

# Fermat Capital Management, LLC

## Part 2A of Form ADV

### The Brochure

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This brochure provides information about the qualifications and business practices of Fermat Capital Management, LLC (“FCM” or the “Company”). If you have any questions about the contents of this brochure, please contact us at 203-454-6802. 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.

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

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

## Material Changes

This brochure contains information about the Company and there have been no material changes since FCM’s last filing in March 2022.

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## Advisory Business

FCM provides investment management services on a discretionary basis to separately managed account portfolios and pooled investment vehicles (“Funds”). FCM specializes in two separate asset classes. First, FCM invests in Insurance Linked Securities (“ILS”) and other insurance related risks. FCM seeks to build and manage long portfolios of ILS for its ILS clients, primarily through the purchase of catastrophe bonds and direct private ILS investments. Second, FCM invests in trade finance/receivables (“TF”). FCM seeks to build and manage long portfolios of short-term trade receivables for its TF clients through the direct purchase of receivables or investments backed by receivables.

For separately managed accounts, FCM manages the assets based on the investment and risk guidelines of each client as set forth in individually negotiated investment advisory agreements. For Funds, FCM manages the assets in accordance with the terms of the governing documents applicable to each Fund.

FCM does not offer or participate in wrap fee programs.

FCM was founded in August 2001 and registered as an investment adviser in January 2006. The Company is owned by Dr. John Seo and Nelson Seo. As of December 31, 2022, FCM managed

(i) approximately USD 8,620.7 million in Regulatory Assets Under Management (“RAUM”) on a discretionary basis on behalf of 9 ILS clients and 1 TF client and (ii) approximately USD 1,476.5 million in RAUM on a non-discretionary basis on behalf of 1 ILS client and 1 TF client. RAUM is a defined term of the SEC that reflects cash and securities managed for clients as well as all assets of “private funds” as the SEC defines that term.

## **Fees and Compensation**

FCM charges clients an investment management fee based on a percentage of the market value of the assets under management. Certain clients also compensate FCM through a performance-based fee arrangement. FCM does not maintain a standard fee schedule. Fees are generally negotiated on a case by case basis and vary based on factors such as size of the account, capital and lock-up commitments, investment restrictions (or lack thereof), and leverage. For ILS clients, the maximum asset-based fee is 1.85% per year, payable monthly in arrears. For certain ILS clients, FCM also receives an annual performance-based fee of up to 15% based on the net increase of an account’s value over a pre-defined benchmark. For TF clients, FCM currently only charges an asset-based fee, the maximum of which is 2.00% per year, payable monthly in arrears. For limited services as sub-advisor, FCM receives a portion of the investment management fee, which would equate to a maximum of 0.10% per year, payable quarterly in arrears.

FCM may reduce or waive all or any portion of the asset management fee with respect to any managed account client or investor in a Fund.

FCM does not directly debit the investment advisory fees from separately managed account clients’ assets. Instead, FCM’s separately managed account clients are responsible for calculating the investment management fees due to FCM and remitting payment, on either a monthly or quarterly basis, in accordance with the respective investment advisory agreements. However, FCM will prepare client invoices, if requested, against which clients can use to reconcile their calculations. With respect to Fund clients, the Fund administrator calculates the fees due to FCM and wires the payment from the Fund’s assets at the end of each month.

If for any reason a separately managed account client wishes to terminate an investment advisory agreement, the client must provide prior written notice in accordance with the terms of their contract and any fees paid in advance will be returned. In addition to FCM’s investment management fees, clients will bear trading costs, audit costs, administrative and custodial fees, fees paid to independent pricing sources, negative interest rate charges related to certain investments, legal fees from specific transactions, and other expenses that may be charged by third parties.

With respect to the Funds, investors generally will be permitted to make complete or partial redemptions, potentially subject to redemption gates, in accordance with the terms of the Fund’s governing documents. The Fund sets forth its specific fee structure (including how it charges fees) along with the additional operational expenses in a confidential information memorandum or similar offering document provided to prospective investors. In addition to FCM’s fees, investors will bear indirectly other fees and expenses charged to the Fund.

Neither FCM nor any of its supervised persons accepts compensation (e.g. brokerage commissions) for the sale of securities or other investment products.

