B- to CCC+.

Residential Re 2008 Classes 1 and 2 were downgraded to BB- and B- respectively from BB and B respectively.

Stark Investments team in management buy-out

The reinsurance and risk-linked investments team (RLI) at alternative asset manager Stark Investments is spinning out of the mothership in a management buy-out, led by portfolio managers Tony Rettino and John DeCaro.

The new company – which is yet to be named – is expected to become operational in the fourth quarter of this year. It will be majority owned by Rettino and DeCaro.

The entire team of five people are moving across: Rettino, DeCaro, Jake Weber, Nick Jagoda and Mike France – a portfolio manager who was recognised at this year's inaugural ***Trading Risk*** awards in June, where he won the 'Young Meteor of the year' category.

"The new venture will allow us to take advantage of opportunities in the wider risk-linked universe to develop our investment strategy and raise additional funds," Rettino told ***Trading Risk***.

The split is very amicable, with Stark continuing to provide back office services for the new company "for at least the next year", Stark president and COO Colin Lancaster told ***Trading Risk***.

And Stark – which is currently trying to obtain relevant investor consent for the move – was quick to point out that they are not exiting the ILS market: "Stark expects to have less investment capital available for illiquid strategies in the coming years," Lancaster explained.

"Pricing in the reinsurance-linked asset class is still very attractive at the moment. The team has been very profitable and we will continue to invest in this space through Tony and John's new venture."

The Chicago-based Stark team were finalists in the ***Trading Risk*** awards 'Manager of the year' category, and gained recognition for executing $1.4bn of investments in 2008 that covered the full spectrum of reinsurance-linked investments including various forms of collateralised reinsurance, catastrophe bonds, sidecars and risk-linked derivatives.

The experienced team, whose history dates back to the market's inception in the mid 90s, have introduced a number of new (re)insurers, brokers and other service providers to the convergence sector.

Nephila raises $800mn in Q2 2009

Convergence pioneer Nephila Capital raised an additional $800mn in the second quarter of this year for its insurance-linked investment funds, evincing a strong demand for non-correlated assets.

The firm's founder Greg Hagood noted that it had benfitted from close ties with global alternative investment manager Man Group, which bought a 25 percent stake in the company last July.

The stellar quarter for the firm – which recently won the Investor of the year category at the ***Trading Risk*** awards in London – sends funds under management soaring past a market-busting $3bn, ***Trading Risk*** understands.

Hagood said that the additional investment mandates came from "various jurisdictions around the world" with the majority coming from pension funds, hedge funds and funds of funds.

"Insurance linked securities are clearly gaining broader acceptance from institutional investors and consultants," he said. "After the recent financial market turmoil, institutional investors are actively seeking return streams that are independent from the capital markets and catastrophe reinsurance certainly provides that portfolio benefit."

In May this year, Nephila and a subsidiary of Allianz Risk Transfer (ART) formed a new short-term investment

TRADING Risk NEWS LETTER

Insight and Intelligence on (Re)insurance Convergence with the Capital Markets

vehicle that will mirror a sidecar by writing a portion of 2009 cat reinsurance exposures via Nephila's regular funds.

Nautical Management Ltd – a 2007 joint venture between ART and Nephila which provides management services to dedicated catastrophe reinsurers – will manage the unnamed sidecar, which has $100mn of capital.

Separately, Nephila attracted a further $100mn of capital into an existing fund for deployment during the 2009 US wind season.

In June the firm secured a new $35mn investment mandate from specialist fund manager AMP Capital Investors, further widening the audience for trading (re)insurance risk in the mainstream capital markets.

Hannover Re adopts repo structure with European cat bond

Hannover Re's proposed EUR75mn European windstorm catastrophe bond, Eurus II, will incorporate BNP Paribas' (BNPP) repurchase agreement (repo) collateral structure.

As reported by ***Trading Risk*** in April, BNPP has developed the new repo agreement cat bond mechanism – in which investment grade corporate bonds are bought from the bank counterparty in a repo and marked to market on a daily basis by the clearing house Euroclear – in pursuit of the holy grail of a credit risk-free cat bond.

On EUR75mn Eurus II, The Bank of New York Mellon is acting as custodian for the assets, with Euroclear monitoring their value and ensuring that assets used are of a suitable quality.

Hannover's latest bond is scheduled to close at the end of this month and has initial indicative pricing of 675-725 basis points above LIBOR, according to sources. It is set to replace the now expired $150mn Eurus European windstorm transaction, launched in 2006. Eurus II is being arranged by BNP Paribas in conjunction with Aon Benfield and uses a parametric wind trigger calculated by modelling specialist AIR Worldwide.

And following the launch of Munich Re's downsized EUR50mn Ianus Capital bond in July, Eurus II is just the second cat bond to offer cover for non-US perils in 2009 – testing investor appetite and pricing for this area.

The EUR75mn Eurus II is designed to provide cover against losses from storms in Belgium, Denmark, France, Germany, Ireland, the Netherlands, and the UK from August 2009 to March 2012. Payments will be calculated by AIR Worldwide based on actual windspeed recordings made at weather stations within each covered country.

In the post-Lehman environment, bond structurers have wrestled with alternatives to the total return swap (TRS) model for securing and investing the proceeds of cat bond transactions.

However, there is a dizzying array of structural solutions out there – including US Treasury purchase agreements, TRS using government-guaranteed instruments such as the FDIC programme, solutions secured on a single government-backed instrument, and tri-party repo. As such, it may take time for investors and sponsors to digest the options and for a real frontrunner to emerge (see table below).

Collateral features in 2009 issuance

Issuer	Total Return Swap	AAA-collateral	MMF	Repo
Atlas V	X		X *	
East Lane Re III	X			
Mystic Re II	X		X **	
Blue Fin		X	X **	
Ibis Re	X		X *	
Res Re			X	
Ianus Capital		X		
Calabash Re II		X		
Parkton Re			X	
Eurus II				X

Source: Trading Risk * During extension ** Certain cases