RISK FACTORS

Investment in the Company carries a degree of risk, including, but not limited to, the risks in relation to the Company and the Ordinary Shares referred to below. The risks referred to below are the risks which are considered to be material but are not the only risks relating to the Company and the Ordinary Shares. There may be additional material risks that the Company and the Directors do not currently consider to be material or of which the Company and the Directors are not currently aware. Prospective investors should review this Prospectus carefully and in its entirety and consult with their professional advisers before acquiring any Ordinary Shares. If any of the risks referred to in this Prospectus were to occur, the financial position and prospects of the Company could be materially adversely affected. If that were to occur, the trading price of the Ordinary Shares and/or their Net Asset Value and/or the level of dividends or distributions (if any) received from the Ordinary Shares could decline significantly and investors could lose all or part of their investment.

An investment in the Company and the Master Fund is suitable only for investors who are capable of evaluating the risks and merits of such investment, who understand the potential risk of capital loss and that there may be limited liquidity in the underlying investments of the Company and the Master Fund, for whom an investment in the Ordinary Shares constitutes part of a diversified investment portfolio, who fully understand and are willing to assume the risks involved in investing in the Company and who have sufficient resources to bear any loss (which may be equal to the whole amount invested) which might result from such investment. Typical investors in the Company are expected to be institutional investors, private client fund managers and private client brokers, as well as private individuals who have received advice from their fund manager or broker regarding investment in the Ordinary Shares. Prospective investors should consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser before making an investment in the Company.

The Ordinary Shares are designed to be held over the long-term and may not be suitable as short-term investments. There is no guarantee that any appreciation in the value of the Company's investments will occur and investors may not get back the full value of their investment.

The investment objectives and the target returns of the Company are targets only and should not be treated as assurances or guarantees of performance.

RISKS RELATING TO THE COMPANY

The Company's performance depends upon the performance of the Master Fund. The Company will invest all of the net proceeds of the Placing (other than any amounts required for working capital purposes) in the Master Fund. As such, the Company's performance and returns to Shareholders will depend upon the performance of the Master Fund. The Company is therefore subject to the material risks relating to the Master Fund, which are set out under the heading "Risks relating to the Master Fund" below.

Alternative Investment Fund Managers Directive. The EU has recently adopted the Alternative Investment Fund Managers Directive, which is designed to regulate the management, operations and marketing of alternative investment funds in the EU. The Directive is expected to be transposed into the national laws of each EU member state in early to mid-2013. Once in force, the Company and the Investment Manager will be required to satisfy further requirements in order to be able to raise additional capital in the EU. The details of such laws are currently unknown but may materially increase compliance and regulatory costs for the Company (and all similar investment companies). The Board and the Investment Manager will continue to monitor the implementation of the Directive and its likely implications on the Company.

Reliance on service providers. The Company relies upon service providers to perform certain of its executive functions. In particular, the Investment Manager and the Administrator and their respective delegates, if any, will perform services that are integral to the Company's operations and financial performance. Failure by any service provider to carry out its obligations to the Company or to the Master Fund in accordance with the terms of its appointment, without exercising due care and skill, or to perform its obligations to the Company or to the Master Fund at all as a result of insolvency, bankruptcy or other causes could have a materially adverse effect on the Company's performance and returns to Shareholders.

The termination of the Company's or the Master Fund's relationship with any third-party service provider, or any delay in appointing a replacement for such service provider, could materially disrupt the business of the Company and could have a material adverse effect on the Company's performance and returns to Shareholders.

UK tax legislation in respect of offshore funds. The Company should not qualify as an "offshore fund" for the purposes of UK tax legislation for offshore funds. In general, a company is not an offshore fund if a reasonable investor cannot expect to be able to realise all or part of their investment on a basis calculated by reference to Net Asset Value except on a winding-up of the Company (and there is no fixed date for such winding-up). If the Company performance is such that it does not meet certain thresholds set out in this Prospectus, the Directors expect to propose tender offers on a Net Asset Value basis (see the section entitled "Performance-related Tender Offers" in Part 1 of this Prospectus). HM Revenue & Customs do not provide any specific guidance on whether such performance-related tender offers will cause a fund to become an offshore fund but do state in their guidance in relation to continuation votes that a reasonable investor would be expected to invest on the basis that a fund would be successful. Accordingly, a reasonable investor should not expect the Company to perform to a level below the stated thresholds and, therefore, should not expect to receive any performance-related tender offers. The Company should not, therefore, constitute an "offshore fund". However, it is possible that HM Revenue & Customs may take a different view and determine that the Company is an "offshore fund". In this case, UK resident or ordinarily resident investors may be required to treat gains realised on a disposal of Ordinary Shares as income rather than capital gain for UK tax purposes.

Bermuda taxation. The Company has applied for, and expects to receive, an assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda, that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to the Company or any of its operations, shares, debentures or other obligations until 28 March 2016. Consistent with present and past government policy, during the Throne Speech delivered on 7 November 2010, the Premier of Bermuda unveiled plans to introduce a bill to extend such period to the year 2035. Given the limited duration of the Minister of Finance's present assurance, it is conceivable (although highly unlikely) that the Company may become subject to taxes in Bermuda after 28 March 2016, which may have a material adverse effect on the Net Asset Value of the Company.

Currency risk on subscriptions and distributions made in pounds sterling. Prospective shareholders who subscribe for Ordinary Shares in pounds sterling will be exposed to the exchange rate risk prior to conversion into US dollars. Similarly, Shareholders who elect to receive distributions in pounds sterling will be exposed to the exchange rate risk in the period between the converting the US dollar amount and making the distribution in pounds sterling.

RISKS RELATING TO AN INVESTMENT IN THE COMPANY

Depository Interests. Although holders of Depository Interests have beneficial interests in the underlying Ordinary Shares which such Depository Interests represent, the rights of the holders of Depository Interests may be more difficult to enforce than would be the case if such holders directly owned the Ordinary Shares which are represented by such Depository Interests, particularly in the event of the insolvency and/or default of the Depository (or, as the case may be, its nominated custodian) in whose name the Ordinary Shares represented by the Depository Interests will be registered. Holders of Depository Interests may not have the opportunity to exercise all of the rights and entitlements available to holders of Ordinary Shares in respect of corporate actions and general meetings of the Company to the extent that the Depository or its nominated custodian is not reasonably able to pass on such rights or entitlements to holders of Depository Interests, or exercise the same on their behalf, in accordance with the provisions of the Deed Poll.

No Redemption rights and limited opportunities for realisation. The Company has been established as a closed-ended fund and, as such, Shareholders will not be able to redeem their Ordinary Shares. Although the Ordinary Shares are to be admitted to trading on the Specialist Fund Market, there can be no assurance as to the levels of secondary market trading in Ordinary Shares or the prices at which such Ordinary Shares may trade. Accordingly, Shareholders should not expect that they will necessarily be able to realise, within a period which they would otherwise regard as reasonable, their investment in the Company, nor can they be certain that they will be able to realise their investment on a basis that necessarily reflects the value of the underlying investments held by the Company. The Specialist Fund Market is a relatively new market of the London Stock Exchange and, as such, likely liquidity levels on it are unknown. The Company is not required to appoint a market maker to make a market for the Ordinary Shares traded on the Specialist Fund Market.

In addition, the liquidity of a securities market is often a function of the volume of the underlying securities that are publicly held by unrelated parties. Accordingly, the Ordinary Shares may not be traded in sufficient volumes to give liquidity to Shareholders. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the Ordinary Shares does not develop, the price of the Ordinary Shares may become more volatile and it may be more difficult to complete a buy or sell order for such Ordinary Shares.

