MORNINGSTAR

Catastrophe Bond Fund Landscape

These products promise higher returns by assuming the risk of catastrophic events. The trade-offs are capacity constraints, limited liquidity, and higher fees.

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Key Takeaways

- Catastrophe bonds and insurance-linked securities, sometimes also referred to as event-linked bonds, effectively transfer the risk of specified catastrophic events, such as natural disasters, from insurance and reinsurance companies to investors.

- Because the frequency and magnitude of weather-related disasters do not depend on traditional market or macroeconomic factors, **the appeal of this market is its lower correlation to publicly traded bond and stock markets.**

- Large institutional investors directly own the majority of catastrophe bonds and ILS, with **a small but growing cohort of cat bond funds** owning the rest.

- Morningstar's global database includes **43 catastrophe and insurance-linked funds, for a total of USD 37.7 billion in assets under management. This cohort had USD 10.2 billion in net new flows over the past three years** through June 2026 and demonstrated strong recent performance.

- All the cat bond funds that we've identified label themselves as actively managed, but their degree of differentiation versus the broader market, as illustrated by the Swiss Re Global Cat Bond Index, is not easy to ascertain. Some funds, for example, dabble in so-called non-natural catastrophe bonds, such as those covering cybersecurity or terrorism risks.

- **Cat bond fund assets are largely concentrated in a handful of players** (Twelve Capital, Stone Ridge, Schroders, Fermat, and GAM). **Two of the top three largest funds are currently closed to new investors, highlighting capacity constraints**.

- Over the past five years through June 2026, the typical cat bond fund **outperformed the Morningstar Global Core Bond Index, but most funds lagged the SwissRe Global Cat Bond Index.**

- **Fees are typically higher than those of traditional fixed-income offerings** (1.14% annual average representative cost, compared with less than 0.70% for the typical global diversified-bond fund). This reflects the higher complexity of cat bonds but also less competition between fund providers.

- **Exchange-traded funds have yet to bring low-cost investing to catastrophe bonds**: The market's sole ETF—the actively managed Brookmont Catastrophic Bond ETF, launched earlier this year. Its 1.58% prospectus-adjusted expense ratio is higher than that of many open-end fund peers.

- Investors looking to choose a catastrophe bond fund should verify that the asset manager has sufficient in-house or third-party resources to analyze this complex asset class. Also, as catastrophe bonds are **significantly less liquid** than traditional bonds, investors should scrutinize their asset manager's commitment to maintaining portfolio liquidity and diversification.

What Are Catastrophe Bonds?

Catastrophe bonds, or "cat bonds," emerged in the late 1990s after three natural disasters (Hurricanes Andrew and Hugo and the Northridge Earthquake) left North American insurers and reinsurers struggling to cover massive losses. The industry sought new ways to shift the risk of losses from these events and others like forest fires onto investors, instead of relying solely on traditional reinsurance. Since then, cat bonds have evolved from a US phenomenon to a truly global market.

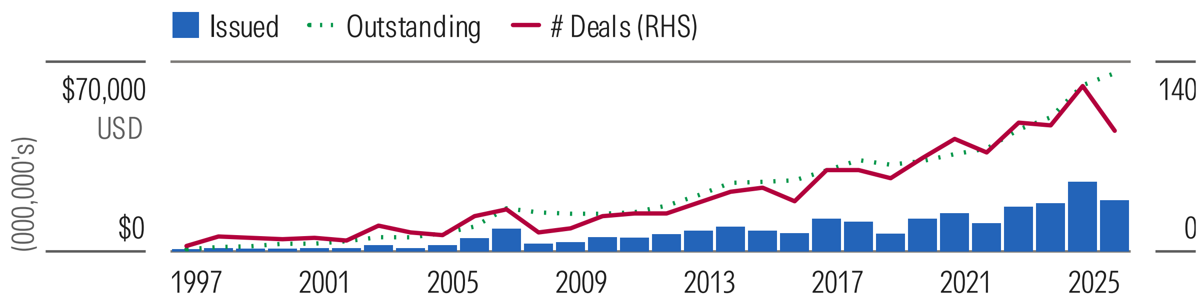
To understand cat bonds, it helps to know how insurance works. Insurers sell policies and collect premiums, then offload some of that risk to reinsurers to avoid major losses from a single event; this is referred to as “insurance for insurers.” Cat bonds take this a step further by transferring risk directly to investors.

To transfer this risk, an insurer or reinsurer issues a cat bond, and the money raised is placed in a reserve fund. Investors who buy the bond earn regular coupon payments, often at attractive interest rates. If a specified disaster occurs and hits a preset trigger, for example, losses exceeding a certain dollar amount, investors' principal is used to cover the claims, meaning they could lose all or part of their investment. If no qualifying disaster occurs during the bond's term, investors get their principal back in full, plus interest.

Cat bonds offer investors higher potential yield in exchange for taking on catastrophe risk. They can also provide diversification, since natural disaster risk tends to move independently of typical stock and bond market fluctuations.

Catastrophe Bond Structure

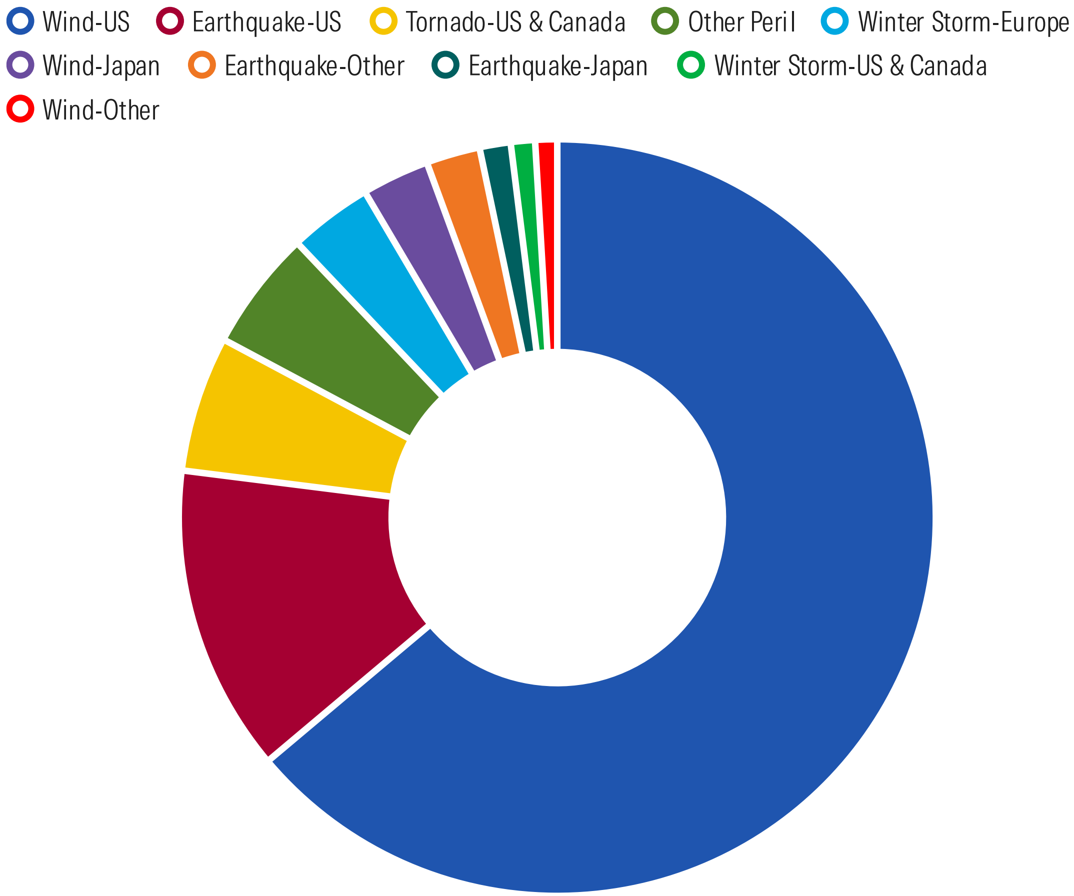
Catastrophe Bond Market Growth (Issuance and Outstanding Volume)



