

# CS IRIS C Fund Limited

PO Box 255, Trafalgar Court, Les Banques, St. Peter Port, Guernsey, Channel Islands, GY1 3QL  
Tel: +44 (0)1481 745001. Fax: +44(0)1481 745051.

5 September 2019

Dear Shareholder,

## **Update on the further development of the market access platform by the Investment Manager of CS IRIS C Fund Limited (the “Fund”)**

*Capitalised terms in this letter shall bear their respective meanings in the confidential private placement memorandum of the Fund dated 25 July 2017, as may be further supplemented.*

The Investment Manager of the Fund, Credit Suisse Insurance Linked Strategies Ltd (“CSILS”), has informed the Board of the Fund of further developments of the market access platform used by the Fund and other funds managed by the Investment Manager. These changes do not have a material direct effect on the Shareholder, as the services to the Fund will not change. As such, this letter, which is based on information provided by the Investment Manager, is for information only and no action is required to be taken by the Shareholder.

CSILS has been the Investment Manager of the Fund since its launch in December 2016. In this function, CSILS provides investment management and related services to the Fund including investing the assets of the Fund and managing the investments throughout their full life cycle. The Fund follows an insurance-linked investment strategy (ILS), seeking to achieve long-term positive returns through investments in exposures linked to reinsurance catastrophe and other risks. To access and transact exposures linked to reinsurance catastrophe and other risks, the Fund uses a number of fronting reinsurers (“fronters”)<sup>1</sup>, transformers or similar special purpose vehicles. These fronters and transformers allow the Fund to access reinsurance risks which are ordinarily only accessible for rated and/or regulated (re)insurers.

ILS investment strategies have evolved since the early 2000s as an alternative risk taker of reinsurance catastrophe risks due to capacity constraints in the traditional reinsurance market. ILS strategies have allowed investors access to “more bespoke” exposure to reinsurance catastrophe risks compared to an investment in equity or debt of a reinsurance company, which typically involves a higher degree of market, credit and other financial risks, through the use of fronters, transformers and other special purpose vehicles. As a result, ILS investment strategies have heavily relied on third party vehicles with a reinsurance licence.

The continued growth of the ILS asset class – which today accounts for a significant share of reinsurance catastrophe risk capital – has meant that ILS investment strategies, applicable trading infrastructures and the manner in which investments are transacted have come under more scrutiny in the recent past, especially by regulators and tax authorities in the jurisdictions where the fronters and transformers are located. This is following a general trend in the global financial and insurance industry of more stringent regulation such as the Solvency II directive and economic substance requirements. Specifically, global market access to reinsurance catastrophe risks requires that the licensed (re)insurance companies – the

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<sup>1</sup> So called “fronting” refers to the use of a licensed (re)insurer who enters into the desired reinsurance transactions but passes on the entire risk to another party, e.g. to an ILS fund.

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ones entering into reinsurance transactions – have robust economic substance and infrastructure and that the underwriting activities be conducted by the licensed reinsurance company. These enhanced requirements are impacting the traditional ILS investment strategies which have relied on third party service providers to underwrite reinsurance catastrophe risks.

CSILS has been working to offer a continued and resilient capital/cost-efficient access for the Fund to reinsurance catastrophe risks globally and thereby a continuity of the Fund's investment strategy. To that end, CSILS has further developed its market access platform with certain changes targeted to become effective later in 2019 or thereafter subject to certain approvals.

These changes include that certain employees of CSILS will join Bernina Re Ltd.<sup>2</sup> ("Bernina Re"), a service provider to the Fund. The employees include certain members of the Underwriting team, the Risk Modelling team as well as some support functions, such as Claims Management. Bernina Re had been established in November 2017 as a Solvency II equivalent Bermuda-licensed transformer through which the Fund and other funds managed by CSILS are able to access reinsurance catastrophe risks with counterparties requiring Solvency II equivalency such as European insurers and reinsurers. Bernina Re will have employees at its head office location in Bermuda as well as at its Switzerland-based branch in Zurich. Sourcing, underwriting, risk pricing and modelling of traditional reinsurance transactions for the Fund and other funds managed by CSILS will be done out of Bernina Re but relying on substantially the same experienced team as before (i.e. joiners from CSILS). Bernina Re will cooperate very closely with the investment team at CSILS including the Portfolio Management and the Portfolio Risk Aggregation teams. CSILS will continue to employ experienced underwriters, actuaries and modelling experts responsible, inter alia, for the sourcing, underwriting and risk modelling of other ILS instruments, including Cat Bonds, Industry Loss Warranties, Quota Shares and Life Transactions, which will remain with CSILS. The investment process employed by CSILS as Investment Manager of the Fund will not materially change. All teams involved in the investment process will continue to cooperate in a similar manner as before. The strategy and all investment decisions will continue to be made by CSILS on behalf and for the benefit of the Fund.

As part of the further development, Bernina Re is also in the process of seeking an excellent rating affirmation from A.M. Best. The aim is to allow the Fund and other funds managed by CSILS to access reinsurance catastrophe risks in a more capital and cost-efficient manner; for example by making use of reinsurance leverage and through lower risk of locked collateral. It aims also to reduce the Fund's dependency on third-party providers of fronting services and, over time, reduce net trading costs.

As mentioned before, there is no direct material effect on the Shareholder and no action is required to be taken by the Shareholder. CSILS will continue to provide investment management services to the Fund as per the investment management agreement.

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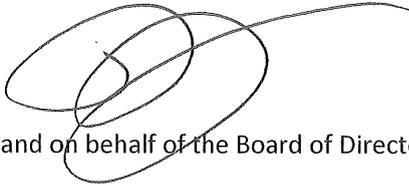
<sup>2</sup> Bernina Re Ltd. is a Bermuda exempt company limited by shares which was incorporated on August 11, 2017, registered as a Class 3 A insurer and as segregated accounts company. Bernina Re Ltd. is a wholly owned direct subsidiary of Bernina Re Holding Ltd., a Bermuda exempted holding company limited by shares which in turn is directly and wholly owned by Bernina Re Purpose Trust, established under the laws of Bermuda. Bernina Re Holding Ltd. entered into subscription and shareholder agreements with and issued non-voting preference shares to certain funds managed by CSILS, acting as investment manager on behalf of such funds.

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Further information and details are available from the Investment Manager on request. Please do not hesitate to contact your relationship manager if you have any further enquiries.

Yours faithfully

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

For and on behalf of the Board of Directors