Prospective investors should also note that the exercise of the Directors' powers to repurchase Ordinary Shares either pursuant to a tender offer or the general repurchase authority is entirely discretionary and they should place no expectation or reliance on the Directors exercising such discretion on any one or more occasions. Moreover, prospective Shareholders should not expect, as a result of the Directors exercising such discretion, to be able to realise all or part of their holding of Ordinary Shares, by whatever means available to them, at a value reflecting their underlying Net Asset Value.

The share price of Specialist Fund Market traded companies may be highly volatile. The price at which the Ordinary Shares are traded on a market and the price at which Shareholders may realise their investment is influenced by a large number of factors, some of which may be specific to the Company and its operations and some of which may affect quoted companies generally. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares (or the perception that the same may occur), legislative changes and market, economic, political or regulatory conditions.

Currency risk. If a Shareholder's currency of reference is not US dollars, currency fluctuations between the Shareholder's currency of reference and the base currency of the Company may adversely affect the value of an investment in the Company.

Current taxation law and practice. Information on taxation provided in the section entitled "Taxation" of this Prospectus is a general guide only and is based on current UK and Bermuda taxation law and the current practices of the UK and Bermuda taxation authorities and should not be regarded as legal or tax advice. Prospective investors should consult their own professional advisers. Taxation law and practices may change in the future to the disadvantage of the Company and Shareholders.

Withholding tax. In general, no withholding tax currently is imposed in respect of distributions or other payments on the Ordinary Shares. There can be no assurance, however, that no withholding tax will be imposed on such payments in the future as a result of any change in any applicable law, treaty or regulation, or the official application or interpretation thereof by the relevant tax authorities, or other causes. The imposition of any such unanticipated withholding tax could materially reduce the value of Ordinary Shares.

RISKS RELATING TO THE COMPANY'S INVESTMENT IN THE MASTER FUND AND THE MASTER FUND'S INVESTMENT IN THE REINSURER

Lack of control over the Master Fund and the Reinsurer. Except in certain limited circumstances and as provided for under the Control Agreement, the Company will not have any control over the Company's investment in the Master Fund or the Master Fund's investment in the preferred shares of the Reinsurer or any other investment made by the Master Fund. Instead, the Company will rely on the skills and capabilities of the Investment Manager (in its capacity as investment manager of the Master Fund SAC and insurance manager of the Reinsurer) in managing the investments and any uninvested capital of the Master Fund. As a result, the Company's performance will depend on the ability of the Investment Manager to manage the investments (and any uninvested capital) of the Master Fund and/or the Reinsurer effectively. The Investment Manager has a broad discretion when making investment-related decisions for the Master Fund and the Reinsurer and, except in certain limited circumstances, investment decisions will not be subject to the prior approval of the Directors, the SAC Directors or the Reinsurer Directors. The failure of the Master Fund to achieve its investment objective or to otherwise produce adequate returns will have a material adverse effect on the Company's performance and returns to Shareholders.

Net Asset Value of the Company is dependent upon the net asset value of the Master Fund. The Net Asset Value is dependent upon the net asset value of the Master Fund, which will be based upon valuations of the Master Fund's investments. Such valuations will be unaudited and may not be subject to independent verification or other due diligence. In particular, the values of certain investments held by the Master Fund are difficult to ascertain. To the extent that the Master Fund's net asset value information is not available in a timely manner, the Net Asset Value of the Company will be based on estimated values of the Master Fund and on the basis of the information available to the Administrator at the time. There can be no guarantee that the Company's investments could ultimately be realised at any such valuation.

No operating history of the Master Fund SAC, the Master Fund, the Investment Manager or the Reinsurer. Each of the Master Fund SAC, the Master Fund, the Investment Manager and the Reinsurer have been recently formed and have no operating history upon which prospective investors may base an evaluation of the likely performance of the Master Fund, the Reinsurer or the Investment Manager. Furthermore, although certain members of the Investment Manager's management team, individually, have experience in investing in Insurance-Linked Instruments, there can be no assurance that the Investment Manager will generate performance results (or avoid losses) equivalent to the results generated by such members of the Investment Manager's management team in the past or that the Investment Manager will be able to make investments similar to the past investments managed by such members of the Investment Manager's management team. As such, the Master Fund SAC, the Master Fund, the Reinsurer and the Investment Manager may not perform as well as prospective investors expect.

The segregated account structure of the Master Fund SAC and the Reinsurer. The Master Fund SAC and the Reinsurer are each registered in Bermuda as segregated accounts companies under the SAC Act. As segregated account companies, the Master Fund SAC and the Reinsurer are each permitted to segregate the assets and liabilities linked to each segregated account from the assets and liabilities linked to each other segregated account and from their general assets and liabilities. The assets of each segregated account are only intended to be used to meet liabilities to creditors of that segregated account and are not intended to be available to meet liabilities to creditors in respect of other segregated accounts or, except where otherwise agreed, general creditors of the Master Fund SAC or the Reinsurer (as the case may be).

The Directors are aware that the segregated account company structure which the SAC Act provides for has been considered and respected within Bermuda's courts, namely, in the matters of *Tensor Endowment Fund v. New Stream Capital Fund Limited* [2009] SC (Bda) 62 Civ and *BNY AIS Nominees Limited [A1] et al. v. New Stream Capital Fund Limited* [2010] SC (Bda) 26 Com. However, to the best of the Directors' knowledge, the SAC Act has not yet been tested by the courts in any other jurisdiction, and it is possible that the SAC Act will not be recognised in some jurisdictions or will be construed in a manner that is contrary to the intent of the legislation. If any assets of a segregated account are located in a jurisdiction other than Bermuda and proceedings are brought in respect of them in that jurisdiction, it is not known how the courts of that jurisdiction would deal with the structure contemplated by the SAC Act, which may well be unfamiliar to the courts in that jurisdiction. More specifically, courts in jurisdictions other than Bermuda may not be prepared to accept that creditors in respect of a particular segregated account are prevented from having recourse to the assets of other segregated accounts, or that general creditors of the Master Fund SAC or the Reinsurer as a whole do not have access to those assets specifically designated as segregated account assets. Specifically, if a liability (for example, a fine or tax) is imposed on the Master Fund SAC or the Reinsurer, it is unknown how the courts of jurisdictions other than Bermuda would impose or distribute that liability as among the general account of the Master Fund SAC or the Reinsurer and their various segregated accounts.

The Directors cannot be sure that the assets of the Master Fund will be fully isolated from claims that may arise from the bankruptcy or insolvency of another segregated account of the Master Fund SAC, or of the Master Fund SAC itself. Similarly, the Directors cannot be sure that the assets of each segregated account of the Reinsurer will be fully isolated from claims that may arise from the bankruptcy or insolvency of another segregated account of the Reinsurer, or of the Reinsurer itself.

The Master Fund incurs substantial charges. The Master Fund is subject to substantial charges and must generate profits and interest income that exceed its fixed costs in order to avoid depletion of its assets. Such charges include certain fees regardless of the Master Fund's performance, such as Management Fees, the fees of the Reinsurer, and transactional, legal, audit and other costs but may also include brokerage commissions, spreads, clearing costs and trading fees. Accordingly, the Master Fund has to earn substantial trading profits to avoid depletion of assets due to such commissions, fees and expenses.

Limited liquidity of Master Fund Shares. A Master Fund Shareholder's (including the Company's) redemption rights and transfer rights are limited, the Master Fund's investments may be illiquid and there is no secondary market for the Master Fund Shares. A Master Fund Shareholder may only redeem its Master Fund Shares in certain circumstances. Accordingly, the Company (and other Master Fund Shareholders) may not be able to liquidate their Master Fund Shares rapidly.