Source: Artemis.bm.

What Types of Risks (Perils) Are Embedded in Catastrophe Bonds?

Index Breakdown by Peril and Region



- The reinsurance market's risks are concentrated in three major perils:
  - **Wind events, including tornadoes and hurricanes**
  - **Earthquakes**
  - **Winter storms**
- Other perils, such as wildfires and floods, are becoming a more significant part of the cat bond market as insurance companies seek protection against losses from them.
- Modeling disaster risk is inherently complex, especially given the uncertainties introduced by climate change. A key question in the field is whether the frequency of natural disasters can still be reliably extrapolated from long historical data series, or whether new and unexpected patterns are beginning to emerge.
- More recently, cat bonds have expanded to cover other insurable risks, such as energy disasters, cyberattacks, and terrorism; these are considerably harder to model with confidence.
- In 2025, Hurricane Melissa—the first recorded Category 5 hurricane to strike Jamaica—activated a full-trigger provision, resulting in a USD 150 million write-down of bondholder principal to finance relief efforts. It was only the second full weather-related cat bond payout since Hurricane Ian in 2022. Because the affected bonds represented only a small sliver of the overall cat bond market, however, these events did not meaningfully affect broader market performance or investor sentiment.

Source: Victory Pioneer, SwissRe. Data as of March 31, 2026.

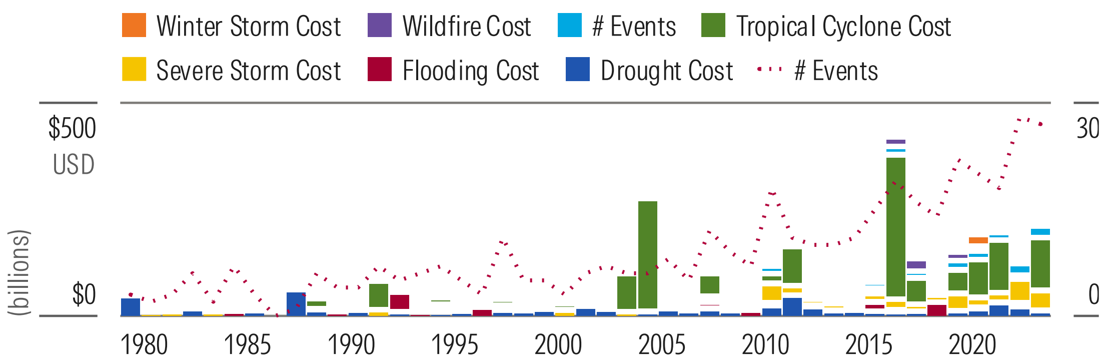
Do Catastrophe Bond Coupons Adequately Compensate Investors for Expected Losses?

Spread premiums, which represent the difference between coupon rates and expected losses, have tended to adjust, compensating investors for the higher probability of natural disasters.

Coupon rates at the time of bond issuance reflect expected losses, but the yield on cat bonds, which comprises the cat bond spread premium plus the three-month Treasury Bill yield, can be higher. This yield adjusts to changes in those expectations, compensating investors for a higher probability of natural disasters.

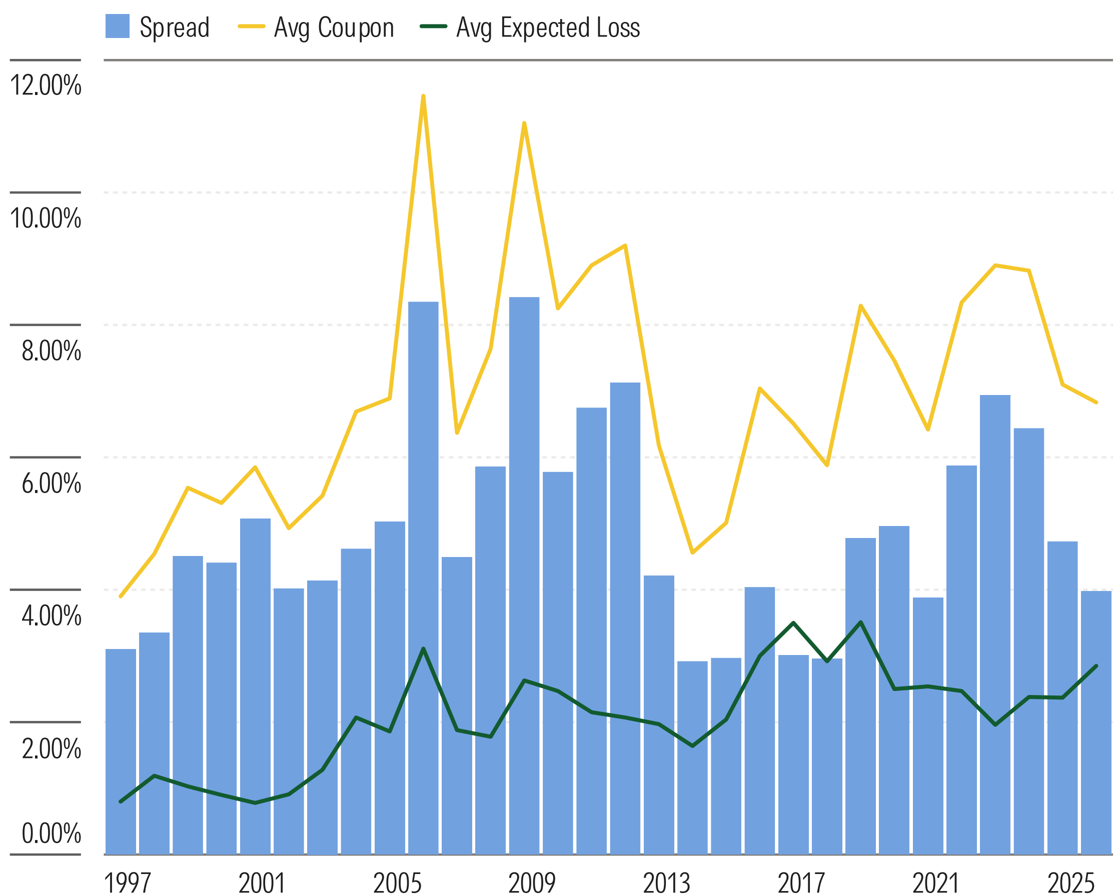
Spreads on cat bonds rose to more than 7 percentage points in 2023 from about 3 percentage points in 2013, although this has fallen more recently. At the same time, the average annual expected loss percentage has remained somewhat predictable, between about 1.0% and 3.5%, over the past two decades.

