

**Item 1 – Cover Page**

**ILS Capital Management Ltd.**

**ADV Part 2A: FIRM BROCHURE**

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This brochure provides information about the qualifications and business practices of ILS Capital Management Ltd. (“ILS Capital” or the “Investment Manager”). If you have any questions about the contents of this brochure, please contact us at +1 441 294 8300 or [Tom.Libassi@ilscapital.bm](mailto:Tom.Libassi@ilscapital.bm). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

ILS Capital is a registered investment adviser. Registration of an investment adviser with the SEC does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information you can use to determine to hire or retain an adviser.

Additional information about ILS Capital also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

Since the filing of ILS Capital's last annual amendment on March 28, 2020, ILS has moved their primary office to 50 Parliament Street Hamilton, HM12 Bermuda.

Effective March 2021 Tom Libassi has replaced Steven Mecca as ILS' Chief Compliance Officer.

There have been no other material changes to the firm's business.

Pursuant to SEC rules, ILS Capital will provide a summary of material changes to its brochure within 120 days of the close of its fiscal year. ILS Capital may provide further disclosures about material changes, as deemed necessary. Additionally, ILS Capital will provide to clients and investors a new brochure as necessary, without charge.

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## **Item 4 – Advisory Business**

**A. Describe your advisory firm, including how long you have been in business. Identify your principal owner(s).**

### **Firm Description**

ILS Capital is an investment management firm with a focus on investing in insurance-linked instruments and products. Formed in 2013, ILS Capital employs a strategy to opportunistically participate in the reinsurance market with the primary objective of achieving risk-adjusted returns superior to those available in the capital markets.

ILS Capital, a limited liability company incorporated under the laws of Bermuda, serves as the Investment Manager for and provides discretionary investment advisory services to The 1609 Fund Ltd. (the “Fund”), a Bermuda exempted company, which has been classified by the Bermuda Monetary Authority as an institutional fund pursuant to the Investment Funds Act, 2006 of Bermuda. The Fund offers investors a diversified unlevered portfolio of direct insurance and reinsurance exposure, operating as a multi-strategy vehicle investing across different lines of reinsurance including property catastrophe, marine, energy, crop, aviation, aerospace, and weather.

The Fund currently offers six series of shares: Series 1 Shares, Series 2 Shares, Series 3 Shares, Series 4 Shares, Series 5 Shares and Series O Shares, which have different fee schedules as described more fully below in Items 5 and 6 and in the Fund’s offering memorandum. ILS Capital may in the future provide investment management services to additional funds.

ILS Capital has overall responsibility for managing the business and affairs of the Fund in its capacity as Investment Manager of the Fund. ILS Capital has been appointed as Investment Manager to the Fund pursuant to an investment management agreement entered into between the Fund and ILS Capital.

To facilitate the Fund’s access to the traditional reinsurance market, ILS Capital has established Prospero Re Ltd. (“Prospero”), a class 3a segregated account Bermuda registered reinsurance company, to issue preference shares that participate in insurance contracts to the Fund. ILS Capital is the insurance manager of Prospero and currently expects that all reinsurance-related transactions for the Fund will be entered into with Prospero rather than through a third-party reinsurance company. The sole purpose of using Prospero is to eliminate the “mark-up” that would otherwise be charged to the Fund by a third-party reinsurance company. It is currently expected that Prospero will only issue preference shares to the Fund and not with third parties. ILS Capital owns 100% of the voting shares of Prospero. The Fund, in turn, owns 100% of the preference shares of Prospero. Each series of preference shares is linked to a reinsurance contract or contracts in Prospero Re.

ILS Capital is also affiliated with the following related parties:

- ILS Capital owns 100% of the voting shares of Boatswain Capital Management Ltd (“Boatswain”), a private company incorporated in the United Kingdom in July 2015 to act as a corporate partner to ILS Capital Management UK LLP (“ILS UK”).
- ILS UK is a limited liability partnership incorporated in the United Kingdom in July 2015. ILS UK is under complete supervision by ILS Capital. ILS UK identifies potential insurance contracts within a pre-determined strategy and assists with modelling of insurance contracts, subject to the review and approval of ILS Capital.
- ILS Capital Management LLC (“ILS U.S.”) is a limited liability company organized in the State of Connecticut, U.S.A. in August 2011. ILS U.S. provides investor relations services for ILS Capital’s clients and prospective clients (but does not act as a placement agent), develops and assists with modelling of insurance contracts for ILS Capital and provides back-office support, as directed by ILS Capital.

### **Principal Owners/Ownership Structure**

ILS Capital is primarily owned, by its employees and senior executives. Donald Kramer, Thomas Libassi and Paul Nealon.

**B. Describe the types of advisory services you offer. If you hold yourself out as specializing in a particular type of advisory service, such as financial planning, quantitative analysis, or market timing, explain the nature of that service in greater detail. If you provide investment advice only with respect to limited types of investments, explain the type of investment advice you offer, and disclose that your advice is limited to those types of investments.**

ILS Capital provides discretionary investment management services to the Fund. The Fund seeks to capitalize on insurance-linked instruments and products by offering investors a diversified portfolio of direct insurance and reinsurance exposure, as well as equity and fixed income. It invests across different lines of reinsurance including property catastrophe, marine, energy, crop, aviation, aerospace and weather, as well as a range of insurance lines including U.S. and specialty insurance, enabling the Fund to tactically allocate to capture yield and to diversify across perils to produce attractive risk adjusted returns.

In addition, the Fund has utilized equity and debt instruments of participants in the insurance industry. These instruments enable the Fund to access sectors of the reinsurance market that may not be attractive to the Fund on a fully collateralized basis. Such investments also help the Fund to reduce costs and control sourcing channels.