The Company is only able to redeem its Master Fund Shares annually and the payment of the redemption proceeds is subject to restrictions in certain circumstances. Due to the illiquid nature of the Master Fund's expected investments, the Master Fund may have difficulty in liquidating positions to meet Redemption requests. To the extent that the Master Fund invests in fully collateralised reinsurance contracts via the Reinsurer, the Master Fund's assets will be used as collateral for such reinsurance contract and held in a Reinsurance Trust Account until the expiry of the relevant reinsurance contract (expected to be for a period of approximately 12 to 36 months). During the period of the reinsurance contract, the assets held in the Reinsurance Trust Account will not be available to the Reinsurer or the Master Fund to fund redemption requests or otherwise in which case this may restrict the ability of the Company to redeem some or all of its holding in Master Fund Shares. If the Master Fund encounters difficulty in connection with liquidations, the proceeds from such liquidations may reflect substantial discounts to the fair value of the assets of the Master Fund.

Compulsory redemptions. The SAC Board has the authority at its sole discretion to make a compulsory redemption of part or all of the Master Fund Shares held by any Master Fund Shareholder (including the Company) for any or no reason and at any time, including if the SAC Board has reason to believe that the Master Fund Shares are held in violation of any applicable law, rule, regulation, interpretation, guideline or policy or that redemption is in the best interests of the Master Fund SAC or the Master Fund.

Government intervention; possibility of additional government or market regulation. There have recently been certain well-publicised incidents of regulators unexpectedly announcing regulatory changes or interpretations that prohibit strategies that have been implemented in a variety of formats for many years. Market disruptions like those experienced in the credit-driven equity market collapse in 2008 as well as the dramatic increase in the capital allocated to alternative asset management during recent years have led to increased governmental as well as self-regulatory scrutiny of the offshore fund industry in general. In addition, certain legislation proposing greater regulation of the industry is periodically considered by governing bodies of some jurisdictions, and the credit-driven equity market collapse may increase the likelihood that some increased regulation of the industry is mandated. For example, the attention of prospective investors is drawn to the risk factor entitled "Alternative Investment Fund Managers Directive" above.

It is impossible to predict what, if any, changes in the regulations applicable to the Master Fund, the Investment Manager, the Reinsurer, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future. Any such regulation could have a material adverse impact on the profit potential of the Master Fund and/or the Reinsurer, as well as require increased transparency as to the identity of the Master Fund Shareholders.

Custody risk. Brokerage firms, banks and dealers will have custody of the Master Fund's assets. Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the Master Fund.

Contingent liabilities. The SAC Board is authorised to establish reserves for unknown or contingent liabilities as it, in its sole discretion, deems advisable. The SAC Board, in consultation with the Administrator, the Investment Manager and its auditors may from time to time find it necessary, upon redemption of Master Fund Shares, to establish reserves for contingent liabilities and withhold a certain portion of a redeeming Master Fund Shareholder's redemption proceeds. In the event that reserves are established for contingent liabilities, returns to Master Fund Shareholders (including the Company) will be delayed and may be lower than they would have been otherwise.

Bermuda taxation. The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda, has given the Master Fund SAC an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to the Master Fund SAC or any of its operations, shares, debentures or other obligations until 28 March 2016. Consistent with present and past government policy, during the Throne Speech delivered on 7 November 2010, the Premier of Bermuda unveiled plans to introduce a bill to extend such period to the year 2035. Given the limited duration of the Minister of Finance's present assurance, it is conceivable (although highly unlikely) that the Master Fund SAC may become subject to taxes in Bermuda after 28 March 2016, which may have a material adverse effect on the Net Asset Value of the Master Fund.

US source payments to the Master Fund SAC or the Reinsurer may be subject to withholding under the HIRE Act. The Hiring Incentives to Restore Employment Act (the "**HIRE Act**") provides that, beginning on 1 January 2013, a 30 per cent. withholding tax may be imposed on payments to the Master Fund SAC or the Reinsurer of US source income and proceeds from the sale of property that could give rise to US source interest or dividends unless the Master Fund SAC or the Reinsurer, respectively, enters into an agreement with the IRS to disclose the name, address and taxpayer identification number of certain US persons that own, directly or indirectly, an interest in the Master Fund SAC or the Reinsurer, respectively, as well as certain other information relating to such interest. If the Master Fund SAC or the Reinsurer becomes subject to a withholding tax as a result of the HIRE Act, the return of all Master Fund Shareholders (including the Company) may be materially affected.

Possibility of qualified audit report. The Master Fund may have a significant portion of its capital committed to investments which have no readily determinable value. However, the Master Fund is currently accounted for on a US generally accepted accounting principles ("**US GAAP**") basis and under these standards all such investments are to be reflected at fair value for financial reporting purposes. The Investment Manager may not, however, be able to produce sufficient external evidence as required under US GAAP to support its determination of fair value. In this case, the auditors' report on the Master Fund's financial statements may be qualified.

RISKS RELATING TO THE MASTER FUND'S AND THE REINSURER'S INVESTMENT STRATEGY

Portfolio concentrated in Insurance-Linked Instruments. The Master Fund will concentrate its portfolio in Insurance-Linked Instruments. In particular, the Master Fund is expected to invest substantially in reinsurance exposures primarily by way of an investment in preferred shares issued by the Reinsurer which will in turn invest in reinsurance contracts. Insurance-Linked Instruments are particularly exposed to sudden substantial or total loss due to, inter alia, natural and man-made catastrophes. These, as well as other factors, can cause sudden and significant price movements in Insurance-Linked Instruments.

Catastrophes. Insurance-Linked Instruments may incur material losses as a result of natural, man-made or other catastrophes. The Master Fund will have substantial exposure to losses resulting from natural and man-made disasters and other catastrophic events. Catastrophes can be caused by various events, including, but not limited to, hurricanes, earthquakes, typhoons, hailstorms, floods, tsunamis, tornados, windstorms, extreme temperatures, aviation accidents, fires, explosions and marine accidents. The incidence and severity of such catastrophes are inherently unpredictable, and the Master Fund's losses from such catastrophes could be material. Changing weather patterns and climatic conditions, such as global warming, may have added to the unpredictability and frequency of natural disasters in some parts of the world and created additional uncertainty as to future trends and exposures. The occurrence of claims from catastrophic events is likely to result in substantial volatility in the Master Fund's financial condition or results of operations and could have a material adverse effect on the Master Fund. The Directors believe that increases in the values and concentrations of insured property will increase the severity of such occurrences in the future. Although the Master Fund's exposure to such events will be managed in accordance with the investment policy, a single catastrophic event could affect multiple geographic zones and lines of business or the frequency or severity of catastrophic events could exceed expectations, either of which could have a material adverse effect on the Master Fund's financial condition, its ability to raise capital and its ability to invest in new Insurance-Linked Instruments.

Insurance-Linked Instruments trading. The unpredictable nature of catastrophic losses makes it difficult to determine whether a particular Insurance-Linked Instrument is fairly priced in the ordinary course of trading to the extent that any such trading takes place. The valuation models used in the Insurance-Linked Instrument markets attempt to simulate fundamentally unpredictable events (such as the occurrence earthquakes or hurricanes), and there could be periods of time when trading ceases or is interrupted as a result of such markets' inability to value the instruments.

Duration of Insurance-Linked Instrument risk periods. Most Insurance-Linked Instruments are issued with approximately a 12-month to 36-month risk period. These risk periods do not necessarily correspond with when the Company is able to redeem its Master Fund Shares, and the non-correlation between the timing of the expiry or other realisation of the Master Fund's Insurance-Linked Instruments and a Master Fund Shareholder's request for redemption could lead to significant delays in the return of redemption proceeds to such Master Fund Shareholder (including the Company).

