

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other appropriate professional adviser authorised for the purposes of the Financial Services and Markets Act 2000, or if you are not in the United Kingdom, another appropriately authorised professional adviser.**

If you have sold or otherwise transferred all of your Ordinary Shares in the Company, please send this Circular, together with the accompanying documents, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

This Circular should be read as a whole. Your attention is drawn to the letter from the Chairman of the Board of Directors of the Company which is set out in Part I of this document and which contains the Board's recommendation that you vote in favour of the Ordinary Resolution to be proposed at the Special General Meeting referred to below.

Your attention is also drawn to the Notice of the Special General Meeting which is set out in Part II of this document.

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## **BLUE CAPITAL GLOBAL REINSURANCE FUND LIMITED**

*(incorporated and registered as an exempted mutual fund company in Bermuda with registered number 46969)*

### **PROPOSAL TO AMEND THE COMPANY'S INVESTMENT POLICY**

**-AND-**

### **NOTICE CONVENING SPECIAL GENERAL MEETING**

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You will find set out in Part II of this Circular, a notice convening a Special General Meeting for 9.00 a.m. (Bermuda time) on 23 December 2013 to be held at Mechanics Building, 12 Church Street, Hamilton, HM11 Bermuda.

**\*\*\*\*ONLY FOR SHAREHOLDERS WHO DO NOT HOLD DEPOSITORY INTERESTS THROUGH CREST\*\*\*\***

The accompanying Form of Proxy for use by Shareholders in relation to the Special General Meeting should be completed and returned, in accordance with the instructions printed on it, to Computershare Investor Services (Bermuda) Limited, The Pavilions, Bridgwater Road, Bristol BS99 6ZY so as to be received as soon as possible and, in any event, not later than 9.00 a.m. (Bermuda time) on 20 December 2013.

**\*\*\*\*ONLY FOR SHAREHOLDERS WHO HOLD DEPOSITORY INTERESTS THROUGH CREST\*\*\*\*** A Form of Instruction is enclosed for use by Depository Interest Holders in relation to the Special General Meeting and should be completed and returned, in accordance with the instructions printed on it, to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY so as to be received as soon as possible and, in any event, not later than 9.00 a.m. (Bermuda time) on 19 December 2013.

Capitalised terms used in this Circular have the meanings given in Part III of this Circular.

**Shareholders should make their own investigation of the proposals set out in this Circular, including the merits and risks involved. Nothing in this Circular constitutes legal, tax, financial or other advice, and Shareholders should consult their own professional advisers.**

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## EXPECTED TIMETABLE

Latest time and date for receipt of Forms of Instruction 9.00 a.m. (Bermuda time) on 19 December 2013

Latest time and date for receipt of Forms of Proxy 9.00 a.m. (Bermuda time) on 20 December 2013

Special General Meeting 9.00 a.m. (Bermuda time) on 23 December 2013

*(In the event that the Special General Meeting is adjourned, the timetable will be revised and Shareholders will be notified accordingly)*

## PART I – LETTER FROM THE CHAIRMAN

### BLUE CAPITAL GLOBAL REINSURANCE FUND LIMITED

*(incorporated and registered as an exempted mutual fund company in Bermuda with registration number 46969)*

*Directors*

John Weale (Chairman)  
Gregory D. Haycock  
Neil W. McConachie

*Registered Office*  
Mechanics Building  
12 Church Street  
Hamilton HM11  
Bermuda

6 December 2013

*To Shareholders*

Dear Shareholder

### PROPOSAL TO AMEND THE COMPANY'S INVESTMENT POLICY AND NOTICE CONVENING SPECIAL GENERAL MEETING

#### Introduction

In the year following the Company's launch, the Investment Manager has refined its risk management approach and, consequently, its investment approach, and following discussions with the Investment Manager, the Board now believes that it is in the best interests of the Company and the Shareholders as a whole to revise the Company's investment policy in advance of the January 2014 reinsurance cycle.

