

RNS Scheme of arrangement

Scheme of arrangement

CATCO REINSURANCE OPPORTUNITIES FUND LIMITED

Released 07:00:09 27 September 2021

RNS Number : 9807M
CATCo Reinsurance Opps Fund Ltd
27 September 2021

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, IN, INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OF SUCH JURISDICTION.

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION UNDER THE RETAINED UK LAW VERSION OF THE MARKET ABUSE REGULATION (EU) NO. 596/2014 PURSUANT TO THE MARKET ABUSE (AMENDMENT) (EU EXIT) REGULATIONS 2019 (SI 2019/310).

Markel CATCo Announces Buy-Out Transaction Offering Accelerated Return of Capital to Investors in Markel CATCo Reinsurance Fund Ltd. and CATCo Reinsurance Opportunities Fund Ltd. and Appointment of Joint Provisional Liquidators to Facilitate Implementation

London, 27 September, 2021 -- Markel CATCo Investment Management Ltd. (MCIM) today announced the terms of a Buy-Out Transaction that provides for an accelerated return of substantially all the net asset value (NAV) in Markel CATCo Reinsurance Fund Ltd. (the Private Fund) and CATCo Reinsurance Opportunities Fund Ltd. (the Public Fund, together with the Private Fund, the Funds) to investors in the Funds. The Funds, which are insurance-linked securities funds managed by Bermuda based MCIM, have been in runoff since June 2019. Affiliates of Markel Corporation will be providing funding of up to approximately \$150 million to facilitate the Buy-Out Transaction of the retrocessional segregated accounts of the Funds. In addition, an affiliate of Markel Corporation will be providing tail risk cover that will allow for the return of approximately \$100 million of trapped collateral to investors in the Private Fund's separately structured reinsurance offering, known as the Aquilo Fund segregated account.

Under the Buy-Out Transaction, investors in the Funds will retain the right to receive any outstanding NAV plus any upside at the end of the applicable run-off period if currently held reserves exceed the amounts necessary to pay ultimate claims. The affiliates of Markel Corporation financing the Buy-Out Transaction expect to receive a return of all their funding by the end of the run-off periods.

MCIM is extending an opportunity to all investors in the Funds to provide a support undertaking with respect to the Buy-Out Transaction on or before October 22, 2021 (Early Consent Deadline) in order to become eligible to receive at closing a fee equal to one percent (1%) of the investor's proportional entitlement to the current NAV as at closing (Early Consent Fee). Further details regarding the support undertaking and Early Consent Fee are described below. The terms of the Buy-Out Transaction are set out in the Investor Presentation and term sheet attached to this announcement.

The boards of directors of each of the Private Fund and Public Fund have unanimously determined that the Buy-Out Transaction is in the best interests of each of their respective Funds (taking into account the interests of their respective investors) and recommend that their investors return support undertakings by the Early Consent Deadline.

Assuming satisfactory investor support for the Buy-Out Transaction is received by the Early Consent Deadline, each of the Funds will propose to their respective investors schemes of arrangement under Bermuda law (Schemes). Pursuant to the Schemes and the Buy-Out Transaction, all investors, the CATCo group companies (MCIM, the Private Fund, the Public Fund and Markel CATCo Re Ltd.), Markel Corporation and each of their related parties, among others, will grant customary mutual releases of all claims related to the Buy-Out Transaction, the CATCo group companies' businesses and the investors' investment in the Funds.

To support and facilitate the implementation of the Buy-Out Transaction through the Schemes, the CATCo group companies have resolved to and will file today applications with the Supreme Court of Bermuda

for the appointment of Simon Appell of AlixPartners UK LLP and John McKenna of Finance & Risk Services Ltd. as joint provisional liquidators (JPLs) with limited powers for restructuring purposes only.

The Buy-Out Transaction has been prompted as a result of threatened and asserted claims by two small investors that, although the Funds believe these claims to be meritless, have disrupted the continued timely and orderly return of additional capital to investors and is being offered to prevent the potential for inequitable treatment of some investors at the expense of all other investors. The appointment of the JPLs will enable the implementation of the Buy-Out Transaction and the approval of the Schemes to best ensure the fair, equitable and accelerated distribution of assets to all investors in the Funds. AlixPartners UK LLP have prepared a comparator report that models the likely alternative to the Buy-Out Transaction (the AP Report), which is a full liquidation pursuant to which investors are estimated to receive a recovery that is materially lower than they will receive in the Buy-Out Transaction.

