CATCo Reinsurance Opportunities Fund Ltd.

CATCo Reinsurance Opportunities Fund Ltd. ("the Company")

Portfolio Update

To: SFM, London Stock Exchange and Bermuda Stock Exchange

Date: 15 January 2014

Highlights

- FY13 net asset value ("NAV") growth of 21.90%
- FY13 share price total return of 24.34%
- FY13 share price growth of 19.04%
- Premium to NAV of 0.64% at 31 December 2013
- New Zealand and Japanese 2011 earthquake side pocket investments have been finalized and cease to exist
- Declared contingent distribution of $0.02887 per share resulting from the Japanese earthquake side pocket investment commutation will be paid to affected Ordinary Shareholders on 24 January 2014
- FY13 annual dividend declared of $0.05737 per share
- All remaining side pockets performing as anticipated
- Proposed Return of Value to Shareholders equivalent to approximately US$74 million in aggregate from profits generated since launch
- Market disruption and over supply of investment capital in the retrocessional reinsurance market have resulted in a challenging renewal season
- The Managers have maintained a disciplined 2014 deployment which has yielded a de-risked portfolio while still achieving in excess of the Company's stated targeted investment return of LIBOR plus 12-15% per annum
- FY14 portfolio provides for an indicative net return of approximately 18%

FY13 Performance

Positive capital gains over the year to 31 December 2013 ("the period") resulted from a well-diversified and balanced investment portfolio of global risks, not skewed to the peak zones around the world where premium is significantly concentrated.

Whilst there were significant catastrophic events that occurred during 2013, very few were at levels where the Managers investment portfolio was written. The net asset value appreciation for the period was 21.90%, ahead of the Eurekahedge Insurance Linked Securities Advisors Index of 7.51%*****. The Company has continued to pay an annual dividend representing LIBOR plus 5% of the net asset value of the Company at 31 December each year.

This was approved by Shareholders during the General Meeting in February and was paid to Shareholders in March. The share price return of 19.04% reflected an expansion of the premium to net asset value and with the inclusion of the dividend paid resulted in a Share price total return of 24.34%.

On 14 January 2014 the Board of Directors declared the FY13 annual dividend of $0.05737 per share.

2013 Expected Returns versus Actual Returns

On 9 January 2013, the Company announced that the 2013 investment portfolio had indicative annualized net returns of 27% based on the portfolio at that time. However, historic side pocket investments that could not be deployed into the new contracts resulted in a cash drag of approximately 3.4%.

During the year, the 2013 portfolio experienced minor exposure to multiple US / Canada tornados for which a retrocessional reinsurance loss reserve equal to 100% of this exposure had been implemented at 31 December 2013. This loss reserve amounts to approximately 1% of the Company's 2013 expected net return.

Finally, the Managers acquired significant global retrocessional protections for the period 1 November to 31 December in order to hedge the portfolio until the end of the year at a cost of approximately 1% of net assets. Collectively, the cash drag, the 2013 retrocessional loss exposure and the cost of hedging, resulted in the final FY13 net returns of 21.90%.

Side Pocket Investments ("SPIs")

Since the Company's launch, SPIs have been initiated for catastrophic loss events such as the New Zealand Earthquake in 2011; the Japanese Earthquake in 2011; the Costa Concordia marine disaster in 2012; and Super-storm Sandy also in 2012. Until Q413, no other loss events had any impact of the Company's portfolio of investments.

During the year, SPIs in respect of the New Zealand and Japanese earthquakes were fully settled. There remains no further liability associated with either the New Zealand or Japan earthquake events on the Company's portfolio.

With respect to the Japanese earthquake, the Managers negotiated a full and final commutation of the liability to this event. The Board of the Company previously declared a contingent distribution to Ordinary Shareholders of any proceeds it received in connection with that part of its investment in CATCo Diversified Fund (the "Master Fund"), a segregated account of CATCo Reinsurance Fund Ltd. (the "Master Fund SAC"), which was exposed to potential losses arising from the Master Fund's investment in reinsurance contracts linked to the Japan earthquake that occurred on 11 March 2011.