Any material revision of the Company's investment policy requires the approval of Shareholders and the purpose of this Circular is to explain the background to, and reasons for, these revisions. Notice convening the Special General Meeting at which Shareholders' approval for the adoption of the revised investment policy (the "**Revised Investment Policy**") will be sought is set out in Part II of this Circular.

**Shareholders should make their own investigation of the proposals set out in this Circular, including the merits and risks involved. Nothing in this Circular constitutes legal, tax, financial or other advice, and Shareholders should consult their own professional advisers.**

#### The Revised Investment Policy

The text of the Revised Investment Policy is set out Appendix A and a blacklined version showing the changes to the existing investment policy is set out in Appendix B, each of which form part of this Circular.

Shareholders should, in particular, note the following changes:

- The definition of aggregate exposure has been amended to substitute contract limit with collateral invested, and to specify that it is calculated net of reinsurance recoverable. For illustrative purposes, the following table shows the aggregate exposure of the Company's portfolio (as at 1 August 2013) by zone, calculated by reference to the current definition of aggregate exposure (in the column headed "Current Basis %") and to the proposed revised definition (in the column headed "Proposed Basis %"):

| Zones                             | Current Basis % | Proposed Basis % |
|-----------------------------------|-----------------|------------------|
| <b>US Windstorm 1st Event:</b>    |                 |                  |
| US WS - Northeast                 | 15%             | 13%              |
| US WS - Mid-Atlantic              | 24%             | 19%              |
| US WS - Florida                   | 33%             | 23%              |
| US WS - Gulf of Mexico            | 33%             | 27%              |
| <b>US Earthquake 1st Event:</b>   |                 |                  |
| US EQ – California                | 11%             | 9%               |
| US EQ - Pacific Northwest         | 11%             | 9%               |
| US EQ - New Madrid                | 13%             | 11%              |
| <b>Japan Windstorm 1st Event</b>  | 3%              | 3%               |
| <b>Japan Earthquake 1st Event</b> | 10%             | 8%               |
| <b>Europe Windstorm 1st Event</b> | 10%             | 8%               |

- The definition of probable maximum loss ("PML") has been updated to clarify that an offset is applied to the probable maximum loss calculation for: (a) net unearned premiums on the loss impacted contracts (as this will be earned immediately when there is a loss); and (b) any reinsurance recoverable. For illustrative purposes, the following table shows the PML of the Company's portfolio (as at 1 August 2013) by zone, calculated by reference to the current definition of PML (in the column headed "Current Basis %") and to the proposed revised definition (in the column headed "Proposed Basis %"):

| Zones            | Current Basis % | Proposed Basis % |
|------------------|-----------------|------------------|
| US Hurricane     | 24%             | 16%              |
| US Earthquake    | 5%              | 3%               |
| Europe Windstorm | 7%              | 5%               |
| Japan Earthquake | 7%              | 5%               |
| Japan Windstorm  | 3%              | 3%               |

- The Revised Investment Policy clarifies the Company's ability to enter into Quota Share Agreements with rated reinsurers (including, subject to the terms being at arm's length and with the pre-approval of the Directors when entered into with Montpelier Re).

The Board, as advised by the Investment Manager, believes that the Revised Investment Policy is beneficial to the Company and the Shareholders as a whole for the following reasons:

- The revisions reflect the refinement of the Investment Manager's risk management approach over the past year and bring the Company's investment policy broadly into line with other Blue Capital products.
- The Revised Investment Policy now clarifies that terms of any Quota Share Agreement with Montpelier Re will be at arm's length and approved in advance by the Directors. An investment in Quota Share Agreements will provide the Company with access to a broader portfolio of risks, broadly diversified by geography, peril and attachment point, enabling the Company to access risks it would not otherwise be able to participate in on a direct basis.
- The changes to the Company's investment policy, taken as a whole, will enable the fund to increase the level of insurance risk exposure which should improve the ability of the

Company to achieve its investment objective to generate attractive returns from a sustainable annual dividend yield and longer-term capital growth.