## **Performance-Based Fees and Side-by-Side Management**

In addition to an asset-based monthly management fee, certain ILS clients compensate FCM using a “performance-based fee” arrangement, which is described in the respective investment advisory agreement or confidential information memorandum. A performance-based fee arrangement may create an incentive for FCM to make investments that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the performance-based fee received by FCM is based on realized and unrealized appreciation. Therefore, the fee earned could be based on unrealized gains that clients may never realize.

Additionally, some ILS clients are not charged a performance-based fee, thus FCM may have an incentive to favor accounts for which it receives a performance-based fee. In no instance will clients paying performance-based fees receive preferential treatment over clients not paying performance-based fees. As a fiduciary, FCM recognizes its duties to act in good faith and with fairness in all of its dealings with all clients.

## **Types of Clients**

FCM primarily provides investment advisory services to Funds and to separately managed accounts of large institutions such as foreign pension plans, insurance companies, and Funds of Funds.

Details concerning applicable eligibility criteria for investors in the Funds as well as minimum investment amounts are set forth in each Fund’s respective offering documents. For managed accounts, FCM generally requires that all clients be “qualified purchasers” (as that term is defined under the Investment Company Act of 1940, as amended), and FCM may consider managed accounts as low as \$50 million in size. For Funds, the minimum investment is generally in the discretion of FCM or the Fund’s governing body.

FCM has entered into separate agreements, commonly referred to as “side letters,” with certain Fund investors, which provides those investors with additional and/or different rights, (including, without limitation, with respect to management fees, expenses, minimum investment amounts, transparency of investment holdings and lock-up provisions).

FCM acts in various roles in relation to Funds, such as investment manager and delegate investment manager.

## Methods of Analysis, Investment Strategies and Risk of Loss

### Insurance Linked Securities (“ILS”)

FCM’s primary investment objective is to generate returns through selective investment in a global portfolio of ILS which the Company believes are attractive investments on both an absolute and risk-adjusted basis. *There are no assurances that FCM will attain its investment objective. Investing in securities involves risk of loss that clients should be prepared to bear.*

FCM’s core investment strategy utilizes both a quantitative and experiential process designed to evaluate the ILS investment opportunities and optimize a portfolio of ILS. FCM evaluates the underlying investment and structural risk of an ILS primarily on the basis of probability of loss, peril class, geographic area, and related factors as well as credit risk and pricing considerations.

FCM subscribes to three of the major third party risk modeling platforms in the catastrophe bond space (AIR, KCC, and RMS) and overlays a proprietary system to identify and adjust for model biases. FCM uses its proprietary quantitative portfolio optimization model to help determine the pricing and size ranges desired for an investment in an ILS. FCM uses its judgment and experience to make final portfolio allocation decisions. FCM will take into account factors such as, but not limited to, liquidity, expected future issuances, market psychology, and seasonality of market behavior, when evaluating the attractiveness of an investment as well as its target weighting in client portfolios. FCM’s market judgment is subjective.

Clients following FCM’s ILS investment strategy will experience a number of risks. An investment with FCM may be deemed a speculative investment and is not intended as a complete investment program. Such investment program is designed for sophisticated investors who fully understand and are capable of bearing the risk of loss. Performance could be hurt by a number of different market risks including but not limited to:

- **Lack of Diversification.** Although diversification on the basis of geographic region, event risk category, issuer and other factors are a key component of FCM’s investment strategy, an optimized portfolio of ILS will consist of a single asset class dominated by a small number of perils and cannot be considered a “diversified portfolio” in the traditional sense of such term.
- **Unpredictability of Catastrophes and Losses.** Client portfolios are subject to relatively infrequent but severe losses resulting from the occurrence of one or more catastrophic events. A major catastrophic loss or series of catastrophic losses may occur from time to time and, if affecting one or more of a portfolio’s investments, could result in material losses.
- **Reliance on Third Party Catastrophe Risk Modeling.** The results of analyses based upon third party catastrophe risk modeling firms’ work or models 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 a portfolio’s investments. Actual loss experience can materially differ from that generated by such models. Loss distributions produced by such models constitute estimated losses based on assumptions relating to environmental, demographic, and cost factors, many of which represent subjective judgments, are

inherently uncertain, and are beyond the control of the respective modeling firm. The assumptions or methodologies used by such firms may not constitute the exclusive set of reasonable assumptions or methodologies and the use of alternative assumptions or methodologies could yield results materially different from those generated. No model of catastrophe events is, or could be, an exact representation of reality. These models rely on various assumptions, some of which are subjective and some of which vary between the different catastrophe risk modeling firms. Accordingly, the loss estimates produced by such models are themselves based upon subjective determinations and subject to uncertainty. The loss probabilities generated by such models are not predictive of future catastrophic events, or of the magnitude of losses that may occur. Actual frequency of catastrophic events and their attendant losses could materially differ from those estimated by such models. Modeling insured property losses resulting from catastrophes is an inherently subjective and imprecise process, involving an assessment of information that comes from a number of sources that may not be complete or accurate.

