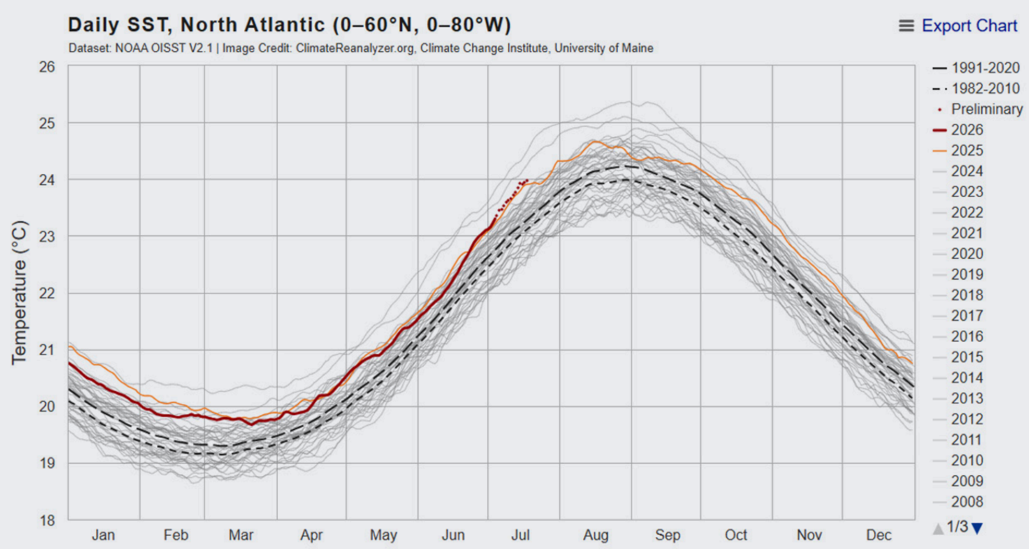
Source: www.Artemis.bm

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 very strong El Nino climate conditions, which hinder the formation and intensification of Atlantic hurricanes

Atlantic Ocean temperatures have been above normal in the two previous years. However, 2026 temperature (red line) is less extreme, but still above historical averages. Warmer oceans are associated with more storm energy, though that is not necessarily correlated with Cat bond returns.



Source: Climate Reanalyzer

Cooler oceans this year, but still above average

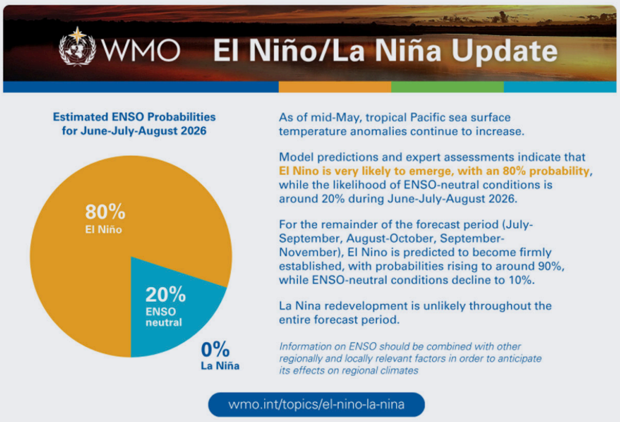
What is El Nino?

El Nino and La Nina are two competing climate patterns that have an impact on global ocean temperatures and prevailing wind conditions. Scientists call this the El Nino-Southern Oscillation (ENSO) cycle. These weather patterns are unstable and typically occur every two to seven years. El Nino ('little boy' in Spanish) conditions are typically associated with reduced Atlantic hurricane activity, mainly due to high wind shear which prevents the formation and intensification of hurricanes.

At the time of writing, forecasters are predicting a very strong El Nino event, with 80%+ probability of conditions forming, with a similar chance it could develop into an exceptionally strong event by late autumn (source: World Meteorological Organization, WMO).

The effects of El Nino typically include:

- Increased global temperatures
- More extreme weather
- Shifting rainfall patterns
- Fewer Atlantic hurricanes



Source: WMO

WMO forecast strong El Nino this year

Ocean temperatures and the ENSO cycle are important inputs, but the principal determinant of Cat bond losses is landfall location for major hurricanes and population density in those areas. There is a clear element of randomness to where hurricanes make landfall.

