



Alistair Jones
Senior Managing Director
Leadenhall Capital Partners

Francesca Fabrizi
Editor in Chief
Pensions Age

▶ What are Insurance Linked Securities?

Insurance Linked Securities (ILS) are a fixed income type of asset. As with any other fixed income instrument, you aim to invest £100, get £100 back at maturity, and receive regular income along the way. The income here is supported by lots of insurance premiums – in this case typically property insurance premiums. The main issuers of these types of securities are property insurers and reinsurers. Where they're overexposed to risks, they can transfer them to the capital markets and issue Insurance Linked Securities. The portfolios that Leadenhall manages on behalf of pension investors invest in diverse portfolios of Insurance Linked Securities.

There are two main types of Insurance Linked Securities – public liquid ones called catastrophe (or cat) bonds; and private placement ILS, which are less liquid, but which allow investors access to more diverse risks as well as higher returning positions, often requiring to post less collateral due to the structure of the product which also limits tail risk to investors.

The role of ILS in pensions today

▶ Francesca Fabrizi sits down with Leadenhall Capital Partners Senior Managing Director, Alistair Jones, to talk about the role of Insurance Linked Securities (ILS) in pension fund investing today

▶ What are the main characteristics of ILS that make them attractive?

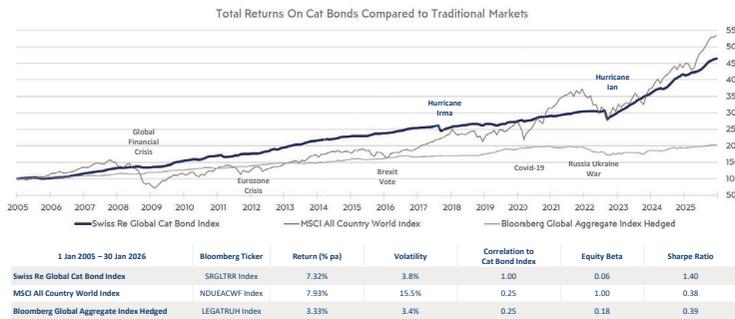
There are a number of characteristics that are attractive to pension funds. Over the long term, the cat bond market has delivered a level of returns similar to equity markets – around cash plus 5% pa. What's been delivered over the last three years has been close to cash plus

9% pa, which has been a great outcome.

Crucially, the pattern of returns is very different to other types of investments. With conventional assets like equities, corporate bonds and property, if you go through a recession or a financial downturn they can fall, often at the same time, and that's a risk for pension investors. What

you're getting here is a fundamentally different type of risk, mostly property insurance risks, such as wind, earthquake, flood events, etc. These are very different types of risks to what you get in other financial markets, so investors typically obtain significant diversification benefits as well as long-term returns. It is a

Liquid ILS - A Historically Significant Diversifier



Source: Bloomberg (30 Jan 2026); returns, volatility and correlation calculated monthly and then annualised. Note that a number of historic risk and return metrics are shown. Investors should consider risk metrics that are relevant to their risk and return objectives and risk preferences. Over the long term, some of the risk metrics which apply to traditional asset classes and are reported through the presentation, may not accurately represent the risk associated with Leadenhall's funds. Past performance is not a guarantee of future results. For institutional use only | 3

genuinely lowly correlated asset class.

The level of return per unit of risk has also been attractive as has the liquidity. That's been important for UK pension funds over the last few years after the gilts crisis and with their LDI collateral needs.

The risk and return benefits of ILS compared to other markets can be seen in the chart on page 26.

➤ How has the market evolved?

It has really come of age. It was a much smaller market 25 or so years ago but it has grown a lot. The global reinsurance market is now around \$750 billion – that's bigger than the UK corporate bonds market. Of that, around \$125 billion is passed to the ILS markets and this proportion also continues to grow.

In 2025, we had record issuance cat bonds – we're having more and more issuers come to market, and with it more diversification. That strong supply of cat bonds as well as private placement ILS has been supportive of yields. Cat bonds are currently yielding around cash plus 5% pa, so a total yield of around 8%-9% pa. In the private market, you can get even more all the way up to cash plus 13% pa. More diversification is possible here too. So the market has evolved and can meet different pension needs.

➤ How are you seeing pension schemes generally invest in ILS?

ILS has been popular over the last few years, across both DB and DC pension funds. DB and DC are in quite different positions. DB has been de-risking over the years, some now running on and some transferring to pensions buyout. Here cat bonds are liquid and you can come in and out of funds on a weekly or bi-weekly basis. This helps with LDI collateral needs.

Private placement ILS funds generally have around quarterly liquidity. That's pretty good compared to long lock illiquid assets. ILS liquidity is helpful here too and so too are even more efficient returns – important for

funds that continue to run on.

ILS is also high income. Last year, cat bonds yielded income of 11%. That's a good amount that can be used to pay pension cash flows with DB funds continuing to mature. It's been diversifying as well. A lot of DB funds have been de-risking into corporate bonds, gilts, LDI, some adding securitised Asset Backed Securities too. ILS is another type of securitised asset. This diversification is great for DB, such as holding up compared to other assets through last year's liberation day.

On the DC side, big master trusts continue to grow. There's much talk of private assets and Long Term Asset Funds. We're seeing lots of interest here as well. On the growth side, DC funds have been investing a lot in equity over the years. ILS is high yielding and that return has been really good in DC funds' growth accumulation phases. Then, as savers de-risk, the diversification of ILS kicks in and helps protect the value of people's investments.

Everyone's talking about decumulation now – what are you doing when people get to retirement? Here, that high income and cash flow that the asset class produces can kick in, helping pay people's pensions in the decumulation phase as well.

➤ How does ILS fit with the wider sustainability agenda?

ILS has a number of sustainability aspects. Pension funds have been focusing on TCFD, getting their reports done on emissions, climate risks and opportunities. What you're getting with this asset class is you're protecting society from climate and meteorological events. So, if you get a big wind or flood or storm event, Insurance Linked Securities can pay out, helping pay people's insurance claims and rebuilding. Cat bond default rates have generally been reasonably low historically, similar to corporate bonds, loans, high yield and private credit. However, they have

a fundamentally different driver of return making them diversifying. So it's a relatively low level of default, but also there if people need it.

ILS is often recognised as a climate adaptation solution because it protects societies, enabling them to get on with life, residents can continue to consume, companies can continue to invest getting on with their day-to-day business. ILS is there as a backstop, helping to protect them. And if the worst happens, ILS helps rebuild, often to a higher standard.

➤ How do you think about climate risks and opportunities, as well as modelling them?

We try to model climate risks as accurately as possible and continue to develop this. A lot of stress test scenarios are observed, we do a lot of research, both internally and commissioned externally. There's a lot of consideration of climate risks and opportunities.

The yield on ILS is a multiple of the losses expected to come through. For example, the total yield on cat bonds is currently around 8%-9% pa, while expected losses are around 2% pa. So the yield is expected to more than cover investors from losses, although you always expect to pay some insurance claims. Over the long term though, actual cat bond losses have been lower than this showing that risks have been well modelled.

All in all, we see this as an opportunity to protect society. This is at the same time as pension fund investors benefiting from a financial return along the way from providing this protection, and gaining valuable diversification.

Please visit pensionsage.com for the full video.

In association with

