

**PRIVATE PLACEMENT MEMORANDUM**

**\$500,000,000**

**SOVEREIGN RE CAPITAL HOLDINGS INC.  
Special Limited Revenue Bonds (Taxable), Series of 2015**

**(Financial Services Authority)**

**Dated: Date of Delivery**

**Principal Due: \$500,000,000  
October 1, 20\_\_, as shown herein  
Interest is payable annually on  
October 1st**

The \_\_\_\_\_ Special Limited Revenue Bonds (Taxable), Series of 2015 (Sovereign Financial Authority) (the “2015 Financial Authority Bonds,” or the “Bonds,” or the “Bond Issue”) are being issued by the Sovereign Re Capital Holdings Inc. (the “Issuer”), a duly-organized subsidiary corporation and an economic arm and instrumentality of the \_\_\_\_\_, a subordinate governmental unit of the Estom Yumeka Maidu Tribe of the Enterprise Rancheria of Oroville, California (the “Tribe”). The Issuer has entered into a trust indenture agreement (the “Indenture”) with US Bank National Association as Trustee (the “Trustee”). A copy of the Indenture is appended hereto as Appendix A.

The Bonds are limited obligations of the Issuer and the Issuer has covenanted that it will provide for payment of the principal of, redemption price, if any, and interest on the Bonds when due. To secure the payment thereof, the Issuer has pledged, pursuant to the terms of the Indenture, the Receipts and Revenue derived from the Project (as defined herein). Additionally, to further secure the payments thereof, the Issuer has pledged, pursuant to a certain Pledge Agreement, as provided for in the Indenture, all payments up to the amounts owed under the Indenture from an annuity purchased with the proceeds received by the Issuer from its sale of the Bonds, all as further described herein. Income from the Bonds is to be included in gross income for purposes of federal income taxation. The Receipts and Revenues pledged pursuant to the Indenture and a portion of the annuity pledged pursuant to the Pledge Agreement are the sole source of repayment of the Bonds. See “THE INDENTURE,” and therein “THE PLEDGE AGREEMENT” herein. **The Bonds are not rated.**

The Bonds are in registered form and the Issuer shall keep or cause to be kept at the Trustee’s corporate trust offices, books for the registration and transfer of Bonds in the manner provided herein so long as any of the Bonds shall remain outstanding. The Bonds are eligible to be accepted by the Depository Trust Corporation (DTC) and have been issued a CUSIP number. A Bond owner may request that its bonds be held in the name of DTC to facilitate future transfers. In that event the Bonds for that Bond owner will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. As such any interest and principal payments thereon will be paid to DTC, which will, in turn, remit such interest and principal payments to its participants for subsequent disbursement to the beneficial owner of the Bonds.

**PRINCIPAL DUE, PRINCIPAL AMOUNTS, YIELD TO MATURITY AND COUPON**

<b>Principal Due</b>	<b>Principal Amount</b>	<b>Yield to Maturity</b>	<b>Coupon</b>
October 1, 2021	\$ 500,000,000	6.02 %	6.02 %

This cover page contains information for reference only. It is not a summary of this issue. Investors must read the entire Private Placement Memorandum, including the Appendices, to obtain information.

*The Bonds were originally offered by the Issuer through Burnham Securities, Inc., as the Placement Agent for the Bonds, only to “**accredited investors**” and/or “**qualified institutional investors**,” as defined under the Securities Act of 1933. They were issued, subject to a final approving opinion of Greenberg Traurig LLP, Denver, Colorado, Issuer Counsel, and to certain other conditions referred to herein. Certain legal matters in connection with the Bonds were passed upon by Dilworth Paxton, LLP, Philadelphia, Pennsylvania, as Counsel to the Placement Agent. Copies of the opinions of counsel are appended hereto as Appendix B.*



This Private Placement Memorandum does not constitute an offer to sell or a solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. No dealer, broker, sales representative or any other person has been authorized by the Selling Bond Holder, the Issuer, the Tribe to give any information or make any representation, other than those contained herein, in connection with the Bonds, and if given or made such information or representation must not be relied upon. This Private Placement Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Private Placement Memorandum contains estimates of the anticipated payments provided for under the Annuity Contract as prepared by the Issuer based upon reasonable assumptions and expectations. Although the Issuer and the Insurance Provider believe such estimates to be accurate, no guarantee of the accuracy of such estimates is herein provided.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE REGULATORY AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PRIVATE SUPPLEMENTAL MEMORANDUM OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THE SECURITIES ARE "RESTRICTED SECURITIES AND ARE OFFERED PURSUANT TO EXEMPTIONS PROVIDED BY THE SECURITIES ACT, CERTAIN STATE SECURITIES LAWS AND CERTAIN RULES AND REGULATIONS PROMULGATED THEREUNDER. THE SECURITIES MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND QUALIFICATION UNDER APPLICABLE STATE SECURITIES LAWS UNLESS AN EXEMPTION FROM SUCH REGISTRATION AND QUALIFICATION REQUIREMENTS IS AVAILABLE AND THE SECURITIES ARE TRANSFERRED PURSUANT TO AN EXEMPTION PROVIDED BY THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAW.

NO PERSON OR ENTITY MAY PURCHASE ANY SECURITIES OFFERED HEREBY UNLESS SUCH PERSON OR ENTITY IS AN "ACCREDITED INVESTOR" or "QUALIFIED INSTITUTIONAL INVESTOR" AS THOSE TERMS ARE DEFINED IN REGULATION D PROMULGATED UNDER THE SECURITIES ACT. THE ISSUER AND THE SELLING BOND HOLDER WILL BE RELYING ON THE REPRESENTATIONS AND WARRANTIES SET FORTH BY EACH PURCHASER TO DETERMINE THE APPLICABILITY TO THIS OFFERING OF EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF FEDERAL LAW AND QUALIFICATION REQUIREMENTS OF APPLICABLE STATE LAW. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY FROM ANYONE IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED.

Information set forth herein was obtained from officials of the Issuer, the Selling Bond Holder and the Insurance Provider and other sources, which are considered reliable and is not to be construed as a representation of the Selling Bond Holder. The information, estimates and expressions of opinion in this Private Placement Memorandum are subject to change without notice. Neither the delivery of the Private Placement Memorandum nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no material change in the affairs of the Issuer since the date of the Private Placement Memorandum.

References in this Private Placement Memorandum to statutes, laws, rules, regulations, ordinances, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive, and all such references are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. This Private Placement Memorandum is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The order and placement of materials in this Private Placement Memorandum, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Private Placement Memorandum, including the Appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Private Placement Memorandum.

## TABLE OF CONTENTS

<b>INTRODUCTORY STATEMENT</b> .....	1	<b>Pledged Revenues</b> .....	11
<b>SUMMARY OF FINANCIAL CONSIDERATIONS</b>	2	<b>Lien of Indenture</b> .....	11
Settlement Account Reconciliation .....	2	<b>No Interest in the Project Facilities</b> .....	11
Annuity Distributions and Debt Service Requirements for the 2015 Financial Authority Bonds.....	3	<b>THE INDENTURE</b> .....	12
Anticipated Future Issuance of Bond .....	3	<b>THE ANNUITY AND INSURANCE PROVIDER</b> ..	12
<b>THE ISSUER</b> .....	3	<b>INVESTMENT CONSIDERATIONS</b> .....	12
Governance .....	3	No Credit Rating; Bond Transfer Restrictions; No Secondary Market.....	13
Nature, Obligations and Authority .....	4	Special and Limited Obligations.....	13
<b>THE TRIBE</b> .....	4	Federal Recognition Confers Tax Benefits Which May Not Extend to All Contemplated Activities.....	13
Governance .....	4	States May Make a Tax Claim.....	14
Map of South Dakota Highlighting the Pine Ridge Reservation.....	5	Substantial Reduction in the Value of the Annuity ..	14
<b>THE PROJECT</b> .....	5	Limited Recourse Against the Issuer and the Tribe and the Tribe's Assets; Enforceability Risk .....	14
<b>FREE TRADE BUSINESS DEVELOPMENT OPPORTUNITY - DISTRIBUTION CENTER</b> .....	6	Effect of Bankruptcy on Security for the Bonds.....	14
Duty Free Historical Precedent .....	7	<b>POTENTIAL LITIGATION</b> .....	15
State Taxes .....	7	<b>CONTINUING DISCLOSURE</b> .....	15
Federal Taxation of Distilled Spirits .....	8	<b>LEGAL MATTERS</b> .....	16
<b>THE 2015 FINANCIAL AUTHORITY BONDS</b> .....	9	<b>PLACEMENT OF THE BONDS</b> .....	16
General Description .....	10	<b>APPENDIX A – Trust Indenture</b> .....	.....
Record Date.....	10	<b>APPENDIX B – Opinions of Counsel</b> .....	.....
Transfer, Exchange and Registration of Bonds.....	10	<b>APPENDIX C – US TREASURY REPORT – DECEMBER 2014</b> .....	.....
Optional Bond Redemption.....	10		
<b>SECURITY FOR THE BONDS</b> .....	11		
General .....	11		

[THIS PAGE INTENTIONALLY LEFT BLANK]

## PRIVATE PLACEMENT MEMORANDUM

\$500,000,000

### SOVEREIGN RE CAPITAL HOLDINGS INC. Special Limited Revenue Bonds (Taxable), Series of 2015

(Financial Services Authority)

#### INTRODUCTORY STATEMENT

This Private Placement Memorandum is furnished to provide information in connection with the issuance and sale by \_\_\_\_\_ of the Special Limited Revenue Bonds (Taxable), Series of 2015 (Financial Services Authority), issued by the [[[Wakpamni Lake Community Corporation]]] (the “Issuer”), in the aggregate principal amount of \$500,000,000 (the “Bonds”). The Selling Bond Holder purchased the Bonds from the Issuer on \_\_\_\_\_, 2015. Accordingly, all proceeds for the sale of the Bonds will be paid to the Selling Bond Holder and none will be paid to the Issuer. The Bonds are issued pursuant to a Trust Indenture dated as of December 30, 2015 (the “Indenture”) between the Issuer and US Bank National Association, as trustee (the “Trustee”).

The Bonds have been issued in order to provide funds to finance and capitalize a newly organized regulated insurance subsidiary - Sovereign Re - and undertake the business of reinsurance; put simply, the reinsurance market is the insurance market for insurance companies. The reinsurance business will target reinsurance treaties with US-based insurance company cedants, targeting a niche that it believes can be competitively served, as more fully described in this Private Placement Memorandum. Sovereign Re is regulated by the \_\_\_\_\_ and operates pursuant to \_\_\_\_\_. – See Regulation and Sovereign Standing.

Sovereign Re Capital Holdings (the “Issuer”), a duly authorized subsidiary of Native American tribal government, is an insurance holding company formed under the laws of Estom Yumeka Maidu Tribe of the Enterprise Rancheria, a sovereign nation. The U.S. Constitution recognizes Indian Tribes as separate from the federal government, the states, and foreign nations, and the United States Supreme Court has ruled that Indian Tribes are domestic, dependent, sovereign nations. The power to regulate commerce is an established power of a sovereign government, with the Tribe’s power to regulate its commerce being derived from tribal sovereignty.

The Issuer believes there is a commercial opportunity to provide onshore reinsurance capacity to domestic insurers as an alternative to offshore reinsurance providers, such as those based in Bermuda – See Alternative Capital Providers – Reinsurance Industry. As a subsidiary of a domestic, dependent, sovereign nation, Sovereign Re is deemed to be a “domestic” corporation by the Internal Revenue Service pursuant to Treas. Reg. § 301.7701-2(b)(1). As a result, the domestic Sovereign Re has several statutory distinctions that differentiate it from non-domestic offshore reinsurance providers, and that, individually and cumulatively, these legal differentiations represent substantial competitive advantages across financial, regulatory, reporting, and taxation requirements imposed on reinsurers, including FATCA, federal excise tax, Sub part F/controlled foreign corporation, and PFIC – See Tribal Competitive Advantages. The Issuer believes that these competitive advantages may contribute materially to the commercial success of the venture.

We believe the market is large. According to analysis by the Reinsurance Association of America, in 2013 approximately \$46 billion in total property and casualty reinsurance premiums were ceded by U.S.-based insurers to unaffiliated reinsurers; of this amount, approximately \$28.4 billion of premiums - or 62% - were ceded

by American insurers to non-U.S. reinsurers and approximately \$17.6 billion of premiums were ceded to U.S. professional reinsurers.