Frequency and Cost of US Disaster Events



Source: NOAA National Centers for Environmental Information (NCEI).

Cat Bond and ILS Expected Loss, Coupon, and Spread



Source: Artemis.bm.

Risks Investors Should Consider

The primary risk inherent in a cat bond is that a specified catastrophic event could occur, causing investors to lose a significant portion of their principal investment. **However, managers of cat bond funds must also contend with the following risks:**

- **Model risk:** The risk that inaccurate catastrophe predictions may lead to potential misjudgment of risk exposure.
- **Liquidity and price discovery risk:** The risk that observed market prices differ significantly from the underlying value of cat bonds due to the thinly traded nature of the market.
- **Concentration risk**: Individual cat bonds can suffer principal write-downs based on idiosyncratic events, so portfolios that are unduly concentrated in a single peril or region are more vulnerable than broadly diversified ones.
- **Interest rate risk:** The risk of cat bonds' valuations moving with changes in underlying long-term yields is low. Over the trailing 10 years, the SwissRe Cat Bond Index has a correlation of 0.17 versus the 10-year US Treasury yield.
- **Counterparty risk:** A measure of an issuer's creditworthiness; if the issuer (insurance or reinsurer) of the bond becomes financially unstable, it could affect its ability to pay claims in the event of a catastrophe.

Correlation Matrix of the SwissRe Cat Bond Index With Major Asset Classes

Annualized trailing periods

Morningstar US Categories	3 Year	5 Year	10 Year
Global Bond	-0.05	0.36	0.31
Intermediate Core Bond	0.01	0.35	0.26
Intermediate Government	0.00	0.33	0.22
High Yield Bond	-0.01	0.41	0.34
Large Blend	-0.09	0.32	0.27

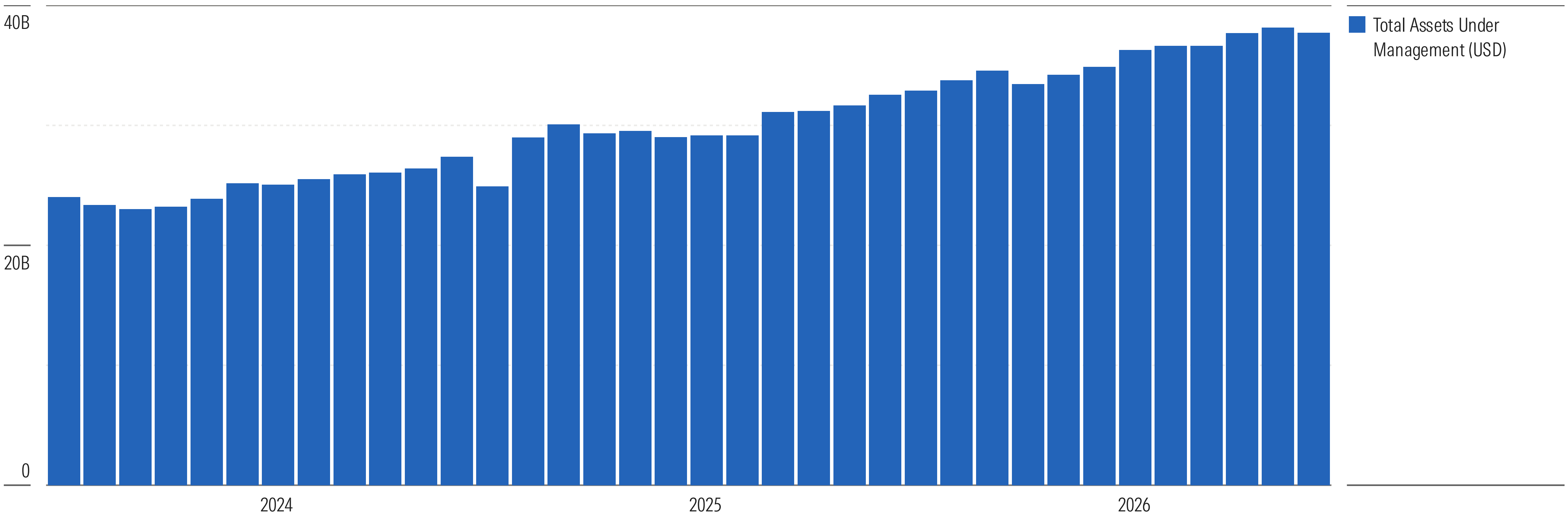
Source: Morningstar Direct, SwissRe. Data as of 06/30/2026.

The table illustrates correlations between the SwissRe Cat Bond Indexes and major asset classes. Even at their highest (approximately 0.41), these are still low correlations, reinforcing the diversification benefits of cat bonds to other investments. Cat bond investments should serve as a diversifying asset whose returns are driven by hurricane/earthquake risk, not by interest rates, credit cycles, or equity sentiment.

A Growing Fund Universe

As of the end of June 2026, Morningstar has identified **43 investment vehicles dedicated to the insurance-linked market globally, with a total of USD 37.7 billion of assets under management**. That's an increase of more than 70% compared with USD 22 billion of assets in June 2023, though the number of individual funds decreased slightly from 46 over the period, denoting a more concentrated universe. Over the past three years, catastrophe and ILS funds brought in USD 10.2 billion of net new money, with the rest of the growth in assets being driven by the asset class' strong absolute performance.