Further Information

The AP Report and additional information regarding the Buy-Out Transaction is accessible on the transaction website at <https://catcobuyout.alixpartners.com>.

All investors are invited to return an executed support undertaking, or accept to be bound by its terms, on or prior to the Early Consent Deadline in order to be eligible to receive the Early Consent Fee. Pursuant to the support undertaking, investors will agree to take all actions necessary to implement the Buy-Out Transaction, including voting in favour of the Schemes. Investors who are bound by the terms of a support undertaking will be prohibited from trading their relevant shares during the pendency of the agreement. The support undertaking will terminate on the earlier of closing of the Buy-Out Transaction and December 31, 2021, unless extended by agreement.

Private Fund Support Undertaking:

Investors in the segregated accounts of the Private Fund, which include the Markel CATCo Diversified Fund, Diversified Fund II, Limited Diversified Arbitrage Fund, Diversified Arbitrage Fund, GTL Diversified Fund, Markel Diversified Fund and QIC Diversified Fund, will each receive by email an individualised support undertaking and instructions for execution of the support undertaking from the registrar of the Private Fund, Centaur Fund Services (Bermuda) Limited. In order to accept the support undertaking and be eligible to receive the Early Consent Fee, a PDF of a signed copy of the undertaking and a PDF of the power of attorney or other authority (if any) under which it is signed, or a notarised or otherwise certified copy of such power or authority, **must be received by Centaur Fund Services (Bermuda) Limited by email at investorservices.bda@centaurfs.com no later than 11:59 p.m. ADT on October 22, 2021.** Any questions in relation to the execution of the support undertaking should be directed to Centaur at investorservices.bda@centaurfs.com or +441 405 2410.

Public Fund Support Undertaking:

Investors in the Public Fund will each receive by mail a support undertaking and instructions for execution or acceptance of the support undertaking. The support undertaking and instructions are also available at <https://catcobuyout.alixpartners.com>.

In order to agree to the support undertaking and be eligible to receive the Early Consent Fee, Public Fund Investors who hold depository interests **must submit, or have their custodian or nominee submit on their behalf, a transfer to escrow instruction (TTE Instruction) through CREST no later than 11.59 p.m. ADT on October 22, 2021.** Investors who submit a TTE Instruction, or on whose behalf a TTE Instruction is submitted, will be bound by the terms of the support undertaking and their depository interests will be held in escrow until the closing of the Buy-Out Transaction. While depository interests are held in escrow, they cannot be traded.

In order to agree to the support undertaking and be eligible to receive the Early Consent Fee, Public Fund Investors who hold certificated shares must submit a PDF of a signed copy of the undertaking and a PDF of the power of attorney or other authority (if any) under which it is signed, or a notarised or otherwise certified copy of such power or authority, **to Markel CATCo by email at the following address investornotifications@markelcatco.com by no later than 11.59 p.m. ADT on October 22, 2021.**

Any questions in relation to acceptance of the support undertaking should be directed to the registrar, Link Group at operationalsupportteam@linkgroup.co.uk or +44371 664 0321.

The person responsible for arranging release of this announcement is: Judith Wynne, Assistant Secretary of the Public Fund.

Disclaimers and important notices

This announcement is for information purposes only and is not intended to, and does not, constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Buy-Out Transaction or otherwise. The Schemes will be made solely pursuant to the terms of the scheme documents to be sent to investors in the Funds in due course. The scheme documents will contain the full terms and conditions of the Schemes, including details of how to vote in respect of them. Any decision in respect of, or other response to, the Schemes should be made only on the basis of the information in those documents. The information contained in this announcement is for background purposes only and no reliance may or should be placed by any person for any purpose whatsoever on the information contained in this announcement or on its completeness, accuracy or fairness. Recipients of this announcement should conduct their own investigation, evaluation and analysis of the business, data and property described in this announcement. This announcement does not constitute a recommendation concerning any investor's decision or options with respect to the Buy-Out Transaction. The information in this announcement is subject to change.

The distribution of this announcement and the terms of the Buy-Out Transaction are subject to restrictions and may not be made except pursuant to registration with or authorisation by the relevant securities

regulatory authorities or an exemption therefrom. Therefore, persons who may come into possession of this announcement are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This announcement may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Funds that would or is intended to permit a public offering, or any other offering under circumstances not permitted by applicable law, of any securities.