Hurricane Andew is a healthy reminder of this. It occurred during August 1992, which was a year when the climate was transitioning out from a strong El Nino environment.

"Hurricane Andrew made landfall in the pre-dawn hours of Monday, August 24, 1992, just south of Homestead in Miami-Dade County as a ferocious Category 5 hurricane. Sustained winds of 165 mph and gusts reaching 174 mph swept a 25-mile-wide swath of near-total destruction through southern Florida. The town of Homestead was effectively leveled with more than 99% of its mobile homes were completely destroyed, and the adjacent Homestead Air Force Base was demolished, ultimately leading to its permanent closure.

Andrew went on to make a second landfall in south-central Louisiana as a Category 3 storm, adding further devastation. In total, the hurricane destroyed more than 63,500 homes, damaged over 124,000 others, left approximately 250,000 people homeless in Dade County alone, and caused an estimated $27.3 billion in economic damage and roughly $16 billon in insured losses in 1992 dollars. Verisk estimates that if Hurricane Andrew were to occur under current exposure and property value conditions, insured losses could exceed $100 billion, highlighting the substantial increase in insured coastal assets in South Florida over the past three decades.

It was the costliest natural disaster in United States history at the time, a record that held for 13 years until Hurricane Katrina in 2005. Andrew is one of only four tropical cyclones to make landfall in the continental United States as a Category 5 hurricane."

(source: King Ridge Capital)

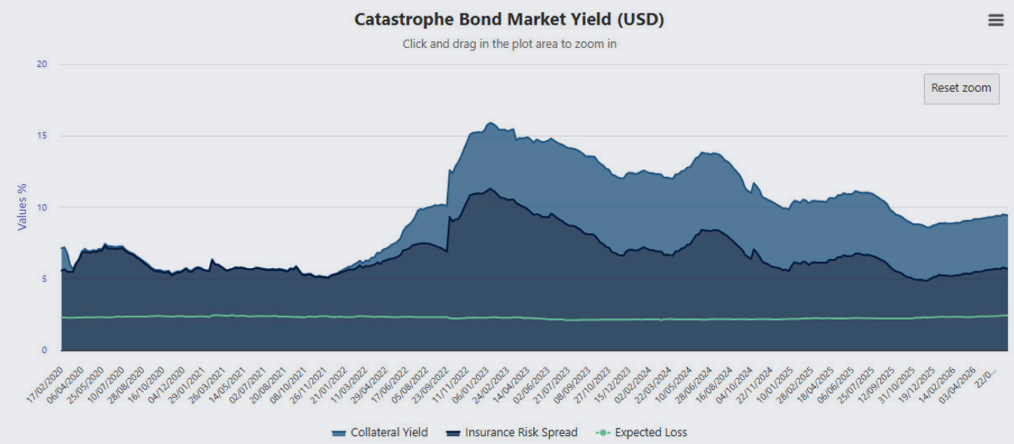
165 mph	922 mb	$27.3B	125,000+
Landfall Wind Speed	Minimum Pressure	Estimated Damage (1992)	Homes Destroyed or Damaged

Valuation / Yield

Yields on Cat bonds remain attractive at around 9.5%. 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 3.75% as central banks have cut rates.
- Credit spread – spreads have tightened to 5.7%, slightly below the long-term average (6%).



Source: Artemis.bm (June 2026)

Total yields and spreads continue to hover around 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.

DISCLAIMER

Bentley Reid & Co (UK) Limited (FRN 572096) is authorised and regulated by the Financial Conduct Authority.

This communication is provided for information purposes only. Bentley Reid believes that, at the time of publication, the views expressed herein represent fair opinion; however, no assurance can be given that any illustrated or referenced performance will be achieved or repeated. All data and graphical information are believed to be accurate at the time of capture but may be subject to change and may not reflect current conditions. Fluctuations in exchange rates may cause the value of investments to rise or fall.

Recipients considering any action based on the content of this communication should seek independent advice from a professional adviser appropriate to their individual financial circumstances. Capital is at risk, and investors may receive back less than the amount originally invested. Neither the publisher nor any of its subsidiaries or connected parties accepts any liability for direct or indirect loss arising from reliance on, or use of, the information contained in this communication.