Total Assets Under Management in Catastrophe Bond and Insurance-Linked Securities Funds, Globally



Source: Morningstar Direct, data as of June 30, 2026

A Top-Heavy and Capacity-Constrained Universe

Catastrophe Bond and Insurance-Linked Funds, Ranked by Fund Size

Name	ISIN	Domicile	Branding Name	Inception Date	Fund Size USD
Twelve Cat Bond S USD Acc	IE00BDRJLK70	Ireland	Twelve Capital	2/2/2018	4,625,762,796.00
Stone Ridge Hi Yld Reinsurance Risk Prml	US8617284000	United States	Stone Ridge	2/1/2013	4,625,291,965.00
Schroder GAIA Cat Bond IF Acc USD	LU0951570687	Luxembourg	Schroders	10/21/2013	3,976,862,920.00
SCOR ILS Fund Atropos B USD	LU0670876076	Luxembourg	SCOR	8/31/2011	3,628,958,391.00
Fermat UCITS Cat Bd Instl II USD Acc	IE000HUMPS35	Ireland	Fermat Capital	2/12/2024	2,776,006,021.00
Victory Pioneer CAT Bond Y	US92648C7939	United States	Victory Capital	1/27/2023	2,256,130,004.00
GAM Swiss Re Cat Bond USD Acc	IE00B4VZPG27	Ireland	GAM	10/31/2011	1,949,227,444.00
SCOR ILS Fund Atropos Catbond B4 USD Acc	LU2523347420	Luxembourg	SCOR	4/14/2023	1,782,328,629.00
Leadenhall UCITS ILS B USD Acc	IE00BYTQ6J71	Ireland	Leadenhall	12/21/2015	1,645,466,502.00
Icosa Cat Bond Fund I USD Acc	LI1288551529	Liechtenstein	MRBFund	1/5/2024	1,137,872,466.00
Ambassador Institutional	US46141T1337	United States	EMBASSY	12/29/2021	892,793,010.00
Schroder Invmt Fd FlexCatBd I Acc USD	LU1196277617	Luxembourg	Schroders	3/31/2015	883,887,041.00
Victory Pioneer ILS Interval	US72369L1070	United States	Victory Capital	12/17/2014	842,064,603.00
Plenum CAT Bond Dynamic Fund S USD Acc	LI1115714191	Liechtenstein	CAIAC	5/28/2021	630,027,343.00
NK Premium CAT Bond Fund USD		Cayman Islands	IMS	11/15/2018	617,234,545.00
Plenum CAT Bond Defensive Fund R USD	LI0115208568	Liechtenstein	Plenum	9/6/2010	610,172,077.00
LGT (Lux) I Cat Bond Fund C EUR	LU0816333636	Luxembourg	LGT	8/12/2011	488,779,418.29
Schroder Invmt FdCorInsLnkdScs K Acc USD	LU0954711619	Luxembourg	Schroders	9/30/2013	486,406,353.00
Schroders Capital All-ILS Ltd Basic $MF1	KYG8122E1089	Cayman Islands	Schroders	5/30/2008	430,483,776.00

Source: Morningstar Direct. Fund size data as of the most recent reporting.

- Over the past three years, seven new cat bond and/or ILS funds were created, while 13 funds were merged away or liquidated. While some of the closures simply reflect the consolidation of redundant vehicles or the maturation of fixed-term funds, several managers like Franklin Templeton, J. Safra Sarasin, and Entropics Asset Management terminated their cat bond range entirely, which suggests specialized ILS expertise is difficult to sustain without sufficient scale.
- The universe is very top-heavy: The top 10 funds account for 75% of the assets, and a handful of players (Twelve Capital, Stone Ridge, Schroders, Fermat, and GAM) dominate the field.
- Capacity is a critical concern in this space given how thin the secondary market is for cat bonds. **Two of the top three largest funds, Twelve Cat Bond and Schroder GAIA Cat Bond, are currently closed to new investors** after having reached internally defined capacity limits.
- The closure of prominent cat bond funds to new investors poses a challenge for investors looking to enter the cat bond market today, as the more established players in the space have already reached capacity, but choosing a smaller, less seasoned firm may not provide the same quality of expertise.

Most Catastrophe Bond Vehicles Offer Less Frequent Liquidity Than Traditional Fixed-Income Investments

Catastrophe Bond and Insurance-Linked Funds, Ranked by Fund Size, Continued

Name	ISIN	Domicile	Branding Name	Inception Date	Fund Size USD
Securis Catastrophe Bond B USD	IE00BYYCCZ85	Ireland	Securis Investment Partners	3/1/2016	406,813,622.00
AXAIM WAVe Cat Bonds I Cap USD	IE00BZCPNB98	Ireland	BNP Paribas	1/20/2017	368,173,551.00
Twelve Alliance Dynamic ILS I USD Acc	IE000N7OMF32	Ireland	Twelve Capital	3/8/2024	318,682,590.00
Solidum Cat Bond CHF R acc hedged	LI0049587277	Liechtenstein	Solidum Partners	9/30/2009	198,126,421.11
Tenax ILS UCITS I - Acc EUR	IE00BDVK6P68	Ireland	Tenax Capital	6/16/2017	191,902,855.97
LGT (Lux) III-ILS Plus Fund B USD	LU0950816578	Luxembourg	LGT	5/31/2005	184,753,098.00
Fermat ILS Yield A AUD Inc	AU60ETL03794	Australia	GAM	6/30/2012	132,082,421.85
AZ Eskatos Multistrategy ILS B EUR Acc	LU0354663808	Luxembourg	Azimut	4/30/2008	129,105,079.30
Euler (Lux) Cat Bond Fund EB USD	LU2250179053	Luxembourg	UBS	1/18/2021	115,475,857.00
MANEKI UCITS CAT BOND FUND I USD	IE0008SC0LW9	Ireland	HSZ	3/10/2022	98,336,479.00
Brookmont Catastrophic Bond ETF	US26923N4705	United States	Brookmont Capital	3/31/2025	76,705,443.00
LGT (Lux) II - Vintage ILS IM USD Acc	LU1815085151	Luxembourg	LGT	5/31/2018	68,924,164.00
Euler Lux ILS Balanced Fund SA USD	LU1614180211	Luxembourg	Euler ILS Partners Ltd	7/1/2017	63,729,980.00
Euler Lux ILS Low Volatility PI SB USD	LU1708468852	Luxembourg	Euler ILS Partners Ltd	12/17/2018	29,608,892.00
AZ Eskatos Multistrategy ILS Fdr B EUR	LU1500557761	Luxembourg	Azimut	1/31/2017	12,325,685.29
SCOR ILS Fd Atropos CatbondII D2 CHF H D	LU2093623259	Luxembourg	SCOR	4/23/2021	110,815.10
ILS Diversified Ltd IM USD	BMG4711E1536	Bermuda	ILS Advisers	4/1/2014	N/A
LGT (Lux) Emerald ILS I1	LU2147993831	Luxembourg	LGT	4/30/2020	N/A
LGT (Lux) Granite Ils Fund I USD	LU0862795415	Luxembourg	LSV	12/12/2012	N/A
LGT (Lux) Urania Ils Fund I EUR	LU0862794442	Luxembourg	LSV	12/12/2012	N/A

- The universe can be broadly split into two groups. In Europe, funds that invest exclusively in cat bonds are usually UCITS-compliant, domiciled in Luxembourg or Ireland, and most offer **weekly liquidity**. Many offer share classes that are available to retail investors as well as institutions or wealth channels.
- Another group comprises more esoteric products that invest in private ILS in addition to cat bonds. These **price at less frequent intervals and often offer limited redemption opportunities**; many are registered in offshore domiciles such as the Cayman Islands.
- US-domiciled cat bond strategies typically take the form of **interval funds** (Victory Pioneer ILS Interval, Stone Ridge Reinsurance Risk Premium Interval). These are funds that only allow redemptions at regular intervals and up to a certain percentage (usually 5% per quarter) of the fund's outstanding shares. This format makes sense since cat bonds trade infrequently, and private ILS often qualify as Level 3 assets (their valuation cannot be derived from observable inputs such as market prices).
- All funds in the cohort identify themselves as **actively managed**, including the 2025-launched Brookmont Catastrophic Bond ETF, the first cat bond exchange-traded fund.