Further to the above, the release, publication or distribution of this announcement in other jurisdictions may be restricted by law and therefore any persons who are subject to the laws of any applicable jurisdiction (including any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Buy-Out Transaction is sent or made available to investors in that jurisdiction (Restricted Jurisdictions)) should inform themselves about, and observe, any applicable legal or regulatory requirements. In particular, the ability of persons who are resident in such other jurisdictions or who are subject to the laws of another jurisdiction to participate in the Buy-Out Transaction may be affected by the laws of the relevant jurisdictions in which they are located or to which they are subject. Any failure to comply with applicable legal or regulatory requirements of any jurisdiction may constitute a violation of securities laws in that jurisdiction.

Copies of this announcement and any formal documentation relating to the Buy-Out Transaction are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction or any jurisdiction where to do so would constitute a violation of the laws of such jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction. Doing so may render invalid any related purported vote in respect of the Buy-Out Transaction (or the related Schemes).

Certain of the statements in this announcement or (and any related oral statements) may be considered forward-looking statements

This announcement (including information incorporated by reference in this announcement), oral statements made regarding the Buy-Out Transaction, information accessed through <https://catcobuyout.alixpartners.com> and other information published by MCIM and the Funds contain statements which are, or may be deemed to be, "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are prospective in nature and are not based on historical facts, but rather on current expectations and projections of the management of MCIM and the Funds about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. The forward-looking statements contained in this announcement include statements relating to the expected effects of the Buy-Out Transaction, the expected timing and scope of the Buy-Out Transaction and other statements other than historical facts. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects" or "does not expect", "is expected", "is subject to", "budget", "projects", "strategy", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Although MCIM and the Funds believe that the expectations reflected in such forward-looking statements are reasonable, they can give no assurance that such expectations will prove to be correct. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to: the ability to complete the Buy-Out Transaction; the ability to obtain requisite regulatory and other required approvals and the satisfaction of other conditions on the proposed terms and schedule; as future market conditions, changes in general economic and business conditions, the behaviour of other market participants, the anticipated benefits from the proposed transaction not being realised as a result of changes in general economic and market conditions in the countries in which the Funds operate, weak, volatile or illiquid capital and/or credit markets, changes in tax rates, interest rate and currency value fluctuations, the degree of competition in the geographic and business areas in which the Funds operate and changes in laws or in supervisory expectations or requirements.

Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. Such forward-looking statements should therefore be construed in the light of such factors. Neither MCIM nor the Funds, nor any of their respective associates or directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. You are cautioned not to place any reliance on these forward-looking statements. Other than in accordance with their legal or regulatory obligations, neither MCIM nor the Funds is under any obligation, and they expressly disclaim any intention or obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. This announcement speaks only as of the date issued.

For Markel CATCo investor inquiries, contact:
Mark Way
Telephone: +1 441-493-9001

For Public Fund investor inquiries, contact:
Numis
David Benda / Hugh Jonathan
Telephone: +44 (0) 20 7260 1000

INVESTOR PRESENTATION

This document provides a summary of a proposal (the "**Proposal**") by Markel CATCo Investment Management Ltd. (the "**Manager**"), on behalf of Markel CATCo Reinsurance Fund Ltd. (the "**Private Fund**"), to investors (the "**Investors**") in all segregated account funds of the Private Fund, which include:

- direct investments made in each segregated account of the Private Fund other than the Aquilo Fund, including the Markel CATCo Diversified Fund (the "**Master Fund**"), Diversified Fund II, Limited Diversified Arbitrage Fund, Diversified Arbitrage Fund, GTL Diversified Fund, Markel Diversified Fund and QIC Diversified Fund (the "**Retro Funds**" and the investors in such funds, the "**Retro Fund Investors**"),
- the Aquilo Fund segregated account (the "**Aquilo Fund**" and such investors, the "Aquilo Investors", and together with Retro Fund Investors, the "**Private Fund Investors**"), and
- CATCo Reinsurance Opportunities Fund Ltd. (the "**Public Fund**", and such Investors, the "**Public Fund Investors**"), which invests exclusively and directly in the Master Fund (the Public Fund and the Private Fund together, the "**Funds**" and the Funds together with the Manager and Markel CATCo Re Ltd., the "**CATCo Group Entities**").

The economic terms of the Proposal are included in the term sheet attached to this document at Annex I (the "**Term Sheet**"). The Proposal will be implemented pursuant to Bermudian schemes of arrangement of the Private Fund and the Public Fund (the "**Schemes**").

AlixPartners UK LLP and Finance & Risk Services Ltd have been working with the CATCo Group Entities to understand the Proposal in detail and form an independent view on its implementation plan in their capacities as proposed provisional liquidators.