- **Market Size.** The market size for the catastrophe bond segment of the ILS market is relatively small — approximately USD 37.3 billion were in issuance as of December 31, 2022 – and there is no guarantee that the market size will grow or even maintain its size. The market for direct private ILS investments, such as risk swaps, is slightly larger in size — approximately USD 60 billion in outstanding issuance – and is still an undeveloped market. Not only does the market size pose liquidity risk, but it also may create pricing and capacity considerations as client portfolios grow in size. At a certain level of assets under management, for example, FCM may have to shift to a higher concentration of direct private investments, and bonds available on the secondary market may increase in price (and commensurately decrease in effective net yield), which may be detrimental to clients’ risk/return profile.
- **Swaps and Other Derivatives.** FCM may direct client accounts to enter into swap and similar derivative transactions involving or relating to catastrophic events. A swap transaction is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts) with payments generally calculated by reference to a principal (“notional”) amount or quantity. Swap contracts and similar derivative contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, clients are subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which FCM trades. Speculative position limits are not applicable to swap transactions, although the counterparties with which FCM deals may limit the size or duration of positions available to clients as a consequence of credit considerations. Participants in the swap markets are not required to make continuous markets in the swap contracts they trade.
- **Liquidity.** There is no guarantee that a relatively liquid secondary market for catastrophe bonds will continue to exist even in normal conditions. In situations where a large catastrophe has occurred or appears likely to occur, liquidity for affected bonds is diminished and frequently eliminated. Direct private ILS investments, such as swaps and other derivatives, are less liquid under even normal circumstances, and may present no opportunities for unwinding of positions.

### **Trade Finance / Receivables (“TF”)**

FCM’s primary investment objective is to generate returns through selective investment in a portfolio of TF which the Company believes are attractive investments on both an absolute and risk-adjusted basis. *There are no assurances that FCM will attain its investment objective. Investing in accounts receivable or securities backed by accounts receivable involves risk of loss that clients should be prepared to bear.*

FCM’s core investment strategy utilizes both a quantitative and qualitative process designed to evaluate the TF investment opportunities and optimize a portfolio of TF. FCM evaluates the underlying investment and structural risk of TF primarily on the basis of credit risk, probability of loss, investment structure, geographic area, and related factors as well as pricing considerations.

FCM uses its judgment and experience to present investment opportunities to its TF clients. FCM will take into account factors such as, but not limited to, liquidity, expected future issuances, market availability, and seasonality of market behavior, when evaluating the attractiveness of an investment as well as its target weighting in client portfolios. FCM’s market judgment is subjective.

Clients following FCM’s TF investment strategy will experience a number of risks. An investment with FCM is not intended as a complete investment program. Such investment program is designed for sophisticated investors who fully understand and are capable of bearing the risk of loss. Performance could be hurt by a number of different market risks including but not limited to:

- **Market Dynamics.** TF is a sizable market in the U.S. According to the Federal Reserve, trade receivables outstanding at December 31, 2022 for non-financial corporations was USD 4.9 trillion. It is a private placement market whose future development is uncertain, as is access to the product. Market structure poses liquidity risk, but it also may create pricing and capacity considerations as client portfolios grow in size. At a certain level of assets under management, for example, FCM may need to shift to a higher concentration of direct private investments, and investments available on the secondary market may increase in price (and commensurately decrease in effective net yield), which may be detrimental to clients’ risk/return profile.
- **Liquidity.** There is no guarantee that a relatively liquid secondary market for TF will continue to exist even in normal conditions. In situations where changes in interest rate, bank solvency or broad credit solvency has occurred or appears likely to occur, liquidity for TF diminishes and may be eliminated. Direct private TF investments, are less liquid under even normal circumstances, and may present no opportunities for unwinding of positions.
- **Lack of Diversification.** Although diversification on the basis of credit risk, geographic region issuer and other factors are a key component of FCM’s investment strategy, an optimized portfolio of TF will consist of a single asset class dominated by a small number of risks and cannot be considered a “diversified portfolio” in the traditional sense of such term.