The Master Fund will make the same revisions to its investment policy at the same time as the Revised Investment Policy is adopted.

### **Special General Meeting**

The adoption of the Revised Investment Policy requires the approval of Shareholders. Accordingly, a Special General Meeting will be held at 9.00 a.m. (Bermuda time) on 23 December 2013 at Mechanics Building, 12 Church Street, Hamilton, HM11 Bermuda at which an Ordinary Resolution will be put to Shareholders seeking approval for the adoption of the Revised Investment Policy.

Notice convening the Special General Meeting is set out in Part II of this Circular.

Provided that the proposed adoption of the Revised Investment Policy is approved by Shareholders, the effective date of that change will be the date of the Special General Meeting. Confirmation as to whether or not the Revised Investment Policy has been approved by Shareholders will be contained in a regulatory announcement following the Special General Meeting.

### **Action To Be Taken**

**The only action that you need to take is to complete the accompanying Form of Proxy or, if you are a Depository Interest Holder, the accompanying Form of Instruction. Shareholders are asked to complete a Form of Proxy or a Form of Instruction, as appropriate, whether or not they wish to attend the Special General Meeting.**

\*\*\*\*ONLY FOR SHAREHOLDERS WHO DO NOT HOLD DEPOSITORY INTERESTS THROUGH CREST\*\*\*\* Shareholders are asked to complete the accompanying Form of Proxy in accordance with the instructions printed on it and return it to Computershare Investor Services (Bermuda) Limited, The Pavilions, Bridgwater Road, Bristol BS99 6ZY so as to be received as soon as possible and, in any event, not later than 9.00 a.m. (Bermuda time) on 20 December 2013.

\*\*\*\*ONLY FOR SHAREHOLDERS WHO HOLD DEPOSITORY INTERESTS THROUGH CREST\*\*\*\* Depository Interest Holders are asked to complete a Form of Instruction in accordance with the instructions printed on it and return it to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY so as to be received as soon as possible and, in any event, not later than 9.00 a.m. (Bermuda time) on 19 December 2013.

### **Recommendation**

The Board believes that the adoption of the Revised Investment Policy is in the best interests of the Company and the Shareholders as a whole and unanimously recommends you to vote in favour of the Ordinary Resolution to be proposed at the Special General Meeting.

Yours sincerely

A handwritten signature in black ink, appearing to read "John Weale". The signature is fluid and cursive, with a large loop on the left side and a long, sweeping underline that extends to the right.

*John Weale*

Chairman

## PART II - NOTICE OF SPECIAL GENERAL MEETING

### BLUE CAPITAL GLOBAL REINSURANCE FUND LIMITED

(incorporated and registered as an exempted mutual fund company in Bermuda with registration number 46969)

NOTICE IS HEREBY GIVEN that a SPECIAL GENERAL MEETING of Blue Capital Global Reinsurance Fund Limited (the "**Company**") will be held at Mechanics Building, 12 Church Street, Hamilton, HM11 Bermuda on 23 December 2013 at 9.00 a.m. (Bermuda time). Capitalised terms in this notice will have the meaning given to them in Part III of the circular published on 6 December 2013. This Special General Meeting is being convened for the purpose of considering and, if thought fit, passing the following Ordinary Resolution which requires the approval of a majority of the votes cast in respect of it.

### ORDINARY RESOLUTION

THAT the revised investment policy of the Company, as set out in Appendix A of the circular published by the Company on 6 December 2013, be and is hereby approved and adopted with immediate effect.