Source: Morningstar Direct. Fund size data as of the most recent reporting.

Evaluating Active Management Is Far From Straightforward

- Information on the cat bond market is becoming more widely available, but **it's still not easy for investors to measure the added value of active management in this space**. Notably, while asset managers often reference the Swiss Re Cat Bond Index in their materials, most do not consider it to be a realistic yardstick for performance, as its returns do not reflect the significant transaction costs involved in trading cat bonds.

- Funds that invest in private ILS in addition to cat bonds sometimes refer to the **ILS Advisers Fund Index, an equally weighted index of 36 constituent funds** (20 cat bond funds and 16 private ILS funds, as of June 2026). This index is based on voluntary participation and thus likely to be biased to better-performing vehicles.

- Most strategies are fairly **buy-and-hold** in nature and source the vast majority of their investments in the primary market, as secondary trading is usually difficult and expensive to execute. A key risk is that as funds grow, they become less selective, their participation rate in new issuance increases, and their portfolios start **looking more and more "like the market,"** meaning the outstanding universe of around 350 cat bonds.

Select Portfolio Characteristics of Catastrophe Bond and ILS Funds

Peer group	Number of holdings	Cash (% allocation)
Highest	373	24%
Lowest	83	3%
Median	215	7%
Average	**210**	**9%**

- Inflows into cat bond funds don't always match the seasonality of issuance, and new money can't be easily deployed to purchase cat bonds on the secondary market. This means that, in practice, many cat bond funds can hold meaningful portions of cash (9% of assets on average, as of June 2026) to prepare for upcoming opportunities or potential redemptions. Cash sleeves thus contribute to maintaining the funds' liquidity, but investors should be aware that the trade-off is an at-times significant **cash drag on returns.**

Source: Morningstar Direct, data as of the most recent portfolio disclosure date.

Evaluating Active Share and Alpha Is Far From Straightforward

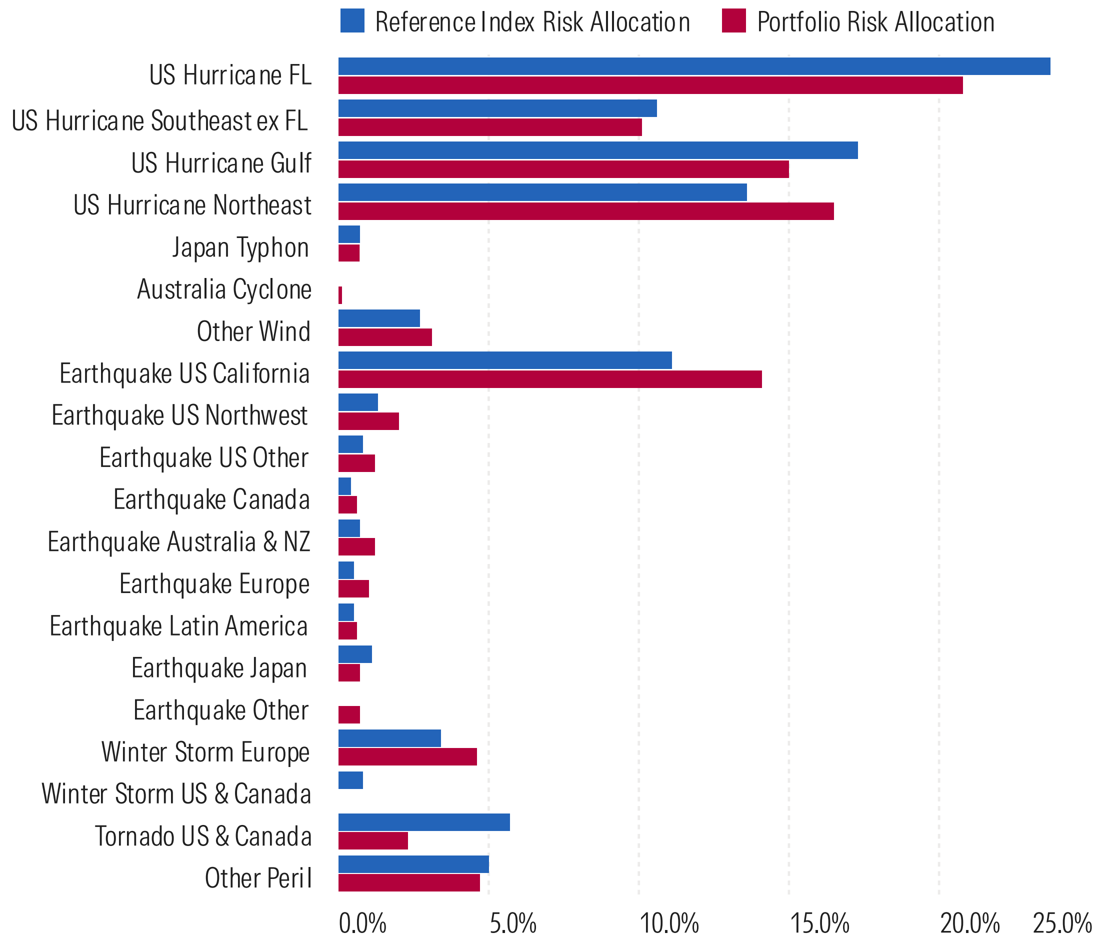
- Investors looking to choose a cat bond fund will likely struggle to detect the presence of very distinct investment philosophies. The majority of funds have portfolio exposures that fairly closely resemble that of the market as a whole, as illustrated by the **Victory Pioneer Cat Bond** example on this slide.

- Some funds try to buck this trend by exploiting local or specialized expertise. For example, **Maneki UCITS Cat Bond** builds a concentrated portfolio of only 50-75 cat bonds (out of an outstanding universe of around 350) combined with an exclusively originated securitized portfolio of Asia-Pacific reinsurance assets (14% of the portfolio as of May 2026). This adds unique exposure to countries like Taiwan, Thailand, and South Korea, which are virtually unrepresented in the Swiss Re Global Cat Bond index.

- Other funds differentiate themselves by dabbling in non-natural perils such as cybersecurity and terrorism. These require very specialized expertise and can be difficult to model based on historical time series; they are also a very small portion of the market (less than 5% of outstanding cat bonds).