**All FCM clients additionally face the following risks:**

- **General Economic and Market Conditions.** FCM's activities may be affected by broader economic conditions and force majeure events (i.e. events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other serious public health concern, etc.) which may require some investors to access liquidity in markets otherwise largely unaffected, such as the ILS market. Other factors include interest rates, changes in laws (including laws relating to insurance and taxation of the Clients' investments) and national and international political circumstances (including wars, terrorist acts or security operations). Certain force majeure events and other factors noted could have a broader negative impact on the world economy and international business activity generally.
- **Change in Laws and Regulations.** Client investments may be sensitive to changes in law or regulation, particularly those regarding the insurance industry and the trade finance market. Changes in law or regulation could severely limit the availability of investments or affect the value of investments or the amount of time it takes for FCM to acquire and dispose of investments. The effect of changes in law or regulation may be difficult to predict and may occur at any time.
- **Competition; Availability of Investments.** Certain markets in which FCM may invest may be competitive. As a result, there can be no assurance that the Firm will be able to identify or successfully pursue attractive investment opportunities in such environments. Further, FCM's investment strategies and performance may be affected by the number of other investors pursuing similar strategies. Additionally, when other investors pursue similar strategies, FCM's ability to influence investment outcomes may be affected.
- **Systems and Operational Risk.** To some extent, FCM relies on certain financial, accounting, data processing and other operational systems and services that are employed by FCM and/or by third-party service providers, including legal service providers, a third-party administrator and others. Many of these systems and services require manual input and are susceptible to error. These systems or services may be subject to certain defects, failures or interruptions.
- **Cybersecurity.** FCM and its service providers are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that, in either case, can result in damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. A cybersecurity breach could expose both FCM and its clients to substantial costs (including, without limitation, those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity,

identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage), civil liability and regulatory inquiry or action. While FCM has established a business continuity plan in the event of, and risk management strategies, systems, policies and procedures to seek to prevent, cybersecurity breaches, there are inherent limitations in such plans, strategies, systems, policies and procedures including the possibility that certain risks have not been identified. Furthermore, FCM cannot control the cybersecurity plans, strategies, systems, policies and procedures put in place by other service providers to FCM and/or the issuers in which FCM invests.

The risks described above are not a complete list of all risks associated with FCM's investment strategies. In addition, as FCM's investment program develops and changes over time, an investment program with FCM may be subject to additional and different risk factors.

## **Disciplinary Information**

FCM and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

FCM and its management person are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or a registered representative of a broker dealer.

None of FCM or its affiliates are registered and do not have any application pending to register as a registered futures commission merchant, commodity pool operator, commodity trading advisor or associated persons of the foregoing entities.

FCM does not have any relationships or arrangements with other financial services companies that pose material conflicts of interest. FCM principals and employees are permitted, upon approval, to make investments in insurance companies, which may sponsor ILS. Additionally, FCM principals and employees may sit on the governing boards of insurance companies which may also sponsor ILS. FCM may, in its independent discretion, purchase these ILS for separately managed account portfolios or the Funds. These transactions may give the appearance of a conflict of interest, however, FCM will ensure that any such investments are in the best interest of the client. Further, the Chief Compliance Officer will consider the facts and circumstances and may determine that a member of the Investment Committee who has investments in an insurance company, or who sits on the governing board of an insurance company which sponsors ILS, must be recused from Investment Committee decisions relating to such insurance company.

FCM does not recommend or select other investment advisers for its Funds.

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

FCM has adopted a Code of Ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 that is predicated on the principle that FCM owes a fiduciary duty to its clients. Accordingly, employees of FCM must disclose or avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interest of clients. Therefore, FCM endeavors to maintain current and accurate records of all personal securities accounts and transactions of its employees in an effort to monitor all such activity. FCM's Code of Ethics is available for review and will be provided to any client or prospective client upon request via the contact information noted on the front of this brochure.

Occasionally, FCM may utilize cross trades when it specifically deems the practice to be advantageous for and allowed by each participant. However, any cross transaction between client accounts must be effected at the current market price of the security, based on available information and in good faith by the Company. Furthermore, with the exception of certain private ILS that do not trade on an exchange, all transactions will be effected through a third-party broker/dealer. The Compliance Officer will review the terms of any cross transaction and make a determination of whether it is favorable to all participants.