Demand for reinsurance. The reinsurance pricing cycle has historically been a market phenomenon, driven by supply and demand rather than by the actual cost of coverage. The upward phase of a cycle is often triggered when a major event forces insurers and reinsurers to make large claim payments, thereby drawing down capital. This occurrence, combined with increased demand for insurance against the risk associated with the event, pushes prices upwards. Over time, insurers' and reinsurers' capital is replenished with the higher revenues. At the same time, new entrants flock to the industry seeking a part of the profitable business. This combination prompts a long slide in prices, the downward cycle, until a major insured event restarts the upward phase. As a result, the reinsurance business has been characterised by periods of intense competition on price and policy terms and conditions due to excess underwriting capacity, which is the percentage of surplus or the dollar amount of exposure that a reinsurer is willing to place at risk, as well as periods when shortages of capacity permit favourable premium rates and policy terms and conditions.

Premium levels may be adversely affected by a number of factors that fluctuate and may contribute to price declines generally in the reinsurance industry. For example, as premium levels for many products have increased subsequent to the significant natural catastrophes of 2004 and 2005, the supply of reinsurance has increased and is likely to increase further, either as a result of capital provided by new entrants or by the commitment of additional capital by existing reinsurers. In addition, some of the prior upward cycles were initiated following Hurricane Andrew in 1992. Although it is difficult to assess the current stage of a cycle, continued increases in the supply of reinsurance may have consequences for the reinsurance industry generally and for the Reinsurer and the Master Fund, including fewer contracts written, lower premium rates, increased expenses for customer acquisition and retention and less favourable policy terms and conditions. Such consequences are likely to have an impact on the performance of the Reinsurer and the Master Fund and therefore the return of the Company.

The cyclical trends in the industry and the industry's profitability can also be affected significantly by volatile and unpredictable developments, such as natural disasters (e.g. catastrophic hurricanes, windstorms, tornados, earthquakes and floods), courts granting large awards for certain damages, fluctuations in interest rates, changes in the investment environment that affect market prices of investments and inflationary pressures that may tend to affect the size of losses experienced by insureds and primary insurance companies. The Directors expect the Master Fund to experience the effects of cyclicality, which could materially adversely affect the Master Fund's financial condition and results of operations.

Competition. The reinsurance industry is highly competitive. In seeking exposure to reinsurance risks through the Reinsurer and rated fronting reinsurers, the Master Fund will face intense competition based upon, *inter alia*, global capacity, product breadth, reputation and experience with respect to particular lines of business, relationships with reinsurance intermediaries, capital and perceived financial strength (including independent rating agencies' ratings), innovation, quality of service and price. In the future, underwriting capacity will continue to enter the market from new competitors and other sources. Increased competition could result in fewer submissions and lower rates, which could have an adverse effect on the Master Fund's returns. There can be no assurance that suitable investment opportunities will be available to the Master Fund.

Additionally, access to Insurance-Linked Instruments, particularly in private reinsurance arrangements, is often a matter of established relationships and personal contacts. Certain individuals at the Investment Manager have significant relationships in this area, but they do not ensure access to all the business that the Master Fund may seek to access.

The Master Fund will be competing for investment opportunities with a significant number of financial institutions and other private funds as well as various institutional investors. These competitors may be larger and have greater financial, human and other resources than the Master Fund and may in certain circumstances have a competitive advantage over the Master Fund. As a result of this competition, there may be fewer attractively priced investment opportunities, which could have an adverse impact on the ability of the Master Fund to meet its investment goals or the length of time that is required for the Master Fund to become fully invested. There can be no assurance that the returns on the Master Fund's investments will be commensurate with the risk of the Master Fund's investments.

Side Pocket Investments. From time to time, the SAC Board, in consultation with the Investment Manager, may determine that certain investments within the Master Fund may either lack a readily assessable market value or should be held until the resolution of a special event or circumstance. The SAC Board, in consultation with the Investment Manager, expects to designate an investment as a Side Pocket Investment if a Covered Event has occurred in respect of such investment. In those cases, the SAC Board may designate such investments as Side Pocket Investments. The Investment Manager retains the ability to determine the number and aggregate fair value of such Side Pocket Investments in its sole and absolute discretion. There is no limitation on the amount or percentage of investments which may be classified as Side Pocket Investments. The Master Fund may not be able to readily trade Side Pocket Investments and, in some cases, may be contractually prohibited from trading such investments for a specified period of time.

Side Pocket Investments and other assets and liabilities for which no market prices are available will generally be carried on the books of the Master Fund at fair value (which may be cost) as reasonably determined by the Investment Manager. There is no guarantee that such value will represent the value that will be realised by the Master Fund on the eventual disposition of the investment or that would, in fact, be realised upon an immediate disposition of the investment.

Master Fund Shareholders may not redeem their respective SP Shares, which could limit a Master Fund Shareholder's (including the Company's) ability to completely redeem its investment from the Master Fund. Accordingly, if the SAC Board declares an investment as a Side Pocket Investment, the Company will not be able to realise that part of its investment in the Master Fund that is represented by SP Shares until the occurrence of a Valuation Recognition Event in respect of such investment.

Identification of opportunities. Although the Directors anticipate that the Master Fund will be able to identify suitable opportunities for investment, there may be prolonged periods of time when it is unable to identify attractive risk-taking opportunities. This may result in lower returns than anticipated.

Correlation with other asset classes. The occurrences of catastrophic events are largely uncorrelated to traditional asset classes. However, there can be no assurance that losses arising from catastrophes will not have an impact on prices of financial instruments in the broader financial markets.

Uninvested capital. The timing of the cash flows received by the Master Fund from its Insurance-Linked Instruments will be uncertain, as will be the timing of when new Insurance-Linked Instruments are available for investment. Consequently, the Master Fund may from time to time, perhaps for sustained periods, have significant amounts of cash held in reserve.

The timing of when Insurance-Linked Instruments expire or are otherwise realised and therefore, the timing of the cash flows received by the Master Fund, are uncertain, even in cases in which no Covered Events have occurred with respect to a particular Insurance-Linked Instrument. In addition, the timing and availability of new investments will be uncertain. Such uncertainty will require careful management by the Investment Manager in terms of co-ordinating the cash available to acquire new investments and effect Redemptions with the cash flows received by the Master Fund from its Insurance-Linked Instruments. As a result of such mismatches, the Master Fund is likely to have, at any given time, a substantial amount of cash that is held in reserve. Such cash will not generate rates of return consistent with the Company's objectives.

"Below investment grade" assets. At the date of this Prospectus, a substantial portion of the Master Fund's investments are expected to consist of preferred shares issued by the Reinsurer. However, the Master Fund may also invest in other "below investment grade" securities and obligations of issuers. In the Insurance-Linked Instruments market, instruments are routinely graded as "below investment grade" because rating agencies have determined that if the principal amount can be lost due to a single event, such instrument cannot receive a rating of investment grade. In respect of such investments, the Master Fund will be taking risk commensurate with such ratings or lack of ratings.

Illiquidity. Insurance-Linked Instruments have a limited secondary market. Cat Bonds and investments in sidecars may have market quotes, but the trading volume may be low and pricing correspondingly ineffective. ILWs have even less liquidity and pricing transparency, and bilateral insurance contracts currently have no secondary market. While these Insurance-Linked Instruments generally can be sold at a price, they are largely buy and hold instruments, and it may require substantial time to enter into or exit a position and the amount that could be recognised upon a liquidation may be materially less than its theoretical fair value. If one or more "trigger events" occur, then, due to the liquidity of Insurance-Linked Instruments, the Master Fund's portfolio is more likely to be misvalued. Liquidity may also be affected by a number of other factors, such as whether a Covered Event has occurred or whether a catastrophe season has passed. It is anticipated that the Master Fund will retain its exposure for the duration of the Insurance-Linked Instruments, gradually recognising income as the likelihood of a Covered Event occurring in respect of one of more Insurance-Linked Instrument, and therefore the Master Fund incurring a loss, diminishes.