In connection with this work, AlixPartners has prepared an independent analysis of the Proposal and its impact on Investors, including projected recoveries in the alternative scenario absent the Proposal (the "**AP Report**"). The AP Report is accessible on the transaction website at <https://catcobuyout.alixpartners.com>.

Executive Summary

This Proposal has been prompted by claims (described in more detail on below) that have disrupted the continued timely and orderly run-off of the Markel CATCo business and threaten to substantially delay, and likely erode, further return of capital to Investors. The Proposal resolves this situation and enables the accelerated return of substantially all Investors' current NAV.

Pursuant to the Proposal, Investors will receive amounts equal to 101% of NAV (including the Early Consent Fee as defined below) plus any upside at the end of the scheduled run-off period if currently held reserves are more than sufficient to pay ultimate claims (the "**Upside**"). Payment of substantially all of NAV will be significantly accelerated for the benefit of Investors and it is anticipated that Investors will receive this return during Q4 2021. At closing, current NAV will reflect deductions of transaction and operating costs reserves reflecting amounts that would have been deducted from NAV over time in the ordinary course ("**Closing NAV**").

Each Investor that undertakes to support the Proposal and votes to approve the relevant Scheme will receive at closing an early consent fee (the "**Early Consent Fee**") of 1% of their proportion of current NAV.

On the closing date, which is expected to occur in Q4 2021, Retro Fund Investors will receive an accelerated return of the following proportions of Closing NAV by side pocket investment ("**Side Pockets**") and estimated cash return based on NAV as of 31 August of:

Side Pockets	2016	2017	2018	2019	Agg.
NAV%	100%	100%	90%	80%	91%
Closing NAV (\$)	33.7	173.3	164.9	153.7	525.6
Closing date return to Investors (\$)	33.7	173.3	148.4	122.9	478.4

On the closing date, Aquilo Investors will receive their proportionate share of \$100 million of released capital from the Aquilo Fund.

After closing, Investors will remain entitled to all remaining NAV, including any Upside. Specifically, if current reserves are sufficient, 2018 Side Pocket Investors will receive an additional 10% of Closing NAV, 2019 Side Pocket will receive an additional 20% of Closing NAV and the Aquilo Fund will receive an additional 48% of Closing NAV when those investments are run off.

The Proposal will be implemented using court sanctioned Bermudian Schemes, pursuant to which all claims between Investors and the CATCo Group Entities, and their related parties will grant mutual releases of claims which will allow the return of capital that otherwise would be unavailable to Investors due to the circumstances described below.

Markel Corporation will provide funding to facilitate the Proposal and bear substantially all the down-side risk from any future reserve strengthening at Markel CATCo Re Ltd. (the "**Reinsurer**").

The existing Manager will continue to operate the Markel CATCo business until run-off is complete and any future distributions of Upside will be made once all the remaining contracts have been commuted.

Background: Current Circumstances

Claims and Potential Claims

Two small Private Fund Investors recently asserted claims seeking to recover losses incurred on their investments in 2017 and 2018. The asserted claims are not unique to these Private Investors and, whether or not meritorious, could arguably be asserted by other Private Fund investors.

The Manager strenuously denies any liability with respect to these claims. Nonetheless, any claims asserted will cause the Manager to incur significant defence costs, which along with any costs of settlements or payments of adverse judgments resulting from any potential claims against the Manager or its officers, directors or employees, are subject to indemnification from each of the Private Fund, the Public Fund and the Reinsurer in most circumstances.

One of these investors filed a claim in the US against former CEO Anthony Belisle and recently a settlement was reached with respect to this claim. Although the Manager was not named in the litigation, due to the indemnification obligations asserted by Mr. Belisle against the Manager as a former employee, the Manager facilitated the settlement from available insurance cover after it and the Private Fund determined that it would

be in the best interests of all Investors to avoid what might become significant US litigation defence costs that could exceed claimed damages and have a detrimental impact on Investor returns. Importantly, these claims (if successful) and associated indemnification obligations legally rank ahead of, and have priority of payment over, the interests of Investors. This could result in an inequitable distribution of Fund assets as Investors who have asserted claims could be paid ahead of all other Investors. Any claim and indemnification payments in excess of limited available insurance coverage will directly decrease Fund assets available for distribution to all Investors. The other investor has threatened similar claims, and while we think these claims are unfounded, they remain unresolved.

