INTRODUCTION TO CAT BONDS

As of 12/31/2025

EMBASSY

BENEFITS OF CATASTROPHE ("CAT") BONDS

Cat Bonds offer potentially attractive income with minimal credit, interest rate or liquidity risk. Instead of taking these traditional investment risks, Cat Bonds are exposed to the risk of large insured losses caused by natural disasters. Events like hurricanes, typhoons and earthquakes are generally unrelated to traditional investments. Accordingly, an allocation to Cat Bonds may also help investors to diversify their portfolios.

WHAT ARE CAT BONDS?

Cat Bonds are a type of alternative investment that have the potential to perform differently than traditional stocks and bonds.

Cat Bonds are securities that are typically exposed to large insured losses from events such as earthquakes and hurricanes. Cat Bonds tend to cover developed world regions with significant insured property values, particularly in Europe, the United States, and Japan.

The main reason that Cat Bonds are created is to help companies and governments hedge themselves. Companies such as Allstate, USAA and Munich Re as well as governments such as the State of Louisiana or the State of California may find themselves overconcentrated in natural disaster risks related to their jurisdiction. Cat Bonds are a tool that they can use to reduce some of their natural disaster risk.

Cat Bond investors effectively act as sellers of insurance, whereby they receive premiums (which are embedded in Cat Bond coupons) with certainty but risk potentially having to pay claims (in the form of principal reduction) if there is a large insured loss. This can sound like a scary investment proposition at first blush! Fortunately, we believe that there is a reasonable way to invest in the asset class.

One of the most interesting and special things about the asset class is that the risks across Cat Bonds are generally unrelated. For example, it would be hard to see how a bond that covers German winter storm would have any overlap with a bond that covers Japan earthquake or a bond that covers Houston hurricane. It is unlikely that those events would cause each other. It follows that we can apply the principles of diversification to build a portfolio of Cat Bonds with interesting risk & return prospects.[1] The basic idea is to 'spread the bets' across unrelated perils and don't 'load up' on any particular peril.

[1] Diversification does not assure a profit nor protect against loss in a declining market.

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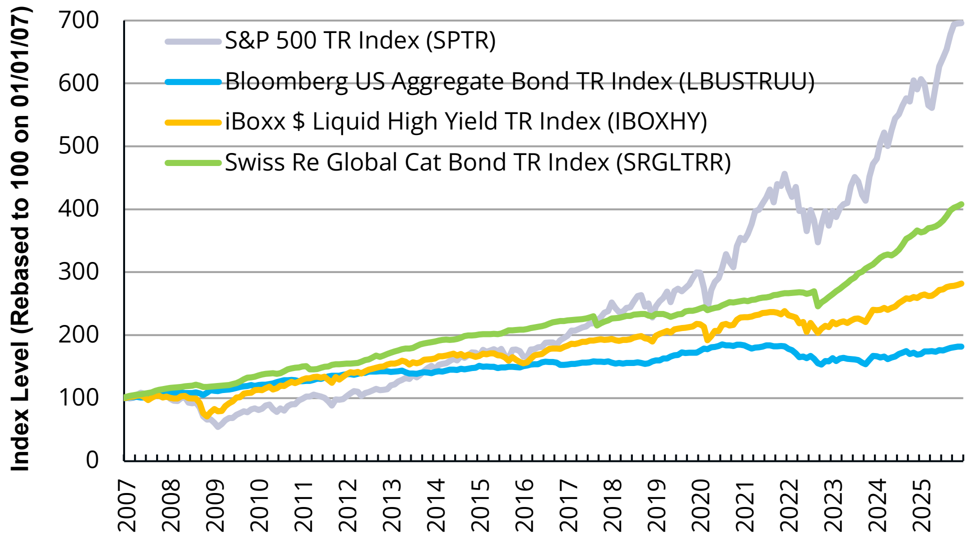
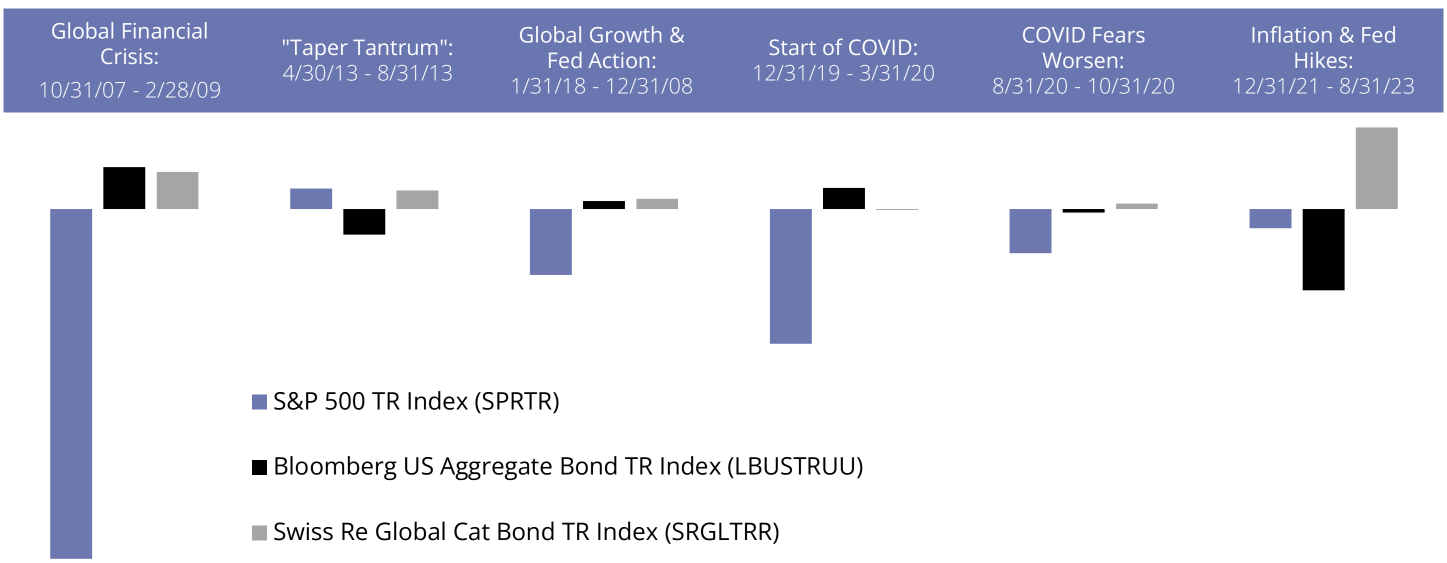
To better understand what this looks like in practice we can look to the Swiss Re Global Cat Bond Total Return Index (the "Swiss Re Index," a common benchmark for Cat Bonds). The following chart shows the historic performance of the Swiss Re Index going back to its inception in 2007.[2]