Reinsurance brokers. In accordance with industry practice, the Reinsurer may pay to reinsurance brokers amounts owed on claims, and these brokers, in turn, pay these amounts over to the ceding companies that have reinsured a portion of their liabilities. In some jurisdictions, if a broker fails to make such a payment, a reinsurer might remain liable to the ceding company for the deficiency. Conversely, in certain jurisdictions, when the ceding company pays premiums to reinsurance brokers for payment over to a reinsurer, these premiums are considered to have been paid, and the ceding company will no longer be liable to such reinsurer for those amounts, whether or not such reinsurer has actually received the premiums. Consequently, consistent with industry practice, the Master Fund, participating through the Reinsurer, assumes a degree of credit risk associated with these brokers around the world. The current crises in the credit and equity markets, the global reach of the crises, and the strongly negative impact of the crises on the insurance and reinsurance industries as evidenced by the sharp diminution in value of companies within these industries and, in many cases, the restructuring of long-term industry participants, heightens the degree of risk.

Coverage disputes. There can be no assurance that various provisions of the Reinsurer's reinsurance contracts, such as limitations on, or exclusions from, coverage, will be enforceable in the manner that the Reinsurer intends. Disputes relating to coverage and choice of legal forum can be expected to arise, as a result of which the Reinsurer (and accordingly the Master Fund) may incur losses beyond those that it contemplates would be payable pursuant to its reinsurance contracts. Moreover, any disputes with ceding companies or fronting carriers relating to the provision of a release notice or the release of funds in a Reinsurance Trust Account may delay any Redemption or distribution to Master Fund Shareholders and could have a material adverse effect on the value of the Company's investment in the Master Fund Shares.

Claims and coverage. As industry practices and legal, judicial, social and environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the Master Fund's investments and the returns of the Company in certain Insurance-Linked Instruments and, in some instances, these changes may not become apparent until such instruments are affected by these changes. As a result, the full extent of liability as a result of these changes may not be known for many years following the Master Fund's investment in such instruments.

The reinsured business may change during the coverage period. The exposure of the ceding company under reinsured business during any coverage period and, accordingly, the risk assumed by a segregated account of the Reinsurer under a reinsurance contract and consequently by the Master Fund and the Company, can vary depending upon a number of factors. For example, the extended replacement cost feature included in most property policies underlying reinsured business could result in covered losses exceeding the appraised value of the subject properties. Also, the coverage amount of any policy underlying reinsured business may be increased or the related deductible may be lowered. Policies to be added to reinsured business after the effective date of a reinsurance contract may also cause changes in terms of territory, perils, policy limits and aggregate loss exposure. Changes to building codes could increase the cost of repair, replacement or rebuilding, hence increasing the coverage under certain coverage options that provide unlimited coverage for the necessary cost of conforming to such legal requirements. These factors, among others, reflect the changing nature of reinsured business in force from time to time due to changes in policy terms, renewals and new business.

Risk of additional unforeseen losses due to unforeseen claims. The Company (and other Master Fund Shareholders) may be exposed to additional losses if the policies underlying reinsured business become subject to claims that are typically not covered, or contemplated to be covered, by the policies. As industry practices and legal, judicial, social and environmental conditions change, unexpected issues related to claims and coverage may emerge, particularly in response to certain catastrophic events. These issues may adversely affect reinsured business by either creating or extending coverage beyond the ceding company's underwriting intent or by increasing the number or size of claims thereunder. The effects of unforeseen emerging claim and coverage issues are extremely hard to predict and could have material effect on the reinsured business and, as a result, increase the likelihood and the size of the loss payments under the reinsurance contracts.

The above risk may be illustrated by the legal and regulatory actions that emerged in the aftermath of Hurricane Katrina. Certain property insurance coverages provided by ceding companies include coverage for wind-driven water damage and have generally excluded flood damage. However, recent court decisions in Louisiana and Mississippi have differed in their interpretation of the type of water damage covered by typical property insurance policies, drawing distinctions between water damage resulting from flooding and water damage resulting from wind-driven water surges or the ingress of water subsequent to wind damage. These decisions have raised issues concerning causation and apportionment between covered and non-covered damages. In the event that legal or regulatory mandates override either the industry standard flood exclusion clauses in homeowner policies or the specific flood exclusions included in insurance policies underlying reinsured business, the ceding company could experience additional claims and losses than it otherwise would have experienced had the courts or regulators interpreted the policies consistently with the ceding company's and its clients' underwriting intent.

Changes in other legal theories of liability relating to the reinsured business could also adversely impact the ceding company's loss experiences. Such adverse developments in claims could result in losses to the Reinsurer, the Master Fund, the Master Fund Shareholders and the Company. In addition, legal action over different interpretations of policies and coverages could lead to delays in claim settlements.

Any claim settlement by fronting carriers will be binding on the Reinsurer. It is expected that under the Reinsurer's reinsurance contracts with the fronting carriers, all loss settlements made by a fronting carrier will be unconditionally binding upon the Reinsurer.

Contingent liabilities on disposition of investments. The Master Fund may be required to make representations in connection with the disposition of an investment. The Master Fund may also be required to indemnify the purchasers of such investment in case any such representations are inaccurate. These arrangements may create contingent liabilities for which the Investment Manager may establish reserves or escrow accounts. Any such reserves would reduce amounts available to be distributed upon a redemption by a Master Fund Shareholder (including the Company).

Subordination of preferred shares of the Reinsurer held by the Master Fund. The Reinsurer will issue preferred shares to the Master Fund in connection with a capital contribution by the Master Fund to the Reinsurer. Such preferred shares will be effectively subordinated to the Reinsurer's obligations to the ceding company or the fronting carrier under the applicable reinsurance contract. The amounts of capital invested in a particular segregated account of the Reinsurer will be deposited in a Reinsurance Trust Account for the benefit of the ceding company or the fronting carrier that is intended to secure the obligations of the segregated account to the ceding company or the fronting carrier under the applicable reinsurance contract.

Counterparty risk; counterparty credit risk. A number of the investment techniques to be utilised by the Master Fund, and a number of markets in which the Master Fund invests, will expose it to counterparty risk, which is the risk that a counterparty will not settle a transaction in accordance with its terms. The Investment Manager is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

Limited recourse to counterparties. The counterparties to many Insurance-Linked Instruments often are thinly capitalised, special purpose entities that do not have access to additional capital. In the event of unanticipated expenses or liabilities, such entities may not have the resources available to pay such expenses or liabilities or pay amounts due under the instruments. Any such non-performance by a counterparty could result in losses for the Master Fund.

Application of insurance laws to the Master Fund, the Reinsurer or the issuer of certain Insurance-Linked Instruments. Insurance regulatory authorities often have broad discretionary powers in administering insurance laws, including the authority (subject to appeal in court or otherwise) to determine whether a party is conducting the business of insurance or reinsurance within their applicable jurisdictions. Because Insurance-Linked Instruments have certain features and an investment return that is likely to be based on the occurrence of events which traditionally are the subject of insurance, it is possible that insurance regulatory authorities or courts could determine that the purchase or holding of such instruments or the writing of such derivatives constitutes the conduct of the business of insurance or reinsurance. In the event that such a determination is made and a holder of such instruments or a writer of such derivative instruments is not duly licensed to conduct such activities in the applicable jurisdiction, such holder or writer may be subject to regulatory and legal action. Typically, such regulatory and legal action may include orders to cease and desist from the offending activities (which may require a divestiture, unwinding or termination of the offending instruments), civil forfeitures or criminal fines. There can be no assurance that insurance regulatory authorities will not challenge the purchase or writing of one or more of such instruments or derivatives as constituting the business of insurance, and it is unclear how such a challenge would affect the Master Fund. In addition, entities that issue, acquire or enter into Insurance-Linked Instruments face unanticipated expenses due to such regulation that may result in such an entity being unable to satisfy its obligations, including those related to the Insurance-Linked Instruments.