In May 2021, the Manager and Private Fund determined to reserve for contingent costs anticipated to arise in connection with known claims threatened by Investors. Costs associated with these or similar claims, whether or not meritorious, materially impair the ability of the Manager and the Funds to continue to return to Investors' capital as it becomes available for distribution. Without the clarity on potential claims and costs that the Proposal will provide, additional distributions to Investors are unlikely to be made until potential claims are identified and resolved, which could be a significant period of time.

Status of Regulatory Inquiries

As was noted in the 2020 Annual Reports of the Retro Funds: "Markel Corporation previously retained outside counsel to conduct an internal review of Markel CATCo's loss reserving in late 2017 and early 2018. The internal review was completed in April 2019 and found no evidence that Markel CATCo personnel acted in bad faith in exercising business judgment in the setting of reserves and making related disclosures during late 2017 and early 2018."

There is no update to report on this internal review and nothing to suggest a different conclusion than the one noted in the Annual Report.

Manageable Size

The run-off has progressed smoothly since the start of the wind down of the Funds in July 2019, with a total of \$2.245 billion released and returned to Investors. NAV as of 31 August 2021, including the Aquilo Fund, is \$736.2 million.

As a result of the significant amount of capital that has been returned to Investors, the total NAV has now been reduced to an aggregate amount such that Markel Corporation is willing and able to step in to provide funding to facilitate the Proposal.

In supporting the Proposal, Markel Corporation wishes to enable the continued return of capital to Investors and allow for the winding up of the Markel CATCo business in a manner which is fair and equitable to all Investors.

The Proposal

The terms of the Proposal as they relate to the Retro Funds and the Aquilo Fund are set out in the Term Sheet attached at Annex I.

The Proposal is contingent upon receiving requisite support from Investors of both the Private Fund and the Public Fund to approve the Schemes, which requires acceptance from at least 75% of the value of the NAV of each class of Investors in the Schemes and a simple majority in number of those Investors voting in each class. Investors are asked to support the Proposal by acceding to the Investor Deed of Undertaking (the "**Undertaking**") which includes a commitment to vote in favour of the implementation of the Proposal through the Schemes.

Investors who affirmatively accept the terms of the Undertaking in accordance with its terms and who vote in favour of the Schemes will receive an Early Consent Fee of 1% of their proportion of current NAV, which will be calculated and paid upon the date of completion after the Schemes have been sanctioned by the Supreme Court of Bermuda.

The Early Consent Fee will be funded by Markel Corporation and will not come from funds otherwise available to the CATCo Group Entities.

The Proposal: Closing NAV

Distributions to Investors in the Retro Funds will be determined from current NAV as of month end prior to the closing date, with the following adjustments:

- As noted above, in May 2021, the Private Fund and the Manager elected to reserve for contingent costs anticipated to arise in connection with potential litigation claims. A successful implementation of the Proposal will allow for \$15 million of the reserve to be released and used primarily to fund the estimated \$15 million of transaction fees for implementation of the Proposal, and any remaining transaction fees will be charged against NAV at closing; and
- A reduction of \$19.8 million, which will be reserved by the Private Fund at closing, to fund future operating expenses and fees that would have been incurred in the ordinary course and charged against NAV over the remaining estimated run-off of the Funds,

(collectively, the "**Administrative Expenses**").

Administrative Expenses will be allocated proportionally to Investors as described in more detail in the Term Sheet and as illustrated in the AP Report.

After closing, no additional fees or expenses will be deducted from distributions of Closing NAV and there will be no continuing management fees charged by the Manager (any such fees will have been accelerated and included in the ordinary course expenses for the run-off of the Funds).

After closing, additional fees or expenses arising in respect of the Aquilo Fund that are not covered by the reserve will be deducted from distributions to Aquilo Fund Investors.

Administrative Expenses are estimated and only those transaction fees and ordinary course expenses actually incurred will be paid from the reserve. Any amount remaining in the reserve at the completion of the run-off will be returned to Investors.

The Proposal: Implementation

To facilitate implementation of the Proposal and the Schemes, the Manager, the Private Fund, the Public Fund and the Reinsurer will each commence "limited powers" provisional liquidation proceedings before the Supreme Court of Bermuda. The provisional liquidation will be light touch and directors will remain in place to implement the Proposal. The provisional liquidation will provide protection for each company and its assets

from the claims of unsecured creditors, including litigation claimants, by imposing an automatic stay on all actions in Bermuda during the pendency of the provisional liquidation in order to facilitate implementation of the Proposal.

Each of the Private Fund and Public Fund will propose a separate Scheme to its Investors.

