

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

**Proposed Return of Value to Shareholders of US\$0.11528 per Existing Ordinary Share, Share Capital Consolidation and Notice of Special General Meeting**

To: SFM, London Stock Exchange and  
Bermuda Stock Exchange

Date: 5 January 2015

The Board is pleased to announce its intention to make a return of value to Shareholders of US\$0.11528 per Existing Ordinary Share, equivalent to approximately US\$35 million in aggregate (the "**Return of Value**"). Based on the closing middle market price of US\$1.157 per Existing Ordinary Share on 31 December 2014 (being the latest practicable date prior to posting of the Circular), the proposed Return of Value to Shareholders equates to approximately 10 per cent. of the Company's market capitalisation at that date.

A Circular has today been published which provides further details of a proposal which will provide greater flexibility in how Shareholders can receive the proposed Return of Value, for which approval is being sought at the Special General Meeting to be held at 10.00 a.m. (Bermuda time) on 29 January 2015. However, if the Return of Value is not approved or does not otherwise become unconditional, the Directors intend to declare a special dividend of US\$0.11528 per Existing Ordinary Share on or around 27 February 2015.

The proposed Return of Value is to be made using a B Share scheme with associated Share Capital Consolidation. This method of return has been chosen as it allows all Shareholders to be treated equally on a *pro rata* basis and gives the potential for Shareholders (other than Restricted Shareholders) to receive the return as either income or capital, or any combination of the two (as further described in the Circular).

The Return of Value follows the previous return of value made in January 2014, which was also executed through a B share scheme and offered Shareholders the option to receive the return as either income or capital. The Directors have chosen to preserve this option for the Return of Value, with the potential this time for Shareholders to receive their cash proceeds as a combination of both income and capital. In contrast to the previous return of value, however, Shareholders will not be offered the opportunity to remain invested for their share of the Return of Value.

**Reasons for, and background to, the Return of Value**

With no significant insured losses incurred on the 2014 investment portfolio the Company has concluded a successful year with the net asset value benefitting from approximately 14 cents per Ordinary Share of net insurance premiums earned over the full year.

As at 1 January 2015, the Master Fund has deployed collateralised retrocession reinsurance capacity at rates in excess of the Company's target returns. The Company's investment manager, CATCo Investment Management Ltd. (the "**Investment Manager**"), will provide Shareholders with an update during January 2015 regarding the 2015 portfolio.

Following the return of value that was completed in January 2014 and the share buyback programme that took place in May 2014, the Directors continue to focus on prudent capital management and ways in which Shareholder value can be optimised, whilst ensuring that the Company does nothing to constrain its growth potential.

The Directors also 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 per cent. to 15 per cent. 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.

The Directors are therefore proposing to return up to approximately US\$35 million by way of the proposed Return of Value, or if the Return of Value is not approved by Shareholders simply by way of a dividend.

For the avoidance of doubt, the Return of Value is separate and in addition to the annual dividend of US\$0.05929 per Ordinary Share for the year to 31 December 2014 which was announced today, in line with the Company's target annual distribution of an amount equal to LIBOR plus 5 per cent. of the Net Asset Value at the end of each Fiscal Year.

The Directors, as advised by the Investment Manager and following consultation with certain Shareholders, have determined that the Return of Value is in the best interests of the Company and the Shareholders as a whole as:

- It provides Shareholders with the opportunity to realise a significant portion of the net insurance premiums earned in 2014 and to take profits in excess of the target annual distribution.
- It better enables the Company to maintain a disciplined investment approach and to target an internal rate of return in excess of LIBOR plus 12 per cent. to 15 per cent. per annum.
- It gives all Shareholders (with the exception of Restricted Shareholders) the choice as to how they receive their share of the Return of Value, which is intended to afford UK tax resident Shareholders flexibility in the tax treatment of their proceeds.
- It treats all Shareholders equally relative to the size of their existing shareholdings in the Company.

