

GAM Star Fund plc - GAM Star Cat Bond

Commentary January 2025

Management team



FERMAT
CAPITAL MANAGEMENT

Fermat Capital Management, LLC

Monthly performance

The fund's January returns were negative due to the Los Angeles wildfires. The marks are implying a strong chance that Southern California Edison (SCE), one of the US's largest electricity utility companies, will be held liable for the Eaton fires, which would lower the losses for the private insurance markets, including the Insurance Linked Securities market. The USD Institutional share class fell by -43 basis points over the month.

Portfolio changes

There were no significant changes to the portfolio over the month. We expect a high amount of activity throughout the first half of 2025 but have no current expectations that the portfolio risk profile will change much from the prior year. It will all depend on what comes to the market and how deals are priced.

Catastrophes

The most notable catastrophe events for the month were the California wildfires that ignited in and around Los Angeles in South California starting 7 January. Subsequently these fires spread rapidly under extreme fire weather conditions resulting from strong Santa Ana winds and dry conditions and late onset of the rains.

The most destructive of these fires were the Palisades Fire and the Eaton Fire that led to urban conflagration destroying several blocks of houses in the affluent Los Angeles neighborhoods of Pacific Palisades and Altadena.

Official estimates for these two fires is that circa 18,000 (exact California Department of Forestry and Fire Protection figure: 18,345) structures have been damaged or destroyed with the Palisades Fire accounting for approximately 8,000 (7,854) structures and the Eaton Fire accounting for the remaining circa 10,000 (10,491) structures. Insured industry loss estimates for these fires range from USD 20 billion to USD 50 billion, although we believe it will remain closer to USD 30 billion.

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Besides these fires, the southern US also saw a severe winter storm event in mid-to-late January resulting from a polar vortex event, similar to the February 2011 winter freeze event that caused widespread damage to the southern US. However, the states were better prepared this time around and the ensuing damage was limited. We estimate the insured industry loss from this January 2025 polar vortex to remain at circa USD 2 billion.

Outside of the US, Storm Éowyn, which brought record-breaking wind gusts to Ireland and less severe wind gusts to parts of the UK, may lead to USD 1 billion of insured industry loss.

Market conditions

The California wildfires did not cause much disruption to the markets and did not have a noticeable impact on spreads. With USD 2.5 billion in catastrophe bond maturities in January and USD 1.3 billion of new issuance, the market was flush with cash and readily absorbed new issuances. We do expect a large amount of new issuance in February with several sizable ones, and this should help to satiate investor demand and improve spreads for investors.

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