- Some funds like **Schroders GAIA Cat Bond** prefer bonds that cover perils on a *per-occurrence* basis (which is deemed easier to assess) versus thosebased on annual *cumulative losses*. Trigger type is another differentiator (bonds that trigger on an *indemnity basis*—the actual losses suffered by the protection buyer—versus bonds that trigger due to an *industry loss index* or *disaster parameters*). But such nuances are highly complex and difficult for investors to apprehend based on fund disclosures.

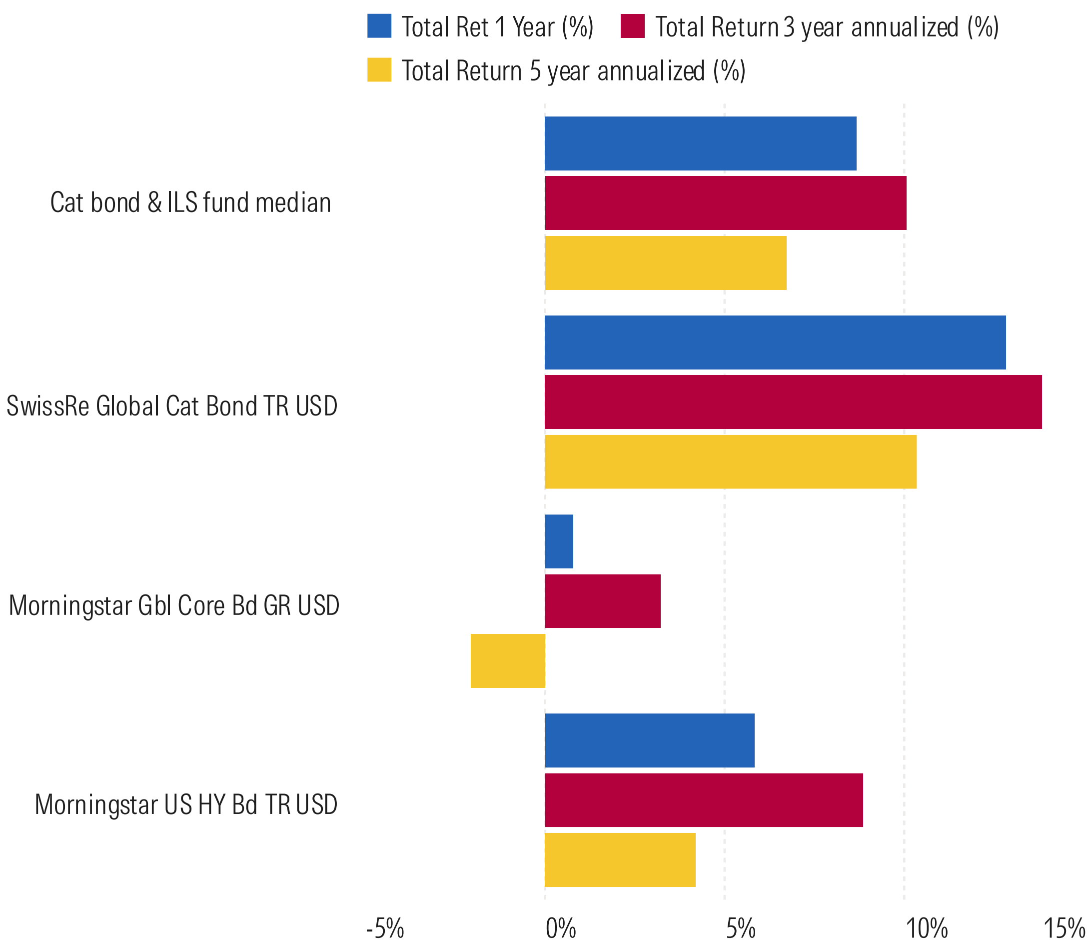
Portfolio Breakdown Example: Victory Pioneer Cat Bond



Source: Victory Pioneer, fund factsheet as of March 31, 2026, Reference index is the SwissRe Global Cat Bond Index

While Recent Returns Are Compelling, Outperformance Versus the Benchmark Remains Elusive

Performance of Cat Bond and ILS Funds



- Since many cat bond funds have been launched only recently, it's difficult to conclude what the long-term risk and performance profile an investor can realistically expect from the asset class. **Over the five-year period ended June 2026, the median cat bond fund has delivered a 6.7% annualized net return**, vastly outperforming traditional bond counterparts, as illustrated by the Morningstar Global Core Bond Index or the Morningstar US High Yield Bond Index.

- On the other hand, comparing peer group returns with the Swiss Re Global Cat Bond Index provides a more sobering view: **Over the trailing five years, the median fund lagged the index by almost 400 basis points annualized, and only four share classes outperformed the index's 10.3% return**. These belong to two funds: Victory Pioneer's ILS Interval and Schroder Investment Fund Core Insurance Linked Securities. These two funds invest significantly in private ILS, which are not included in the index and are typically much higher-yielding.

- Overall, the performance of the Swiss Re Global Cat Bond Index remains difficult for active managers to replicate, given the limited liquidity of the underlying market, significant transaction costs, and the cash stakes that many funds need to keep on hand for dry powder.

Source: Morningstar Direct, data through June 30, 2026. Calculations in base currency, including obsolete or liquidated funds.

Performance Has Been Compelling, But Most Funds Have Failed to Keep Up With the Index

Risk Profile of Cat Bond and ILS Funds

Name	Std Dev 3 yr (%)	Std Dev 5 (%)	Max Drawdown 5 yr (%)	Annual Ret 2022 (%)
Cat bond & ILS fund median	**6.8%**	**3.5%**	**-6.3%**	**-3.5%**
SwissRe Global Cat Bond TR USD	**2.6%**	**4.9%**	**-8.8%**	**-2.2%**
Morningstar Gbl Core Bd GR USD	6.6%	7.7%	-25.9%	-17.4%
Morningstar US HY Bd TR USD	4.3%	6.5%	-14.6%	-11.1%

- Bolstering their appeal, cat bonds have delivered significantly lower volatility than traditional bond markets. And while they have not been entirely immune to periods of rising interest rates, their maximum drawdown is significantly lower than that of traditional bond counterparts. **In 2022, for example, the median cat bond fund lost 3.5%, while most global bond funds posted double-digit losses.**

- Over the past two decades, drawdowns incurred by cat bond funds have typically been short-lived. The largest single-month loss for the Swiss Re Global Cat Bond index occurred in September 2022 in the wake of Hurricane Ian (negative 8.7%), but the index returned to positive performance the following month. That drawdown tended to reflect uncertainty rather than actual losses, as cat bond dealers marked positions down immediately, before losses were fully known. When eventual losses landed toward the low end of what was priced in, bonds that were not triggered rallied back to par.

- Cat bond managers often point out that after a major catastrophe, risk premia tend to rise for both existing cat bonds and new issuance, which increases the income generated by the portfolio in subsequent months and years.