**C. Explain whether (and, if so, how) you tailor your advisory services to the individual needs of clients. Explain whether clients may impose restrictions on investing in certain securities or types of securities.**

The advisory services provided by ILS Capital to the Fund are tailored to the investment objectives, investment strategy and investment restrictions as set forth in the Fund's governing documents. ILS Capital provides investment advice directly to the Fund and not to investors in the Fund individually. ILS Capital does not require, nor does it seek, approval from the Fund or the investors in the Fund with respect to its trading decisions.

Although ILS Capital does not tailor its advisory services to the individual needs of investors in the Fund, in order to comply with certain legal and regulatory requirements, there may be instances when an investor in the Fund may not participate in an investment by the Fund and appropriate measures will be taken by the Fund to comply with such laws and regulations. The Fund or ILS Capital, however, may, from time to time, enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing the Fund's governing documents. Such rights include notification and disclosure rights, certain fee arrangements, transfer rights and certain withdrawal or redemption rights, among others. To date, no investors have limited ILS Capital's ability to invest in certain investments or types of investments.

Because the Fund invests primarily in insurance-linked instruments and products, Fund investors may receive different portions of investments or may not receive any portion of an investment. Participation in a particular investment will depend upon, among other factors, available cash in an investor's account and the timing of the investment cycle.

**D. If you participate in wrap fee programs by providing portfolio management services, (1) describe the differences, if any, between how you manage wrap fee accounts and how you manage other accounts, and (2) explain that you receive a portion of the wrap fee for your services.**

ILS Capital does not participate in wrap fee programs.

**E. If you manage client assets, disclose the amount of client assets you manage on a discretionary basis and the amount of client assets you manage on a non-discretionary basis. Disclose the date "as of" which you calculated the amounts.**

As of December 31, 2020, ILS Capital managed \$269,189,154 in net assets, all of it on a discretionary basis.

## Item 5 – Fees and Compensation

**A. Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable.**

In consideration for the investment management services provided to the Fund, the Fund deducts a monthly Management Fee (the “Management Fee”) from the capital account of each investor in the Fund in an amount equal to a percentage of the net asset value of such account. The Management Fees are adjusted *pro rata* for any capital contributions or withdrawals during the relevant calendar month. Management Fees are payable without regard to the overall success or income earned by the Fund.

The annual percentage of net asset value is deducted according to the following schedule:

<u>Series</u>	<u>Applicable Management Fee</u>
Series 1	1.0%
Series 2	1.50%
Series 3	2.0%
Series 4	1.0%
Series 5	1.0%
Series O	1.0%

ILS Capital, in its sole discretion, may elect to reduce or waive the Management Fee with respect to any investor, including principals and employees of the ILS Capital or its affiliates. The principals or other employees of ILS Capital may receive a portion of the Management Fee, Performance Incentive Fee (as defined below), or other compensation received by ILS Capital.

**B. Describe whether you deduct fees from clients’ assets or bill clients for fees incurred. If clients may select either method, disclose this fact. Explain how often you bill clients or deduct your fees.**

The Fund deducts Management Fees from the capital account of each investor on a monthly basis in arrears.

**C. Describe any other types of fees or expenses clients may pay in connection with your advisory services, such as custodian fees or mutual fund expenses. Disclose that clients will incur brokerage and other transaction costs, and direct clients to the section(s) of your brochure that discuss brokerage.**

The Fund will bear all ordinary course general and administrative fees and expenses, including legal, accounting, auditing, registration, share registration and transfer, governmental charges and duties, maintaining accounts and preparing and distributing reports, insurance (including directors and officers and errors and omissions) and other fees and expenses incurred by the Fund in connection with its operation and administration (including the administrator's customary fees and expense reimbursements). The Fund will reimburse the Investment Manager for any such expenses that the Investment Manager pays out of pocket on behalf of the Fund.

Transaction and non-transactional expenses will be deducted from the ordinary shares.

The Fund indirectly bears brokerage commissions, federal excise tax and other transaction costs, as allocated to the preference shares issued by Prospero. In addition, the Fund will indirectly bear the costs of Prospero, including its operating costs, which are similar to the costs borne directly by the Fund as noted above, as well as the licensing of third-party models used by Prospero.

ILS Capital is responsible for all salaries, bonuses and employee benefit expenses of the principals and employees who are involved in the management and conduct of the business and affairs of the Fund and Prospero (as well as related overhead, including office space and equipment, utilities, telephone and telecopier costs and other similar items.)

**D. If your clients either may or must pay your fees in advance, disclose this fact. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.**

Management Fees applicable to the Fund are paid monthly in arrears as described in the offering memorandum, investment management agreement and governing documents of the Fund.

**E. If you or any of your supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.**

Not applicable (with respect to all of Item 5.E and its sub-parts).

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

**If you or any of your supervised persons accepts performance-based fees – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client (such as a Client that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your supervised persons manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your supervised persons**

face by managing these accounts at the same time, including that you or your supervised persons have an incentive to favor accounts for which you or your supervised persons receive a performance-based fee, and describe generally how you address these conflicts.

The Investment Manager will earn a performance incentive fee (the “**Incentive Fee**”) with respect to each series of New Shares for each Performance Period (as defined below) equal to the Applicable Incentive Fee Percentage (as set forth below) of: the excess of (a) NAV at the end of such Performance Period (before deducting any accrued Incentive Fee) over (b) the greater of (i) the High Water Mark (as defined below) and (ii) the sum of NAV at the start of such Performance Period plus the applicable Hard Hurdle Amount (as defined below) with respect to such Performance Period; provided, however, that the Incentive Fee will in no event be less than zero. Notwithstanding the foregoing, for Series 4 Shares and Series 5 Shares, during the period that begins upon a Series 4 or Series 5 Shareholder’s initial issuance of Ordinary Shares on conversion from M Shares (and such Shareholder’s first Capital Call) and ends on the earlier of (x) redemption by such Shareholder or (y) the calendar year-end that occurs at least one calendar day after the three year anniversary of such initial issuance (the “**Series 4/5 Special Period**”), the Incentive Fee in respect of a Performance Period (that occurs during or at the end of the Series 4/5 Special Period) will not be earned unless, for such Performance Period, (a) NAV at the end of such Performance Period is greater than (b) the sum of NAV at the start of the Series 4/5 Special Period plus the Cumulative Special Period Hard Hurdle Amount (as defined below).

