

14. January 2025

Event Report: Large-scale Fires in Los Angeles

In the second week of January 2025, several large-scale fires broke out in the greater Los Angeles area. As these events rightly demand a high level of media attention, we would like to provide an interim assessment of their potential impact on the insurance market and the portfolios of the Solidum Funds. We would like to note that the analysis is currently influenced by many uncertainties and the situation is still changing dynamically due to the persistence of the fires. Therefore, the ultimate impact of these fire events on the portfolios of the Solidum ILS and Cat Bond Funds may differ from the statements made in this status report.

The wildfires were fueled by several factors. Very low humidity and a large amount of dried vegetation provided good basic conditions. Especially in the first few days, very strong St. Anna winds fanned the newly started fires, with wind gusts of up to 160 km/h driving the fronts forward and creating new fire hotspots by spreading sparks.

As of today, the two largest fires, the Palisades and the Eaton Fire, have burned nearly 100 km² and nearly 60 km², respectively. About 14'000 emergency personnel are battling the flames with 1'400 fire engines and more than 80 firefighting aircraft. Significant progress has been made in recent days, with the number of structures destroyed growing much more slowly than in the first few days. However, these two fires are only partially contained and the situation continues to evolve dynamically, especially as the St. Anna winds picked up on Monday and are expected to continue into Wednesday.

Because the events are still ongoing, concrete statements on insured losses for the industry are currently subject to significant uncertainties. In addition, the insurance industry's response to the bushfires of 2018 and 2019 led to many shifts in the market, which complicates analysis. For this reason, no estimates of insured losses have yet been released by the modelling firms. Other sources have been publishing increasingly higher figures for insured market losses since the weekend, which range up to \$30 billion. We believe that the currently available data do not support such figures. If the fires don't spread much further into built-up areas, half that amount seems more realistic to the management team, as of today.

Statements regarding the impact of the fires on the portfolios of the Solidum Funds are subject to significant uncertainty for the reasons mentioned. However, we believe that significant adverse effects are unlikely. The following distinguishes between investments with dedicated exposure to wildfire and those with exposure to general natural hazards, both on a per occurrence basis and on an aggregate basis.

- Dedicated coverage for California wildfire, which by their nature would be at high risk of loss, is not included in any of the funds.
- Private contracts or Cat Bonds with exposure to general natural hazards, which include fire risks, are included in all funds. Since hurricanes and earthquakes typically represent the risks with the potential for the largest insurance losses, most per occurrence transactions are structured with trigger points that correspond to the overall significantly greater potential for damage in these hazard classes. Thus, typical per occurrence transactions appear unlikely to

be at risk from the current events. However, a potential risk cannot be excluded in principle for investments with increased return-risk characteristics. The proportion of transactions that the management team deems potentially at risk corresponds to approximately 1% of NAV for each of the three funds.

- In the case of aggregating Cat Bonds, the fires will result in an erosion of deductibles. In the case of low-risk investments, the effect will remain within the range of what is expected and will not have a major impact. For investments with an enhanced return-risk profile, we expect that the erosion of the deductibles and the associated increase in the risk of such structures will result in a perceptible reduction of quoted secondary market prices. Investments where the management team believes such a reaction is possible correspond to approximately 0.5% of NAV (Solidum Cat Bond Fund), approximately 2.5% of NAV (Solidum ELS, SAC2) and approximately 5% of NAV (Solidum ELS, SAC3). While the SAC2 and SAC3 invest in private transactions, there is no exposure through private aggregating retrocession contracts, as such structures are not underwritten by Solidum for strategic policy considerations.

The Management Team remains at your disposal for further discussions.

With kind regards
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