By order of the Board

6 December 2013

*Registered Office:*  
Mechanics Building  
12 Church Street  
Hamilton  
HM11 Bermuda

*Notes:*

1. A Shareholder who is entitled to attend and vote at the Special General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a Shareholder of the Company.
2. \*\*\*\*ONLY FOR INVESTORS WHO DO NOT HOLD DEPOSITORY INTERESTS THROUGH CREST\*\*\*\*  
A Form of Proxy is enclosed for use at the Special General Meeting. The Form of Proxy should be completed and sent together with (if not previously registered with the Company) the power of attorney or other authority (if any) under which it is executed, to Computershare Investor Services (Bermuda) Limited, The Pavilions, Bridgwater Road, Bristol BS99 6ZY so as to be received as soon as possible and, in any event, not later than 9.00 a.m. (Bermuda time) on 20 December 2013. The Form of Proxy may also be returned by fax or email in accordance with the instructions printed on the form. Completing and returning a Form of Proxy will not prevent a Shareholder from attending and voting in person at the Special General Meeting should he or she so wish. To have the right to attend and vote at the Special General Meeting (and also for the purpose of calculating how many votes the Shareholder may cast on a poll), a Shareholder must first have his or her name entered in the Company's register of Shareholders on 9.00 a.m. (Bermuda time) on 20 December 2013. Changes to entries in that register after that time shall be disregarded in determining the rights of any Shareholder to attend and vote at the Special General Meeting.
3. \*\*\*\*ONLY FOR INVESTORS WHO HOLD DEPOSITORY INTERESTS THROUGH CREST\*\*\*\* A Form of Instruction is enclosed for use at the Special General Meeting. The Form of Instruction should be completed and sent together with (if not previously registered with the Company) the power of attorney or other authority (if any) under which it is executed, to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY so as to be received as soon as possible and, in any event, by no later than 9.00 a.m. (Bermuda time) on 19 December 2013. In the case of joint holders of Depository Interests, a Form of Instruction completed by the senior holder will be accepted to the exclusion of a Form of Instruction completed by any of the other joint holders. For this purpose seniority



is determined by the order in which the names stand in the register of Depository Interests in respect of the joint holding. Depository Interest Holders wishing to attend the Special General Meeting should contact the Depository at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY.

### PART III - DEFINITIONS

The following definitions apply throughout this Circular, unless the context requires otherwise:

|                                       |  |
|---------------------------------------|--|
| <b>"Board" or "Directors"</b>         | the directors of the Company or, where the context permits, the board of directors of the Company (or any duly authorised committee of such board);  |
| <b>"Cat Bonds"</b>                    | a class of fixed income securities offering investors a defined return in exchange for the acceptance of risk linked to the occurrence of a specified catastrophe or extreme mortality event;  |
| <b>"Circular"</b>                     | this document;   |
| <b>"Company"</b>                      | Blue Capital Global Reinsurance Fund Limited, an exempted mutual fund company incorporated and registered in Bermuda with registered number 46969;   |
| <b>"Depository Interest Holders"</b>  | holders of Depository Interests;   |
| <b>"Depository Interests"</b>         | the dematerialised Depository Interests issued in respect of Ordinary Shares (on a one-for-one basis);   |
| <b>"Form of Instruction"</b>          | the form of instruction accompanying this document for use by Depository Interest Holders in relation to voting on the Ordinary Resolution at the Special General Meeting;   |
| <b>"Form of Proxy"</b>                | the form of proxy accompanying this document for use by Shareholders in relation to voting on the Ordinary Resolution at the Special General Meeting;  |
| <b>"Investment Manager"</b>           | Blue Capital Management Ltd., a Bermuda exempted company incorporated with limited liability (registration number 33829);  |
| <b>"Insurance-Linked Instruments"</b> | insurance-based instruments, including participation in traditional reinsurance, insurance-linked swaps and Industry-Loss Warranties, Insurance-Linked Securities as well as other financial instruments;  |
| <b>"Insurance-Linked Securities"</b>  | securities which are linked to insurance and include Cat Bonds and equity or debt investments in "sidecars", which are similar to Cat Bonds, but the risk transferred is typically the risk of "first dollar loss" on a pro rata basis, rather than the risk after a certain level of loss is reached; |
| <b>"Industry-Loss Warranties"</b>     | Insurance-Linked Instruments, which offer a defined premium payment in exchange for losses upon the occurrence of a defined catastrophe or extreme mortality event;  |
| <b>"Master Fund"</b>                  | Blue Capital Global Reinsurance SA-I, a segregated account of Blue Water Master Fund Ltd, a segregated accounts company incorporated and registered in Bermuda (registration number 46069);  |
| <b>"Master Fund SAC"</b>              | Blue Water Master Fund Ltd., an exempted mutual fund company incorporated in Bermuda (registration number 46069);  |