Legal and regulatory activities relating to the insurance industry. The Directors expect that the Master Fund and the Reinsurer will operate their respective businesses in such a manner such that the Master Fund and the Reinsurer will not be subject to insurance and/or reinsurance licensing requirements or regulations in any jurisdiction other than Bermuda, in which the Reinsurer is licensed as a Class 3 reinsurance company. Although the Directors do not currently expect the Master Fund or the Reinsurer to engage in activities which would require it to comply with insurance and reinsurance licensing requirements outside of Bermuda, should the Master Fund or the Reinsurer choose to engage in activities that would require it to become licensed in such jurisdictions, the Directors cannot assure prospective investors that the Master Fund or the Reinsurer will be able to do so or to do so in a timely manner.

The Reinsurer is licensed as a Bermuda Class 3 reinsurance company. As such, it is subject to regulation and supervision in Bermuda. The Bermuda Insurance Act 1978, as amended, and related regulations and policies of the Bermuda Monetary Authority (the "**BMA**") will require the Reinsurer to, *inter alia*: (i) maintain a minimum level of capital, surplus and liquidity; (ii) satisfy solvency standards; (iii) restrict dividends and distributions; (iv) obtain prior approval of ownership and transfer of shares; (v) maintain a principal office and appoint and maintain a principal representative in Bermuda; and (vi) provide for the performance of certain periodic examinations of the Reinsurer and its financial condition. These statutes, regulations and policies may affect the Reinsurer's ability to enter into reinsurance contracts, to distribute funds and to pursue its investment strategy. The Reinsurer will not be registered or licensed as an insurance company in any jurisdiction other than Bermuda.

Reliance on certain information. Prospective investors should be aware that the "trigger events" which determine whether amounts are due because of the occurrence of a Covered Event, are typically based on reports and may be based upon information provided by the issuer of such instruments or by an independent source (such as an index). Where an Insurance-Linked Instrument is based on an index, the source providing such index may be under no obligation to correct or update the index in the event of errors or subsequently discovered information. Similarly, with respect to exchange-traded instruments, the applicable trading period may expire before the underlying index is adjusted, with no mechanism for post-settlement adjustment. In light of the foregoing, there can be no assurance that relevant information provided by outside sources will be accurate, and it may not be economically feasible or efficient for the Master Fund SAC to attempt to verify or challenge such information.

Modelling risk. The Master Fund's investments are subject to severe losses resulting from the occurrence of one or more catastrophic events. The occurrence or non-occurrence of catastrophic events can be expected to result in volatility with respect to the Master Fund's net asset value. A major catastrophic loss or series of catastrophic losses may occur from time to time and, if affecting one or more of the Master Fund's investments, could result in material losses to the Master Fund.

The results of analyses performed by either the Investment Manager or third party catastrophe risk modelling firms cannot be viewed as facts, projections or forecasts of future catastrophic losses and cannot be relied upon as an indication of the future return on the Master Fund's investments. Actual loss experience can materially differ from that generated by such models. Loss distributions produced by such models constitute estimated losses based on assumptions relating to environmental, demographic and cost factors, many of which represent subjective judgments, are inherently uncertain and are beyond the control of the Investment Manager or the respective modelling firm. The assumptions or methodologies used by the Investment Manager or such firms may not constitute the exclusive set of reasonable assumptions or methodologies and the use of alternative assumptions or methodologies could yield results materially different from those generated. Further uncertainties arise from insufficient data, limited scientific knowledge, alternative theories governing empirical relationships and the random nature of catastrophic events themselves. In addition, there can be no assurance that any or all of the catastrophe risk modelling firms will continue to perform such analyses and, if so, there can be no assurance of the amount of resources that will be dedicated to such efforts.

No model of catastrophe events is, or could be, an exact representation of reality. These models rely on various assumptions, some of which are subjective and some of which vary between reinsurers and between the different catastrophe risk modelling firms. Accordingly, the loss estimates produced by such models are themselves based upon subjective determinations and subject to significant uncertainty. Professional catastrophe risk modelling firms review their modelling assumptions from time to time in the light of new meteorological, engineering and other data and information and refine their loss estimates as such information becomes available. Such refinements may materially alter, and have in the past materially altered, the loss estimates currently generated by these models.

The loss probabilities generated by either the Investment Manager's models or by third party models are not predictive of future catastrophic events, or of the magnitude of losses that may occur. Actual frequency of catastrophic events and their attendant losses could materially differ from those estimated by such models. Prospective investors in the Master Fund should not view the loss probabilities generated by such models as, in any way, predicting the likelihood of the event occurrence or loss.

Modelling insured losses resulting from catastrophes is an inherently subjective and imprecise process, involving an assessment of information that comes from a number of sources that may not be complete or accurate. No universal consensus on models or risk parameters exists. Other alternative, credible models or risk parameters may therefore exist, which, if used, could produce results materially different from those produced by the Investment Manager or by catastrophe risk modelling firms.

Inherent unpredictability of outcomes; valuation risk. The valuation of Insurance-Linked Instruments and other insurance exposures involves certain factors that are qualitatively different from those relevant to the valuation of traditional financial instruments. The type, frequency and severity of catastrophic and loss-related events associated with Insurance-Linked Instruments and other insurance exposures are difficult or impossible to predict. While the Investment Manager may rely on highly sophisticated catastrophe modelling software that utilises, *inter alia*, historical information and actuarial analysis, as well as weather forecasting and related models, to price an Insurance-Linked Instrument, such modelling software is subject to material uncertainties and may not forecast accurate predictions for the future. Models may be wrong and events may differ from the modelled outcomes. If such differences are adverse, this could have a material adverse impact on the Master Fund's performance.

While models may be used to determine which instruments to acquire, the Investment Manager's decision to invest in Insurance-Linked Instruments is inherently a matter of judgment, involving important assumptions about matters that are unpredictable and beyond the Master Fund's control, and for which historical experience and probability analysis may not provide sufficient guidance.

The extent of losses from catastrophes is a function of both the number and the severity of such events and the total amount of exposure in the areas affected. Increases in the value and concentrations of insured property, the effects of inflation and changes in cyclical weather patterns may increase the severity of losses from catastrophic events in the future. Catastrophic events could cause substantial losses as well as adversely affect the Master Fund's financial condition, its ability to raise capital and its ability to invest in new Insurance-Linked Instruments.

Prospective investors must recognise that material misstatements of the fair value of the Master Fund's Insurance-Linked Instruments and other insurance exposures are possible on a level of magnitude that is typically not found in other securities portfolios. One of the risks of investing in Insurance-Linked Instruments and other insurance exposures is the risk of such mispricings. Furthermore, even if fair values are correctly calculated, these values may be materially higher or lower than the realisable value of the Insurance-Linked Investment and the other insurance exposures. Master Fund Shareholders (including the Company) will subscribe for Master Fund Shares and redeem Master Fund Shares whose net asset values are subject to the same uncertainties as the valuation of the Master Fund's Insurance-Linked Instruments and other insurance exposures. Master Fund Shareholders purchasing Master Fund Shares may pay more than, and Master Fund Shareholders redeeming Master Fund Shares may receive less than, the realisable value attributable to the Master Fund Shares.

In particular, the Directors expect that the Master Fund will be exposed to property reinsurance risks and have a large aggregate exposure to natural disasters and other catastrophes (such as hurricanes, windstorms, hailstorms, earthquakes, fires, explosions, severe winter weather, riots, floods, aviation and marine disasters and other loss events). The occurrence of catastrophic events, although infrequent, may have a significant effect on the business of the Master Fund. Although the Directors do not expect the Master Fund's reinsurance risk exposures to include war and acts of terrorism, there is no guarantee that such events will not be incidentally or inadvertently included.

No material limitation on strategies. Subject to the investment objective, policies and restrictions set out in Part 1 of this Prospectus, the Master Fund will implement whatever strategies or discretionary approaches it believes from time to time will be best suited to prevailing market conditions. Such strategies or approaches may involve higher levels of risk than the ones discussed herein. There can be no assurance that the Investment Manager will be successful in applying any strategy or discretionary approach to the Master Fund's trading.