Tribal reinsurers may have certain advantages over domestic reinsurers as well. This includes the tax status of tribes and their governmental instrumentalities, such as Sovereign Re and the Issuer. The Internal Revenue Service (“IRS”) has long taken the position that Indian tribes and wholly owned tribal corporations chartered under Federal law or the Oklahoma Indian Welfare Act are not taxable entities for U.S. income tax purposes and are immune from U.S. income taxes, regardless of whether the activities that produced the income are commercial or noncommercial in nature or are conducted on or off the tribe’s reservation. Since the Indian Tribal Government Tax Status Act of 1982,<sup>11</sup> section 7871 has expressly provided that Indian tribal governments are treated as States for certain tax purposes and, therefore, free of tax.

#### [OTHER COMPETITIVE BENEFITS OVER OTHER DOMESTICS?]

The Issuer will operate as a for-profit enterprise. The Bonds are senior to other forms of financing, and shall maintain a perfected first priority security interest in the Collateral and Collateral Accounts as defined herein. The profits, if any, that the Issuer may accumulate are tax-free under federal law and are, therefore, will be fully recognized as retained earnings and attributable to the regulatory capital account of Sovereign Re, and available as additional cash flow to fund the [Collateral Accounts] for distribution to the Parent Issuer over the 7-year term of the Bond Issue.

The Issuer has covenanted that it will provide for payment of the principal, redemption price, if any, and interest on the Bonds when due. Under the Indenture, the Issuer is required to collateralize the Bonds and to make, or cause to be made, payments sufficient to provide for payment in full of the Bonds when due. All of the Net Proceeds from the sale of the Bonds by the Issuer will be maintained entirely in cash for the duration of the Issue. The cash deposit will be held with BNP Paribas SA (“BNP”). BNP is rated by third party rating agencies Moody’s, Standard & Poor’s and Fitch as A2, A+ and A+, respectively, and, as such, the deposit bears the corporate credit rating of the bank. –See BNP Cash Account.

#### CERTAIN RISKS ASSOCIATED WITH AN INVESTMENT IN THE BONDS ARE DISCUSSED UNDER “INVESTMENT CONSIDERATIONS.”

The Issuer has furnished all information contained in this [Private Placement Memorandum, except to the extent otherwise specifically provided herein. The documents summarized herein have been entered into on or prior to the date of initial delivery of the Bonds referred to on the cover of this Private Placement Memorandum (the “Initial Closing Date”), and the legal opinions referred to herein have been delivered on the Initial Closing Date. The descriptions and summaries of various documents set forth herein do not purport to set forth the complete details of all terms and conditions contained within the documents and are qualified in their entirety by reference to each such document. Capitalized terms used herein that are not expressly defined are defined in the respective documents, copies of which may be reviewed at the offices of the Trustee.

#### SUMMARY OF FINANCIAL CONSIDERATIONS

The Bonds were issued in the form of the \$500,000,000 Special Limited Revenue Bonds (Taxable), Series of 2015 (Sovereign Financial Authority), the proceeds of which were used by the issuer to (a) finance the purchase of a certain Annuity Investment with segregated account provisions; (b) finance the development of a town center in conjunction with the retail and business park in the Wakpamni Lake Community (near Junction 18), that will include, *inter alia*, a variety of social and retail activities, such as a community and bingo hall, a coffee house, Laundromat, retail stores, or a community exercise facility and other legal purposes for the benefit



of the Wakpamni Lake Community including the distribution center for the Free Trade Business Development program defined herein (together, the “Sovereign Financial Authority Project”); and (c) pay the costs of issuance of the Bonds (together, the “Project”). See The Project. The sources and uses of the proceeds by the Issuer of the 2015 Financial Authority Bonds are as follows:

**Settlement Account Reconciliation**

**I. Fund Available at Settlement:**

Bond Proceeds:	\$500,000,000
 Total Funds Available at Settlement	 <u>\$485,000,000</u>

**II. Disposition of Funds Available at Settlement:**

Annuity Purchase Payment	\$14,812,500
To the Payment of Issuance Costs	187,500
 Total:	 <u>\$15,000,000</u>

**Anticipated Future Issuance of Bonds**

The Indenture Agreement also authorizes the Issuer, in its sole discretion, to issue one or more series of additional bonds, which may be issued by the Issuer and authenticated and delivered upon original issuance for the purposes of refinancing or redeeming the 2015 Financial Authority Bonds (“Additional Bonds”). Such Additional Bonds are authorized by the Agreement so long as (i) the Agreement is still in effect; and (ii) the amount on deposit in the Capital Reserve Fund (prior to the issuance of the Additional Bonds) is not less than the Minimum Capital Reserve Fund Requirement.

**THE ISSUER**

The Wakpamni Lake Community Corporation Special Limited Revenue Bonds (Taxable), Series of 2015 (Sovereign Financial Authority) (the “2015 Financial Authority Bonds”) were issued on September 15, 2015 by the Wakpamni Lake Community Corporation, a duly-organized subsidiary corporation of the Wakpamni Lake Community, and an economic arm and instrumentality of the Wakpamni Lake Community, a subordinate governmental unit of the Oglala Sioux Tribe of the Pine Ridge Reservation, South Dakota (the “Tribe”).

**Issuer Governance**

The Issuer is governed by its board of directors (the “Board of Directors”). The Board of Directors consists of four (4) members appointed by Tribal Business Council. The members of the Board of Directors of the Issuer are as follows:

Name	Title
------	-------

Geneva Lone Hill  
Debbie BlueBird  
Wilma Standing Bear  
Lanita Palmier

President  
Treasurer  
Secretary  
Vice President

Board members to be discussed:

### **John W. Oxendine, Director**

John W. Oxendine brings to the firm a wealth of knowledge and experience concerning insurance and governmental affairs. Elected Georgia's Insurance and Safety Fire Commissioner in 1994 John served in that office for 16 years. There he developed the reputation as an effective consumer advocate while maintaining a vibrant competitive marketplace during his four terms in office. John served as an active member of the National Association of Insurance Commissioners (NAIC) beginning in 1995 as the youngest member of the organization and ending his service in 2011 as the senior member with the longest tenure at the organization.

After a run for Governor of Georgia, John joined the firm in 2010 and represents insurance companies and other regulated entities nationwide in a variety of regulatory matters. He also represents clients in a wide variety of business matters.

His professional experience includes: Chaired (founding chair) the NAIC Reinsurance Committee; Oversaw the Health Benefit Plan for employees of the State of Georgia (1988-1994); Member of National Association of Insurance Commissioners (NAIC) (1995-2011); Member of the NAIC Executive Committee (1996-2007); Chairman of the Southeastern Insurance Commissioners (1998-2007); Chaired (founding chair) the United States financial investigation of Lloyds of London following 9/11 Attacks & Losses; Chaired (founding chair) national investigation into abusive Insurance Sales Practices targeting members of the United States Military; Chaired (founding chair) the NAIC Tax Issues Working Group; Chaired the NAIC Special Issues Committee; Vice Chaired the NAIC surplus lines task force; Active member of the NAIC International Relations Committee, International; Insurance Relations Leadership Group, and Surplus Lines Task Force (1995-2011); Member of National Association of Consumer Credit Administrators (NACCA) (1995-2011).

Oxendine was born in 1962 in Nashville, Tennessee and moved to Georgia with his family at the age of five. A 1980 graduate of DeKalb County's Tucker High School, Oxendine attended Mercer University where he earned a B.A. in 1984 and a J.D. in 1987. After graduation, he practiced law at the Gwinnett County firm of Oxendine and Associates until his election to public office. He and his wife Ivy reside in Gwinnett County and are the parents of four children.

### **David Ezekiel**

David Ezekiel is Chairman of Marsh IAS (NYSE: MMC), the Bermuda subsidiary of the \$12 billion revenue Fortune 500 global insurance broking and risk management, has approximately 25,000 employees and provides advice and transactional capabilities to clients in over 100 countries. Mr. Ezekiel founded International Advisory Services Ltd. in April 1981, which grew to be the largest captive insurance manager in Bermuda and was acquired by Marsh in 2009.

Before establishing International Advisory Services Ltd., David Ezekiel was a Partner with KPMG Peat Marwick in Bermuda (locally Moore, Stephens & Butterfield). He and a partner headed the firm's rapidly expanding insurance auditing practice and were responsible for much of the staff training in this area.

Mr. Ezekiel has also served as Chairman of ABIC (Association of Bermuda International Companies) for the last 13 years and has played a key role in the International Business sector over that period. In 2005 Mr. Ezekiel was named as 'Insurance Person of the Year' by the Bermuda Insurance Institute (BII) and 5 years later was presented with the BII's 'Lifetime Achievement Award.'

Mr. Ezekiel was educated at Sherwood College, Nainital, India and undertook his articles of clerkship in London. He was admitted as a Member of the Institute of Chartered Accountants in England and Wales in 1971 and was admitted to Fellowship in 1978. In 1972/73 he attended the Graduate Business Centre of the City University, London and received his Master of Science degree in Business Administration majoring in Investment Analysis.

[[Hunter Biden, Director]]

Mr. Biden serves as Managing Partner at Rosemont Seneca Partners, Chairman at Rosemont Seneca Advisors and is Counsel to Boies, Schiller, Flexner, LLP, a national law firm based in New York. Mr. Biden is also an Adjunct Professor at Georgetown University's Masters Program in the School of Foreign Service. He currently serves as Chairman of the Board of World Food Program USA and as a Director on the not-for-profit Boards of the Truman National Security Project, the Center for National Policy and the US Global Leadership Coalition (USGLC). Mr. Biden is on the Chairman's Council of the National Democratic Institute (NDI), and the President's Advisory Board for Catholic Charities in Washington D.C, and was a member of the CSIS Executive Council on Development. From 2006, Mr. Biden served on the Board of Directors of Amtrak, serving as Vice Chairman from 2007-2009. Mr. Biden was honored to serve as an Honorary Co-Chair of the 2009 Presidential Inaugural Committee and to have served in the Jesuit Volunteer Corps. Previously, Mr. Biden was a founding member of the law firm, Oldaker, Biden and Belair, LLP; was appointed by President Clinton to serve as Executive Director of E-Commerce Policy Coordination under Secretaries of Commerce William Daley and Norman Mineta; and was a Senior Vice President at MBNA America Bank.

He is also a member of the bar in the District of Columbia, State of Connecticut, the U.S. Supreme Court and the U.S. Court of Federal Claims. Mr. Biden received a bachelor's degree from Georgetown University and a J.D. from Yale Law School.

**Devon Archer, Director, Member of \_\_\_\_\_ Committee**

Mr. Archer is the Co-Founder of Rosemont Capital, LLC, where he has led the development of an investment platform that manages private equity, fixed income and real estate investments. Rosemont currently manages in excess of \$2 billion in assets.

Mr. Archer is the Vice Chairman of the Board of BHR (Shanghai) Equity Investment Fund Management Co. LTD, a China based private equity firm founded by Rosemont, Harvest Fund Management Co., one of the largest mutual fund managers in China (by AUM), and Bohai Industrial Investment Fund Management Co., founded in 2006 to manage Bohai Industrial Investment Fund, with leading Chinese financial institutions or industrial groups as Bank of China, National Council of Social Security Fund of China, China Development

{ PAGE \\* MERGEFORMAT }

Bank, China Life and Postal Savings Bank of China. In addition to serving as Vice Chairman, Mr. Archer serves on the BHR Investment Committee.

BHR affiliates were selected to participate in the \$17.5 billion privatization of Sinopec Marketing Co, owner of 30,000 gasoline stations and 23,000 convenience stores, and BHR Fund has received a \$900 million allocation of the issue anticipated to close in February 2015.

Mr. Archer started his career at Citibank's foreign direct investment group, Citicorp Asia Ltd., before serving in the insurance industry as a Vice President at New England Financial and subsequently MetLife where he worked as a special analyst to the Strategic Management Group of both groups' Executive Committees. Mr. Archer also has growth company and venture capital experience as the Founder and President of Sitaro LTD., a leading marketing software and services company acquired by CoActive Marketing Group (NASDAQ – CMKG) in 2004.

Mr. Archer served as a senior advisor to Secretary John Kerry during his 2004 Presidential Campaign and co-chaired the National Finance Committee. Mr. Archer is the General Partner of Rosemont Realty, a Managing Director of RSTP, and Board of Directors of Burnham Financial Group, Burnham Securities and Burnham Asset Management, a \$1.7 billion investment group founded in 1935.

He is an Independent Director of Burisma, one of the largest independent oil and gas producers in Ukraine. He also serves as an Independent Director on the Board of the National Investment Corporation of the National Bank of Kazakhstan, the outbound investment vehicle of the Republic of Kazakhstan Sovereign Wealth Fund.

