

March 1, 2021

Event Report: Winter storm Uri

Storm history

A series of winter storm events across the U.S. has led to widespread catastrophic freeze impacts, particularly in the State of Texas, commonly referred to in the press as winter storm Uri. Starting mid-February and continuing for over 2 weeks, these storms impacted a large part of the continental United States with freezing temperatures, snow, and ice.

This unusual southerly reaching winter-outbreak was driven by the same phenomenon that caused cold temperatures in Central Europe and harsh winter conditions in Spain in late January: A large-scale atmospheric teleconnection called the Arctic Oscillation. This Arctic Oscillation was negative all season and reached its peak value around mid-February. When the Arctic Oscillation (a reflection of pressure differences farther north) becomes negative, it favours a weaker, more meandering jet stream, allowing cold arctic air masses that usually remain at latitudes of Southern Canada or Chicago to move substantially farther south.

Most of the states affected exhibited resilience in terms of being well prepared for severe winter conditions through insulation, the ability to avail themselves of mutual energy sharing agreements and past experience. Texas fared less well, leading to a winter storm catastrophe in that state, driven in large part by the impact from significant-duration power outages.

Texas does not embrace practices as robust as some Midwestern and North-eastern states; the state has not undertaken mitigation efforts against the impacts of freezing temperatures, e.g., the insulation of pipes for water supply and sprinklers. In addition, the Electricity Reliability Council of Texas, the grid operator that controls roughly 90% of the electric load in Texas, is not connected to other states' power grids, effectively rendering much of the state an island in electrical power supply matters and leaving it with no capability to borrow/share surplus power in the face of such extreme events.

The freeze peril most commonly leads to damage from water resulting from burst pipes. A burst pipe can lead to significant water spillage that requires extensive repairs.

Market impact

As the last winter storm impacts of this event are still unfolding, any detailed prediction about ultimate insured losses is premature. Some modelling firms have issued public estimates of the

insured market loss for winter storm Uri. Karen Clark & Co speaks of up to USD 18bn, AIR from “north of USD 10bn”.

Portfolio impact

Based on these numbers, the impact on the portfolios of the **Solidum Cat Bond Fund and the Solidum Event Linked Securities Fund (SAC2 and SAC3) is expected to be moderate and should predominantly relate to mark to market impacts, of which the predominant piece is expected to be recovered soon.**

It is unlikely that cat bonds in the Solidum Cat Bond Fund and Solidum ELS Funds will suffer a principal loss from this storm. Aggregating cat bonds, however, will incur an erosion of their retentions.

Albeit it is too early to provide a final judgment on the private transactions in the portfolios of the Solidum ELS SAC2 and SAC3, most of their investments are expected to be not impacted, due to the fact that the Funds do not engage in aggregate retrocession of typical sidecar structures. Two transactions have been “ear-marked” and written down slightly as a safety measure until further information can be obtained.

Uri however introduced sizable price volatility in the month end cat bond prices through a widening of bid /ask spreads. We expect these effects to normalize quickly, and corresponding recoveries should occur.

Please find below an estimate of the different Fund performance in February:

Solidum Cat Bond Fund (USD):	-0.85%
Solidum ELS, SAC 2 (USD A1):	-0.75%
Solidum ELS, SAC 3 (USD I):	-0.60%

The portfolio management team remains at your disposal for any additional questions.

With kind regards

The Solidum Management Team