### **The Return of Value**

The proposed Return of Value comprises a special distribution to Shareholders of US\$0.11528 per Existing Ordinary Share, being approximately US\$35 million in aggregate. To give Shareholders flexibility in how they receive their share of the Return of Value, it is proposed that the Return of Value is to be implemented by way of a B Share scheme under which each Shareholder will receive one B Share for every Existing Ordinary Share held at the Record Time (such entitlement being the "**B Share Entitlement**") and each Shareholder will be entitled to elect how the Company treats their B Shares from the two alternatives set out below (the "**B Share Alternatives**"). Shareholders (other than Restricted Shareholders) will be entitled to split their B Share Entitlement between the two B Share Alternatives, should they wish to do so. Accordingly, Shareholders (other than Restricted Shareholders) may elect for any combination of the B Share Alternatives, provided that the total number of B Shares in respect of which an election is made does not exceed a Shareholder's total holding of Existing Ordinary Shares as at the Record Time.

Shareholders who do not make a valid election, and all Restricted Shareholders, will be deemed to have elected for the Income Alternative in respect of all of their B Share Entitlement and will automatically receive their share of the Return of Value in cash by way of the B Share Dividend.

Shareholders should also note that the Return of Value is conditional upon the passing of Resolution 1 at the Special General Meeting.

#### ***Alternative 1 – The Capital Alternative***

For B Shares validly elected to the Capital Alternative, a Shareholder will have those B Shares redeemed by the Company, free of all dealing expenses and commissions, and then cancelled. The

redemption proceeds will equal US\$0.11528 per B Share (with the aggregate entitlement of each holder being rounded down to the nearest cent) (the "**Capital Repayment**") and will be sent by cheque or credited through CREST accounts by 9 February 2015.

The amounts received under the Capital Alternative should generally be taxed as capital for UK tax purposes. UK tax resident Shareholders should read Part 7 of the Circular for further information.

#### ***Alternative 2 – The Income Alternative (B Share Dividend)***

For B Shares validly elected (or deemed elected) to the Income Alternative, a Shareholder will receive a dividend of US\$0.11528 per B Share (the "**B Share Dividend**"), which will become payable on each relevant B Share on 30 January 2015. Such dividend (with the aggregate entitlement of each holder being rounded down to the nearest cent) will be sent by cheque or credited through CREST accounts by 9 February 2015.

The amounts received under the Income Alternative should generally be taxed as income for UK tax purposes. UK tax resident Shareholders should read Part 7 of the Circular for further information.

To the extent that Shareholders validly elect for the Capital Alternative in respect of some or all of their B Share Entitlement, they will be deemed to have waived any entitlement to the B Share Dividend in respect of those B Shares that have been validly elected to the Capital Alternative.

For the avoidance of doubt, the Return of Value is separate and in addition to the annual dividend of US\$0.05929 per Ordinary Share for the year to 31 December 2014 which was announced today, in line with the Company's target annual distribution of an amount equal to LIBOR plus 5 per cent. of the Net Asset Value at the end of each Fiscal Year.

#### **The Share Capital Consolidation**

The Directors believe that the Existing Ordinary Shares, like those of other closed-ended investment funds, are generally valued in the market by reference to the Net Asset Value per Ordinary Share. Accordingly, in connection with the Return of Value, the Directors are also proposing a Share Capital Consolidation, the objective of which is to seek to ensure that the Net Asset Value per Ordinary Share is the same before and after the Return of Value.

In order to effect the Share Capital Consolidation, immediately following the issue of B Shares all of the Existing Ordinary Shares will be sub-divided and consolidated into a smaller number of New Ordinary Shares, with the New Ordinary Shares having the same Net Asset Value per New Ordinary Share as the Net Asset Value per Existing Ordinary Share on 31 December 2014 as adjusted downwards to reflect the declaration of the Company's annual dividend of US\$0.05929 per Ordinary Share (which was announced today with a record date of 16 January 2015, i.e. prior to the implementation of the Share Capital Consolidation).

The Net Asset Value will not be recalculated for the purposes of the Share Capital Consolidation and will be based upon the 31 December 2014 Net Asset Value adjusted as appropriate to reflect the Company's annual dividend and the Return of Value. Accordingly, the number of New Ordinary Shares to be issued in place of the Existing Ordinary Shares and hence the conversion ratio will be determined by dividing the Net Asset Value of an Existing Ordinary Share immediately following the issue of the B Shares, which will equal the 31 December Net Asset Value adjusted downwards to reflect the annual dividend and the Return of Value, by the Net Asset Value of an Existing Ordinary Share as at 31 December 2014, adjusted downwards to reflect the Company's annual dividend.