Mr. Archer earned his Bachelor of Arts from Yale University and lives in New York City.

#### **Louis D. Zuckerbraun, [President]**

Mr. Zuckerbraun is based in Zurich, Switzerland and is a Director and CEO of VL Assurance Inc., a member company of Valor Group Ltd, a \$6.2 billion insurance group listed on the Bermuda Stock Exchange. He was previously co-CEO of a Swiss Life and Annuity company, Zenith Vie, which provided traditional life, savings and annuity products to Swiss and International clients.

He was a Managing Director and one of the founding partners of the Crown Global group of insurance companies in Bermuda, Grand Cayman and Delaware. Crown Global provides complex insurance-based solutions for high net worth clients worldwide. His Primary responsibilities included insurance product development, overall management of the insurance Companies and direct profit and loss accountability.

He was a former partner of swisspartners Wealth Management, Zurich and former Director of swisspartners Insurance Company, Grand Cayman. Swisspartners is a \$6 billion asset management and insurance business. Prior to this position, he was founder and CEO of Private Risk Solutions AG and prior to this held the position of Chief Underwriter, Trans Re Zurich (an AIG Company). He has also held positions as an Underwriter with Transatlantic Re in London and Hannover Re in Hannover, Germany.

Mr. Zuckerbraun has a B.A. degree from the University of Southern California and an M.B.A. degree from Pepperdine University. Mr. Zuckerbraun also holds the CPCU and Are designations from the Insurance Institute of America and has been a teacher/coach for the Insurance Institute of Switzerland (IIS).

#### **Jason Sugarman, Director [updated?]**

With over 20 years in finance, including asset backed lending and mortgage investments, Mr. Sugarman has originated over \$1.0 billion in direct loan and equity placements. He is a founding investor in CS Financial Inc., the largest independent mortgage bank in California. He is a founding investor in COR Capital and COR Securities Holdings, the parent of COR Clearing. Mr. Sugarman's brother, Steve Sugarman, is CEO of COR. Since May 2013 he has been a Director of and investor in Burnham Financial Group, a wealth management and securities firm founded in 1935 with \$1.55 billion under management, and a current director of Burnham Asset Management Inc. and Burnham Securities Inc. (both since May 2013).

Mr Sugarman is a graduate of Stanford University with a BA in Economics (1994) where he was a Scholar Athlete and member of the baseball team.

*Other candidates to consider... ..*

\_\_\_\_\_, retired AON Chairman  
Bernhard Schluemp, global head of UBS Life  
Keith Harris, AON Benfield, HSBC  
Skip Bronson  
Mickey Schuloff  
Hugh Dunkerley  
Jason Turner

Reinsurance expert?

Actuary and risk management. Devam.  
Marsh as outsourced manager.

[[Devam Sukhija, Chief Underwriter]]

Devam is an insurance/reinsurance expert and has experience writing a wide array of business lines in various international markets. Devam's last assignment was a role at a Swiss reinsurer based in Bermuda where he was responsible for bringing in more than \$200m of premium income and wrote risks in excess of \$1bn over a period of 3 years. This book was highly profitable and returns were significantly superior to most peers writing similar risks in the industry. In this role Devam also successfully managed a \$120m catastrophe risk sidecar for external investors.

Devam is a graduate in pure mathematics from the University of Delhi and holds an MBA from the Instituto de Empresa in Madrid along with a Masters in Actuarial Science from Heriot Watt University in Edinburgh. Devam's previous employers are Flagstone Reassurance Suisse SA, HSBC, HIBOS, New York Life and Credit Suisse. Devam is a keen bridge and cricket player (cricket is life!!) and is known for his amusing after dinner conversation.

### **Nature, Obligations and Authority**

Wakpamni Lake undertakes various economic development activities on behalf of its tribal owner, the Oglala Sioux. It is currently active in financial services, water reclamation, and renewable resource development (solar and geothermal).

The proceeds from the being offered hereby are being used as described in the Project section of this memorandum to advance the Economic Development Programs of the Issuer. The program has commercial businesses in financial services, duty free zones, water reclamation, and renewable resources business sectors. The commercial businesses and investments of the Tribe fund its community government projects, including: The commercial businesses and investments of the Tribe to fund their community government projects, such as: Rehabilitation of buildings, sponsorship of community administrative services and academic assistance centers, improving community transportation services, sponsored children and adult local sports teams, and field improvements and family assistance grants.

To date, the Issuer has funded projects in partnership with non-Indian participants, including private equity providers and corporations. However, because the primary sources of liquidity funding these various ventures have been opportunistic hedge funds, the profit retention by the Tribe is substantially below other sovereign funding alternatives evaluated.

## **THE TRIBE**

The Tribe is a federally recognized Indian tribe. It has adopted a Constitution and Bylaws for the governance, protection and common welfare of itself and its members (the "Constitution and Bylaws"), which were approved by the Department of the Interior and subsequently amended.

The Estom Yumeka Maidu of the Enterprise Rancheria is a federally-recognized Indian tribe listed in the Federal Register as the Enterprise Rancheria of Maidu Indians of California. Enterprise is comprised of nearly 900 Maidu whose ancestors have lived along the middle fork of the Feather River in Northern California for hundreds of years.

In 1915 and 1916, the federal government purchased two 40-acre parcels of land for the Tribe located a few miles apart, near the former town of Enterprise in Butte County. In 1964, Congress authorized the sale of one of the two 40-acre Rancheria parcels to the State of California to be submerged under Lake Oroville, which was created by the construction of the Oroville Dam as part of the State water plan. In 2013, Enterprise acquired a new 40-acre trust parcel in Yuba County to construct and operate a gaming facility.

Enterprise seeks to improve the lives of its members through the operation of various tribal departments, including social services, Indian housing, environmental protection, and education. It is engaged in activities to benefit the broader Indian community, including the joint operation of Feather River Tribal Health with two neighboring Maidu tribes and the distribution of salmon to tribes throughout California.

### **Tribal Governance**

The reservation is ruled by the eighteen-member Oglala Sioux Tribal Council. The members are elected officials rather than traditional clan life leaders, in accordance with the Indian Reorganization Act of 1934. The Executive Officers of the Council are the President (also called Chairman), Vice President, Secretary, and Treasurer. Primary elections are held in October and the General election in November. The Tribal Business Council members are elected for two-year terms with no term limits.

The government functions of the Tribe include standard federal and state government functions such as the provision of certain health and human services functions, utility services, police and fire protections, operation of a full tribal civil, juvenile, criminal and small claims court system, provision of poverty relief programs,

housing programs, heating and utility assistance, economic development planning, education services, and infrastructure development including roads.

## **THE PROJECT**

The issuer has issued the 2015 Financial Authority Bonds in connection with the economic development program to promote the expansion of businesses and the creation of jobs on the Pine River Reservation. The proceeds of the 2015 Financial Authority Bonds are being used by the Issuer to (i) finance a strategically located mixed-use Town Center on the Pine River Reservation to create a unified activity center and gathering place in conjunction with the commercial distribution center to conduct the Free Trade Business Development Program; (ii) collateralize the Issue through the purchase an insurance contract, and (iii) pay the costs of issuing the 2015 Financial Authority Bonds (the “Project”). See “Summary of Financial Considerations.”

The economic and social welfare goals of the Issuer are to develop a strategically centralized located mixed-use Town Center in conjunction with the planned commercial distribution center. The inclusion of the Town Center would improve the cohesiveness of the central community core and provide tribal members with a centralized location that they can identify with. The proposed development would include a retail plaza with a food and drug store, daycare center, restaurant, medical clinic, pharmacy, and similar retail offerings. The commercial distribution center will make use of the tribe’s exemption from state and federal excise taxes on alcoholic beverages derived from its status as a sovereign nation in order to distribute to Native American owned casinos, as more fully described herein.

The development would positively shape the Wakpamni Lake Community by providing:

- A foundation for a unified community identity within a central gathering place
- Mixed-use center that unites commercial, civic, cultural, and recreational uses
- A distribution center to receive imported distilled spirits and to distribute to wholesale clients as described below (the “Free Trade Business Development”)
- Job creation from improved business facilities

## **THE REINSURANCE BUSINESS**

### **The Business**

Sovereign Re Capital Holdings (the “Issuer”) is an insurance holding company formed under the laws of Enterprise Rancheria reservation in Oroville, California, a sovereign nation. The Issuer intends to use the proceeds of the Bond Issue to capitalize a newly organized regulated insurance subsidiary – Sovereign Re – and undertake the business of reinsurance, principally engaging in reinsurance treaties with US-based insurance company cedents. Put simply, the reinsurance market is the insurance market for insurance companies. Sovereign Re is regulated by the \_\_\_\_\_ and operates pursuant to \_\_\_\_\_. – See Regulation and Sovereign Standing.

The U.S. Constitution recognizes Indian Tribes as separate from the federal government, the states, and foreign nations, and the United States Supreme Court has ruled that Indian Tribes are domestic, dependent, sovereign nations. The power to regulate commerce is an established power of a sovereign government, with the Tribe’s power to regulate its commerce being derived from tribal sovereignty.

The Issuer believes there is a commercial opportunity to provide reinsurance capacity to domestic insurers as an alternative source to offshore reinsurance providers, such as those based in Bermuda – See \_\_\_\_\_. As a

subsidiary of a domestic, dependent, sovereign nation, Sovereign Re is deemed to be a “domestic” corporation by the Internal Revenue Service pursuant to Treas. Reg. § 301.7701-2(b)(1). As a result, the domestic Sovereign Re has several statutory distinctions that differentiate it from non-domestic offshore reinsurance providers, and that, individually and cumulatively, these legal differentiations represent substantial competitive advantages across financial, regulatory, reporting, and taxation requirements imposed on reinsurers, including FATCA, federal excise tax, Sub part F/controlled foreign corporation, and PFIC – See Tribal Competitive Advantages.

Reinsurance is an arrangement under which an insurance company known as the reinsurer agrees in a contract called a treaty to assume specified risks of another insurance company known as the ceding company. The reinsurer may assume all or a portion of the insurance underwritten by the ceding company. In exchange for assuming the risks of the ceding company, the reinsurer receives some or all of the premium and, investment income derived from the assets supporting the reserves of the reinsured policies. Reinsurance permits primary insurers to diversify their risks over larger pools of risks, and to write insurance policies in amounts larger than they are willing or able to retain.

The main reason why insurers purchase reinsurance protection, and thus remove the financial responsibility of bearing the risk they accepted to assume in the first place, is to free economic and risk capital that had to be put aside to eventually pay for losses that may arise. For many primary insurers this risk capital is often more efficiently used to induce an increase of their sales on the primary market than being kept in reserves to pay for future potential losses. Freeing economic and risk capital also allows the insurer to increase the quality of the service it gives to policyholders since managers spend less time worrying about capital adequacy and solvency challenges and more time focusing on making the policyholders’ experience more palatable.

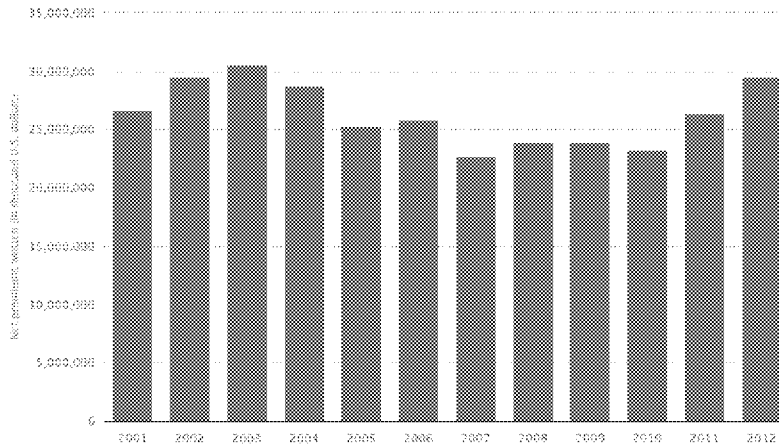
According to the December 2015 report by the U.S. Department Of The Treasury – Federal Insurance Office – entitled “The Breadth and Scope of the Global Reinsurance Market and the Critical Role Such Market Plays in Supporting Insurance in the United States,” The reinsurance marketplace is important to the U.S. insurance industry and, as such, contributes to the general economic prosperity of the country’s families and businesses. As described above, reinsurance enhances the availability and affordability of insurance in the United States. Available and affordable insurance helps spread risk, reduces financial uncertainty for businesses and individuals, provides private capital in a post-event recovery, and promotes economic growth. By spreading insurance risks globally, reinsurance diversifies local insurance markets while providing capital relief and balance sheet protection.

