

Clarien launches Global Voyager ILS fund-of-funds

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Clarien Investments Limited (CIL), the asset management arm of Clarien Bank, one of Bermuda's largest independent integrated financial services firms, has launched its first insurance-linked securities (ILS) fund and is tapping the expertise of established ILS managers by making it a fund-of-funds strategy.

Launched as a new sleeve within CIL's open-ended segregated accounts company Global Voyager Funds Limited, the new ILS fund-of-funds strategy launched in December, marking its first foray into the insurance-linked securities (ILS) space.



The fund-of-funds approach is an interesting one, as it can layer on fees, but it also provides a way to tap into alpha generated by multiple ILS managers.

Recent history has shown that catastrophe losses do not impact all ILS managers, funds and strategies equally, so a blended approach of allocating to a variety of strategies can help to moderate exposure to single loss events. Large investors such as pensions favour this approach, and have in many cases allocated to a number of ILS managers at once.

Clarien's Global Voyager Insurance Linked Securities Fund has issued shares that have been listed on the Bermuda Stock Exchange (BSX) and these will be the fund units offered to investors, with up to 40 million available.

Listed as a collective investment vehicle, it's understood that the fund will target largely institutional or high-net-worth investor capital, which will be allocated across a number of experienced ILS fund manager-operated strategies.

Artemis spoke with Miguel DaPonte, Senior Vice President and Investment Manager at Clarien Investments Limited about the launch of its first ILS fund strategy.

DaPonte explained why Clarien has added ILS to its Global Voyager offering.

"Clarien saw a niche to democratize and introduce the asset class to a broader range of high-net-worth individuals and family offices who are qualified investors but who would not be able to meet the minimum investments for a single ILS fund nor have the team size or expertise to perform the due diligence necessary," DaPonte said.

Adding that, “When we looked at the market globally, we saw that there were not many options in the offshore space for these types of investors, and the few products that were available were mainly focused on Cat bonds which wouldn’t meet their risk/return objectives.”



So, Clarien, which already has strong links to and customers in the high-net-worth and family office segments, has spotted an opportunity to offer something a little differentiated to a group of investors that are not always as well-served with insurance-linked securities opportunities.

The investment manager will also target smaller pension funds and endowments.

DaPonte also told us about the targets for Clarien’s ILS fund strategy, “The Insurance Linked Securities Fund seeks to achieve attractive risk-adjusted returns that are demonstrably uncorrelated with traditional asset classes by investing, directly and indirectly, in a diversified portfolio of insurance-linked investments.”

In terms of the details of where capital will be allocated, that will depend on relationships and market forces. But to begin, the Clarien ILS fund-of-funds will allocate to two different manager-run strategies.

DaPonte said the number of underlying funds could vary over time, “But we do not anticipate having a large amount of underlying funds. We believe increased diversification simply gives you market exposure which is predominantly Florida wind.

“We wanted to work with managers who seek the best possible risk-adjusted returns over the years and had a very flexible allocation of capital to various perils, regional exposures, vehicles to take the risk, and loss attachment points.

“For the first round of investment, we have two underlying funds, but are constantly looking at others.”

ILS fund-of-funds strategies have historically suffered from the fee structure in the market, but Clarien is looking to negate that by charging less in fees itself.

“Fees of the underlying managers were a focus for us; net of all fees we still needed to make the modelled returns attractive to end investors. To assist investors, we are charging a flat AUM fee on the fund and no performance fee,” DaPonte told us.

The due-diligence process, in selecting the external ILS fund managers, has been a significant effort at Clarien, spanning many months of work in assessing and identifying the best fits for its new ILS fund strategy.

DaPonte explained, “This was a process that has taken over two years to complete. We held lots of conversations and were allowed access to many data rooms. We applied very similar themes that we do with our normal public asset managers: People, Process and Philosophy, with an eye on risk-adjusted returns.

“As managing liquidity will be important for us, we were very focused on trapped capital and how the particular funds handled amounts of trapped capital in the past.

“As mentioned, we are focusing on managers who are nimble and very flexible in their allocation as the various perils and vehicles to take the risk can change over time and we can take advantage of that. We also spoke to a lot of managers about what their lessons learned were from 2011/12 and 2017/18.”

The Clarien Global Voyager Insurance Linked Securities Fund will target a net return for its investors, after all fees, of around 6-10%.

To reach those levels of return, it’s clear that the strategy will invest beyond the catastrophe bond space, with the Global Voyager ILS fund able to allocate to any ILS fund strategy that meets its selection criteria, so underlying assets can be anything from cat bonds, through the private ILS and collateralized reinsurance spectrum.

Clarien also has an ambition to leverage other sources of distribution for the new ILS fund and DaPonte said, “In addition to our direct clients, Clarien is forming relationships with investment advisory firms that service institutions, foundations and family offices in Canada, the Caribbean and Europe. Ultimately, our goal is to raise Clarien’s profile as a specialist investment manager beyond Bermuda.”

It’s encouraging to see a new ILS fund-of-funds offering, as these strategies can offer a great way to benefit from the performance and diversification across multiple best-in-class ILS managers.

With Clarien Investments Limited a Bermuda headquartered business, the company is well-positioned to stay abreast of ILS market developments, while also being able to capitalise on the family office and high-net worth investor communities that invest their assets on the island.

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