<u><i>Series</i></u>	<u><i>Applicable Incentive Fee Percentage</i></u>
Series 1	12.50%
Series 2	20.00%
Series 3	20.00%
Series 4	12.50%
Series 5	10.00%

The initial “**Performance Period**” in respect of a series of New Shares will begin upon a Shareholder’s initial issuance of Ordinary Shares on conversion from M Shares (and such Shareholder’s first Capital Call) and will end on the earlier of (x) redemption by such Shareholder or (y) the calendar year-end following such initial issuance. Thereafter, each calendar year will be a Performance Period.

The “**High Water Mark**” with respect to each series of New Shares is equal to the greater of the (x) the NAV on issuance of Ordinary Shares (on conversion from M Shares) and (y) the NAV and period NAV as of the end of the Performance Period.

The “**Hard Hurdle Amount**” for any Performance Period in respect of each series of New Shares is annualized with respect to any Performance Period that is less than one full calendar year) to 5% (the “**Hard Hurdle Rate**”) of the NAV with respect to such series calculated at the start of such Performance Period. Notwithstanding the foregoing, for holders of Original Shares that give notice of their intent to exchange all of their Original Shares for New Shares on or before October 15, 2017, such exchange will be effective as of the close of business on September 30, 2017 and the Hard Hurdle

Rate applicable to such New Shares will be 6%.

A more detailed explanation of the calculation of the Performance Incentive Fee is available in ILS Capital's offering memorandum.

## **Item 7 – Types of Clients**

**Describe the types of clients to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.**

The Firm limits its investors to persons who are “qualified participants” as defined by the Investment Funds Act 2006 of Bermuda. Additionally, the Firm limits its U.S. investors to persons who are “accredited investors” as defined in the Securities Act of 1933 and are also “qualified purchasers” as defined in the Investment Company Act of 1940. Minimum contributions for investment in the Fund Series 1 Shares and Series 2 Shares are \$5.0 million and in the Fund Series 3 Shares are \$250,000; minimum contributions for investment in the Fund 4 Series Shares is \$25 million and minimum contribution in Series 5 Shares is \$75 million. Interest in Fund O Series Shares is available to those investors who have at least \$25 million invested with ILS Capital in Fund Series Shares 1 through 5. Commitments or less than the required amounts are also accepted at the sole discretion of ILS Capital.

Investors in the Fund are both U.S. investors and non-U.S. investors, which may include, among others, high net worth individuals, other investment advisers, pension funds, funds of funds, estate planning trusts, family limited partnerships, family limited liability companies and corporations. In addition, principals, employees and other persons associated with ILS Capital make investments into the Fund.

ILS Capital acts as insurance manager for Prospero. It underwrites and binds all of Prospero's insurance contracts pursuant to its investment management agreement. It does not receive a fee from Prospero for this service, as all of Prospero's preference shares are owned by the Fund.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

**A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that clients should be prepared to bear.**

The Fund's strategy is to participate opportunistically in the reinsurance market through investment in a variety of insurance-linked instruments and products, an asset class which has historically shown a low correlation to the global economic and interest rate environment. These instruments and

products primarily include, but are not limited to, collateralized reinsurance contracts through the Reinsurer, industry-loss warranties, catastrophe bonds, mortality bonds, equity and debt investments in participants in the insurance industry, and insurance-linked swaps and other related derivative instruments. Such instruments represent a broader market than the pure insurance-linked securities market consisting of catastrophe bonds and exchange traded securities. Through this diversified approach, Management believes the Fund can produce attractive absolute and risk adjusted returns even in years when the [re]insurance industry has high losses. ILS Capital seeks to accomplish the Fund's objective by constructing a diversified portfolio of property catastrophe and specialty reinsurance contracts (marine, energy, aviation, aerospace, crop and weather), insurance contracts and investments.

Property catastrophe, specialty reinsurance and primary insurance contracts provide investors access to a high yielding, short duration asset class whose underlying value is linked to the level of worldwide catastrophe losses. For this reason, the asset class historically has a fundamentally low correlation to other asset classes. The multi-strategy approach to building reinsurance portfolios enables alpha to be created by combining property catastrophe and specialty reinsurance, as well as primary insurance.

ILS Capital believes that a broadly diversified portfolio of higher yielding reinsurance contracts with low event correlation will generate a higher risk adjusted return when compared to a lower yielding but less diversified portfolio of reinsurance investments. By combining various business lines of reinsurance, the Fund seeks a better risk adjusted return than the individual business sectors would have on their own.

The Fund invests in insurance and reinsurance securities whose return is impacted by the level of global catastrophe [re]insurance losses. Investments may be exposed to elemental losses arising from hurricanes, earthquakes, typhoons, hailstorms, floods, tsunamis, tornados, windstorms, extreme temperatures or to non-elemental risks such as marine, aviation, aerospace or off-shore energy accidents, fires, explosions as well as to other perils.

ILS Capital's investment strategy focuses on individual [re]insurance contracts rather than beta [re]insurance investments. By focusing on individual [re]insurance contracts, ILS Capital has a broader set of opportunities than are available in the insurance-linked securities investment arena, which is focused on U.S. hurricane risks. ILS Capital believes that the principals' long-term experience in the reinsurance industry enables it to source contracts from the global reinsurance market for individual reinsurance contracts.

Unusually large catastrophe losses in contracts in which the Fund holds positions could impair its ability to achieve its objectives and cause it to incur losses. Investors should be prepared to lose all or substantially all of their investment in the Fund.