In 2013 total global insurance premiums are estimated at \$4.6 trillion, according to Swiss Re, where reinsurance is a smaller subset of the industry with reinsurance premiums of approximately \$200 billion in 2013, according to Conning/Guy Carpenter, the leading insurance brokerage firm owned by Marsh and McLennan.

According to analysis by the Reinsurance Association of America, in 2013 approximately \$46 billion in total (P/C) reinsurance premiums were ceded by U.S.-based insurers to unaffiliated reinsurers; of this amount, approximately \$28.4 billion of premiums were ceded to non-U.S. reinsurers and approximately \$17.6 billion of premiums were ceded to U.S. professional reinsurers.

Total net premiums written by the U.S. reinsurance industry between 2001 to 2012 (in 000’s)





## Indian Market Opportunity in Financial Services

1) Alternative capital – [tribes are another form of alternative capital. Alternative capital making huge disruptive impact on traditional capital providers]

2) Minority status to obtain favorable reinsurance treaties.

3) Socially responsible investors. SRI counterparty. [WE NEED TO REALLY BEEF UP THIS MINORITY OWNED BUSINESS ANGLE.]

The United States Senate Committee on Finance, Joint Committee On Taxation said in its July 22, 2008 report, [n]ative Americans are a historically economically disadvantaged group in the United States. The average unemployment rate among Native Americans is nearly 50 percent. Today, the economic situation of Native Americans is worse than any other minority group.”

More than one out of every nine dollars under professional management in the United States today—11% of the \$33.3 trillion in total assets under management tracked by Thomson Reuters Nelson—is involved in sustainable and responsible investing (SRI).

At the end of 2011, \$3.74 trillion in total assets under management using one or more sustainable and responsible investing strategies, according to the US SIF Foundation’s Report on Sustainable and Responsible Investing Trends in the United States.

From 2010 to 2012, sustainable and responsible investing enjoyed a growth rate of more than 22 percent, increasing from \$3.07 trillion in 2010. SRI investing is also being offered directly to Main Street through mutual funds. As of year-end 2011, there were 333 mutual fund products in the United States that considered environmental, social, or corporate governance (ESG) criteria, with assets of \$640.5 billion. By contrast, there were just 55 SRI funds in 1995 with \$12 billion in assets.

3) The reinsurance markets in which we operate have historically been cyclical. During periods of excess underwriting capacity, as defined by the availability of capital, competition can result in lower pricing and less favorable policy terms and conditions for insurers and reinsurers.

During periods of reduced underwriting capacity, pricing and policy terms and conditions are generally more favorable for insurers and reinsurers. Historically, underwriting capacity has been affected by several factors, including industry losses, the impact of catastrophes, changes in legal and regulatory guidelines, new entrants, investment results (including interest rate levels) and the credit ratings and financial strength of competitors.

While our management believes that pricing trends for the type of quota share business on which we focus have been relatively stable, there is significant underwriting capacity currently available, and we therefore believe market conditions will remain competitive in the near term.

### Balance Sheet Strategy – Enhanced Cash

In order to establish the business as a reliable counterparty able to benefit from its sovereign status, Sovereign Re established an investment policy to mitigate duration risk, interest rate risk and liquidity.

**Cash.** The Net Proceeds of the offering will be maintained entirely in cash for the duration of the Issue. The cash deposit will be held with BNP Paribas SA (“BNP”), the third largest bank in the world – behind Industrial & Commercial Bank of China Limited, China Construction Bank Corporation – with over \$2.47 trillion in assets. BNP is rated by third party rating agencies Moody’s, Standard & Poor’s and Fitch as A2, A+ and A+, respectively, and, as such, the deposit bears the corporate credit rating of the bank.

**Ranking by Assets of Top 10 Banks in the World (as of November 2015)**

Current Rank	Previous Rank	BANK	Assets US\$m	+ or - (local curr)	Capital US\$m	Balance Sheet Date
1	1	Industrial & Commercial Bank of China Limited, China	3,124,474	+7.84%	58,035.91	31.12.13
2	2	China Construction Bank Corporation, China	2,537,402	+9.95%	41,292.09	31.12.13
3	3	BNP Paribas SA, France	2,474,078	-5.61%	36,849.92	31.12.13
4	4	Agricultural Bank of China Limited, China	2,405,091	+9.95%	53,643.29	31.12.13
5	5	Bank of China Limited, China	2,291,492	+9.41%	46,140.19	31.12.13
6	6	Deutsche Bank AG, Germany	2,214,678	-20.32%	3,587.14	31.12.13
7	7	Barclays Bank PLC, UK	2,173,936	-13.82%	3,977.48	31.12.13
8	8	Crédit Agricole SA, France	2,112,280	-4.98%	10,314.73	31.12.13
9	9	Japan Post Bank Co Ltd., Japan	1,961,701	+1.34	33,903.79	31.03.14
10	1.1	JPMorgan Chase Bank National Association, USA	1,945,467	+2.57%	1,785.00	31.12.13

**Enhanced Yield.** Investment yield is enhanced over cash alternatives – money markets, short-term government bonds – by linking the variable rate paid on the deposit to a BNP Index. The Index is constructed by the bank and is tied to the blended return of four funds. The four funds manage approximately \$90 billion, including two funds owned by Standard Life Investments, a £195.1 billion asset manager, and BNY Mellon, with US\$1.6 trillion in assets under management and US\$27.9 trillion in assets under custody and/or administration. – See [BNP Cash Account](#).

**Capital Protected.** In addition to the rating of the bank, the deposit is 100% principal protected by BNP at maturity. If redeemed before maturity, BNP guarantees the 95% of principal plus 95% of net accrued interest. Accordingly, Sovereign Re believes it has nominal risk to its regulatory capital.

**Liquid.** Full liquidity of the Sovereign Re balance sheet will maintained at all times as provided for in the BNP term deposit agreement. The BNP deposit agreement permits unlimited daily liquidity by the deposit holder.

**Regulatory Capital.** The cash term deposit will be reflected as cash on the balance sheet of Sovereign Re and will be treated as regulatory capital.

Management believes some of the benefits of this structure include the coexistence of three primary features – significant upside (alpha) investment return potential, with full principal protection assurance, while maintaining daily liquidity certainty. Moreover, management believes this balance sheet strategy may be less risky than establishing a portfolio of high quality investment grade bonds in a rising interest rate environment. – See \_\_\_\_\_.

Sovereign Re will not hold government securities in its capital account, consistent with its view of the probability of interest rate increases adversely impacting bond prices.

### **Tribal Competitive Advantages**

The Issuer considers the status of Sovereign Re to be a jurisdictional hybrid that combines the functional benefits of being offshore with the advantages to policyholders of Sovereign Re being a domestic insurance provider.

- For example, the Tribal Insurance Company cannot be deemed a controlled foreign corporation, and it is not required to make the 953(d) election in order to be deemed a domestic carrier for tax purposes.  
IMPLICATIONS? BENEFITS?
- Policyholders of Sovereign Re are also not subject to federal excise tax ("the FET"). Generally, section 4371(3) of the Internal Revenue Code of 1986, as amended (the "Code") imposes a 1% tax upon each policy of reinsurance whereby a contract of reinsurance is made, continued or renewed, if issued foreign corporation as reinsurer where the insurance related to US-situs risks. Accordingly, Sovereign Re has a 100 basis point pricing advantage over Bermuda-based reinsurers. Management believes this is a substantial advantage.
- As a domestic corporation, Sovereign Re also is not subject the Foreign Account Tax Compliance Act (FATCA). FATCA is a United States federal law that requires United States persons, including individuals who live outside the United States, to report their financial accounts held outside of the United States, and requires foreign financial institutions to report to the Internal Revenue Service (IRS) about their U.S. clients. Accordingly, clients of Sovereign Re are not subject to FATCA, though they have legally moved assets to a sovereign jurisdiction.

### **FATCA**

The Foreign Account Tax Compliance Act (FATCA) is a United States federal law that requires United States persons, including individuals who live outside the United States, to report their financial accounts held outside of the United States, and requires foreign financial institutions to report to the Internal Revenue Service (IRS) about their U.S. clients. Congress enacted FATCA to make it more difficult for U.S. taxpayers to conceal assets held in offshore accounts and shell corporations, and thus to recoup federal tax revenues.

FATCA is designed to increase compliance by U.S. taxpayers rather than to enforce collection from foreigners. FATCA requires foreign financial institutions to report information related to the ownership by U.S. persons of assets held overseas. Under U.S. tax law, U.S. persons are generally required to report and pay taxes on income from all sources. Taxpayer identification numbers and source withholding are used to enforce foreign tax compliance. For example, mandatory withholding is often required when a U.S. payor cannot confirm the U.S. status of a foreign payee. The United States levies income taxes on its citizens, regardless of residency, and therefore requires Americans living abroad to pay U.S. taxes on foreign income (minus credit for foreign tax paid). For this reason, the increased reporting requirements of FATCA have had extensive implications for U.S. citizens living abroad.

The IRS previously instituted a Qualified Intermediary (QI) program under Internal Revenue Code § 1441, which required participating foreign financial institutions to maintain records of the U.S. or foreign status of their account holders and to report income and withhold taxes. One report found that participation in the QI program was too low to have a substantive impact as an enforcement measure and was prone to abuse. An illustration of the weakness in the QI program was that UBS, a Swiss bank, had registered as a QI with the IRS in 2001 and was later forced to settle with the U.S. Government for \$780 million in 2009 over claims that it fraudulently concealed information on its American account holders. Self-reporting of foreign financial assets was also found to be relatively ineffective.

It has been estimated that the U.S. Treasury loses as much as \$100 billion annually to offshore tax non-compliance. Therefore, supplementing the reporting regimes already in place was deemed to be an effective means of increasing compliance and raising government revenue.

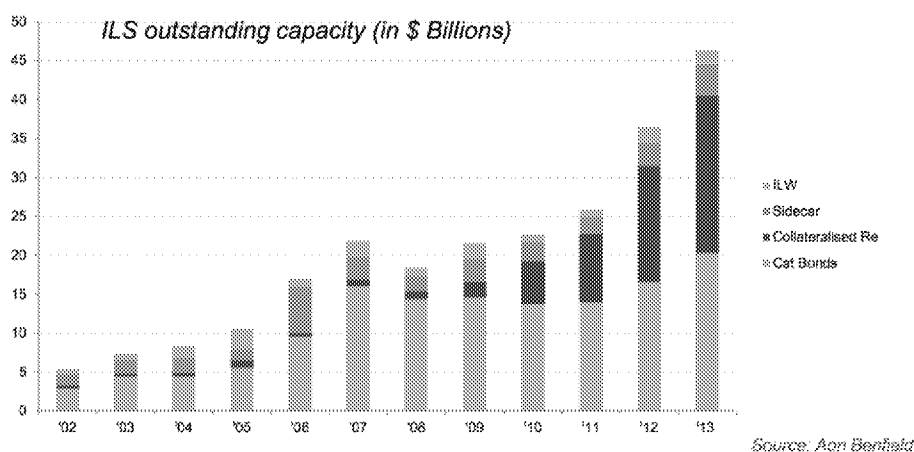
The tribe is tax free. Need section here... Gives competitive advantage over domestic reinsurers.

### **Alternative Capital Providers – Reinsurance Industry**

Non-traditional risk transfer structures have been gaining significant market share from traditional reinsurance companies. Alternative reinsurance is effectively any form of managing and transferring (re)insurance risk through the use of the capital markets rather than the traditional reinsurance market. These non traditional, or alternative, providers include most notably hedge fund backed Bermuda based start up insurance businesses, as well as financial instruments issued directly to the capital markets participants in the form of insurance-linked securities, like catastrophe bonds, other special purpose securitizations, collateralized quota-share reinsurance vehicles known as sidecars, or industry loss warranties (ILWs). The condition has been a convergence of the traditional reinsurance market and the capital markets.

Another important economic factor in convergence is the continued growth of investor demand for the alternative reinsurance sector as pension funds, other institutional investors and hedge funds have increased their allocation to this diversifying asset class. Fitch notes that even a 1% allocation of total global pension fund assets (estimated to be at least \$20 trillion) to ILS and reinsurance would represent a very significant \$200 billion of capacity. This increased demand has reduced pricing in many alternative reinsurance products, with Aon Benfield recently noting that ILS pricing is down 30% since fourth-quarter 2012. As a result, pricing is very competitive with, and even below, the rate on line for some traditional reinsurance coverage.