The Distribution would be made to Ordinary Shareholders on its register of members on 10 August 2012. As a result of the commutation, the Directors have declared a contingent distribution to Ordinary Shareholders of $0.02887 per share. This will be paid to those shareholders on the register at 10 August on 24 January 2014 and represents approximately 3% capital return for the year to 31 December 2011.

The Managers have waived their right to claim any performance fee due on the Distribution amount.

There remains no change in the Manager's expectation of the potential loss associated with the Costa Concordia marine disaster. The Company's current retrocessional reinsurance loss reserve represents 100% of Costa Concordia maximum exposure. The Investment Managers expect that the 100% of the Costa Concordia exposure will be paid out to affected reinsurance counterparties during 2014.

There remains little change in the exposure to Super-storm Sandy and no adjustment has been made to the retrocessional reinsurance loss reserve previously established. At 31 December 2013, total claim payments made to reinsured counterparties amounted to approximately 41% of the original retrocessional reinsurance loss reserve. This SPI amounted to 3.4% of the net asset value at 31 December 2013 relative to 7.5% at the same time the previous year end.

All other 2013 investment exposures have been released by the Company's reinsurance counterparties with the exception of mid-year annual reinsurance transactions.

Proposed Return of Value to Shareholders

With no significant insured losses incurred on the 2013 investment portfolio the Company concluded a successful year with the net asset value benefitting from approximately 20 cents per Ordinary Share of net insurance premiums earned over the full year.

The Directors remain mindful of the need to maintain a disciplined investment approach with regards to risk while remaining focused on the Company's investment objective which is to target an internal rate of return in excess of LIBOR plus 12% to 15% per annum. To that end, the Directors believe that there is an optimum level of capital required to achieve these aims beyond which they may start to become impaired.

Consequently, the Company announced on 3 January 2014 that the Directors propose to return up to approximately US$74 million in aggregate, or US$0.20 per Existing Ordinary Share equating to approximately 18% of the Company's market capitalization, by way of the proposed Return of Value (Capital or Income Distribution), or if the Return of Value is not approved by Shareholders simply by way of a dividend.

The Return of Value is separate and in addition to the target annual distribution of an amount equal to LIBOR plus 5% of the Net Asset Value at the end of each Fiscal Year.

2014 Investment Portfolio Deployment

The convergence of traditional reinsurance and capital markets capacity continues. However, increased demand in the sector from capital markets has largely led to an overcapitalized market resulting in pricing pressure. Catastrophe bonds together with Industry Loss Warranties sold individually for a specific coverage have seen pricing pressure decreases of 25% to 40% year on year, in some cases.

The influence of capital markets capacity is set to expand over the coming period in the reinsurance sector. Whilst this development was expected to provide carriers with additional flexibility to offload and diversify risk and establish capital market solutions as a sustainable complement to traditional reinsurance, it has really brought new capital market capacity in direct competition with the traditional reinsurance market, and existing funds alike, whom sell these traditional products.

In addition, given the lack of catastrophic events during 2013 that affected the traditional reinsurance sector, some counterparties have reduced their retrocessional purchases for 2014 as capital surpluses are high as a result of the benign 2013 year.

Despite this more competitive market landscape, the Managers continued to maintain their investment discipline and only considered transactions that met or exceeded the Company's stated targeted investment return of LIBOR plus 12-15% per annum while adhering to the Company's investment guidelines.

At the date of this announcement, the Investment Manager, on behalf of CATCo-Re Ltd., have agreed terms on new 2014 reinsurance transactions with multiple reinsurance counterparties that have utilized approximately 85% of the available capital received.