**B. For each significant investment strategy or method of analysis you use, explain the**

**material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.**

An investment in the Fund entails substantial risks, including, but not limited to, the possibility of a complete loss of the amount invested. Current and prospective ILS Capital investors should carefully consider the following factors, among others, in determining whether an investment in the Fund is suitable for them. Different or new risks not addressed below may arise in the future and, therefore, the following list is not intended to be exhaustive. There are many market-related and other factors, some of which cannot be anticipated, that could result in an investor losing a major portion or all of its investment in the Fund, or prevent the Fund from generating profits. Any of these factors could make the Fund unable to execute its investment strategy. No investor should invest in the Fund unless the investor is fully able, financially and otherwise, to bear such a loss, and unless the investor has the background and experience to understand thoroughly the risks of its investment.

For a more detailed review of the strategies and risks of an investment in the Fund, please see the offering memorandum. All investors should be aware of certain risk factors, which include, but are not limited to, the following:

*Failure to Maintain Certain Business Relationships.* Given the specialized nature of the Fund's target investments, the Fund's investment activities may be conducted through or become reliant on a relatively small universe of reinsurance buyers, brokers and other intermediaries. Accordingly, any loss of business relations with any of these business relationships could have an adverse impact on the Fund.

*Market Size.* The market size for certain insurance-linked securities is relatively small. Not only does small market size pose liquidity risk for certain insurance-linked securities, but it also may create pricing and capacity considerations as the Fund grows in size. At a certain level of assets under management, for example, the Fund may have to shift to higher concentrations of investments in certain areas of the market which may impact the overall yield of the Fund's investment portfolio and which may be detrimental to the Fund's risk/return profile, potentially limiting the ability to create diversification across the Fund's investment portfolio.

*Competition.* In recent years there has been a marked increase in the number of, and flow of capital into, investment vehicles established in order to implement alternative asset investment strategies, including strategies similar to the strategy implemented by the Fund. In particular, there has recently been substantially increased investor interest in the insurance-linked securities market. This has led to increased competition to acquire insurance-linked securities and the prevalence of highly sophisticated risk modeling methods (which has the potential to reduce the margins associated with insurance-linked securities). Capital market participants (such as the Fund) investing in insurance-linked securities is a

comparatively new development and access to many insurance-linked securities is limited. There can be no assurance that the Fund will have the same degree of access as certain of its competitors. The Fund will be competing for investment opportunities with a significant number of financial institutions and other private funds as well as various institutional investors. In some cases, the Fund is competing for opportunities with reinsurance companies. These competitors may be larger and have greater financial, human and other resources than the Fund and may in certain circumstances have a competitive advantage over the 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 Fund to meet its investment goals or the length of time that is required for the Fund to become fully invested.

*Risk of Loss or Reduction of Principal and/or Interest Due to Catastrophic or Other Events.* The Fund invests in instruments, the returns on which are related to the occurrence of catastrophic or other events which traditionally are the subject of insurance including, but not limited to, those caused by hurricanes, earthquakes, typhoons, hailstorms, floods, tsunamis, tornados, windstorms, extreme temperatures, aviation accidents, fires, explosions and marine accidents. The incidence and severity of such events are inherently unpredictable. The repayment of the principal amount of such instruments may be extended upon the occurrence of an insurance loss or covered event, in which case, although the Fund may be entitled to receive the collateral or the principal amount of such instruments on such extended termination or maturity date, the Fund may not receive interest or other investment return payments during such extension period. A typical insurance-linked instrument purchased by the Fund, or catastrophe options that may be written by the Fund, potentially could expose the Fund to liability far in excess of the option premium received due to the occurrence of catastrophic or other events. Accordingly, such instruments are speculative, and the Fund could lose all or part of the principal or interest, or an amount in excess of any premium collected or specified margin deposit, if any, with respect to such instruments, upon the occurrence of a catastrophe or other event. In addition, the impact of certain catastrophic events on insurance-linked securities may not be apparent or known for some time after the occurrence of such events and this uncertainty is not always reflected in the valuations of insurance-linked securities. Although the Fund, through ILS Capital, will seek to manage its exposure to such events, one or more catastrophic or other events could have a material adverse effect on the Fund's performance, the net asset value and its ability to invest in further insurance-linked securities. In addition, the Fund may have substantial exposure to unanticipated, large losses resulting from future man-made catastrophic events, such as acts of terrorism, acts of war and political instability, or from other perils. These catastrophic events may impair the Fund's financial condition or decrease the value of its investments.

*Concentration Risk.* Although the Fund will have diversification policies and risk limits in place at all times, such guidelines would nevertheless allow the Fund to hold, from time to time, a single or a few relatively large (in relation to its assets) investments in, for example, a single risk, geographic region or peril (or combination of region and peril), with the result that a loss in any such position or group of positions could have a material adverse impact on the Fund's assets and returns to investors. Further, because the Fund may allow certain concentrations of investments including (but not limited to)

geography, peril, distribution channel, product type or underlying reinsured, the overall adverse impact on the Fund of a single catastrophe, other insured event, adverse movements in the value of a single investment position, default by a distribution channel (e.g., a broker) or other event could be considerably greater than if the Fund were required to diversify its investments to a greater extent.

*Modeling Risk.* In its efforts to further its strategy, the Fund will rely heavily on the use of third party models, including vendor models, and on ILS Capital's proprietary models and risk management systems. No model of catastrophic 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 among market participants and among the different catastrophic risk modeling firms. As to all such models, the results of analyses performed by either ILS Capital or third party catastrophic risk modeling 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 Fund's investments.

*Reinsurance Brokers.* Reinsurers 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 Fund, participating through a 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 underlying reinsurance agreements, such as limitations on, or exclusions from, coverage, will be enforceable in the intended manner. Disputes relating to coverage and choice of legal forum can be expected to arise, as a result of which the relevant reinsurer (and accordingly the Fund) may incur losses beyond those that it contemplates would be payable pursuant to the underlying reinsurance agreements. 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 to investors.