|                                    |  |
|------------------------------------|--|
| <b>"Montpelier Re"</b>             | Montpelier Reinsurance Ltd., a company incorporated in Bermuda (registration number 31261);  |
| <b>"Net Asset Value"</b>           | the net asset value of the Company or the Master Fund or per Share (as the context requires);  |
| <b>"Ordinary Resolution"</b>       | a resolution passed by a majority of the votes cast by Shareholders (in nominal value) of the issued Ordinary Shares;  |
| <b>"Ordinary Share"</b>            | an ordinary share of US\$0.00001 in the capital of the Company;  |
| <b>"Quota Share Agreement"</b>     | a form of reinsurance in which a ceding insurer cedes an agreed percentage of every risk it insures falling within certain agreed classes of business, subject to a reinsurance treaty;                    |
| <b>"Reinsurance Manager"</b>       | Blue Capital Insurance Managers Ltd., a Bermuda exempted company incorporated with limited liability (registration number 35606);  |
| <b>"Reinsurer"</b>                 | Blue Water Re Ltd., a company incorporated in Bermuda and licensed by the Bermuda Monetary Authority as a "special purpose insurer" to transact property reinsurance business (registration number 45989); |
| <b>"Revised Investment Policy"</b> | the proposed revised investment policy that will be adopted by the Company if the Ordinary Resolution is passed, as set out in Appendix A to this Circular;  |
| <b>"Share"</b>                     | a share in the capital of the Company (of whatever class);   |
| <b>"Shareholder"</b>               | a registered holder of a Share and/or, as the context may require, Depository Interests Holders; and   |
| <b>"Special General Meeting"</b>   | the special general meeting of the Company, notice of which is set out in Part II of this Circular, or any adjournment of that meeting.  |

## APPENDIX A - THE REVISED INVESTMENT POLICY

### INVESTMENT POLICY

#### The Company

The Company seeks to achieve its investment objective by investing all of its assets (other than cash or near cash pending distribution to Shareholders or investment in the Master Fund and any funds required for short-term working capital purposes) in the Master Fund. The Master Fund invests in a diversified portfolio of fully collateralised reinsurance-linked contracts and other investments carrying exposures to insured catastrophe event risks.

The Company's published investment policy is consistent with that of the Master Fund which is set out below. The Master Fund SAC has agreed pursuant to the Control Agreement that it will not amend the Master Fund's investment policy without the consent of the Company.

The Company may not borrow for investment purposes however borrowings may be used for the purposes of funding repurchases of Ordinary Shares or managing other working capital requirements. In each of these circumstances, the Company is limited to borrowing an amount equivalent to a maximum of 20 per cent. of its Net Asset Value, at the time of draw down.

The Directors do not currently intend to propose any material changes to the Company's investment policy, save in the case of exceptional or unforeseen circumstances. Any material change to the investment policy of the Company will be made only with the approval of Shareholders.

#### The Master Fund

The investment objective of the Master Fund is to generate attractive returns by investing in a diversified portfolio of fully collateralised reinsurance-linked contracts and other investments carrying exposures to insured catastrophe event risks.