Difficulty in determining Net Asset Value. Insurance-Linked Instruments and the Master Fund's other insurance positions are particularly susceptible to sudden substantial or total loss due to, *inter alia*, natural, man-made or other catastrophes. The unpredictable nature of such losses makes it difficult to determine whether a particular Insurance-Linked Instrument is properly priced in the ordinary course of trading. The valuation models used in the Insurance-Linked Instruments markets attempt to value fundamentally unpredictable events (such as earthquakes or hurricanes) using probabilistic estimates of the risk of the occurrence of such events, as opposed to traditional financial models which interpolate securities values based on different mathematical formulae. In addition, the lack of an actively-traded market in certain of the Master Fund's anticipated investments may create valuation uncertainty. Consequently, Master Fund Shareholders (including the Company) may subscribe for as well as redeem Master Fund Shares on the basis of a net asset value that is subsequently materially changed as a result of the occurrence of a Covered Event. This may result from time to time in certain Master Fund Shareholders (including the Company), for example, redeeming at a net asset value which falls dramatically soon after the investment due to the occurrence of such event, as well as investors investing at a net asset value which, in fact, is understated and gives them a disproportionately larger ownership interest in the Master Fund. Furthermore, Master Fund Shareholders (including the Company) expressly consent to the Investment Manager calculating and receiving Management Fees and Performance Fees based on the net asset value (subject to special procedures regarding the Management Fee with respect to Side Pocket Investments), irrespective of the possibility of the net asset value falling significantly shortly after such calculation and receipt.

Prospective investors should recognise that it is often difficult to calculate the fair value of the Master Fund's positions. Furthermore, even if fair values are correctly calculated, these values may be materially higher or lower than the realisable value of the Insurance-Linked Instruments and the other reinsurance positions.

While the Administrator will calculate the Net Asset Value of the Master Fund, this requires that a number of subjective decisions and assumptions be made by the Investment Manager's personnel regarding various inputs into the models. While the Directors believe that the decisions and assumptions which the Investment Manager will make in the process of determining net asset value will be reasonable, other industry participants could reasonably make materially different decisions and assumptions regarding the same factors, resulting in materially different net asset values. There can be no assurance that the value determined will be realisable upon disposition of the asset.

Thinly-traded securities. The SAC Board is permitted to modify valuations of net asset value in its sole discretion. In so doing, the SAC Board may instead rely upon another method of valuation. It is not unusual for broker-dealers affiliated with an issuer of a security to provide "bid" and "ask" quotations for such security on a preliminary or "soft" basis. Such preliminary quotations may or may not reflect the "bid" or "ask" prices at which such broker-dealer would be willing to effect actual transactions. Broker-dealers unaffiliated with the issuer of such security, if providing quotes, may be even less likely to execute transactions (particularly sales transactions by the Master Fund) at or near preliminary quotes.

The Master Fund's portfolio may include substantial positions (in terms of number of issues and percentage of the net asset values) where there is only a single broker-dealer, if any, quoting prices, which may be preliminary or "soft," and where any such broker-dealer is affiliated with the issuer of such security or with the Investment Manager. The resulting risk is that quotes may not be available.

In the absence of actual sale transactions, it is difficult for the Investment Manager to test the reliability of preliminary quotes even when multiple broker-dealers are providing "bid" and "ask" prices. Prospective investors should be aware that situations involving uncertainties as to the valuation of portfolio securities could dramatically affect the Net Asset Value, particularly where the Master Fund seeks to sell positions, if the Investment Manager's or its designee's judgments regarding appropriate valuations should prove incorrect.

Delay in valuations. The estimated net asset value of Insurance-Linked Instruments with respect to which a Covered Event has occurred can only be determined gradually as information regarding the claims resulting from such event are analysed. Certain Insurance-Linked Instruments may have to be retained for substantial periods of time while payment obligations under such Insurance-Linked Instruments are determined.

If the Investment Manager believes a valuation will not be viable with respect to a certain Insurance-Linked Instrument for more than a reasonable amount of time after the date of determination, the SAC Board may classify the position as a Side Pocket Investment in respect of the Master Fund. If a position is classified as a Side Pocket Investment, until a Valuation Recognition Event occurs in respect of such Side Pocket Investment, a Master Fund Shareholder (including the Company) will not be able to redeem the portion of its investment attributable to such Side Pocket Investment (which will be represented by SP Shares).

Hedging transactions. In the financial markets, hedging refers to the process of reducing the risk of a position by taking another position expected to be negatively correlated with the former. The success of the Master Fund's hedging strategy will depend, in part, upon the Investment Manager's ability to assess correctly the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Master Fund's hedging strategy will also be subject to the Investment Manager's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Master Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Master Fund than if it had not engaged in such hedging transactions. For a variety of reasons, the Investment Manager may not seek to establish a perfect correlation between the hedging instruments utilised and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Master Fund from achieving the intended hedge or expose the Master Fund to risk of loss. The Investment Manager may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, because it does not foresee the occurrence of the risk, or because the Master Fund does not have sufficient liquid assets available. The successful utilisation of hedging and risk management transactions requires skills complementary to those needed in the selection of the Master Fund's portfolio holdings. There is no assurance that the Investment Manager can hedge its risk effectively or that the hedging strategy it does employ will be effective.

Swaps and other derivatives. At the date of this Prospectus, a substantial portion of the Master Fund's investments are expected to consist of preferred shares issued by the Reinsurer; however, the Master Fund may enter into swap and similar derivative transactions involving or relating to catastrophic events. A swap transaction is an individually negotiated, non-standardised agreement between two parties to exchange cash flows (and sometimes principal amounts) with payments generally calculated by reference to a principal ("notional") amount or quantity. Swap contracts and similar derivative contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, the Master Fund is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which the Master Fund trades. Any such failure or refusal, whether due to insolvency, bankruptcy, default, or another cause, could subject the Master Fund to substantial losses.

Options trading. At the date of this Prospectus, a substantial portion of the Master Fund's investments are expected to consist of preferred shares issued by the Reinsurer; however, the Master Fund may in the future engage in options trading. Although successful trading in options on securities requires many of the same skills required for successful securities trading, the risks involved may be different and, in some cases, greater. If the Master Fund buys an option (giving it the right to sell or purchase the underlying investment), it will pay a "premium" representing the market value of the option. Unless the price of the investment underlying the option changes in the direction making it profitable to exercise or offset the option before it expires, the Master Fund will lose the entire amount of the premium plus the transaction costs. Conversely, if the Master Fund sells an option (either to sell or buy the underlying investment), it will be credited with the premium but may have to deposit margin due to its contingent liability to take or make delivery of the underlying investment in the event the option is exercised, and the potential losses are unlimited. The ability to trade in or exercise options may be restricted in the event that trading in the underlying investment becomes restricted. Options trading may also be illiquid in the event that the Master Fund invests its assets in contracts with extended expirations.

The Master Fund may trade exchange-traded options and over-the-counter options with respect to securities, government obligations and currencies. Over-the-counter options present certain additional risks in addition to those presented by exchange-traded options. Such risks include a lack of government regulation, no limitations on daily price movements, no speculative position limits, no daily mark-to-market valuation and settlement of positions, no minimum capital requirements, and, because the performance of over-the-counter options is not guaranteed by a clearing organisation, the risk that counterparties will be unable to perform with respect to such contracts. The over-the-counter options market is a "principals" market, in which performance with respect to an option contract is the responsibility of the counterparty with which the participant has entered into the contract and not of any exchange or clearing organisation. As a result, the Master Fund will be subject to the risk of the inability or refusal to perform with respect to contracts on the part of the counterparties with which the Master Fund trades. The Master Fund will not be excused from the performance of any option contract into which it has entered due to the default of third parties in respect of option or other transactions which were to substantially offset such option contracts.