The following graph[3] shows how the Swiss Re Index behaved through a few notable prior shocks to traditional markets.



BENEFITS OF CAT BONDS

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[2] Source: Bloomberg and Embassy calculations, as of 12/30/25. Past performance does not guarantee future results. One cannot invest in an index.
[3] Source: Bloomberg and Embassy Calculations. Returns are for the period in question and are not annualized. .

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IMPORTANT DISCLOSURES

The principal risk of an investment in a portfolio of insurance-linked securities is that a triggering event(s) (e.g., natural events, such as a hurricane, earthquake, or a tornado of a particular severity that causes a threshold level of insured loss in a designated geographic area; or (ii) certain non-natural events) will occur and the portfolio will lose all or a significant portion of the principal it has invested in the security and the right to additional interest payments with respect to the security. If multiple triggering events occur that impact a significant portion of the portfolio, the portfolio could suffer substantial losses and an investor may lose money. There is no way to accurately predict whether a triggering event will occur, and, because of this uncertainty, insurance-linked securities carry a high degree of risk.

These risks include, but are not limited to: i) Investors may lose all or a portion of their investment if a natural catastrophe or other event triggers a payment by the Issuer under the related risk-transfer agreement; ii) The maturity of the notes may be extended; iii) The notes may be redeemed before the Scheduled Redemption Date or any applicable Extended Redemption Date; iv) If an Early Redemption Event occurs, the interest rate on the notes will be immediately reduced; v) Investors have limited recourse to assets of the Issuer and no recourse to assets of the counterparties to agreements with the Issuer; vi) The Issuer may become insolvent in the event of any unexpected expenses or liabilities; vii) Investors may be required to consolidate the issuer for accounting purposes under certain circumstances; viii) Investing in the notes could have adverse tax consequences; ix) The notes are effectively subordinated to the Issuer's obligations to other of the Issuer's counterparties under its respective risk-transfer agreements; x)Enforcement of security interest granted to the Trustee for the benefit of the investors may be limited; xii)The notes may not have a secondary market or the secondary market for the notes may have limited liquidity; the market for the notes may be highly volatile. xiii) The Rating Agenc(y)(ies) (if any) may change any rating assigned to the notes. Cat Bonds carry significant uncertainties and major risk exposures to adverse conditions. Because Cat Bonds cover "catastrophe" events that, if they occur, will result in significant losses, they carry a high degree of risk of loss. Before entering into any financial transaction, you should ensure that you fully understand the terms, have evaluated the risks and determined that the transaction is appropriate for you in all respects.

Any third-party information contained herein has been obtained from sources believed to be reliable; however, no assurance can be given that all external information is correct. All market prices, data and other information are not warranted as to completeness or accuracy, may not be audited information and are subject to change without notice.

Statements in this commentary that are not historical facts are forward-looking statements based on the investment team's current expectations and assumptions of economic and other future conditions and forecasts of future events, circumstance, and results. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements.

The forecasts and opinions in this piece are provided for informational purposes only and may not actually come to pass. The views and opinions expressed above are those of the portfolio management team at the time of writing and are subject to market, economic and other conditions that may change at any time, and, therefore, actual results may differ materially from those expected. They should not be construed as recommendations to buy or sell securities in the asset classes discussed. The financial instruments described may not be suitable for all investors. All investments contain associated inherent risks including possible loss of principal.

The Swiss Re Global Cat Bond index tracks the aggregate performance of all catastrophe bonds issued offered Rule 144A. The index captures bonds denominated in any currency, all rated and unrated Cat Bonds, outstanding perils, and triggers. The Bloomberg US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed- rate agency MBS, ABS and CMBS (agency and non-agency). The S&P 500 index measures the performance of the large-cap segment of the market. Considered to be a proxy of the U.S. equity market, the index is composed of 500 constituent companies. The Markit iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the USD high yield corporate bond universe. The index is market-value weighted with an issuer cap of 3%. The indices provided are for informational purposes only.

The analysis provided should not be relied upon as the sole factor in an investment decision, but as illustrations of broader economic themes. We assume no obligation to update any forward-looking statement made by us as a result of new information, future events or other factors.

This material does not constitute a recommendation to the suitability of any product or security and does not constitute an offer to buy or sell any financial instrument or to participate in any trading strategy. All data presented is as of December 31, 2025 unless otherwise stated.