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This document is issued by Blue Capital Management Ltd. (the "**Investment Manager**") solely in order to make certain information available to investors in Blue Capital Alternative Investment Fund Limited (the "**Company**") before they invest and to keep such information materially up to date, in accordance with the requirements of the Financial Conduct Authority ("**FCA**") rules implementing the EU Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (the "**AIFM Directive**" or "**AIFMD**") in the United Kingdom. It is made available to investors in the Company via [www.bcai.bm](http://www.bcai.bm).

To the extent that the Investment Manager has determined that the requisite information is set forth in other documents to which investors have access or they may request, this document contains references to the relevant documents. In particular, the disclosures herein in part refer to the Company's prospectus dated 20 November 2014 (the "**2014 Prospectus**"), which is also available from [www.bcai.bm](http://www.bcai.bm). To the extent the Investment Manager has determined that the requisite information has not been provided to investors, this document contains additional disclosure items.

Prospective investors in the Company's shares (of any class) ("**Shares**") should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.

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## **BLUE CAPITAL ALTERNATIVE INVESTMENT FUND LIMITED**

### **INVESTOR DISCLOSURE DOCUMENT**

*May 2017*

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#### ***Limited purpose of this document***

This document is not being issued for any purpose other than to make certain required regulatory disclosures to investors and, to the fullest extent permitted under applicable law and regulations, the Company and the Investment Manager will not be responsible to persons other than the Shareholders for their use of this document, nor will they be responsible to any person (including the Shareholders) for any use which they may make of this document other than to inform a decision to invest in or dispose of Shares in the Company.

This document does not constitute, and may not be used for the purposes of, an offer or solicitation to buy or sell, or otherwise undertake investment activity in relation to, the Shares.

**This document is not a prospectus and it is not intended to be an invitation or inducement to any person to engage in any investment activity. This document may not include (and it is not intended to include) all the information which investors and their professional advisers may require for the purpose of making an informed decision in relation to an investment in the Company and its Shares.**

#### ***No advice***

None of the Company, the Investment Manager, or any of their respective affiliates, officers, directors, employees or agents is advising any person in relation to any investment or other transaction involving Shares. Recipients must not treat the contents of this document or any subsequent communications from the Company, the Investment Manager or any of their respective affiliates, officers, directors, employees or agents, as advice relating to financial, investment, taxation, accounting, legal, regulatory or any other matters. Prospective investors must rely on their own professional advisers, including their own legal advisers and accountants, as to legal, tax, accounting, regulatory, investment or any other related matters concerning the Company and an investment in Shares.

**Prospective investors in the Shares should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.**

***Overseas investors***

The distribution of this document in certain jurisdictions may be restricted and accordingly persons into whose possession this document comes are required to inform themselves about and to observe such restrictions. The Shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or under any of the relevant securities laws of Canada, Australia, The Republic of South Africa or Japan. Accordingly, Shares may not (unless an exemption from such Act or such laws is available) be offered, sold or delivered, directly or indirectly, in or into the USA, Canada, Australia, The Republic of South Africa or Japan. The Company is not registered under the United States Investment Company Act of 1940 (as amended) and investors are not entitled to the benefits of such Act.

Prospective investors must inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer or other disposal of Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of Shares.

## DISCLOSURES

### 1. Investment strategy, objectives, techniques, restrictions, the type of assets in which the Company may invest and the procedures by which the Company may change its investment strategy or policy

The Company's investment policy, restrictions and the type of assets in which it may invest are set out in Appendix A. The Company targets a net return to Shareholders (comprised of dividends and other distributions together with increases in the Company's Net Asset Value) of LIBOR plus 8% per annum to be achieved over the longer term. For the avoidance of doubt, the foregoing replaces and supersedes the equivalent information disclosed in Part 1 of the 2014 Prospectus.

### 2. Information on the master AIF, the fund structure and the regulatory status of the Company and its alternative investment fund manager (the "AIFM")

The Company is a feeder fund as it invests substantially all of its assets in Blue Capital Global Reinsurance SA-I (the "**Master Fund**"). Blue Water Master Fund Ltd. (the "**Master Fund SAC**") (of which the Master Fund is a segregated account) is a Bermuda-incorporated open-ended mutual fund company. The 2014 Prospectus contains further information in respect of the Master Fund in Parts 1 and 10. The Company is not operated as a fund of funds.

The Company is an "alternative investment fund" ("**AIF**") for the purposes of the AIFMD and is incorporated as a closed-ended exempted mutual fund company of limited liability under the laws of Bermuda. The AIFM of the Company is the Investment Manager, which is licensed to conduct investment business by the Bermuda Monetary Authority and is registered as an investment adviser with the US Securities and Exchange Commission.

The Company's ordinary shares are (and any C shares will be) admitted to trading on the London Stock Exchange's Specialist Fund Market (the "**Specialist Fund Market**") and listed on the Bermuda Stock Exchange ("**BSX**"). The Company is subject to the provisions of, *inter alia*, its Bye-laws ("**Bye-laws**") and the laws of Bermuda.

The Bye-laws are binding on the Company and its shareholders ("**Shareholders**"). The Bye-laws set out the respective rights and restrictions attaching to the Shares of each class. These rights and restrictions apply equally to all Shareholders holding shares of the same class. All Shareholders are entitled to the benefit of, and are bound by and are deemed to have notice of, the Bye-laws. The Bye-laws are governed by Bermuda law, are described in Part 9 of the 2014 Prospectus.