Currency risk. Since the Master Fund may invest in instruments denominated in currencies other than US dollars, the value of the Master Fund, which is measured in US dollars, will be affected by changes in currency exchange rates. Many of the currencies of emerging markets countries have experienced significant devaluations relative to the US dollar or other major adjustments. Some emerging markets countries may have fixed or managed currencies, which are not free floating against the US dollar. In addition, certain emerging market countries' currencies may not be internationally traded. To the extent the Master Fund invests in instruments not denominated or linked to the US dollar, a decline in the value of such currency would reduce the value of certain securities holdings and the Master Fund's net asset value.

Limitations on participation in the Cat Bond market. At the date of this Prospectus, a substantial portion of the Master Fund's investments are expected to consist of preferred shares issued by the Reinsurer; however, the Master Fund may invest in Cat Bonds. Cat Bonds, in almost all cases, are privately issued securities that are not listed or traded on any public exchange. In general, all re-sales of such securities (or, in the case of non-US issuers, all sales and re-sales within the United States or to "United States Persons") are strictly subject to Rule 144A promulgated under the Securities Act ("**Rule 144A**"). Pursuant to Rule 144A, the securities may be transferred or sold only to purchasers that are "Qualified Institutional Buyers" ("**QIBs**") as defined therein. In order to qualify as a QIB, the Master Fund must at all times own or have discretion to trade at least US$100 million in "eligible securities" (as defined under Rule 144A). Thus, the Master Fund's qualification to purchase Cat Bonds may be dependent upon it maintaining or achieving QIB status under relevant regulations. A failure to maintain QIB status may severely impede the Master Fund's ability to purchase Cat Bonds.

In certain cases, the Master Fund may decide to participate in the Cat Bond market by entering into a derivative agreement with an institution that itself qualifies for QIB status. Neither the Investment Manager nor its counsel makes any representations as to any specific legal or regulatory impact or outcome of such arrangements. There is a very limited number of broker-dealers who are willing to allow their clients to invest in Cat Bonds via a derivative agreement (such as a total return swap). If a derivative agreement is cancelled by a broker-dealer, an immediate forced liquidation of the underlying portfolio may be necessary in the event that the Master Fund does not itself have QIB status, which may have a substantial adverse effect upon the value of the Master Fund's account.

Direct, private Insurance-Linked Instruments and derivatives. In addition to Rule 144A Cat Bonds and total return swaps, the Master Fund may also enter into other classes of private Insurance-Linked Instruments (subject to its investment policy). These deals, which may include derivative risk swaps, are likely to be transacted directly with an institutional counterparty, with or without the involvement of a placement agent or broker. In certain instances, such transactions may require that a portion of the Master Fund's assets be held as collateral subject to a perfected security interest in favour of the counterparty. Risks specific to such investments include custodial as well as counterparty credit risk, as situations may arise under such swap agreements in which the counterparty may gain control of a portion of the Master Fund's collateral for significant periods of time, and the ability of the counterparty to repay any portions of such collateral ultimately owing to the Master Fund may be impaired in the event of a dispute or counterparty insolvency. Thus, private insurance-linked risk swaps and other similar investments may involve a high degree of structural and financial risk that can result in substantial losses. In addition, there is no existing market for the purchase and sale of such investments and, as a result, the Master Fund may not be able to sell such investments readily.

RISKS RELATING TO THE INVESTMENT MANAGER

Reliance on the Investment Manager. Substantially all decisions with respect to the management of the reinsurance positions of the Company and the Master Fund will be made exclusively by the Investment Manager. The Investment Manager will also make all of the trading and investment decisions of the Master Fund, and Master Fund Shareholders (including the Company) will not be able to have input into or object to any of these decisions. The success of the Master Fund will be dependent upon the success of the Investment Manager in acquiring a portfolio of Insurance-Linked Instruments for the Master Fund with respect to which the income or dividends and return of principal substantially exceed the losses incurred. The Investment Manager, as a newly-formed entity, may not have access to the same transactions in which established entities participate, which could adversely affect the performance of the Master Fund had such access.

Dependence upon a limited group of principals. The performance of the Company and the Master Fund's portfolio depends heavily on the financial and managerial experience of the management team (particularly Tony Belisle) associated with the Investment Manager.

Furthermore, there can be no assurance that the management team will work together successfully. In addition, there can be no assurance that any particular individual will be responsible for managing a particular portfolio for any length of time. Key personnel could become unavailable involuntarily due, for example, to death or incapacity, as well as due to resignation. Retaining replacements would likely require considerable time and might not ultimately be successful. In particular, remaining personnel may not have meaningful experience with respect to the relevant Insurance-Linked Instruments. The loss of key personnel could have a material adverse effect on the Master Fund.

Limited governmental regulation. The Investment Manager is not authorised or registered with the FSA or as a commodity pool operator or commodity trading advisor in accordance with the provisions of the US Commodity Exchange Act, nor subject to the regulation of the US Commodity Futures Trading Commission thereunder or under the National Futures Association rules and is not currently registered with the SEC as an investment adviser under the Advisers Act. As such, Shareholders may not be afforded the protections they would expect otherwise and in particular Shareholders will not have access to the UK Financial Services Compensation Scheme or any equivalent scheme in any other jurisdiction.

Performance Fees. Part of the compensation of the Investment Manager and its investment professionals is calculated by reference to the performance of the Master Fund. Such compensation arrangements may create an incentive to make investments that are riskier or more speculative than would be the case if such arrangements were not in effect. Resulting losses by the Master Fund could have a material adverse effect on the performance of the Company and returns to Shareholders. In addition, because performance-based compensation is calculated on a basis that includes unrealised appreciation of the Master Fund's assets, such performance-based compensation may be greater than if such compensation were based solely on realised gains.

Increasing assets managed by the Investment Manager may adversely affect performance. The rates of return achieved by trading advisers or managers may diminish as the assets under their management increases. The Investment Manager has no obligation to limit the amount of assets that it will manage.

Potential inability to trade or report due to systems failure. The Investment Manager's strategies will be dependent to a significant degree on the proper functioning of its internal and external computer systems. Accordingly, systems failures, whether due to third-party failures upon which such systems are dependent or the failure of the Investment Manager's hardware or software, could disrupt trading or make trading impossible until such failure is remedied. Any such failure, and consequential inability to trade (even for a short time), could, in certain market conditions, cause the Master Fund to experience significant trading losses or to miss opportunities for profitable trading. Any such failures also could cause a temporary delay in reports to investors.

Other clients of the Investment Manager. The Investment Manager and its affiliates may in the future advise other clients with respect to Insurance-Linked Instruments or other similar instruments. In particular, the Investment Manager expects that both the Master Fund and the High Yield Fund (a second Segregated

Account of the Master Fund SAC) will commence operations shortly, and the Master Fund is expected to invest in substantially the same assets as the High Yield Fund. The Investment Manager may make recommendations regarding the assumption of risk on behalf of the Master Fund in Insurance-Linked Instruments that it has declined to invest in for the account of its other clients. The Investment Manager will endeavour to resolve conflicts with respect to investment opportunities in a manner that it deems equitable to the extent possible under the prevailing facts and circumstances and in accordance with applicable law. The Investment Manager's oversight of multiple client accounts subjects the Investment Manager to various conflicts of interest.

Furthermore, the Investment Manager may trade differently in respect of one account and another account managed by the Investment Manager or its affiliates. The trading activities of the Investment Manager and its affiliates in respect of an account are generally carried out without reference to the positions held directly or indirectly in another account and such activities may have an adverse effect on the value of the positions held by such other account or may result in the Investment Manager or its affiliates having an interest in an issuer adverse to that of the other account.