If approved by at least 75% of the value of the NAV of each class of Investors in the Scheme and a simple majority in number of those Investors voting in each class and sanctioned by the Supreme Court of Bermuda, the terms of the Schemes will bind all Investors whether or not they voted in favour of the Schemes.

Recognition orders will be sought in other jurisdictions as deemed necessary or appropriate.

Once the Schemes are approved and the transaction becomes effective, the Manager, the Private Fund, the Public Fund and the Reinsurer will emerge from provisional liquidation, and the remainder of the run-off of the Markel CATCo business will be managed by the Manager (with the same management team) in the ordinary course.

The Proposal: Benefits to Investors

Beneficial Outcome of Proposal to All Investors

The Proposal will benefit all parties and provides certainty and finality to all Investors in an expedient and equitable manner.

Assuming the Proposal receives the required Investor approval and is sanctioned by the Supreme Court of Bermuda, the Proposal will permit the Manager (i) to return substantially all of current NAV to Investors on an accelerated basis and allow Investors to retain the Upside, while also paying those Investors who agreed to support the Proposal the Early Consent Fee and (ii) to provide for the continued orderly runoff of the remaining reserves under the protection of a court sanctioned release of claims.

The Schemes will provide that the Investors, the Manager, the Private Fund and Public Fund (among others) will give comprehensive mutual releases of each and every claim of any nature they may have against each other and the other Released Parties (as defined in the Term Sheet) related to the Markel CATCo business and the Investor's shares. The releases are essential to allow for distributions to be made to Investors under the terms of the Proposal. The funds being distributed would otherwise be trapped until potential or asserted claims and associated costs are resolved.

By quickly returning capital to Investors, the Proposal substantially de-risks Investors against (i) future degradation (i.e. a decrease in value) in NAV that will be distributed at closing as a result of further reserve development, (ii) the indemnity costs described above related to potential Investor claims, whether or not meritorious and (iii) an inequitable distribution of Fund assets to Investors who pursue claims in an attempt to gain priority to be paid ahead of other Investors.

Alternative to the Proposal

Risk to further distributions

Absent the Proposal, it is likely that the CATCo Group Entities will be unable to make further distributions to Investors until any potential or asserted indemnity claims and associated costs are identified and resolved. This is a result of litigation filed, and the continuing threat of additional litigation claims being filed, against the Markel CATCo businesses or their current or former employees and the resulting indemnity obligations of the Manager and CATCo Group Entities that could be triggered. Accordingly any future distributions to Investors would be materially delayed and potentially materially reduced.

Full liquidation potential

Additionally, to manage the process for the determination of any indemnity claims, it is likely that the Funds would commence full blown liquidations (rather than the temporary "limited powers" provisional liquidation proposed to facilitate the Schemes) to solicit and resolve potential claims or asserted claims filed against the CATCo Group Entities. In this process, a liquidator will be appointed by the Court to solicit and determine claims, which would lead to material delay and cost, even if all claims fail to recover.

Better and more timely returns for investors than the alternative

Therefore the alternative to the Proposal would result in a significantly lower recovery to Investors. The cost of the liquidation alone reduces assets available to Investors, and it is further assumed that at least some Investors would file claims in a liquidation that would need to be determined, and the costs associated with this will further deplete, and could even eliminate entirely, the assets available for distribution to Investors.

It is clear that Investors will recover more under the Proposal than in this alternative, and much sooner, as the Proposal will allow a return of capital in 2021 whereas it is estimated that any remaining assets in a liquidation would not be distributed for up to 6 years.

The AP Report contains additional detail with respect to the alternative scenarios and Investors' projected recoveries under the Proposal as compared with the alternative scenario.

ANNEX I: TERM SHEET NON-BINDING AND SUBJECT TO CONTRACT INVESTOR BUY-OUT TERM SHEET

This Term Sheet sets out the proposed terms for the early return of Net Asset Value ("NAV") in the side pocket investments (the "**Side Pockets**") held at Markel CATCo Re Ltd. (the "**Reinsurer**") for the benefit of investors (the "Investors") who hold shares in:

- a) funds of Markel CATCo Reinsurance Fund Ltd. (the "**Private Fund**"), which include direct investments made in each segregated account of the Private Fund other than the Aquilo Fund, including the Markel CATCo Diversified Fund (the "**Master Fund**"), Diversified Fund II, Limited Diversified Arbitrage Fund, Diversified Arbitrage Fund, GTL Diversified Fund, Markel Diversified Fund and QIC Diversified Fund (collectively, the "**Retro Funds**"), and such investors in the Retro Funds, the "**Retro Fund Investors**"),
- b) CATCo Reinsurance Opportunities Fund Ltd. (the "**Public Fund**," and such investors, the "**Public Fund Investors**"), which invests directly in the Master Fund, and
- c) the Aquilo Fund, a segregated account of the Private Fund (such investors in the Aquilo Fund, the "**Aquilo Investors**").