*The Reinsured Business May Change during the Coverage Period.* As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the Fund's investments in certain insurance-linked instruments that are correlated to claims experience, and in some instances, these changes may not become apparent until such risks and 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 Fund's exposure to its investment in such instruments. In addition, the effects of unforeseen developments or substantial government intervention in the handling of claims or coverage could adversely impact the ability of the Fund to implement its investment strategy or adhere to its objectives.

*Cyclical Fluctuations.* The reinsurance business has historically been a cyclical industry, with significant fluctuations in operating results due to competition, catastrophic events, general economic and social conditions and other factors. This cyclicity has produced periods characterized by intense price competition due to excess underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. In addition, increases in the frequency and severity of losses suffered by reinsurers can significantly affect these cycles. It is difficult to predict the timing of such events with certainty or to estimate the amount of loss that any given event will generate. The Fund can be expected to be exposed to the effects of such cyclicity.

*Risk of Additional Unforeseen Losses Due to Unforeseen Claims.* Investors may be exposed to additional losses if the policies underlying reinsured business become subject to claims that exceed the Fund's expectations or are typically not covered, or contemplated to be covered, by the policies.

*Risks Relating to Investments in Insurance Companies.* The Fund may make investments in insurance-linked instruments that will be correlated to the amount of losses suffered by insurance companies. Therefore, the success of the Fund's investments in such insurance-linked instruments may be dependent on the original underwriting decisions made by such insurance companies. Thus, in such instances, the Fund is subject to the risks that the underlying insurance companies may not have adequately evaluated the risks to be underwritten and that the interest and other investment returns on such insurance-linked instruments may not adequately compensate the Fund for the risks the Fund assumes under such insurance-linked instruments. The Fund is also subject to the risk that the information on which any such underlying insurance company bases its underwriting decision is inaccurate.

*Leverage.* The Fund may use leverage in its investment program when deemed appropriate by ILS Capital. Such leverage will generally be limited to 30%. Leverage creates an opportunity for greater yield and total return, but at the same time increases exposure to capital risk and higher current expenses. The more the Fund leverages itself, the more likely a substantial change will occur, either up or down, in the value of the shares. The Fund may be subject to major losses in the event that large catastrophic losses force the Fund to liquidate positions at a disadvantageous time. If loans to the Fund are collateralized with portfolio securities that decrease in value, the Fund may be obligated to provide additional collateral to the lender in the form of cash or securities to avoid liquidation of the pledged securities. Any such liquidation could result in substantial losses. As a general matter, the banks and dealers that provide financing to the Fund can apply essentially discretionary margin, haircut, financing and security and collateral valuation policies. Changes by banks and dealers in margin, haircut, financing and valuation policies may result in large margin calls, loss of financing and forced liquidations of

positions at disadvantageous prices. In addition, the dealers have essentially discretionary authority to close out credit lines. There can be no assurance that the Fund will be able to maintain adequate financing, particularly in adverse market conditions. If it is not able to do so, forced portfolio liquidations and significant losses could result.

*ILS Capital's Performance Incentive Fee.* The payment to ILS Capital of the Performance Incentive Fee may create an incentive for ILS Capital to make investments on behalf of the Fund that are riskier or more speculative than would be the case in the absence of such payment. The determination of unrealized losses on securities for which market quotations are not readily available will be made by ILS Capital. To the extent reasonably practical, the Fund may use third-party appraisers or independent investment advisers to determine the valuation of insurance-linked securities in the Fund's portfolio.

*Cybersecurity:* ILS Capital, its service providers, its counterparties and other market participants on whom ILS Capital relies increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Fund and/or its investors, despite the efforts of ILS Capital, its service providers, its counterparties and other market participants on whom ILS Capital relies to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Fund and/or its investors. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent access to these systems of ILS Capital, its service providers, its counterparties and other market participants on whom ILS Capital relies or data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of systems to disclose sensitive information in order to gain access to ILS Capital's data or that of its investors. A successful penetration or circumvention of the security of ILS Capital's systems or the systems of ILS Capital's service providers, counterparties or other market participants on whom ILS Capital relies could result in the loss or theft of investor data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause the Funds, ILS Capital, their service providers, their counterparties and other market participants on whom ILS Capital relies to incur regulatory penalties, reputational damage, additional compliance costs or financial loss.

**C. If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.**

*Industry Loss Warranties.* Industry loss warrants are instruments designed to allow insurers and reinsurers to transfer the risk of a specified catastrophe to a counterparty. The buyer of protection under an industry loss warrant pays the seller a premium at the inception of a contract. The loss mechanism in an industry loss warrant may be structured to require a double trigger of industry-wide losses and the

buyer's actual losses, in which case the industry loss warrant would typically be documented in reinsurance form. Alternatively, the loss mechanism in an industry loss warrant may be structured based solely on industry-wide losses or parametric measurements, in which case the industry loss warrant would typically be documented in derivative form. In the event that a catastrophic event results in an estimate of insurance industry-wide loss, or has a parametric measurement, that exceeds a predetermined level, the seller of protection would be obligated to make a payment to the buyer of protection. Industry-wide losses are typically determined and reported by an independent entity and the payout to the protection buyer may be calculated on a basis other than its actual losses (e.g., based on a specified amount or on a formula which might include market share factors).

*Credit Risk.* Credit risk is inherent in certain of the insurance-linked securities that will be part of the Fund's portfolio. Decisions to invest may take into account any credit ratings issued by major rating agencies, such as Standard & Poor's, Moody's, Fitch, etc. However, because the instruments that will comprise the Fund's portfolio may generally not be rated, ILS Capital will be guided by its internal evaluation of credit risk. The insurance-linked securities in which the Fund invests will not be required to have any particular rating of creditworthiness or any such rating at all.