- But just because a meaningful drawdown hasn't happened yet doesn't mean it never will, so investors shouldn't be lulled by a false sense of confidence here.

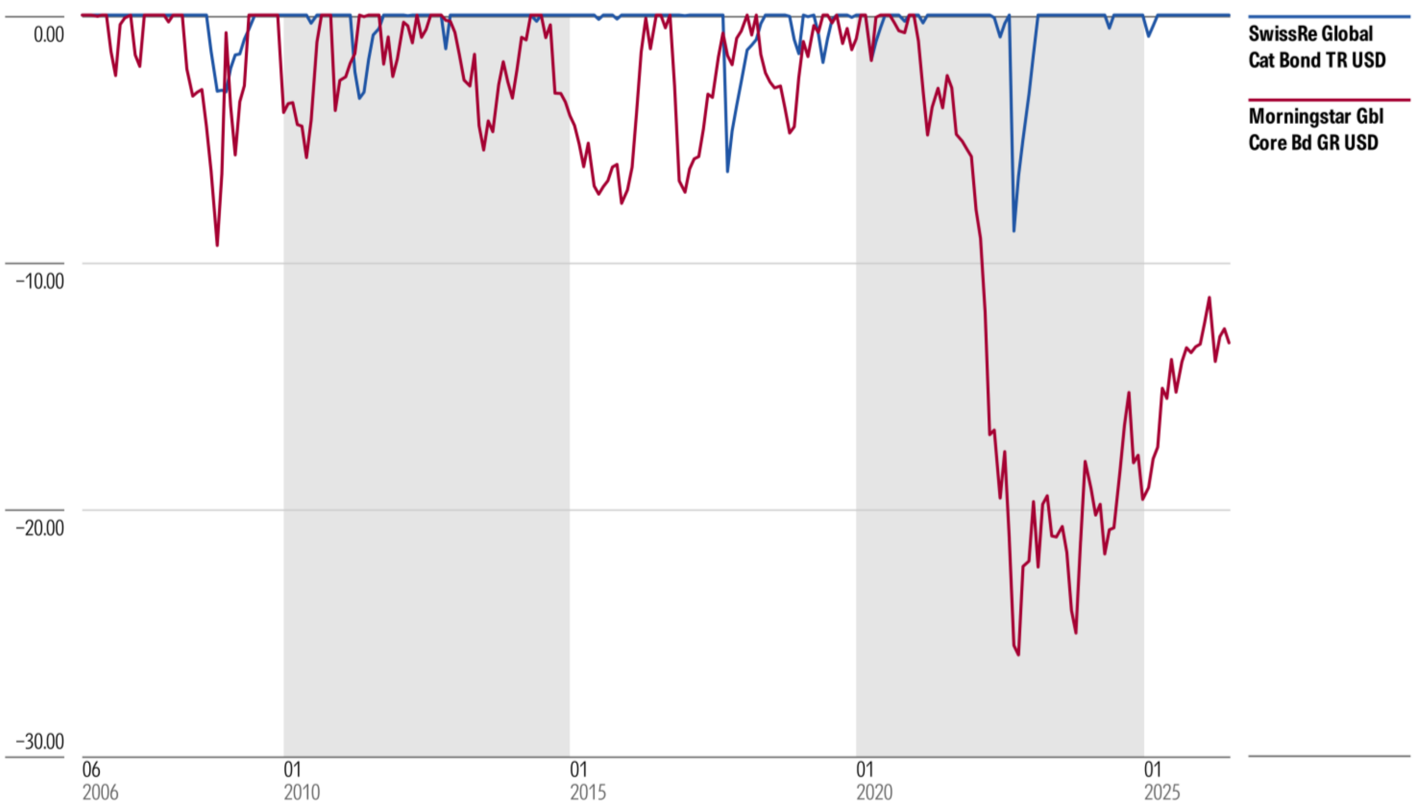
Source: Morningstar Direct, data through June 30, 2026. Calculations in base currency, including obsolete or liquidated funds.

Drawdowns Have Been Rare and Short-Lived Compared With Global Bond Markets So Far

The year 2022 was the only year of negative performance for the cat bond index in the past two decades, and the magnitude of the drawdown was limited compared with the global bond market selloff triggered by rising interest rates. But these figures should be taken with a grain of salt. Outstanding cat bond debt only surpassed the USD 50 billion mark in 2025, making the market tiny compared with conventional bond markets for most of its history. It has also, until recently, been almost exclusively owned by buy-and-hold institutional investors. The asset class hasn't yet been tested in a significant loss event combined with significant outflows.

Historical Drawdown of Global Catastrophe Bonds Compared With the Morningstar Global Core Bond Index

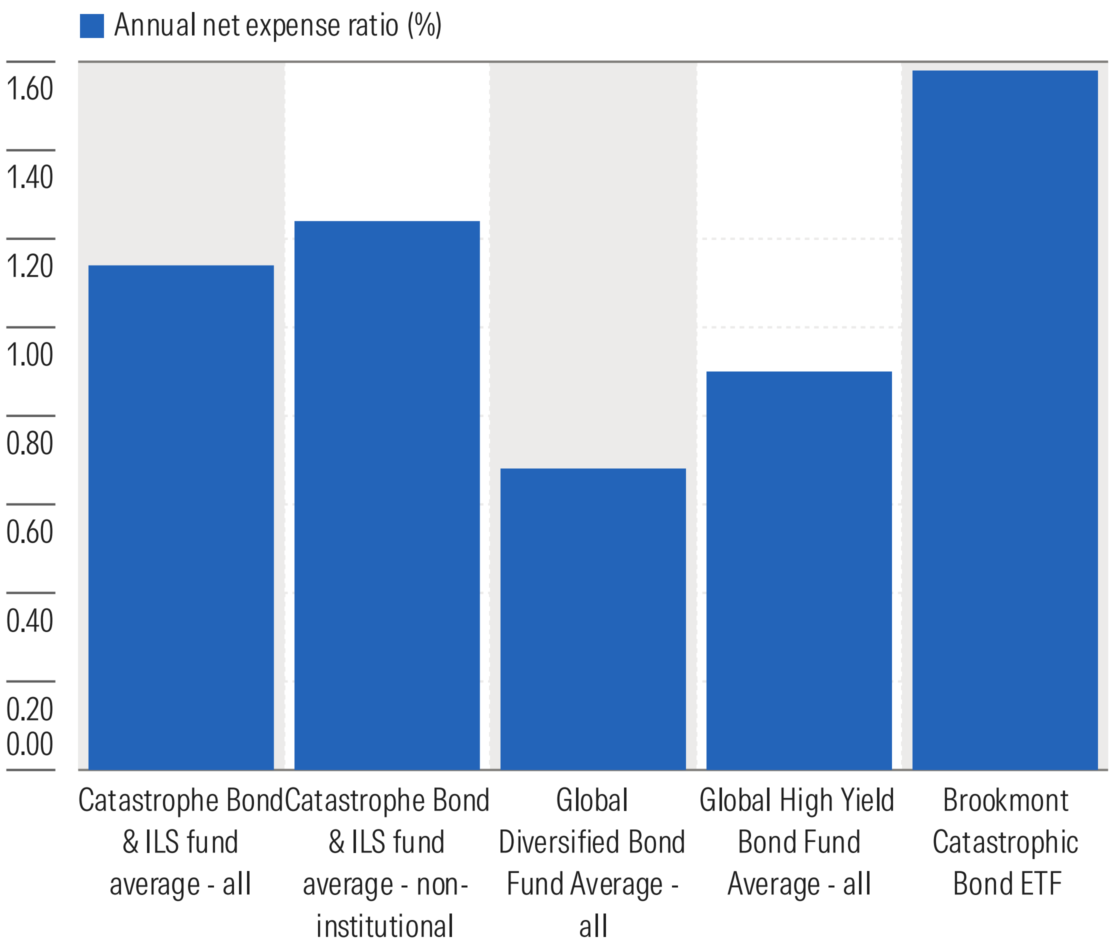
Series based on monthly data from June 2006 through July 2026