The Company and Master Fund's reinsurance portfolio contains a significantly diverse set of global risk pillars. Indicative annualized net returns for 2014, including retrocessional protections, provide for maximum, no-loss, return of 18%. The Master Fund's diversified portfolio, including reinsurance protections, ensures that exposure to a single loss event, no matter the magnitude of the event, results in net portfolio returns for investors in the current financial year of not worse than negative 4% as detailed in the table below.

Worst Case Single Insured Event Scenario Analysis

	No Losses	**18%**
1	New Zealand Wind	18%
2	Canada Wind	18%
3	Israel Quake	17%
4	Central America Wind	17%
5	Aviation/ Satellite	17%
6	Guam Wind	17%
7	Guam Quake	17%
8	India Quake	16%
9	US Wildfire	16%
10	Offshore Elemental Marine	15%
11	All Other	14%
12	South Africa Quake	14%
13	South Korea Wind	13%
14	US/Canada Winter Storm	13%
15	Terrorism	12%
16	Philippines Wind	12%
17	Taiwan Wind	12%
18	Hong Kong Wind	11%
19	China Wind/Flood	11%
20	Mexico Wind	9%
21	China Quake	9%
22	Philippines Quake	8%
23	US Severe Convective Storms	8%
24	Indonesia Quake	8%
25	Taiwan Quake	8%
26	Offshore Non Elemental Energy	8%
27	Offshore Non Elemental Marine	4%
28	Mexico Quake	3%
29	Caribbean Wind	2%
30	US/Canada Quake	0%
31	Europe Flood	0%
32	Japan Quake	-1%
33	Central America Quake	-2%
34	Caribbean Quake	-2%
35	South America Quake	-2%
36	Europe Quake	-2%
37	Australia Quake	-3%
38	US Wind	-3%
39	Europe Wind	-4%
40	Japan Wind	-4%
41	Australia Wind	-4%
42	New Zealand Quake	-4%

Comparison of 2014 versus 2013 Investment Portfolio

As shown above, the 2014 investment portfolio provides for indicative net returns of 18%. This compares to 27% for the 2013 investment portfolio.

For 2014 reinsurance contracts written at a similar risk level as the 2013 reinsurance contracts, the indicative net returns are 25%. As a result, premium rates reduced by approximately 7.5% for comparable risk levels, reflecting current market pricing conditions. However, about one-third of the 2014 capital was deployed into reinsurance contracts with approximately 40% lower average expected loss rates (*i.e approximately 40% lower risk level*) and, subsequently, significantly lower pricing levels than the 2013 reinsurance contracts. This reduced the overall maximum 2014 portfolio indicative net returns to 21%. In addition, very efficient retrocessional protections were available for 2014 and approximately 3% of the available capital was utilized on these protections, resulting in final indicative net returns on the 2014 investment portfolio of 18%.

Overall, the 2014 investment portfolio has an aggregate risk level that is 20% lower than the 2013 portfolio. The difference in the 2014 and 2013 maximum investment portfolio returns can be summarised as follows:

(a) 2013 indicative net returns = 27%;

(b) Impact of 2014 average premium rate reduction = 2%;

(c) Impact of 2014 lower risk contracts = 4%;

(d) Cost of 2014 retrocessional protections = 3%;

(e) 2014 indicative net returns = (a) – (b) – (c) – (d) = 18%.

Commentary from the Chairman

The Chairman of the Company commented that, “the Manager’s investment performance for 2013 has been excellent. Perhaps more impressive was the fact that the Company has been able to generate such positive results for all investors over the past three years, despite the first two years having been the costliest ever recorded for the insurance industry. Furthermore, faced with a well documented, difficult 2014 renewal environment, the Managers have been able to deploy their capacity with indicative 2014 net returns in excess of the Company’s stated objectives and with a lower risk profile.”

** Eurekahedge Insurance Linked Securities Advisors Index is not the Company’s stated investment benchmark.*

This information is based on research undertaken by CATCo. CATCo Investment Management Limited may change its opinions and views without prior notice. It does not constitute investment advice nor is it an invitation to invest in this company. This is purely a scenario analysis and not a forecast.

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