*Direct, Private Insurance-Linked Securities and Derivatives.* The Fund seeks to invest in other classes of private insurance-linked securities transactions. These transactions, 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 Fund's assets be held as collateral subject to a perfected security interest in favor 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 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 Fund may be impaired in the event of a dispute or should the counterparty become insolvent. 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 Fund may not be able to liquidate such investments readily.

*Illiquidity of Investments Generally.* The secondary market for insurance-linked securities is relatively small in size. Direct private insurance-linked securities including industry loss warrants, collateralized reinsurance contracts, swaps and certain other derivatives have little liquidity and may present no opportunities for the unwinding of positions. Insurance-linked securities are largely buy and hold instruments, and it may require substantial time to enter into or, where possible, exit a position. Further, the amount that could be recognized upon a liquidation may be materially less than its theoretical fair value. 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. In addition, the Fund may invest in equity securities that are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for these securities may be volatile and the Fund may not be able to sell them

when it wants to do so or to realize what it perceives to be their fair value in the event of a sale. As the Fund will trade in illiquid instruments, there is a risk that the Fund's asset values could be subject to wide variations, and that substantial redemption requests could be made. In the event of adverse changes to the insurance-linked securities market, there could be substantial redemption requests. Given the illiquid nature of the Fund's investments, at a minimum, investors should be prepared to remain in the Fund for an extended period.

*Duration of Insurance-based Instrument Risk Periods.* Most insurance-linked securities are issued with approximately a 12-month to 36-month risk period. Since redemption proceeds will not be paid until the underlying investment is liquidated, an investor's request for redemption will typically take at least one year for full payment of redemption proceeds to such investor.

*Subordination.* Insurance-linked securities often are subordinated to other obligations of the issuer, such as those obligations to a ceding insurer. Consequently, if such an entity incurs unexpected expenses or liabilities in connection with its activities, the entity may be unable to pay the required interest and/or principal on its issued securities.

*Derivatives in General.* The Fund may make use of various derivative instruments, such as convertible securities, options, futures, forwards, foreign exchange and interest rate, credit default, total return and equity swaps. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage sometimes embedded in such instruments. The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying such derivatives may not correlate with historical or generally expected patterns, resulting in unexpected losses.

*Swaps and other Derivatives.* The Fund may enter into swap and similar derivative transactions involving or relating to catastrophic events and, although not currently contemplated, more traditional swap and derivative transactions. Swaps may be subject to various types of risks, including market risk, liquidity risk, structuring risk, tax risk, and the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty.

*Currency Risk.* Since the Fund may invest in instruments denominated in currencies other than U.S. dollars, the value of the Fund, which is measured in U.S. dollars, will be affected by changes in currency exchange rates. The Fund may employ certain investment practices to hedge its currency exposures; however, the instruments necessary to engage in such practices may not generally be available, may not provide a perfect hedge, in ILS Capital's judgment may not be economically priced or may entail certain other risks. Currency hedges may be difficult to arrange and may actually create additional risk to the Fund, particularly in cases where a non-U.S. dollar denominated bond loses principal value due to a trigger event. There can be no assurance that any currency hedging by the Fund will be effective. Any currency hedging may lead to additional costs and losses that may not be offset by gains in the

investments they are intended to hedge.

*Interest-rate Risk.* The returns associated with the floating-rate securities in which the Fund may invest will be affected by changes in interest rates. In the event the Fund invests in fixed rate securities, changes in interest rates could cause the value of such securities to decline. The value of other investments may be affected by changes in interest rates to the degree they affect the discount rate used to value these positions. In addition, changes in interest rates may be correlated with the supply and demand of insurance-linked securities.

*Counterparty and Settlement Risk.* The Fund may at times have a substantial amount of its assets exposed to a small number of (re)insurers or other counterparties, or even a single other counterparty. Failure of such a counterparty could cause substantial losses to the Fund.

## **Item 9 – Disciplinary Information**

**If there are legal or disciplinary events that are material to a client’s or prospective client’s evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.**

Like other registered investment advisers, ILS Capital is required to disclose all material facts regarding any legal or disciplinary events that would materially impact an investor’s evaluation of ILS Capital or the integrity of ILS Capital’s management. No events have occurred at ILS Capital that are applicable to this Item 9.

## **Item 10 – Other Financial Industry Activities and Affiliations**

**A. If you or any of your management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.**

Neither ILS Capital nor any of its management persons are registered or have an application pending to register as a broker-dealer, or associated person of the foregoing, and ILS Capital does not anticipate such affiliations in the future.

**B. If you or any of your management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing entities, disclose this fact.**

ILS Capital does not operate as a commodity pool operator nor does it register as an exempt commodity pool operator under Rule 4.14(a)(8).

**C. Describe any relationship or arrangement that is material to your advisory business or to your clients that you or any of your management persons have with any related person listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.**

- 1. Broker-dealer, municipal securities dealer, or government securities dealer or broker**
- 2. Investment company or other pooled investment vehicle (including a mutual fund, closed- end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)**
- 3. Other investment adviser or financial planner**
- 4. Futures commission merchant, commodity pool operator, or commodity trading advisor**
- 5. Banking or thrift institution**
- 6. Accountant or accounting firm**
- 7. Lawyer or law firm**
- 8. Insurance company or agency**
- 9. Pension consultant**
- 10. Real estate broker or dealer**
- 11. Sponsor or syndicator of limited partnerships.**

ILS Capital does not have arrangements with a related person other than those mentioned in this Brochure and identified on ILS Capital’s Form ADV Part 1, who is a broker-dealer, investment company, other investment adviser, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships that are material to its advisory services, the Fund or its investors.

ILS Capital has a relationship with an insurance company or agency; as mentioned above, ILS Capital is the 100% owner of Prospero. Prospero is a Class 3a reinsurance company incorporated under the laws of Bermuda. ILS Capital uses Prospero to collect and transform reinsurance contracts into securities for the Fund. Prospero acts as counterparty for reinsurance contracts entered into by ILS Capital on behalf of the Fund.