Source: Morningstar Direct, data as of June 30, 2026.

High Fees That Have Yet To Be Challenged by Low-Cost ETFs.

Average Annual Representative Cost of Catastrophe Bond Funds and ETFs



- Basing our analysis on all 467 share classes in our cat bond & ILS cohort, **the average annual representative cost for investors is 1.14%.** This is broadly stable with the average cost as of our last analysis in 2023 (1.13%). **Excluding institutional share classes, the average representative cost rises to 1.24%,** a hefty price tag for retail investors.

- This fee pattern is not entirely surprising since many cat bond funds are domiciled in Europe, where fees tend to be higher overall.

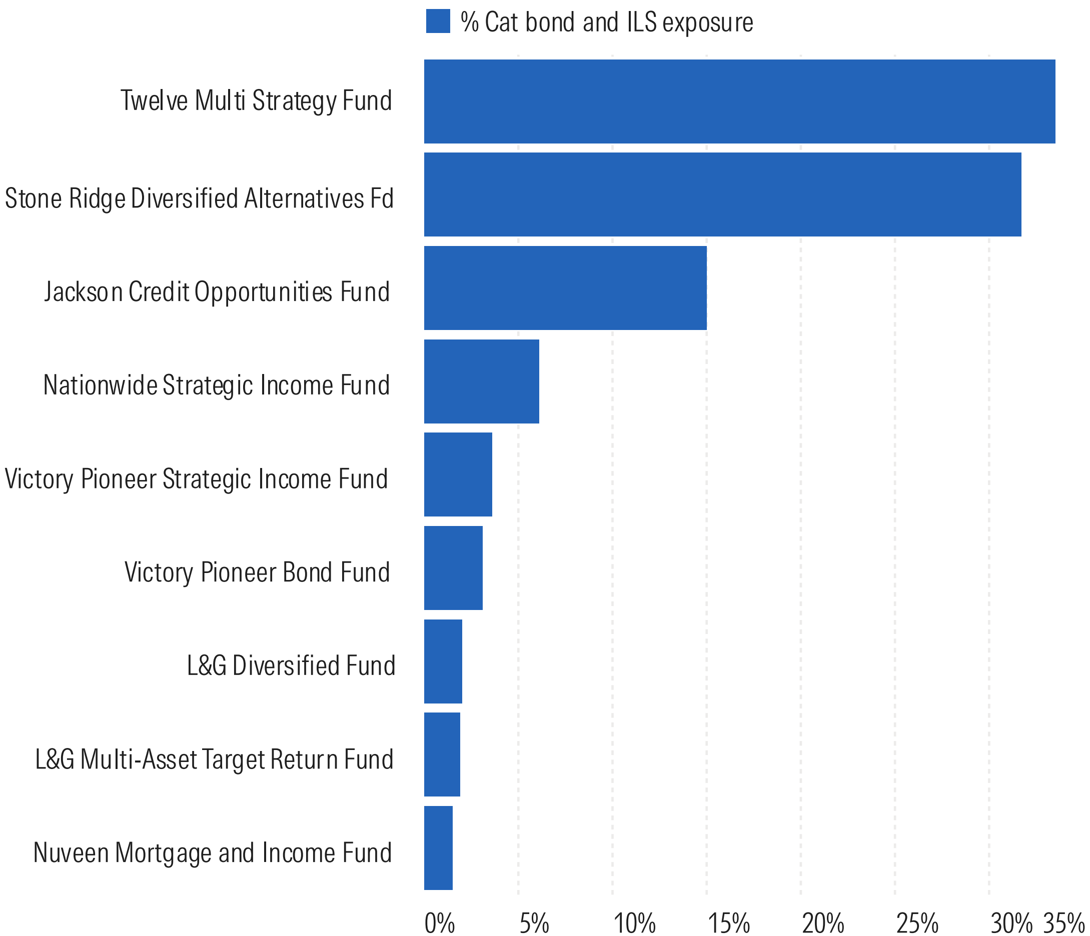
- While it's reasonable to expect these products' fees to be on the higher end given the specialized resources and unique models and databases needed to run a cat bond desk, the average cat bond investor is paying significantly more, per year, than investors in global bond funds or even global high yield (0.68% and 0.90%, respectively, for funds domiciled in Europe).

- ETFs have yet to bring low-cost investing to the cat bond world: the Brookmont Catastrophic Bond ETF, launched earlier this year, features a prospectus-adjusted expense ratio of 1.58%, higher than that of many open-end funds that invest in the space.

Source: Morningstar Direct, data as of June 30, 2026.

Cat Bonds Aren't Yet Popular Diversifiers for Traditional Bond Managers

Select Fixed-Income & Allocation Funds With Significant Cat Bond & ILS Exposure



- The strong returns and low volatility produced by cat bonds so far suggest that these could be used as welcome diversifiers in traditional bond funds, but in practice, we have seen limited evidence of bond fund managers adding cat bonds to their toolkit.
- Roadblocks that are often cited are investors' lack of familiarity with cat bonds and their perception as an esoteric asset class, as well as liquidity concerns, given the lack of an efficient secondary market.
- However, cat bonds do occasionally appear in conventional bond funds, often as small positions within multisector credit or diversified bond strategies. This tends to happen in cases where the asset manager has existing cat bond capabilities. For example, the managers behind US-domiciled Victory Pioneer's Strategic Income have historically held low-single-digit exposures to insurance-linked bonds, benefiting from in-house expertise.
- A handful of funds like JPM Strategic Income Opportunities, Invesco Global Strategic Income, or Fidelity's Global Multi Asset Income have used cat bonds sporadically in the past to add income, but not as a permanent fixture of their portfolios.

Source: Morningstar Direct, Fund Filings. Data as of the most recent portfolio date (December 2025 to June 2026).

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