

# Fermat ILS Yield Fund – Class W

## An Insurance Linked Securities Fund

The Fermat ILS Yield Fund (the Fund) seeks to generate returns by investing in a diversified portfolio of Insurance Linked Securities with global exposure, predominantly catastrophe bonds.

Investors in the Fund receive a return in exchange for bearing the risk of losses from pre-defined catastrophic events such as earthquakes, hurricanes and winter storms.

### Key Characteristics of the Fund

The Fund aims to provide investors with:

- A long term target average return of 4.5% per annum after fees above the Bloomberg AusBond Bank Bill Index
- A portfolio with low correlation of returns with traditional financial markets
- Adequate compensation for accepting the appropriate amount of identifiable risk while avoiding uncompensated risk

### What are Insurance Linked Securities?

Insurance Linked Securities (ILS) are financial instruments that typically transfer the risk of insured events from insurance and reinsurance companies (and in some cases, corporations and government entities) to investors, allowing protection buyers to use the capital markets to provide some of the capital required to reinsure these risks.

Investors in ILS receive a yield in return for accepting the risk of loss of capital and/or coupon payments should a catastrophic event occur. The risk of loss of principal and/or coupon payments is primarily dependent on the occurrence of a specific catastrophic event such as an earthquake, hurricane, pandemic or winter storm in a predefined area.

### What are Catastrophe Bonds?

Catastrophe bonds are one of the largest and most developed sectors of the ILS

market. They are debt securities that are typically issued with a 3 to 5 year maturity and pay a floating rate coupon and return of principal to the holder if there is no triggering catastrophe during the risk period. The coupons are typically specified as a spread over a collateral return rate.

### Fermat's Investment Beliefs

Fermat believes that:

1. The true value to investors from the ILS market comes from the structural return driven by the capital requirements of the global (re)insurance industry
2. There is a strong relationship between risk and return in ILS and the best risk-adjusted return does not necessarily come from the highest yielding securities
3. Fundamental to the investment process is the construction and active management of portfolios in order to deliver long-term risk-adjusted returns to investors

### The Fermat Investment Approach

Fermat seeks investments with the following characteristics:

- Risks that can be appropriately modelled and calibrated with the available data
- Risks that are primarily linked to events whose occurrence is by nature beyond the control of human action
- A clear industry or national interest rationale. The motivation for risk transfer should be related to capital relief or defence of national interest and tend to complement mature reinsurance markets

Fermat's investment process centres on extensive due diligence and sophisticated proprietary risk modelling and pricing analysis. It is designed to evaluate the investment characteristics of each ILS and to optimise the portfolio of securities held by the Fund.

## Challenging Convention

A globally exposed portfolio investing in Insurance Linked Securities

Catastrophe investments typically provide returns with a low correlation to traditional assets

## About Fermat

Fermat was formed in 2001 and is owned entirely by its founding partners.

Fermat is a specialist investment manager with 16 years' experience managing catastrophe risk portfolios. Senior members of the Fermat investment team have active experience in catastrophe risk dating back to the market's inception.

Fermat's state-of-the-art modelling systems and methodologies give it the ability to comprehensively determine the impact of a new addition to a portfolio. A fully transparent view of the risk of a diversified portfolio is a key driver of allocation changes.

Fermat has designed a proprietary Catastrophe Asset Pricing Model pricing system. This is a CAPM-style portfolio optimisation system adapted to catastrophe risks. This model allows Fermat to determine

the reasonable price range for a particular security given its true underlying risk and potential impact on a portfolio.

## Risk

All investments are subject to risks. Changes in value can be significant and can happen quickly. Different types of investments perform differently at various times.

In particular, the Fund's investments are subject to relatively infrequent but potentially severe losses resulting from the occurrence of one or more catastrophic events. A major catastrophic event or series of events may occur from time to time and could result in material losses to the Fund.

Neither the target return or the return of the capital invested in the Fund is guaranteed.

## About the Manager

Experience in catastrophe risk dating back to the market's inception

Fermat has designed a proprietary pricing system to optimise returns for the true underlying portfolio risk

## Key Fund Features

Fund Name	Fermat ILS Yield Fund – Class W
Investment Manager	Fermat Capital Management, LLC.
Responsible Entity	Equity Trustees Limited
Fund Inception Date	8 February 2012
Management Costs	1.25% p.a. (incl. of net effect of GST) including all investment management fees, responsible entity fees, administration fees, custody fees and other expenses incurred in operating the Fund
Performance Fee	10% (incl. of net effect of GST) above Bloomberg AusBond Bank Bill Index
Buy/Sell Spread	0.50% on applications and 0.50% on withdrawals
Investment Universe	Catastrophe bonds, catastrophe swaps, industry loss warranties, private catastrophe notes or preferred shares, catastrophe options and futures, and bonds and loans issued by companies within the insurance sector
Currency Hedging	Yes; To minimise any non-Australian dollar exposure
Offering Document	Information Memorandum (IM)
Investor Class	'Wholesale clients' as defined in the Corporations Act 2001
Minimum Application	\$250,000
Applications	Monthly
Withdrawals	Monthly; Subject to restrictions

This document has been prepared and issued by Fermat Capital Management LLC ("Fermat") and is intended for the general information of 'wholesale clients' (as defined in the Corporations Act 2001) only. Fermat is exempt from holding an Australian Financial Services Licence pursuant to ASIC Class Order 03/1100 'Relief for US SEC regulated financial service providers' in respect of the financial services it provides to Wholesale Clients, and is not licensed to provide financial services to retail clients in Australia. Fermat is regulated by the Securities and Exchange Commission of the United States of America under US laws, which differ from Australian laws. Equity Trustees Limited (Equity Trustees) (ABN 46 004 031 298, AFSL 240975) is a subsidiary of EQT Holdings Limited (ABN 22607 797 615), a publicly listed company on the Australian Securities Exchange (ASX:EQT). Equity Trustees is the Responsible Entity of the Fermat ILS Yield Fund (ARSN 154 923 494). This document is neither an offer to sell or a solicitation of any offer to acquire interests in any investment. The information contained in this document is of a general nature only. Accordingly, reliance should not be placed on this information as the basis for making an investment, financial or other decision. In preparing this document, Fermat has not taken into account the investment objectives, financial situation and needs of any particular person. Before making any investment decision, you should consider whether the investment is appropriate in light of those matters. Whilst every effort is taken to ensure the information in this document is accurate, Fermat provides no warranty as to the accuracy, reliability and completeness of the information in this document and you rely on this information at your own risk. To the extent permitted by law, Fermat disclaims all liability to any person relying on the information contained in this document in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information. The targeted rates of return included in this document are hypothetical returns, and are for illustrative purposes only. They are based on Fermat's own independent study of both current and expected market return profiles, seasonality, and/or spread change expectations. Targeted returns are subject to inherent limitations. While we believe that our assumptions are reasonable, we caution that it is impossible to predict the frequency and severity of natural catastrophic events which impact the returns to investors. Past performance is not a reliable indicator of future performance. The return of capital or any particular rate of return from the Fund is not guaranteed. You should obtain and consider the Fund's Information Memorandum before deciding whether to acquire, or continue to hold, an interest in the Fund. Applications can only be accepted on an application form attached to a current Information Memorandum.

## Contact

Natalie Hall  
Client Services Director  
Brookvine Pty Limited  
w: +61 2 9328 6445  
nataliehall@brookvine.com.au

brookvine.com.au