### Rising fast, but still no match for traditional capacity



Alternative capital: > USD 45bn of capacity, while 10 years ago it was < USD 10bn

Sovereign Re believes that its balance sheet strategy to remain in all cash presents a better risk management case to counterparty cedents than hedge fund sponsored reinsurers, which rely on the asset side performance of investments to generate positive returns, where such strategies are substantially similar, or identical to, the hedge fund investment portfolios.

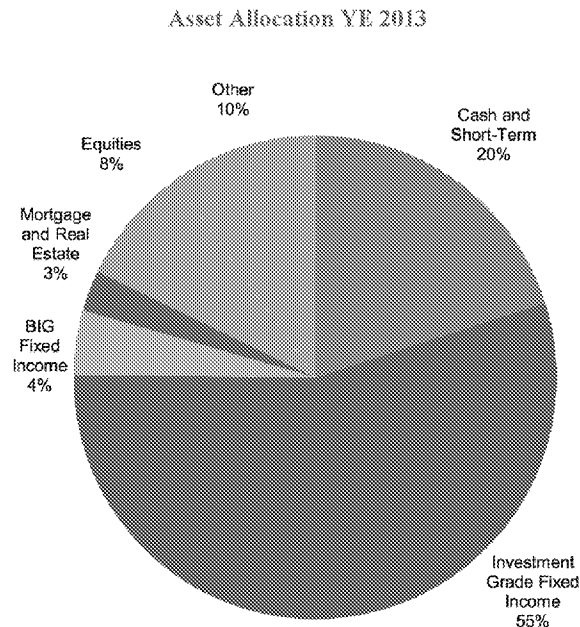
American insurance regulators have begun to amend regulations to curtail the activities of these new alternative capital providers. For example, in New York state, the Department Superintendent Benjamin M. Lawskey warned that “a very rapid growth in market share” had already occurred, expressing the concern that private equity firms “may not be long term players in the insurance industry and their short-term focus may result in an incentive to increase investment risk and leverage in order to boost short-term returns.” The Department later subpoenaed six such firms to come in and talk to the regulators about their existing or potential interest in insurance company ownership and to learn more about how their firms operate. Since then a new set of regulations has been implemented under which the New York Department of Financial Services proposed rules that would heighten transparency, disclosure, and financial standards in such deals in the state of New York.

As a government owned enterprise, Sovereign Re believes it will have an advantage over these start ups in its interaction with other governmental regulatory agencies on government-to-government basis. Sovereign Re also believes that counterparties will be attracted to its highly liquid cash-based balance sheet and to its low volatility strategy, especially when compared to hedge fund and private equity sponsors’ investments.

## Investment Strategy

Our investment strategy distinguishes us from most other reinsurers, who typically concentrate their investment portfolios on long-only, investment grade, shorter-term, fixed income securities – see below chart. Our investment strategy is intended to achieve superior risk-adjusted returns by deploying capital in both long and short investments with favorable risk/reward characteristics across select asset classes, sectors and geographies. We accomplish this strategy through our equity-linked, principal-protected investment product described herein.

Furthermore, we believe this strategy reduces our risk, in part, because of the current yield environment for fixed income securities. The National Association of Insurance Commissioners (NAIC) Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of US insurance companies. This shows an unprecedented amount of bonds that are currently priced at a significant premium in the insurers' portfolios. Given that the market interest rates have largely bottomed and credit spreads are near record tight levels, there is little opportunity for the bond prices to go much higher. Meanwhile, there is a lot more downside risk for bond market values when interest rates begin to rise. Historically low interest rates over the past several years have pushed broad bond market values significantly above their par values, exposing them to a material risk of market value loss when interest rates finally begin to rise.



Source: SNL Financial for US/Bermuda, Fitch data for European Reinsurers

It is unambiguous that bond prices will decline when interest rates begin to rise, and the longer-dated, lower-coupon bonds with longer duration will be impacted the most. Because of an extended period of low interest rates, this problem is exacerbated by the fact that the newest and, on average, longest-maturity bonds in the market (and in insurers' portfolios) will have historically low coupons. In time, their yields will eventually begin to erode, given the future higher interest rate environment. Additionally, the older bonds with higher coupons, which are currently trading at the highest premiums, are at the highest risk of price correction and premium loss. Given the insurance industry's substantial ownership of bonds trading at a significant premium to their par values, the risk of real market value

loss to these bond holdings is significant — even if most of the losses will not be reflected in statutory accounting, as neither have been the recent gains. Also, if these bonds had been purchased in the secondary market at a premium, as opposed to near par at new issuance, their future disposition (that is, as a sale or at maturity) will likely result in a real economic loss even under statutory accounting.

Nevertheless, the timing of future interest rate increases remains highly uncertain and continues to be postponed as the U.S. economy struggles to show a sustained recovery. As such, the Fed has made it pretty clear that the pace of future rate increases — when they do happen — will be gradual and measured. Therefore, the impact of falling bond prices is likely to occur incrementally over an extended period of time, rather than suddenly over a short period of time. Therefore, the markets and investors will have time to adapt and adjust their portfolios gradually so as to minimize the negative effect of rising interest rates. Additionally, any new bond issuance occurring during that time should provide increasingly higher yields, helping to mitigate (at least somewhat) the price depreciation of the older bonds.

## **Reinsurance Strategy**

Our reinsurance strategy is to build a reinsurance portfolio that generates stable underwriting profits, with margins commensurate with the amount of risk assumed, by opportunistically targeting sub-sectors of the market and specific situations where reinsurance capacity and alternatives may be constrained. Our management team has differentiated expertise that allows us to identify profitable reinsurance opportunities. The level of volatility in our reinsurance portfolio will be determined by market conditions but will typically be lower than that of most other reinsurance companies. We manage reinsurance volatility by focusing on lines of business that have historically demonstrated more stable return characteristics, auto, workers compensation and homeowners. These lines of business are often characterized as having exposure to higher frequency and lower severity claims activity. We seek to further manage the volatility of our reinsurance results by writing reinsurance contracts on a quota share basis, where we assume an agreed percentage of premiums and losses for a portfolio of insurance policies. We also make use of contractual terms and conditions within our reinsurance contracts that include individual or aggregate loss occurrence limits, which limit the dollar amount of loss that we can incur from a particular occurrence or series of occurrences within the term of a reinsurance contract; loss ratio caps, which limit the maximum loss we can incur pursuant to a contract to a defined loss ratio; sliding scale commissions that vary with accordance to the client's performance; and sub-limits and exclusions for particular risks not covered by a particular reinsurance contract.

We anticipate that most of our clients will buy reinsurance from us for capital management purposes, primarily to increase their capacity to write insurance premium. The most common form of reinsurance used for this purpose is quota share reinsurance. Many of the clients that buy these contracts are growing as a result of securing primary rate increases and growth in the number of policies they write. Because quota share reinsurance typically includes structural and contractual features that limit the amount of risk assumed by the reinsurer, it therefore carries relatively lower expected margins than excess of loss reinsurance and other more volatile forms of reinsurance. During periods of less favorable market conditions, margins on quota share reinsurance written for the capital management purposes of our clients typically remain stable and are sufficient to support our business plan. As market conditions improve, we may expand the lines of business and forms of reinsurance on which we focus to increase our risk-adjusted returns.

We typically write larger customized reinsurance contracts that require significant interaction during the course of negotiations between the client, intermediaries and our management. Our management team lead

underwrites most of our reinsurance contracts, meaning that we establish the pricing and terms and conditions of the reinsurance contract, except in certain instances where we will follow terms and conditions established by our competitors if we believe the opportunity meets our return hurdles and helps us balance our reinsurance portfolio.

Our property and casualty reinsurance operations also generate excess cash flows, or float, which we track in managing our business. We believe that continuing to seek net investment income from float is a key part of our reinsurance strategy and an important consideration in evaluating the overall contribution of our property and casualty reinsurance operations to our consolidated results.

## Management and Management Company

Sovereign Re has entered into a Management Agreement with Marsh IAS.

[INSERT MARSH INFO WHEN RECEIVED FROM DAVID]

## Marketing and Distribution

A majority of our business will be sourced through reinsurance brokers, which, given our board of directors, we expect will be predominantly represented by Marsh and by [Venbrook Insurance Services] . Brokerage distribution channels provide us with access to an efficient, variable cost and global distribution system without the significant time and expense that would be incurred in creating a wholly-owned distribution network. We believe that our financial strength rating, unencumbered balance sheet and superior client service are essential for creating long-term relationships with clients and brokers.

We aim to build and strengthen long-term relationships with global reinsurance brokers. Our management team has significant relationships with most of the primary and specialty broker intermediaries in the reinsurance marketplace. We believe that by maintaining close relationships with brokers we will be able to continue to obtain access to a broad range of reinsurance clients and opportunities. We focus on the quality and financial strength of any brokerage firm with which we do business. Brokers do not have the authority to bind us to any reinsurance contract.

We have entered into a service agreement with a specialist service provider. Under the agreement, the specialist provides administration and support in developing and maintaining relationships, reviewing and recommending programs and managing risks on certain specialty lines of business. The service provider does not have any authority to bind the Company to any reinsurance contracts.

Reinsurance brokers receive a brokerage commission that is usually a percentage of gross premiums written. We seek to become the first choice of brokers and clients by providing:

- customized solutions that address the specific business needs of our clients;
- rapid and substantive responses to proposal and pricing quote requests;
- timely payment of claims;



- financial security; and
- clear indication of risks we will and will not underwrite.

## **Underwriting and Risk Management**

We have established a senior team of generalist underwriters and actuaries to operate our reinsurance business. We believe that our underwriters' experience, coupled with our approach to underwriting, allows us to deploy our capital in a variety of lines of business and to capitalize on opportunities that we believe offer favorable returns on equity over the long term. Our underwriters and actuaries have expertise in a number of lines of business and we also look to outside consultants on a fee-for-service basis to help us with niche areas of expertise when we deem it appropriate. – See Devam \_\_\_\_\_

\*\*\*\*\*

### NOTES SECTION [DISREGARD]

Alternatives to traditional reinsurance essentially began following Hurricane Andrew, with the introduction of exchange traded insurance options in 1992, the first cat bond in 1994 and later sidecars in 2001, following the events of Sept. 11, 2001. However, the market began to grow significantly following Hurricane Katrina in 2005, as (re)insurers were essentially forced to increase issuances of catastrophe bonds and expand the use of sidecars in order to absorb underwriting capacity as retrocession availability became more scarce and expensive.

Unlike most sidecars that overwhelmingly focus on property and property catastrophe risk, Watford writes predominately longer-tail, multi-line casualty reinsurance business. This includes general casualty, professional liability, workers' compensation, nonstandard and standard auto lines.

Hedge fund-backed reinsurers are devised to generally take on less risk on the underwriting side, having tapped experienced reinsurance talent to operate the companies, while taking on more risk on the asset side, with a higher double-digit investment return expectation. As previously discussed, these reinsurers can underwrite to higher combined ratios, given higher investment return expectations, adding pressure to the market pricing environment.

{ PAGE \\* MERGEFORMAT }

The capital structure of the US reinsurance segment is changing, with increasing supplies of alternative capital from private equity and pension funds, rather than traditional sources such as debt and equities.

Finally, a change in capital market conditions, such as an increase in interest rates or credit spreads, could reverse investors' migration to higher-yielding assets, including ILS.

Fitch states.....A convergence of the reinsurance and capital markets persists with many companies both providing and using alternative forms of risk transfer to supplement the traditional balance sheet, transforming several reinsurers into risk asset managers.

Fitch views the growth and acceptance of alternative reinsurance as a mixed benefit for the credit quality of reinsurers' ratings. Favorably, they can be used to manage reinsurers' exposure and capital and serve as a source of fee income. Negatively, they represent competition for traditional reinsurers that, in conjunction with the strong overall capitalisation of the reinsurance industry, have worked to notably dampen reinsurance pricing.

**Strong Investor Demand:** Fitch Ratings believes that the comparatively high potential returns of catastrophe risk through cat bonds and sidecar investments are particularly attractive to investors, although this spread has been shrinking due to increased investor demand. However, the lack of correlation between catastrophe losses and returns on other major asset classes should continue to contribute to strong demand from investors, which include hedge funds, private equity and institutional investors.

In addition, insurance securitisations have grown to a level in which insurance-linked securities (ILS) funds have become an accepted asset class, attracting new investors. This has been driven in large part by the more favorable spreads available from catastrophe investments relative to the exceptionally low investment market yields, although this spread has been shrinking due to the increased investor demand. The market has expanded to an extent that individual investors can invest in multiple transactions to create a more diversified portfolio of insurance securitisations.