The Master Fund predominantly invests in fully collateralised reinsurance-linked contracts through preference shares issued by the Reinsurer which in turn writes the reinsurance contracts with the ceding companies.

The Master Fund's investment in other reinsurance-linked investments carrying exposure to insured catastrophe event risks such as Industry Loss Warranties, Cat Bonds and other Insurance-Linked Instruments may be made directly by the Master Fund or indirectly via the Reinsurer.

In order to ensure that the Master Fund has a spread of investment risk, the Master Fund has adopted the following investment restrictions:

- The portfolio will be diversified geographically with an emphasis on the 20 regions set out below:

#### *North American Regions*

USA, Northeast  
USA, Mid-Atlantic  
USA, Florida  
USA, Gulf  
USA, New Madrid  
USA, Midwest  
USA, California  
USA, Hawaii  
Canada, Eastern  
Canada, Western

#### *European Regions*

UK and Ireland  
Northern Europe, Benelux  
and Scandinavia  
Western Europe (France,  
Germany, Switzerland and  
Austria)  
Southern Europe  
Eastern Europe

#### *Rest of World Regions*

Middle East  
Australia  
New Zealand  
Japan  
South America

- The maximum net aggregate exposure (i.e. the sum of all collateral invested less reinsurance recoverable) in any one zone will not exceed 35 per cent. of the Master Fund's Net Asset Value. For these purposes, a zone is defined by a combination of geographical regions (as outlined above), peril and occurrence. Examples of individual zones include, but are not limited to: USA Florida Windstorm 1st event; USA Florida Windstorm 2nd event; UK and Ireland Windstorm 1st event; UK and Ireland Windstorm 2nd event; USA California Earthquake 1st event; Japan Earthquake 1st event; and USA Midwest Aggregate.
- The net probable maximum loss (i.e. net of (a) reinsurance recoverable, (b) net unearned premiums on loss impacted contracts and (c) any reinstatement premiums receivable) from any one catastrophe loss event at the one in one hundred year return period will not exceed 25 per cent. of the Master Fund's Net Asset Value.
- The net probable maximum loss (i.e. net of (a) reinsurance recoverable, (b) net unearned premiums on loss impacted contracts and (c) any reinstatement premiums receivable) from any one earthquake loss event at the one in two hundred and fifty year return period will not exceed 25 per cent. of the Master Fund's Net Asset Value.
- No more than 20 per cent. of the Master Fund's Net Asset Value will be invested in any one catastrophe linked contract or security.
- The Master Fund will not invest in contracts or securities with a premium of less than 5 per cent. of the limit exposed to a single event.

The investment restrictions above apply in respect of any new investment at the time of investment, using the information available to the Investment Manager at that time. This will include information on the existing portfolio contract limits and modelled loss exposures by zone, as well as estimations of the potential impact on the portfolio limits and modelled loss exposures from unquantified external factors.

These factors include industry loss events that have the potential to cause loss to the Master Fund's portfolio, and changes in methodology for calculating modelled losses. Based on the information available to the Investment Manager at the time, if a new investment being considered would cause an investment restriction to be breached, or if an investment restriction relevant to that new investment opportunity is already in breach, then that new investment shall not be made. The existence of investment restriction breaches does not preclude the Master Fund from making any new investments, it only restricts it from making new investments that would result in a new breach or exacerbate existing breaches of investment restrictions.

The Master Fund may, from time to time, purchase retrocessional protection directly or indirectly via the Reinsurer, to hedge against the impact of catastrophe events on the portfolio. The Master Fund may (but is not obliged to) undertake currency hedging for exposures in non-US Dollar currencies.