The effect of the Share Capital Consolidation will be to reduce the number of issued Ordinary Shares to reflect the overall change in the Company's Net Asset Value resulting from the Return of Value, but Shareholders will own the same proportion of the Company as they did previously, subject to fractional entitlements.

#### **Special General Meeting**

The Return of Value is conditional upon the passing of Resolution 1 and the Share Capital Consolidation is conditional upon the passing of Resolution 2 (which is also conditional on the passing of Resolution 1 and Admission), both of which will be put to Shareholders at the Special General Meeting.

The Special General Meeting will be held at Crawford House, 50 Cedar Avenue, Hamilton HM11, Bermuda at 10.00 a.m. (Bermuda time) on 29 January 2015. Notice of the Special General Meeting is set out in Part 8 of the Circular.

### **Recommendation**

The Directors are of the opinion that the Return of Value, the Share Capital Consolidation and the Resolutions to be proposed at the Special General Meeting are in the best interests of the Company and the Shareholders as a whole. The Directors unanimously recommend that Shareholders vote in favour of the Resolutions as the Directors intend to do for their respective individual beneficial holdings of, in aggregate, 284,051 Existing Ordinary Shares, representing approximately 0.094 per cent. of the current total issued share capital of the Company.

The Board makes no recommendation to Shareholders in relation to the elections for the B Share Alternatives. Shareholders need to take their own decision in this regard and are recommended to consult their own independent professional adviser.

Unless otherwise defined, capitalised words and phrases in this announcement shall have the meaning given to them in the Circular.

### **Expected Timetable of Principal Events**

<b>Event</b>	<b>Time and/or date, 2015</b>
Latest time and date for receipt of Forms of Direction or CREST Proxy Instructions from the Depositary Interest Holders for the Special General Meeting	10.00 a.m. (Bermuda time) on 26 January
Latest time and date for receipt of Forms of Proxy for the Special General Meeting	10.00 a.m. (Bermuda time) on 27 January
Special General Meeting	10.00 a.m. (Bermuda time) on 29 January
Election Deadline: latest time and date for receipt of: (i) TTE Instructions from Depositary Interest Holders in relation to the B Share Alternatives; and (ii) Forms of Election from certificated Shareholders in relation to the B Share Alternatives	1.00 p.m. on 29 January
Latest time and date for dealings in Existing Ordinary Shares. Existing Ordinary Share register closed and Depositary Interests in respect of Existing Ordinary Shares disabled in CREST	5.00 p.m. on 29 January
Record Time for the Share Capital Consolidation and entitlement to B Shares	5.00 p.m. on 29 January
B Shares issued	As soon as practicable after 8.00 a.m. on 30 January
Share Capital Consolidation	Immediately after the B Shares are issued on 30 January

New Ordinary Shares admitted to trading on the Specialist Fund Market and the BSX. Dealings commence in New Ordinary Shares	30 January
CREST accounts for Depositary Interests in respect of New Ordinary Shares credited	As soon as practicable after 8.00 a.m. on 30 January
B Share Dividend becomes payable on B Shares issued pursuant to the Income Alternative	30 January
Redemption of B Shares	30 January
Outstanding B Shares on which B Share Dividend has been paid automatically reclassified as Deferred Shares	30 January
Despatch of share certificates in respect of the New Ordinary Shares	9 February
Despatch of cheques, or if Depositary Interests held in CREST, CREST accounts credited in respect of proceeds under the Capital Alternative	9 February
Despatch of cheques, or if Depositary Interests held in CREST, CREST accounts credited in respect of proceeds under the Income Alternative	9 February

**For further information, please contact:**

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Copies of the following documents will be available for inspection at the registered office of the Company, Crawford House, 50 Cedar Avenue, Hamilton HM11, Bermuda during normal business hours until the conclusion of the Special General Meeting: (i) the existing Bye-laws of the Company; (ii) the new Bye-laws of the Company proposed to be adopted at the Special General Meeting, showing the amendments proposed to the Company's existing Bye-laws; and (iii) a copy of the Circular.

None of the B Shares, Deferred Shares nor the Ordinary Shares have been or will be registered under the US Securities Act or the state securities laws of the United States and none of them may be offered or sold in the United States or to any US persons unless pursuant to a transaction that has been registered under the US Securities Act and the relevant state securities laws or a transaction that

is not subject to the registration requirements of the US Securities Act and the state securities laws, either due to an exemption therefrom or otherwise.

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