\*\*\*\*\*

## Hedge Fund-Backed Start-Up Reinsurers Not Yet Tested

Thus far, the recent start-up reinsurers sponsored by several well-known hedge funds have yet to be tested by either a significant catastrophe loss event or a sizable investment market stress environment. These entities, including Third Point Reinsurance Co. Ltd. (Third Point Re); AQR Re Ltd.; PaCRe, Ltd.; and S.A.C. Re Holdings, Ltd., commenced operations in 2012 in response to the protracted low-yield environment and the desire for a more long-term asset management vehicle.

These companies are Bermuda-domiciled (Class 4 or Class 3B [AQR]) reinsurers. As such, they are less regulated than many of the more traditional (re)insurers, thus increasing their attractiveness as a result of greater flexibility in investment and capital management strategies.

One similar company that has been somewhat more tested is Greenlight Capital Re, Ltd. (Greenlight), a Cayman Island-domiciled reinsurer that started underwriting operations in 2006 and completed an IPO in 2007. As such, they have successfully endured more catastrophe events and withstood the financial crisis period.

In August 2013, Third Point Re completed an IPO, taking another step in the evolution of the company. Fitch notes that this is the first sizable IPO in the property/casualty market space since 2007, when Greenlight was joined that year by Validus and Flagstone Reinsurance Holdings SA.

Hedge fund-backed reinsurers are devised to generally take on less risk on the underwriting side, having tapped experienced reinsurance talent to operate the companies, while taking on more risk on the asset side, with a higher double-digit investment return expectation. One concern that Fitch has for reinsurers that are reliant on hedge fund returns is their ability to withstand the volatility that has historically been experienced by hedge funds. A huge fall in asset values by a hedge fund could deplete a reinsurers' capital, putting potential strain on a company if it coincided with unusually high claims payouts.

Fitch believes that the long-term future of this approach ultimately depends on its relative success in generating superior risk-adjusted returns over the market cycle compared with other alternative and more traditional reinsurance market structures. Furthermore, the ability of these companies to manage exposure to both underwriting and asset events as insurance and investment market conditions change will be a critical factor to their future success or failure.

## **Target Products [BELOW IS LIFE. NEED P&C NARRATIVE TOO]**

Sovereign Re's target products include a wide range of annuity and life reinsurance products, such as yearly renewable term, coinsurance and modified coinsurance for term, universal and whole life policies. It may also offer block reinsurance structures that would enable clients to transfer previously underwritten groups of policies from their balance sheet to Sovereign Re. This would further enable companies to better manage their capital requirements and allocations.

The strategy for each product will be contingent on the objectives of the clients. For example, a particular life insurer may be seeking to reduce the 'statutory strain' associated with a new type of term life insurance that it has recently introduced to its agency force and needs to reduce the impact of high demand for the product on its capital and surplus. Sovereign Re would work with the client to create a coinsurance program that would enable them to roll out the new product without needing to worry about reducing their sales efforts.

Sovereign Re intends to exclude by way of carve-out any exposure to any guaranty elements of variable annuity policies, such as GMDB, GMIB and minimum investment return or face value guarantees. Sovereign Re believes that life insurance companies with such exposures will result in an increase in demand for reinsurance by third parties, such as Sovereign Re, in order to provide capital relief to the cedants. This is an important product demand element, given the recent experiences of certain major U.S. life insurers in this space that have recently taken large losses due to these guaranty features. Sovereign Re expects this trend to continue.

## **Marketing and Distribution Effort**

Sovereign Re targets life insurers who meet established criteria and standards set by Sovereign Re, which are based upon:

- perceived need and objective for reinsurance;
- qualitative factors such as the ability to submit quality data;
- overall management and corporate governance;
- historical financial performance, including volatility of earnings and capital; and
- distribution channels.

Once sufficient data has been gathered, representatives of Sovereign Re generally contact the chief executive officers, chief financial officers, chief actuaries and risk officers of the target life insurers to discuss the potential for a reinsurance transaction. The following target clients will comprise Sovereign Re's initial focus:

- **Mid-Sized and Small Insurance Companies** — Sovereign Re can partner with mid-sized and smaller writers not only to reinsure their business, but also to aid in designing, pricing and assessing the risk of new products. These types of arrangements will be favorable to both Sovereign Re and the mid-sized and smaller writers.
- **Insurers Exiting Specific Business Lines** — Sovereign Re can provide reinsurance solutions to companies that used to provide certain products but have since stopped providing such service and that are looking to effectively reduce or eliminate risks associated with a legacy block of business.

## THE 2015 FINANCIAL SERVICES AUTHORITY BONDS

### General Description

The 2015 Financial Authority Bonds (referred to herein as the Bonds) were initially issued only as fully registered bonds in minimum denominations of \$100,000 and in increments of \$5,000 in excess thereof. They are dated the date of delivery from the Issuer to the Selling Bond Holder and bear interest at the rates shown on the inside front cover page hereof. They shall bear interest until payment of the principal amount thereof and provisions therefore shall have been made upon redemption, at maturity or upon acceleration. Payment of the interest of and principal on the Bonds shall be in accordance with the schedule listed on Schedule I of the Trust Indenture attached hereto. In the event any of the payments of interest on or principal of the Bonds, in whole or in part, are made beyond their due date, the Issuer shall pay the Registered Owner as defined in the Indenture at the Default Rate as set forth in the Indenture. At the closing of the sale of the Bonds the purchase price will be adjusted for accrued but unpaid interest as of the closing date.

The 2015 Bonds were issued in the aggregate principal amount of five hundred million million dollars (\$500,000,000). The 2015 Bonds were issued substantially in the form attached hereto as Appendix A of the Trust Indenture with appropriate additions, deletions and variations, shall be dated the date of closing, and shall be subject to redemption prior to maturity in the manner and subject to the conditions therein and herein stated. The 2015 Bonds shall bear interest from September 12, 2015 or from the most recent Interest Payment Date to which interest has been paid or provided for on such 2015 Bonds, payable on the first day of each October commencing October 1, 2015 until payment of the principal amount thereof shall have been made or provided for upon redemption or at or after maturity, at the following annual rates of interest and shall mature as follows:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>
October 1, 2021	\$500,000,000	6.02%

### Record Date

{ PAGE \\* MERGEFORMAT }

The Record Date for each payment of interest on the Bonds is the close of business on the fifteenth day preceding such interest payment date or, if such day is not a business day of the Paying Agent, as defined in the Indenture, the next preceding day that is a regular business day of the Paying Agent.

### **Book-Entry Only System**

This section describes how ownership of the 2015 Bonds is to be transferred and how the principal of, premium, if any, and interest on the 2015 Bonds are to be paid to and credited by DTC while the 2015 Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Private Placement Memorandum. The Issuer believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The Issuer cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the 2015 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2015 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or

DTC will serve and act in the manner described in this Private Placement Memorandum. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2015 Bonds. The 2015 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of each series of the 2015 Bonds in the principal amounts of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

{ PAGE \\*MERGEFORMAT }

Purchases of 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2015 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2015 Bonds, except in the event that use of the book-entry only system for the 2015 Bonds is discontinued.

To facilitate subsequent transfers, all 2015 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2015 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 2015 Bonds may wish to ascertain that the nominee holding the 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2015 Bonds issued are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2015 Bonds, and redemption proceeds, will be made to Cede & Co., or such other nominee as may be required by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Paying Agent/Registrar on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption

proceeds and principal and interest to Cede & Co., or such other nominee as may be required by an authorized representative of DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2015 Bonds at any time by giving reasonable notice to the Issuer and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2015 Bonds will be printed and delivered.

Use of Certain Terms in Other Sections of this Private Placement Memorandum. In reading this Private Placement Memorandum it should be understood that while the 2015 Bonds are in the Book-Entry Only System, references in other sections of this Private Placement Memorandum to registered owners should be read to include the person for which the Participant acquires an interest in the 2015 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry Only System, and (ii) except as described above, notices that are to be given to registered owners will be given only to DTC.

Information in this section concerning DTC and the Book-Entry Only System has been obtained from sources that the Issuer believes to be reliable but neither the Issuer nor the Placement Agents take any responsibility for the accuracy thereof

### **Optional Bond Redemption**

The Bonds are subject to redemption in whole or in part, upon such notice, and upon such terms and conditions as may be expressed in the particular Bond, or, as the case may be, in the Indenture.

Redemption shall be made, subject to further notice requirements set forth in Section 6.2 of the Indenture. In accordance with the terms and conditions expressed in the particular Bond, no representation is made as to the accuracy of such numbers either as printed on the 2015 Bonds or as contained in any notice of redemption and reliance may be placed only on the identification number printed hereon.

## **SECURITY FOR THE BONDS**

### **General**

The Bonds are special and limited obligations of the Issuer and are payable solely from, and secured by, among other things, Pledged Revenues (as more specifically defined in the Indenture), which includes, among other things, earnings from the Annuity Investment to be made by the Issuer from the proceeds received by the Issuer for the issuance of the Bonds, earnings from certain projects to be funded from the earnings from the Annuity Investment, and certain funds (and income derived therefrom) held in certain “funds” to be established pursuant to the Indenture.

### **Pledged Revenues**

The Issuer has covenanted and agreed in the Indenture that it will at all times collect Pledged Revenues that will be sufficient, together with any interest, income and profits received from the investments of moneys in any “Fund” created under the Indenture and any uncommitted balances in the Bond Redemption and



Improvement Fund (as defined in the Indenture), to provide an amount equal to at least 100% of the annual Debt Service Requirement (as defined in the Indenture) due. The “Funds” referred to in the preceding paragraph include a Revenue Fund, a Debt Service and Sinking Fund, Corporation Account(s), a Bond Redemption and Improvement Fund and a Project Fund each created and more fully described in Article VI of the Indenture. Except for the Corporation Account(s), which shall be under joint control by the Issuer and the Trustee, each Fund shall be held by the Trustee until disbursed as authorized by and in accordance with Article VI of the Indenture.

The majority of the proceeds from the sale of the Bonds by the Issuer have been initially invested in a segregated account maintained by the Insurance Provider pursuant to the Issuer’s purchase from the Insurance Provider of an insurance contract referred to herein as the “Annuity.” The Issuer paid the premium from the proceeds it received for the issuance of the Bonds. The Insurance Provider agreed to issue the guarantee of principal and to make annual distributions set forth in the Annuity upon receipt of the premium. Payments received by the Issuer from the Annuity Investment shall be deposited into the Revenue Fund.

The moneys in the Revenue Fund are being held by the Trustee in trust and applied as provided and in the order of priority as set forth in the Indenture. Pending such application, all moneys in the Revenue Fund are subject to a lien and charge in favor of the holders of the outstanding Bonds.

#### **Lien of Indenture**

Pursuant to the Indenture, the Issuer assigned and granted a security interest to the Trustee in the funds and investments held pursuant to the Indenture. Pursuant to the Pledge Agreement, the Tribe assigned and granted a security interest to the Trustee in the funds and investments held pursuant to the Annuity Agreement.

#### **BNP Cash Account. [INSERT LEGAL LANGUAGE FROM THE BNP DOCUMENTS]**

The Net Proceeds of the offering will be maintained entirely in cash for the duration of the Issue. The cash deposit will be held with BNP Paribas SA (“BNP”). BNP is rated by third party rating agencies Moody’s, Standard & Poor’s and Fitch as A2, A+ and A+, respectively, and, as such, the deposit bears the corporate credit rating of the bank. The deposit is 100% principal protected by the bank at maturity. If redeemed before maturity the bank guarantees the 95% of principal plus 95% of net accrued interest. Full liquidity of Sovereign Re will be maintained at all times as provided for in the BNP term deposit agreement. The BNP deposit agreement permits unlimited daily liquidity by the deposit holder.

### **THE INDENTURE**

Although this Private Placement Memorandum attempts to summarize certain of the key provisions of the Trust Indenture Investors are cautioned that a summary cannot properly convey the full meaning of the important rights and obligations, which are contained within the body of that agreement. As previously noted, a copy of the Indenture is appended hereto as Appendix A.

### **INVESTMENT CONSIDERATIONS**

*The following section describes certain risk factors affecting the payment of and security for the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Potential investors are advised to consider the following factors, along with all other information in this Private Placement*

{ PAGE \\* MERGEFORMAT }

*Memorandum, in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.*

### **Bond Transfer Restrictions; No Secondary Market**

The Bonds have been issued in Authorized Denominations, being denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof and are subject to substantial transfer restrictions. The Bonds may only be sold (including in all secondary market transactions) to Accredited Investors and Qualified Institutional Buyers. See “Bond Transfer Restrictions” herein and Appendix C – “Bond Transfer Restrictions” attached hereto.