The Master Fund may, via the Reinsurer, enter into fronting arrangements with highly rated, sophisticated participants, or otherwise well capitalised insurance companies that pass the Reinsurance Manager's detailed credit review process, including Montpelier Re, under which such party will agree to enter into certain reinsurance contracts that are to be underwritten by the Reinsurer and such party will transfer all risks and premiums under such contracts to the Reinsurer via a collateralised retrocessional reinsurance contract. A fronting fee will be deducted from premiums paid to the Reinsurer, which will be calculated on an arm's length basis and will be limited to five per cent. of any premium paid. The purpose of such fronting arrangement is to permit the Master Fund to access attractive catastrophe reinsurance opportunities with counterparties who prefer to transact such business with a rated reinsurance company. Where it is proposed that Montpelier Re acts as fronting reinsurer, the Investment Manager has established procedures to deal with any potential conflicts of interest that may arise. Any such fronting services would only be supplied with the approval of the Directors, all of whom are independent of Montpelier Re. For the avoidance of doubt, the Master Fund may enter into Quota

Share Agreements with rated reinsurers, including Montpelier Re. If transacted with Montpelier Re, the terms of the quota share agreement will be at arm's length and approved in advance by the Directors.

The Master Fund may not borrow for investment purposes. Borrowings may however be used for the purposes of working capital requirements. In such circumstances, the Master Fund is limited to borrowing an amount equivalent to a maximum of 10 per cent. of its Net Asset Value, at the time of draw down.

## APPENDIX B - BLACKLINE SHOWING CHANGES TO THE INVESTMENT POLICY

### INVESTMENT POLICY

#### The Company

The Company seeks to achieve its investment objective by investing all of its assets (other than cash or near cash pending distribution to Shareholders or investment in the Master Fund and any funds required for short-term working capital purposes) in the Master Fund. The Master Fund invests in a diversified portfolio of fully collateralised reinsurance-linked contracts and other investments carrying exposures to insured catastrophe event risks.

The Company's published investment policy is consistent with that of the Master Fund which is set out below. The Master Fund SAC has agreed pursuant to the Control Agreement that it will not amend the Master Fund's investment policy without the consent of the Company.

The Company may not borrow for investment purposes however borrowings may be used for the purposes of funding repurchases of Ordinary Shares or managing other working capital requirements. In each of these circumstances, the Company is limited to borrowing an amount equivalent to a maximum of 20 per cent. of its Net Asset Value, at the time of draw down.

The Directors do not currently intend to propose any material changes to the Company's investment policy, save in the case of exceptional or unforeseen circumstances. Any material change to the investment policy of the Company will be made only with the approval of Shareholders.

#### The Master Fund

The investment objective of the Master Fund is to generate attractive returns by investing in a diversified portfolio of fully collateralised reinsurance-linked contracts and other investments carrying exposures to insured catastrophe event risks.

The Master Fund predominantly invests in fully collateralised reinsurance-linked contracts through preference shares issued by the Reinsurer which in turn writes the reinsurance contracts with the ceding companies.

The Master Fund's investment in other reinsurance-linked investments carrying exposure to insured catastrophe event risks such as Industry Loss Warranties, Cat Bonds and other Insurance-Linked Instruments ~~are~~ may be made directly by the Master Fund or indirectly via the Reinsurer.

In order to ensure that the Master Fund has a spread of investment risk, the Master Fund has adopted the following investment restrictions:

- The portfolio will be diversified geographically with an emphasis on the ~~24~~ 20 regions set out below:

#### *North American Regions*

USA, Northeast  
USA, Mid-Atlantic  
USA, Florida  
USA, Gulf  
USA, New Madrid  
USA, Midwest  
USA, California  
USA, Hawaii  
Canada, Eastern  
Canada, Western

#### *European Regions*

UK and Ireland  
Northern Europe, Benelux  
and Scandinavia  
Western ~~Central~~ Europe  
(France, Germany,  
Switzerland and Austria)  
~~Western Europe, France~~  
Southern Europe  
Eastern Europe