ILS Capital also has a relationship with its U.K. affiliate, ILS UK, which advises ILS Capital on reinsurance company contracts and with ILS U.S., which provides investor relations services for ILS Capital’s clients and prospective clients (but does not act as a placement agent), develops and assists with modelling of insurance contracts for ILS Capital and provides back-office support, as directed by ILS Capital.

**D. If you recommend or select other investment advisers for your clients and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.**

ILS Capital does not recommend or select other investment advisers for the Fund.

### **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

**A. If you are an SEC-registered adviser, briefly describe your Code of Ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your Code of Ethics to any client or prospective client upon request.**

As fiduciaries, ILS Capital and its employees have certain legal obligations to put the Fund's interests ahead of their own. ILS Capital has adopted a written Code of Ethics based on principles of openness, honesty, integrity and trust. At least once a year, each ILS Capital employees are required to acknowledge this Code and agree to be bound by it.

ILS Capital's Code of Ethics covers standards of business conduct, confidentiality of client information, personal trading requirements, insider trading, reporting of personal securities transactions, restrictions on accepting and giving of significant gifts, political contribution policies and reporting of certain gifts and business entertainment items, among other things. The Code of Ethics also includes a prohibition on insider trading and outlines strict policies that dictate how any such information is treated.

Employees of ILS Capital who violate the Code of Ethics may be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, suspension or dismissal. Employees are also required to promptly report to the Chief Compliance Officer any violations of the Code of Ethics of which they become aware.

ILS Capital will provide a copy of its Code of Ethics to any existing or prospective investor upon request to its Chief Compliance Officer, Tom Libassi, [Tom.Libassi@ilscapital.bm](mailto:Tom.Libassi@ilscapital.bm) or +1 441 294 8300.

**B. If you or a related person recommends to clients, or buys or sells for client accounts, securities in which you or a related person has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

Because it currently manages only one Fund, ILS Capital does not expect to affect any principal or agency cross transactions for the Fund.

In addition to the conflicts relating to ILS Capital's receipt of performance-based compensation, which are discussed in Item 6 above, investors in the Fund are subject to additional conflicts of interest. The offering memorandum for the Fund details a complete description of what ILS Capital believes to be the most significant conflicts of interest associated with an investment in the Fund. Investors should carefully consider the conflicts of interest described herein prior to investing in the Fund.

ILS Capital, its officers, directors, employees and affiliates may invest in the Fund as investors and such investments may be significant from time to time. Such investments may be at the same terms offered to investors generally or may be on different terms, in ILS Capital's sole discretion. The fact that ILS Capital and ILS Capital's principals and employees have financial ownership interests in the Fund creates a potential conflict in that it could cause ILS Capital to make different investment decisions than if such parties did not have such financial ownership interests. ILS Capital may have an incentive to favor accounts in which such persons have an interest with respect to trading opportunities, trade allocation, and allocation of investment opportunities. Any such risks, however, would be equally applicable to ILS Capital's own capital account with respect to the Fund.

**C. If you or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that you or a related person recommends to clients, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.**

The Fund invests in equity of private companies including Prospero and may possibly invest in catastrophe bonds, there is no conflict of interest possible with respect to personal trading. Prospero's preference shares are owned 100% by the Fund and individual retail investors generally cannot invest directly in event-linked securities, which include catastrophe bonds, thus there are no potential conflicts of interests relating to personal trading. The principals and employees of ILS Capital may carry on investment activities for their own account and for family members, friends or others who do not invest in the Fund, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Fund, even though their investment objectives may be the same or similar.

**D. If you or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that you or a related person buys or sells the same securities for your own (or the related person's own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts**

that arise.

Please refer to Items 11.A, 11.B, and 11.C.

## **Item 12 – Brokerage Practices**

**A. Describe the factors that you consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).**

- 1. Research and Other Soft Dollar Benefits. If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions (“soft dollar benefits”), disclose your practices and discuss the conflicts of interest they create.**

The Fund does not use broker-dealers to execute transactions. Rather, insurance contracts are purchased and sold through Prospero, who then issues preference shares to the Fund. Prospero provides reinsurance coverage sourced through a broker network. In the event ILS Capital is required to select brokers and negotiate commission rates on behalf of Prospero, ILS Capital will consider the following factors in selecting a broker-dealer: the financial stability and reputation of the broker; marketing strategy; ILS Capital’s experience with the broker; the quality of the investment research; and other services provided by such broker-dealers.

- 2. Brokerage for Client Referrals. If you consider, in selecting or recommending broker-dealers, whether you or a related person receives client referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.**

In the event it has an opportunity to select brokers and negotiate commission rates, ILS Capital will take into account the above-listed factors in selecting a broker-dealer.

Prospero’s transactions may generate brokerage commissions and other compensation, all of which Prospero, not ILS Capital, is obligated to pay. Prospero has complete discretion in deciding what brokers and dealers to use and in negotiating the rates of compensation it will pay. In addition to using brokers as “agents” and paying commissions, Prospero may buy or sell directly from or to dealers acting as principals at prices that include markups or markdowns, and may buy from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers. Any sales charges payable to an agent in connection with the purchase of interests will be fully disclosed to the relevant investors.

- 3. Directed Brokerage.**

ILS Capital does allow directed brokerage arrangements for investors.

**B. Discuss whether and under what conditions you aggregate the purchase or sale of securities for various client accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to clients of not aggregating.**

ILS Capital provides discretionary advisory services to only one client, The 1609 Fund Ltd., so it does not encounter conditions in which it could aggregate investments amongst clients.

### **Item 13 – Review of Accounts**

**A. Indicate whether you periodically review client accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the supervised persons who conduct the review.**

The principals of ILS Capital regularly review the Fund's portfolio to determine if they are consistent with applicable investment objectives and restrictions, as detailed in the governing documents.