As set out in detail below, the early return of NAV to the Private Fund Investors and Public Fund Investors on the Closing Date (as defined below) will be funded by (i) the Available Distribution Amount (as defined

below), (ii) the Retro Fund Cash (as defined below) and (iii) the Buy-Out Amount (as defined below) provided by an affiliate of Markel Corporation (the "**Purchaser**", and the Markel affiliates funding the Purchaser, the "**FundingCos**"). The early return of NAV to the Aquilo Investors will be funded through the release of contractually trapped cash currently held by a fronting reinsurer of the Aquilo Fund, which shall be made possible by Markel Corporation, through a wholly-owned designee, providing adverse development cover to the fronting reinsurer.

Buy-Out of Retro Fund Investors

The Investors in the Retro Funds will be entitled to a total return of 101% of Closing NAV (defined below) plus any Upside.

At the date of completion (the "**Closing Date**"), Retro Fund Investors (including the Public Fund) will receive an aggregate accelerated return of the following proportion of Closing NAV for each Side Pocket:

- 100% for 2016 Side Pocket,
- 100% for 2017 Side Pocket,
- 90% for 2018 Side Pocket, and
- 80% for 2019 Side Pocket,

(the "**Accelerated Distribution Amount**"), plus their proportionate amount of the Early Consent Fee, if applicable.

As a result of the payment of the Accelerated Distribution Amount, on the Closing Date:

- Public Fund Investors holding Ordinary Shares will receive an accelerated return of \$0.29 per Ordinary Share (totalling approximately \$43.4 million out of \$44.1 million NAV (as of 31 August 2021)).
- Public Fund Investors holding C Shares will receive an accelerated return of \$0.40 per C Share (totalling approximately \$33.5 million out of \$38.4 million NAV (as of 31 August 2021)).

After the Closing Date, if held reserves are sufficient, Investors in 2018 Side Pocket and 2019 Side Pocket will receive an additional return of 10% and 20% of Closing NAV, respectively, when such amounts are released and approved for distribution by the Bermuda Monetary Authority (if required).

Closing NAV

Closing NAV will be current NAV as at the most recent month end prior to the Closing Date,

- plus \$15 million released from a current contingent reserve held by the Private Fund, which will be primarily applied to fund the payment of Transaction Costs (as defined below),
- less the remaining Administrative Expenses (as defined below), which will be reserved on the Closing Date.

Additionally, for the Closing NAV with respect to the Public Fund, cash on hand at the Public Fund will also be deducted.

Buy-Out Amount of Retro Fund Investors

In order to fund the buy-out of Retro Fund Investors, the Purchaser will purchase shares in the Reinsurer from the Private Fund for a cash purchase price (the "**Buy-Out Amount**") equal to the Accelerated Distribution Amount:

- less the amount of funds, if any, that are available for distribution to Retro Fund Investors that have been released from each Side Pocket of the Reinsurer and approved for distribution by the Bermuda Monetary Authority but not yet returned to the Retro Fund Investors in that Side Pocket, as at the last day of the month prior to the Closing Date (the total of all such amounts across all Side Pockets of the Reinsurer in the aggregate, the "**Available Distribution Amount**"),
- less the aggregate amount of cash, if any, that is held at each Retro Fund (other than the Administrative Expenses) to cover operating and other costs of that Retro Fund (the total of amount of consolidated cash at the Retro Funds being the "**Retro Fund Cash**").

Return to Aquilo Investors

Aquilo Investors will be entitled to a total return of 101% of Closing NAV plus any Upside.

On the Closing Date, Aquilo Investors will receive a distribution in cash equal to their proportional entitlement to \$100 million (the "Aquilo Accelerated Distribution Amount") plus their proportionate amount of the Early Consent Fee, if applicable.

After the Closing Date, if held reserves are sufficient, Aquilo Investors will receive an additional return of 48% of Closing NAV when such amounts are released and approved for distribution by the Bermuda Monetary Authority.

Adverse Development Cover

To facilitate the release of the Aquilo Accelerated Distribution Amount, Markel Corporation, through a wholly-owned designee, will enter into an agreement, on or prior to the Closing Date, to provide adverse development cover to a fronting reinsurer in respect of the assets of the Aquilo Fund.