There is no public market for the Bonds and none is expected to develop in the future. Therefore, investors should be aware that they might be required to bear the financial risks of this investment for an indefinite period of time. Further, to the extent a secondary market for the Bonds develops, the secondary market price of the Bonds may be affected adversely as a result of the transfer restrictions on the Bonds.

### **Special and Limited Obligations**

The 2015 Financial Authority Bonds are special and limited obligations of the Issuer payable solely from, and secured by, among other things, Payments by the Insurance Provider to the Issuer, amounts on deposit in the Bond Redemption and Improvement Fund, the Sinking Fund, and the Project Fund. The 2015 Financial Authority Bonds and the payment of principal and interest thereon are not general obligations of the Issuer.

### **Federal Recognition Confers Tax Benefits Which May Not Extend to All Contemplated Activities**

No specific Code provision governs the U.S. income tax liability of Indian tribes. However, the Internal Revenue Service (“IRS”) has long taken the position that federally recognized Indian tribes – which the Oglala Sioux are so recognized - and wholly owned tribal corporations chartered under section 17 of the Indian Reorganization Act of 1934 and section 3 of the Oklahoma Indian Welfare Act – which the Issuer is - are not taxable entities for U.S. income tax purposes and are exempt from U.S. income taxes, regardless of whether the activities that produced the income are commercial or noncommercial in nature or are conducted on or off the Indian tribe’s reservation. This legal position is reflected in the 2012 report by the Staff of the Joint Congressional Committee on Taxation report entitled the *Overview Of Federal Tax Provisions And Analysis Of Selected Issues Relating To Native American Tribes And Their Members*. Notwithstanding the legal precedent and the position of Congress, it is possible that in the future the federal government may deem the business to be taxable, and subject to collection of taxes, including excise tax. Such a determination would have a material undeterminable adverse effect on the Issuer’s proposed business activities.

### **Redemption**

The 2015 Bonds are subject to redemption upon the occurrence of certain events more particularly described under “THE 2015 BONDS – Redemption Prior to Maturity.” Owners of 2015 Bonds are subject to these rights of redemption and owners of 2015 Bonds will be unable to continue to hold their 2015 Bonds in the event of redemption.

### **Limitations on Resale**

The 2015 Bonds have not been registered under the 1933 Act in reliance upon exemptions contained in Regulation D to the 1933 Act, or under chapter 11 of title 7 of the General Laws of Rhode Island (1956, as reenacted 1999), nor have the 2015 Bonds been registered or qualified under the securities laws of any other state of the United States. The 2015 Bonds will not be listed on any stock or other securities exchange.

The Agreement has not been qualified under the 1939 Act. The 2015 Bonds will be offered to “accredited investors” within the meaning of Rule 501(a) promulgated under the 1933 Act. The 2015 Bonds are subject to restrictions on resale and transferability under federal and state securities laws, and purchasers may not transfer or resell the 2015 Bonds except as provided under applicable federal and state securities laws or pursuant to proper registration or exemption therefrom. Any qualification of the Agreement under the 1939 Act may require amendments thereof.

### **Limited Recourse against the Issuer and the Tribe and the Tribe's Assets; Enforceability Risk**

The Issuer is a federally-chartered corporation owned 100% by the Tribe and is an instrumentality of the Tribe, which is a sovereign nation and generally immune from legal proceedings commenced in federal court, tribal court and state courts. In the Indenture and the Tribal Government’s Resolution Authorizing the Bond (together, the “Bond Documents”), the Issuer has waived its sovereign immunity and consented to suits against it only in connection with the Bonds, the Pledge Agreement and the Bond Documents. In the Tribal resolution approving the execution and delivery of the Pledge Agreement, the Tribe has waived its sovereign immunity and consented to suit against it in connection with the Pledge Agreement. However, enforcement of a final judgment against the Issuer could be affected by disputes over the waiver of sovereign immunity, and will be subject to limitations imposed by federal law.

### **Effect of Bankruptcy on Security for the Bonds**

Bankruptcy proceedings and equity principles may delay or otherwise adversely affect the ability of the Trustee to obtain amounts due under or the Indenture. Remedies under the Indenture under existing law may not be readily available or may be limited. Also, federal bankruptcy law permits adoption of a reorganization plan for a debtor even though it has not been accepted by the holders of a majority in aggregate amount of the Bonds, if the Bondholders are provided with the benefit of their original lien or the “indubitable equivalent.” In addition, if the bankruptcy court concludes that the Bondholders have “adequate protection,” it may (a) substitute other security subject to the lien of the Trustee and (b) subordinate the lien of the Trustee to (i) claims by persons supplying goods and services to the debtor after bankruptcy, and (ii) the administrative expenses of the bankruptcy proceeding. The bankruptcy court may also have the power to invalidate certain provisions of the Indenture that make bankruptcy and related proceedings by the Issuer an event of default thereunder.

The Supreme Court of the United States has held that Indian Tribes, including instrumentalities and subsidiaries, have sovereign immunity from suit unless the Tribe itself clearly and explicitly waives its immunity or Congress expresses an unequivocal intent to abrogate that immunity. *Oklahoma Tax Comm. v. Citizen Band of Potawatomi Indian Tribe of Okla.*, 498 U.S. 505, 509 (1991). The Ninth Circuit Court of Appeals has ruled that Congress did abrogate Tribal sovereign immunity under the United States Bankruptcy Code, 11 U.S.C. §101 et seq., by specifically abrogating sovereign immunity for all “domestic governments” which includes Tribal governments. *Krystal Energy Co. v. Navajo Nation*, 357 F.3d 1044 (2004). Therefore, the sovereign immunity of the Tribe does not preclude commencement of an involuntary bankruptcy action in federal court against the Tribe under the United States Bankruptcy Code.

### **Risks Relating to Our Business**

**We are a start-up operation with limited historical information available for investors to evaluate our performance or a potential investment in our shares.**

We have a limited history of operations. We were incorporated on \_\_\_\_\_, 2015. As a result, there is no historical information available to help prospective investors evaluate our performance or an investment in our shares.

In general, reinsurance and insurance companies in their initial stages of development present substantial business and financial risks and may suffer significant losses. They must develop business relationships, establish operating procedures, hire staff, install information technology systems, implement management processes and complete other tasks appropriate for the conduct of their intended business activities. In particular, our ability to implement our reinsurance underwriting strategy will depend on, among other things:

We cannot assure you that there will be sufficient demand for the reinsurance products we plan to write to support our planned level of operations, or that we will accomplish the tasks necessary to implement our business strategy.

- our ability to attract clients;
- our ability to attract and retain personnel with sufficient underwriting, actuarial and accounting and finance expertise;
- our ability to maintain at least an A- (Excellent) rating from A.M. Best or a similar financial strength rating from one or more other ratings agencies;
- our ability to evaluate the risks we assume under reinsurance contracts that we write; and
- our reliance on third parties to provide certain services

**Our operational structure is currently being developed.**

We are in the process of developing and implementing our operational structure and enterprise risk management framework, including exposure management, financial reporting, information technology and internal controls, with which we will conduct our business activities. Our operations are currently supplemented by manual processes, and we expect to migrate over time to a fully-automated control system. While we utilize manual processes, our controls may not be adequate to identify or eliminate risks. There can be no assurance that the development of our operational structure or the implementation of our enterprise risk management framework will proceed smoothly or on our projected timetable or achieve the aforementioned goals.

**The preparation of our financial statements requires us to make many estimates and judgments, which are even more difficult than those made in a mature company, and which, if inaccurate, could cause volatility in our results.**

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. Management believes the item that requires the most subjective and complex estimates is the reserve for losses and loss expenses. Due to our relatively short operating history, loss experience is limited and reliable evidence of changes in trends of numbers of claims incurred, average settlement amounts, numbers of claims outstanding and average losses per claim may take years to develop. In addition, the possibility of future litigation or legislative change that may affect interpretation of policy terms further increases the degree of uncertainty in the reserving process. The uncertainties inherent in the reserving process, together with the potential for unforeseen developments, including changes in laws and the prevailing interpretation of policy terms, may result in losses and loss expenses materially different from the reserves initially established. Changes to prior year reserves will affect current underwriting results by increasing net income if the prior year reserves prove to be redundant or by decreasing net income if the prior year reserves prove to be insufficient. We expect volatility in results in periods in which significant loss events occur because U.S. GAAP does not permit insurers or reinsurers to reserve for loss events until they have occurred and are expected to give rise to a claim. As a result, we are not allowed to record

contingency reserves to account for expected future losses. We anticipate that claims arising from future events may require the establishment of substantial reserves from time to time.

**Established competitors with greater resources may make it difficult for us to effectively market our products or offer our products at a profit.**

The reinsurance industry is highly competitive. We compete with major reinsurers, many of which have substantially greater financial, marketing and management resources than we do, as well as other potential providers of capital willing to assume insurance or reinsurance risk. Competition in the types of business that we underwrite is based on many factors, including:

Our competitors include, among others, Tokio Millennium Re Ltd., Endurance Specialty Reinsurance Ltd., AXIS Specialty Limited, Arch Reinsurance Ltd., ACE Tempest Reinsurance Ltd., Transatlantic Reinsurance Company and S.A.C. Re, Ltd. In addition, Greenlight Reinsurance, Ltd. has a business model similar to ours, and we expect to compete with them in many lines of business and geographies. In addition, in the future, we may have to compete for the type of reinsurance we intend to underwrite with new start-up companies that have a business model similar to ours.

We cannot assure you that we will be able to compete successfully in the reinsurance market. Our failure to compete effectively would significantly and negatively affect our financial condition and results of operations

- price of reinsurance coverage;
- the general reputation and perceived financial strength of the reinsurer;
- relationships with reinsurance brokers;
- terms and conditions of products offered;
- ratings assigned by independent rating agencies;
- speed of claims payment and reputation; and
- the experience and reputation of the members of our underwriting team in the particular lines of reinsurance we seek to underwrite

**If actual renewals of our existing contracts do not meet expectations, our premiums written in future years and our future results of operations could be materially adversely affected.**

Many of our contracts are generally written for a one-year term. In our financial forecasting process, we make assumptions about the renewal of our prior year's contracts. The insurance and reinsurance industries have historically been cyclical businesses with intense competition, often based on price. If actual renewals do not meet expectations or if we choose not to write on a renewal basis because of pricing conditions, our premiums written in future years and our future operations would be materially adversely affected. This risk is especially prevalent in the first quarter of each year when a larger number of reinsurance contracts are subject to renewal.

**Operational risks, including human or systems failures, are inherent in our business.**

Operational risks and losses can result from many sources including fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements or information technology failures.

We believe our modeling, underwriting and information technology and application systems are critical to our business and reputation. Moreover, our technology and applications are an important part of our underwriting process and our ability to compete successfully. We have licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable systems, or that our technology or applications will continue to operate as intended. In addition, we cannot be certain that we would be able to replace these systems without slowing our underwriting response time. A major defect or failure in our internal controls or information technology and application systems could result in management distraction, harm to our reputation, a loss or delay of revenues or increased expense.

**Technology breaches or failures, including those resulting from a malicious cyber-attack on us or our business partners and service providers, could disrupt or otherwise negatively impact our business.**

We rely on information technology systems to process, transmit, store and protect the electronic information, financial data and proprietary models that are critical to our business. Furthermore, a significant portion of the communications between our employees and our business, banking and investment partners depends on information technology and electronic information exchange. Like all companies, our information technology systems are vulnerable to data breaches, interruptions or failures due to events that may be beyond our control, including, but not limited to, natural disasters, theft, terrorist attacks, computer viruses, hackers and general technology failures.

We believe that we have established and implemented appropriate security measures, controls and procedures to safeguard our information technology systems and to prevent unauthorized access to such systems and any data processed or stored in such systems, and we periodically evaluate and test the adequacy of such systems, controls and procedures. In addition, we have established a business continuity plan which is designed to ensure that we are able to maintain all aspects of our key business processes functioning in the midst of certain disruptive events, including any disruptions to or breaches of our information technology systems. Our business continuity plan is routinely tested and evaluated for adequacy. Despite these safeguards, disruptions to and breaches of our information technology systems are possible and may negatively impact our business.

It is possible that insurance policies we have in place with third parties would not entirely protect us in the event that we experienced a breach, interruption or widespread failure of our information technology systems. Furthermore, we have not secured insurance coverage designed to specifically protect us from an economic loss resulting from such events.