The Chief Financial Officer of the Firm reviews records of trades placed for the Fund and contracts placed for Prospero on a regular basis. The Fund's and Prospero's accounts are also reviewed on a regular basis by SS&C Fund Administration Company, ILS Capital's third party administrator, to price the portfolio based on pricing sources or methodologies approved by ILS Capital. SS&C Fund Administration Company. also ensures that the Fund's and Prospero's records are accurate and in agreement with those of its custodian.

**B. If you review client accounts on other than a periodic basis, describe the factors that trigger a review.**

Client reviews on an other-than-periodic basis would occur in the event of performance anomalies and market volatility.

**C. Describe the content and indicate the frequency of regular reports you provide to Clients regarding their accounts. State whether these reports are written.**

ILS Capital distributes monthly, quarterly, and annual written reports to Fund investors. Monthly reports contain summary information regarding performance and exposures, including the estimated net asset value of the Fund and of each investor's capital commitment with the Fund. Quarterly reports included a broader market update. Annual reports are delivered within 120 days of fiscal year-end and include a summary of investments and performance, as well as annual audited financial statements. All reports are sent to investors electronically via the Fund administrator's secure portal.

ILS Capital has contact with investors (personal visits, telephone calls and e-mails) throughout the year as conditions warrant.

#### **Item 14 – Client Referrals and Other Compensation**

**A. If someone who is not a client provides an economic benefit to you for providing investment advice or other advisory services to your clients, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.**

ILS Capital does not receive any monetary compensation or any other economic benefit from a non-client for ILS Capital's provision of investment advisory services to a client.

**B. If you or a related person directly or indirectly compensates any person who is not your supervised person for client referrals, describe the arrangement and the compensation.**

ILS Capital has entered into third party marketing agreements with Pickwick Capital Partners LLC, Jeffries LLC, Claxton Associates Ltd and Boustead Securities, LLC. Under these agreements, ILS Capital compensates these third parties for investor referrals that result in the provision of investment advisory services by ILS Capital. These agreements comply with Rule 206(4)-3 of the Advisers Act and are disclosed in ILS Capital's ADV Part 1.

#### **Item 15 – Custody**

**If you have custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements. If your clients also receive account statements from you, your explanation must include a statement urging clients to compare the account statements they receive from the qualified custodian with those they receive from you.**

The Investment Advisers Act of 1940 Rule 206(4) (the "Custody Rules") requires that pooled investment vehicles advised by the adviser either undergo an annual GAAP financial statement audit or be subject to a surprise custody examination by an SEC-registered auditing firm. ILS Capital is deemed, under federal securities laws, to have custody over the Fund's funds by virtue of its ability to deduct fees. In order to comply with the Custody Rules, the Firm has elected to undergo an annual GAAP financial statement audit of its Fund, copies of which are delivered to underlying fund investors within 120 days of fiscal year-end.

ILS Capital does not take physical possession of investor money or securities; capital contributions

are directly sent or wired into the Fund's custodial accounts. ILS Capital receives monthly statements from its qualified custodian on behalf of the Fund. For more information on ILS Capital's qualified custodians, see the Firm's Form ADV Part 1, Schedule D, 7.B.(1).

#### **Item 16 – Investment Discretion**

**If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).**

Investment advice is provided directly to the Fund, subject to the discretion and control of ILS Capital, and not to investors in the Fund individually. ILS Capital has discretionary authority based on the governing documents of the Fund to buy and sell investments and to determine the amount of such investments to be bought and sold. The terms upon which ILS Capital serves as Investment Manager of the Fund were established at the time the Fund was established.

To become an investor in the Fund, an investor must execute a subscription agreement with the Fund. Such subscription agreements, and the other governing documents of the Fund, contain a power of attorney that generally grants ILS Capital certain powers related to the orderly administration of the affairs of the Fund.

ILS Capital is authorized to trade reinsurance contracts through Prospero by virtue of the underwriting and management services agreement between ILS Capital and Prospero.

#### **Item 17 – Voting Client Securities**

**A. If you have, or will accept, authority to vote client securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC Rule 206(4)-6. Describe whether (and, if so, how) your clients can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your clients with respect to voting their securities. Describe how clients may obtain information from you about how you voted their securities. Explain to clients that they may obtain a copy of your proxy voting policies and procedures upon request.**

ILS Capital has the authority to vote on behalf of the Fund in any proxy solicitations that may occur with respect to the issuers of securities held by the Fund. Because the Fund invests primarily in insurance-linked instruments and products, it does not expect to vote in any proxy solicitations involving publicly-traded securities. Should this change, ILS Capital will adopt a proxy voting policy pursuant to SEC Rule 206(4)-6 to describe how it votes proxies. ILS Capital will vote proxies consistent with the best interests of its investors and in accordance with the Fund's stated

objectives, primarily maximizing portfolio values. The Chief Compliance Officer will retain all proxy voting records in accordance with SEC Rule 206(4)-6. In general, investors cannot request that ILS Capital vote in a particular way on any specific proposal.

In the event ILS Capital adopts a proxy voting policy, investors may obtain a copy of the policy upon request, free of charge, from ILS Capital's Chief Compliance Officer, Tom Libassi, at +1 441 294 8300. Investors may also obtain information from ILS Capital's, free of charge, about how ILS Capital voted any previous proxies in the event the Firm votes proxies.

**B. If you do not have authority to vote client securities, disclose this fact. Explain whether clients will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) clients can contact you with questions about a particular solicitation.**

Not applicable.

## **Item 18 – Financial Information**

**A. If you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.**

ILS Capital does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

**B. If you have discretionary authority or custody of client funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients.**

ILS Capital has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to investors.

**C. If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.**

ILS Capital has not been the subject of a bankruptcy proceeding.