Generally, employees may not purchase or sell ILS instruments of any kind and must seek pre-approval from the Compliance Officer for certain other transactions.

To the extent multiple clients are investing in the same securities at or about the same time, FCM will allow for participation in a manner which is fair and equitable.

## **Brokerage Practices**

In choosing broker-dealers to execute client transactions, FCM evaluates a number of factors, including but not limited to: 1) the broker-dealer's expertise with respect to the volume and size of the transaction; 2) the broker-dealer's ability to provide liquidity in the desired security or other instrument traded; 3) the financial strength, integrity and stability of the broker-dealer or counterparty; and 4) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any).

FCM may receive proprietary research from broker-dealers with which it directs trading. However, research services received from broker-dealers are supplemental to FCM's own research efforts and, when utilized, are subject to internal analysis before being incorporated by FCM into its investment process. The receipt of proprietary research from broker-dealers is not generally a factor considered in selecting broker-dealers for the execution of client transactions.

FCM does not consider client referrals in its selection of broker-dealers. FCM does not recommend, request, or require that a client direct us to execute transactions through a specified broker-dealer.

In the event that FCM makes a trade error resulting from an employee's gross negligence, willful misconduct, or fraud, FCM will ensure that the trade error is corrected as soon as practicable in a manner designed to minimize any losses. Other trade errors will generally be borne by the respective clients, unless otherwise agreed to in the investment advisory agreement.

If FCM determines that the purchase or sale of a security is appropriate with regard to multiple clients, such purchase or sale will be aggregated on behalf of such clients, for benefits such as better transaction prices, beneficial timing of transactions, equitable access to transactions or a combination of these and other factors.

## **Review of Accounts**

All ILS client accounts are reviewed regularly and, in any event, at least weekly. In addition to a weekly review, accounts may be reviewed periodically due to, among other things; availability of investment opportunities (both primary and secondary), changes to or modification of portfolio risk profiles, or changes to available client capital. Account reviews are generally performed by two of FCM's three portfolio managers.

For separately managed ILS accounts, portfolio holdings and net-asset-value are reported by each client's respective administrator or back-office on at least a monthly basis. In addition, separately managed accounts may receive more detailed written weekly or monthly reporting from FCM pursuant to the terms of each client's investment advisory agreement. Investors in a Fund will receive a report of the net-asset-value of the Fund on at least a monthly basis. FCM will provide a Fund's estimated net-asset-value on a weekly basis upon request.

All TF client accounts are reviewed regularly and, in any event, at least bi-weekly. In addition to these bi-weekly reviews, accounts may be reviewed more frequently due to, among other things; availability of investment opportunities (secondary offers), market events such as changing funding costs, issuer or debtor disclosures or news, changes to risk profiles or changes to available client capital. Account reviews may be performed either in consultation with clients and / or by FCM portfolio managers and staff or both.

For TF clients, portfolio holdings and net-asset-values, utilizing amortized cost, are reported by the TF client's respective back-office on at least a monthly basis. In addition, the separately managed account receives daily detailed written reports from FCM.

## **Client Referrals and Other Compensation**

FCM does not compensate any person for client referrals. All income is derived from investment advisory services to clients.

## **Custody**

All client assets are held by unaffiliated prime brokers or qualified custodians and FCM does not have custody over any of its clients' assets.

## **Investment Discretion**

FCM manages client portfolios on a discretionary basis, subject to the restrictions (if any) that are specified in investment advisory agreements or confidential offering memorandums. FCM has the authority to determine the investments to be bought and sold and the amount and price of the investments to be bought or sold without obtaining client consent to specific transactions.

## **Voting Client Securities**

FCM has adopted proxy voting policies and procedures. FCM will vote proxies in the best interests of its clients and make that determination on a case-by-case basis. If a conflict of interest is identified, the Compliance Officer will engage the services of an outside proxy voting service or consultant, at the expense of FCM, to provide an independent recommendation on the direction of the proxy vote, which shall be binding. Further, FCM will vote proxies for all of its clients unless otherwise specified in a client's investment advisory agreement or relevant offering documents. A record of all proxy votes will be maintained and made available to clients upon request by contacting the Compliance Officer. Further, FCM will make available a copy of its Proxy Voting policies and procedures upon request to the Compliance Officer via the contact information noted on the front of this brochure.

## **Financial Information**

FCM is not required to include a balance sheet for our most recent fiscal year. FCM has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.