#### *Rest of World Regions*

Middle East  
Australia  
New Zealand  
Japan  
South America

- The maximum net aggregate exposure (i.e. the sum of all contractual limits collateral invested less reinsurance recoverable) in any one zone will not exceed 35 per cent. of the Master Fund's Net Asset Value. For these purposes, a zone is defined by a combination of geography geographical regions (as outlined above), peril and occurrence. Examples of individual zones include, but are not limited to: USA Florida Windstorm 1st event; USA Florida Windstorm 2nd event; UK and Ireland Windstorm 1st event; UK and Ireland Windstorm 2nd event; USA California Earthquake 1st event; Japan Earthquake 1st event; and USA Midwest Aggregate.
- The net probable maximum loss (i.e. net of (a) reinsurance recoverable, (b) net unearned premiums on loss impacted contracts and (c) any reinstatement premiums receivable) from any one catastrophe loss event at the one in one hundred year return period will not exceed 25 per cent. of the Master Fund's Net Asset Value.
- The net probable maximum loss (i.e. net of (a) reinsurance recoverable, (b) net unearned premiums on loss impacted contracts and (c) any reinstatement premiums receivable) from any one earthquake loss event at the one in two hundred and fifty year return period will not exceed 25 per cent. of the Master Fund's Net Asset Value.
- No more than 20 per cent. of the Master Fund's Net Asset Value will be invested in any one catastrophe linked contract or security.
- The Master Fund will not invest in contracts or securities with a premium of less than 5 per cent. of the limit exposed to a single event.

The investment restrictions above apply in respect of any new investment at the time of investment, using the information available to the Investment Manager at that time. This will include information on the existing portfolio contract limits and modelled loss exposures by zone, as well as estimations of the potential impact on the portfolio limits and modelled loss exposures from unquantified external factors.

These factors include industry loss events that have the potential to cause loss to the Master Fund's portfolio, and changes in methodology for calculating modelled losses. Based on the information available to the Investment Manager at the time, if a new investment being considered would cause an investment restriction to be breached, or if an investment restriction relevant to that new investment opportunity is already in breach, then that new investment shall not be made. The existence of investment restriction breaches does not preclude the Master Fund from making any new investments, it only restricts it from making new investments that would result in a new breach or exacerbate existing breaches of investment restrictions.

The Master Fund may, from time to time, directly or indirectly via the Reinsurer, purchase retrocessional protection to hedge against the impact of ~~large~~ catastrophe events on the portfolio. The Master Fund may (but is not obliged to) undertake currency hedging for exposures in non-US Dollar currencies.

The Master Fund may, via the Reinsurer, enter into fronting arrangements with highly rated, sophisticated participants, or otherwise well capitalised insurance companies that pass the Reinsurance Manager's detailed credit review process, including Montpelier Re, under which such party will agree to enter into certain reinsurance contracts that are to be underwritten by the Reinsurer and such party will transfer all risks and premiums under such contracts to the Reinsurer via a collateralised retrocessional reinsurance contract. A fronting fee will be deducted from premiums paid to the Reinsurer, which will be calculated on an arm's length basis and will be limited to five per cent. of any premium paid. The purpose of such fronting arrangement is to permit the Master Fund to access attractive catastrophe reinsurance opportunities with counterparties who prefer to transact such business with a rated reinsurance company. Where it is proposed that Montpelier Re acts as fronting reinsurer, the Investment Manager has established procedures to deal with any potential conflicts of interest that may arise. Any such fronting services would only be supplied with the approval of the Directors, all of whom are independent of Montpelier Re. For the avoidance of doubt, the Master Fund may enter into Quota



Share Agreements with rated reinsurers, including Montpelier Re. If transacted with Montpelier Re, the terms of the quota share agreement will be at arm's length and approved in advance by the Directors.

The Master Fund may not borrow for investment purposes. Borrowings may however be used for the purposes of working capital requirements. In such circumstances, the Master Fund is limited to borrowing an amount equivalent to a maximum of 10 per cent. of its Net Asset Value, at the time of draw down.