Administrative Expenses

Administrative Expenses will be funded from cash reserves deducted from current NAV on or before the Closing Date and allocated as set out below, including:

1. Transaction Costs: costs for implementation of the deal, which are currently estimated to be approximately \$15 million. 10% of these costs will be allocated pro rata to the Aquilo Fund with the remaining Transaction Costs allocated pro rata to each Side Pocket. Transaction Costs are estimates only and the actual amount of fees incurred will be paid.
2. Ordinary Course Fees: estimated operating and other fees for the remaining run-off of the Markel CATCo business, which are currently estimated to be approximately \$14 million. These costs will be allocated among the Aquilo Fund and each Side Pocket based on a weighted pro rata distribution determined by "time to run-off."

- For example, Side Pocket 2019 is estimated to have the most time for final run-off, so will have a larger proportion of fees allocated to it.
 - Ordinary Course Fees related to the operation of the Public Fund are allocated among the Public Fund Investors only.
3. Reserve: an additional reserve of approximately \$5.8 million, which will be an amount equal to 20% of the total Transaction Costs and Ordinary Course Fees allocated to the Aquilo Fund and each Side Pocket.

After closing, no additional fees or expenses will be deducted from distributions of Closing NAV and there will be no continuing management fees charged by the Manager (any such fees will have been accelerated and included in the Ordinary Course Fees for the run-off of the Funds).

After closing, additional fees or expenses arising in respect of the Aquilo Fund that are not covered by the reserve will be deducted from distributions to Aquilo Fund Investors.

Any amounts reserved for Administrative Expenses remaining after wind down of the Public Fund, the Private Fund, the Manager and the Reinsurer will be returned to relevant Investors.

Upside Distributions

After the Closing Date, if and when any capital is released in excess of the Buy-Out Amount allocable to a particular Side Pocket of the Reinsurer, or any capital is released in respect of the Aquilo Fund, and in each case approved for distribution by the Bermuda Monetary Authority, each relevant Public Fund and Private Fund Investor shall be entitled to receive the amounts distributed. Distributions, if any, will occur one time per annum or more at the discretion of the Manager.

Upon receiving a return from the Private Fund as contemplated in this provision, the Public Fund will distribute the proceeds to the Public Fund Investors in accordance with its ordinary practices.

Information Rights

Investors will receive monthly Manager's Reports setting out remaining NAV for each Side Pocket at the relevant month end and the amount of capital released, including the amount that will be used to repay the Buy-Out Amount and the amount that will be returned to Investors.

Early Consent Fee

Investors that support the proposal set out in this Term Sheet by agreeing to the terms of the Investor Deed of Undertaking, in accordance with the instructions accompanying the Undertaking, shall receive on the Closing Date a cash fee in an amount equal to 1% of their proportional amount of current NAV at the Closing Date (provided that they comply with the terms of their undertaking) (the "**Early Consent Fee**").

Release

To enable the early return of NAV to the Investors, and as a condition to and in consideration of the foregoing, each Investor, the Purchaser, the FundingCos, Markel Corporation, the Manager, the Private Fund (in respect of itself and all of its segregated accounts), the Public Fund and the Reinsurer (in respect of itself and all of its segregated accounts) shall provide an irrevocable and unconditional mutual release of each and every claim of any nature it may have against each of the Released Parties related to the business of the Reinsurer, the Private Fund, the Public Fund and the Manager and the Investors' shares.

"**Released Parties**" means each Investor, the Purchaser, the FundingCos, Markel Corporation, the Private Fund (in respect of itself and all of its segregated accounts), the Public Fund, the Reinsurer (in respect of itself and all of its segregated accounts), the Manager and each of their former and existing affiliates, directors, managers, shareholders, officers, controlling persons, beneficial owners or interest holders, advisory board members, employees, consultants, agents, subsidiaries, members, managers, predecessors and successors in interest, heirs, executors and assignors or assignees, nominees, participants, partners, limited partners, general partners, principals, fund advisors, attorneys, financial advisors, investment bankers, accountants, other professionals or representatives, sub-advisors (and their respective affiliates directors, managers, shareholders, partners, principals, members, officers, controlling persons, employees and agents), and agents (including any individual who serves at the Manager's request as a director, officer, partner, trustee, or the like of another entity) and/or the legal representatives and controlling person of any of them.

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

SOAUNSVRAVUKUAR

London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. [Terms and conditions](#),

including restrictions on use and distribution apply.

© 2021 London Stock Exchange plc. All rights reserved.