Although we have never experienced any known or threatened cases involving unauthorized access to our information technology systems or unauthorized appropriation of the data contained within such systems, we have no assurance that such technology breaches will not occur in the future.

**We may not be able to manage our growth effectively.**

We intend to grow our business in the future, which could require additional capital, systems development and skilled personnel. We cannot assure you that we will be able to meet our capital needs, expand our systems effectively, allocate our human resources optimally, identify and hire qualified employees or incorporate effectively the components of any businesses we may acquire in our effort to achieve growth. Additionally, as we grow, the ability of our management to source sufficient reasonably priced reinsurance business in the segments we target may be limited. The failure to manage our growth effectively could have a material adverse effect on our business, financial condition, and results of operations.

**Our losses may exceed our loss reserves, which could significantly and negatively affect our business.**

{ PAGE \\* MERGEFORMAT }

Our results of operations and financial condition depends upon our ability to assess accurately the potential losses associated with the risks we reinsure. Reserves are estimates of claims an insurer ultimately expects to pay, based upon facts and circumstances known at the time, predictions of future events, estimates of future trends in claim severity and other variable factors. The inherent uncertainties of estimating loss reserves generally are greater for reinsurance companies as compared to primary insurers, primarily due to:

Actual losses and loss adjustment expenses paid may deviate substantially from the estimates of our loss reserves, to our detriment. If we determine our loss reserves to be inadequate, we will increase our loss reserves with a corresponding reduction in our net income in the period in which we identify the deficiency. Such a reduction would negatively affect our results of operations. If our losses exceed our loss reserves, our financial condition may be significantly and negatively affected.

As a newly formed reinsurance company, we do not have the benefit of extended loss experience with our cedents. With additional time, we may determine that our cedents' loss emergence, incurred and payment patterns are different from those implied in the original submission data. Consequently, we may experience greater than average deviation in our loss reserve estimates when compared to our more established competitors.

- the lapse of time from the occurrence of an event to the reporting of the claim and the ultimate resolution or settlement of the claim;
- the diversity of development patterns among different types of reinsurance treaties; and
- the necessary reliance on the client for information regarding claims.

**The reinsurance industry is highly cyclical, and we expect to continue to experience periods characterized by excess underwriting capacity and unfavorable premium rates.**

Historically, reinsurers have experienced significant fluctuations in operating results due to competition, frequency of occurrence or severity of catastrophic events, levels of capacity, general economic conditions, changes in equity, debt and other investment markets, changes in legislation, case law and prevailing concepts of liability and other factors. In particular, demand for reinsurance is influenced significantly by the underwriting results of primary insurers and prevailing general economic conditions. The supply of reinsurance is related to prevailing prices and levels of surplus capacity that, in turn, may fluctuate in response to changes in rates of return being realized in the reinsurance industry on both underwriting and investment sides.

As a result, the reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to high levels of available underwriting capacity as well as periods when shortages of capacity have permitted favorable premium levels and changes in terms and conditions. The supply of available reinsurance capital has increased over the past several years and may increase further, either as a result of capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers.

Continued increases in the supply of reinsurance may have consequences for us and for the reinsurance industry generally, including fewer contracts written, lower premium rates, increased expenses for customer acquisition and retention, and less favorable policy terms and conditions. As a result, we may be unable to fully execute our reinsurance strategy of selling lower-volatility business. The effects of cyclicity could significantly and negatively affect our financial condition and results of operations.

**Our ability to pay dividends may be constrained by our holding company structure and certain regulatory and other factors.**

Sovereign Reinsurance Ltd. is a holding company that conducts no reinsurance operations of its own. The majority of our reinsurance operations are conducted through our wholly-owned operating subsidiary, Sovereign Re, and Sovereign Re may also receive income relating to its shareholdings in the Catastrophe Fund. Our cash flows consist primarily of dividends and other permissible payments from Sovereign Re and income generated from management fees payable to the Catastrophe Fund Manager, our majority owned subsidiary that provides management services to the catastrophe fund. Sovereign Reinsurance Ltd. depends on such payments to receive funds to meet its obligations, including the payment of any dividends and other distributions to our shareholders.

**We depend on our clients' evaluations of the risks associated with their insurance underwriting, which may subject us to reinsurance losses.**

In most of our quota share reinsurance business we do not separately evaluate each of the original individual risks assumed under these reinsurance contracts. Therefore, we are dependent on the original underwriting decisions made by ceding companies. We are subject to the risk that the clients may not have adequately evaluated the insured risks and that the premiums ceded may not adequately compensate us for the risks we assume. We also do not separately evaluate each of the individual claims made on the underlying insurance contracts. Therefore, we are dependent on the original claims decisions made by our clients. We are subject to the risk that the client may pay invalid claims, which could result in reinsurance losses for us.

**The involvement of reinsurance brokers subjects us to their credit risk.**

In accordance with industry practice, we frequently pay amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, remit these amounts to the ceding companies that have reinsured a portion of their liabilities with us. In some jurisdictions, if a broker fails to make such a payment, we might remain liable to the client for the deficiency notwithstanding the broker's obligation to make such payment. Conversely, in certain jurisdictions, when the client pays premiums for policies to reinsurance brokers for payment to us, these premiums are considered to have been paid and the client will no longer be liable to us for these premiums, whether or not we have actually received them. Consequently, we assume a degree of credit risk associated with reinsurance brokers around the world.

**The inability to obtain business provided from brokers could adversely affect our business strategy and results of operations.**

We market our reinsurance worldwide primarily through reinsurance brokers. Business placed by our top three reinsurance brokers, Guy Carpenter & Company, LLC, Advocate Reinsurance Partners, LLC, and Aon Benfield, accounted for almost 60% of our gross premiums written during the year ended December 31, 2012. Affiliates of these brokers have also co-sponsored the formation of Bermuda reinsurance companies that may compete with us, and these brokers may favor their own reinsurers over other companies. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

**Potential conflicts of interest with AAM LLC may exist that could adversely affect us.**

Neither AAM LLC nor its principals, are obligated to devote any specific amount of time to our affairs. Affiliates of AAM LLC manage, and expect to continue to manage other client accounts, some of which have objectives similar to ours, including collective investment vehicles managed by AAM LLC's affiliates and in which AAM LLC or its affiliates may have an equity interest. Pursuant to our investment management agreement with AAM LLC, AAM LLC has the exclusive right to manage our investment portfolio and is required to follow our investment guidelines and act in a manner that is fair and equitable in allocating investment opportunities to



us, but the agreement does not otherwise impose any specific obligations or requirements concerning allocation of time, effort or investment opportunities to us or any restriction on the nature or timing of investments for our account and for AAM LLC's own account or other accounts that AAM LLC or its affiliates may manage. AAM LLC's interest and the interests of its affiliates, may at times conflict, possibly to AAM LLC's detriment, which may potentially adversely affect our investment opportunities and returns.

**The U.S. and global economic downturns could harm the performance of our investment portfolio, our liquidity and financial condition and our share price.**

Volatility in the United States and other securities markets may adversely affect our investment portfolio. The ability of AAM LLC to manage our investment portfolio profitably is dependent upon conditions in the global financial markets and economic and geopolitical conditions throughout the world that are outside of our control and difficult to predict. Factors such as equity prices, equity market volatility, asset or market correlations, interest rates, counterparty risks, availability of credit, inflation rates, economic uncertainty, changes in laws or regulation (including laws relating to the financial markets generally or the taxation or regulation of the hedge fund industry), trade barriers, commodity prices, interest rates, currency exchange rates and controls, and national and international political circumstances (including governmental instability, wars, terrorist acts or security operations) can have a material impact on the value of our investment portfolio.

If AAM LLC, as our investment manager, fails to react appropriately to difficult market, economic and geopolitical conditions, our investment portfolio could incur material losses.

#### **FORWARD-LOOKING STATEMENTS**

This Private Placement Memorandum contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Private Placement Memorandum, the words "estimate," "forecast," "intend," "expect," "project" and similar expression identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

#### **POTENTIAL LITIGATION**

To the best of the knowledge of the Issuer and the Tribe, there is currently no litigation or referendum proceedings pending against the Issuer or the Tribe in connection with the issuance by the Issuer of the Bonds, the execution or delivery of the Pledge Agreement, the undertaking of purchasing the Annuity or that would materially interfere with the ability of the Issuer to perform its obligations under the Indenture and the Pledge Agreement.

#### **CONTINUING DISCLOSURE**

The Issuer covenants to provide to the Trustee for the benefit of the holders of the Bonds certain financial and operating data on an annual basis in accordance herewith. The Issuer agrees to the following:

- i. to provide at least annually to the Trustee the following annual financial information and operating data with respect to the Issuer for each of its fiscal years, beginning within 210 days of the current fiscal year:

- a. the financial statements for the most recent fiscal year of the Issuer prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards;
  - b. the Annuity's valuation report for the most recent year, prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards; and
  - c. a summary of the Issuer's budget for the new fiscal year;
- ii. to provide in a timely manner not in excess of (10) business days after the occurrence of the event notice of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) modifications to rights of holders of the Bonds, if material; (5) bond calls, if material, and tender offers; (6) defeasances; (7) rating changes; (8) bankruptcy, insolvency, receivership or similar event of the Issuer; and (9) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Obligors may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, but the Obligors do not commit to provide any such notice of the occurrence of any events except those specifically listed above.

#### **LEGAL MATTERS**

The validity of the Bonds and certain other legal matters have been passed upon by Greenberg Traurig LLP, Denver, Colorado, Issuer Counsel, and as to certain other conditions referred to herein. Certain legal matters in connection with the 2015 Financial Authority Bonds have been passed upon by Dilworth Paxton, LLP, Philadelphia, Pennsylvania, as Counsel to the Placement Agent.

#### **PLACEMENT OF THE BONDS**

Under a placement agreement entered into between the Issuer and Burnham Securities the Placement Agent for this offering, the Burnham Securities received a \$60,000 fee from the Issuer for the sale of the Bonds by the Issuer. Under a placement agreement entered into between the Selling Bond Holder and Burnham Securities, the Placement Agent for this offering, the Placement Agent has agreed to use its best efforts in arranging for the placement and sale of the Bonds for which it will receive a fee of \$75,000. The Selling Bond Holder has authorized the use of this Private Placement Memorandum.

#### **RATINGS**

Standard & Poor's Rating Service ("S&P") and Moody's Investors Service ("Moody's") is expected to assign ratings of \_\_\_\_\_ respectively, based upon the understanding that the payment of the principal of and interest on the 2015 Bonds will be guaranteed by a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp. [NEEDED?] simultaneously with the delivery of the 2015 Bonds.

S & P and Moody's have assigned underlying ratings of \_\_\_\_\_ and \_\_\_\_\_, respectively, on the 2015.

Such ratings reflect only the views of the respective ratings organizations, and any explanation of the meaning or significance of such ratings may be obtained from the respective ratings agency. The Issuer and the State furnished to the rating agencies certain information and materials, some of which have not been included in this Private Placement Memorandum. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies and assumptions. There is no assurance that a rating when assigned will be maintained for any given period of time or that it may not be revised downward or withdrawn entirely by a ratings agency if in their judgment circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the marketability or market price of the 2015 Bonds.

The Issuer and the State expect to furnish each rating agency with information and materials that it may request. The Issuer and the State, however, assume no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of the debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the 2015 Bonds.

#### MISCELLANEOUS

The Issuer has furnished the information in this Private Placement Memorandum relating to the Issuer.

The Tribe has furnished Appendix A to the Private Placement Memorandum only.

Copies of the Agreement may be obtained from the Issuer's Executive Director, \_\_\_\_\_ (telephone: (\_\_\_\_) \_\_\_\_\_).

All statements in this Private Placement Memorandum involving matters of opinion, estimates, forecasts, projects, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such opinions or the like will be realized. The agreements of the Issuer are fully set forth in the Agreement in accordance with the Act and this Private Placement Memorandum is not to be construed as a contract or agreement between the Issuer or the State and the purchasers or Owners of any of the 2015 Bonds.

This Private Placement Memorandum is submitted in connection with the sale of the 2015 Bonds by the Issuer and may not be reproduced or used, in whole or in part, for any other purpose. Concurrently with the delivery of the 2015 Bonds, the State will furnish a certificate executed on behalf of the State by its Acting Budget Officer to the effect that Appendix A to this Private Placement Memorandum, as of the date of this Private Placement Memorandum and as of the date of delivery of the 2015 Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. This Private Placement Memorandum has been duly authorized and approved by the Issuer and duly executed and delivered on its behalf by the officials signing below.

Dated: \_\_\_\_\_, 2015