### 3. Leverage

Part 1 of the 2014 Prospectus contains a description of the circumstances in which the Company may use leverage, the types and sources of leverage permitted, the restrictions on the use of leverage and the maximum level of leverage which the Company is entitled to employ. Save as set out in the 2014 Prospectus, there are no restrictions on the types and sources of leverage which are permitted.

#### *Details of credit facility*

The Company has entered into a credit facility dated 16 May 2016 with Endurance Investments Holdings Ltd ("**EIH**"), a wholly-owned subsidiary of Endurance Specialty Holdings Ltd., which holds indirectly 25.1% of the Company's issued ordinary shares and is the ultimate parent company of the Investment Manager. This facility provides the Company with a US\$20 million unsecured revolving credit facility in order to manage working capital requirements and general corporate purposes and it expires on 30 September 2018 (the "**2016 Credit Facility**"). The 2016 Credit Facility replaces the 364-day US\$20 million revolving credit facility which expired on 13 May 2016. Borrowings under the 2016 Credit Facility bear interest, set at the time of the borrowing, at a rate equal to the applicable LIBOR rate plus 150 basis points. The 2016 Credit

Facility contains covenants that limit the Company's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, or incur debt. If the Company fails to comply with any these covenants, EIH could revoke the facility and exercise remedies against the Company. In addition, in the event of a default in the performance of any of the agreements or covenants under certain management agreements with the Investment Manager by the Company, EIH has the right to terminate the 2016 Credit Facility.

There are no collateral or asset reuse arrangements in place in respect of the Company's investments.

#### **4. Key risks**

The key risks associated with the investment strategy, objectives and techniques of the Company and the use of leverage by the Company are contained in its 2014 Prospectus in the section entitled "Risk Factors" or, in the case of the 2016 Credit Facility, in section 3 above.

#### **5. Contractual relationship between the Company and investors and applicable law**

As noted above, Shareholders' rights are governed principally by the Bye-laws and the laws of Bermuda, as described in Part 9 of the 2014 Prospectus. By acquiring Shares, investors agree to be bound by the Bye-laws which are governed by, and construed in accordance with, the laws of Bermuda.

##### *Recognition and enforcement of foreign judgments*

A final and conclusive judgement of a foreign court against the Company under which a sum of money is payable obtained in certain countries such as the United Kingdom may be recognised and enforced in Bermuda pursuant to the Judgments (Reciprocal Enforcement) Act 1958, provided that: (a) it has been registered with the Supreme Court of Bermuda in circumstances in which its registration is not liable thereafter to be set aside prior to enforcement; and (b) the judgment is final and conclusive, notwithstanding that an appeal may be pending against it or it may still be subject to an appeal in such country; and (c) the judgment has not been given on appeal from a court which is not a superior court. The enforcement of foreign judgments obtained in other member states of the European Economic Area ("**EEA States**") or other jurisdictions is determined according to common law principles, which require that the judgment creditor applies for summary judgment in Bermuda in reliance on the foreign judgment, such applications are generally granted, provided that: (a) the court which gave the judgment was competent to hear the action in accordance with private international law principles as applied in Bermuda; and (b) the judgment is not contrary to public policy in Bermuda, has not been obtained by fraud or in proceedings contrary to natural justice and is not based on an error in Bermuda law.

#### **6. Information on the AIFM, auditor and service providers**

Information on the identities and duties of the AIFM and other service providers and the rights of investors is detailed in the 2014 Prospectus, in the section headed "Directors, Agents and Advisers" and in Part 4. Notwithstanding this, the auditor of the Company is now Ernst & Young Ltd. In addition, Jefferies International Limited acts as the Company's corporate broker, providing the Company with corporate broking and associated financial advisory services. The Company is categorised as a non-EEA AIF, and the Investment Manager is categorised as a non-EEA AIFM, and so is not subject to the AIFMD requirements relating to the appointment of depositaries. All key service providers are appointed directly by the Company. Service providers are appointed following appropriate evaluation and once the directors have ensured that the contractual arrangements with key service providers are appropriate. Investors enter into a contractual relationship with the Company when subscribing for Shares under the placing programme or otherwise acquiring Shares; they do not have any direct contractual relationship with, or rights of recourse to, the service providers.

## **7. Protection from professional liability risks**

As a non-EEA AIFM, the Investment Manager is not required to comply with Article 9(7) of the AIFMD relating to professional liability risk. However, the Investment Manager holds professional indemnity insurance against liability arising from professional negligence.

## **8. Delegation arrangements**

As stated in section 6 above, the Company is not subject to the AIFMD requirements relating to the appointment of depositaries and no arrangements have been made for a depositary to contractually discharge itself of liability in accordance with Article 21(13) of the AIFMD (as no depositary has been appointed). The Investment Manager has not delegated its AIFM management functions.

## **9. Valuation procedures**

As a non-EEA AIF with a non-EEA AIFM, the Company is not subject to the provisions concerning valuation provisions in the AIFMD. The 2014 Prospectus sets out a description of the Company's valuation procedure and of the pricing methodology for valuing assets, including the methods used to value hard-to-value assets.

## **10. Liquidity risk management and redemption rights**

The Company is an exempted closed-ended mutual fund company and redemptions at the option of Shareholders are not permitted; however, the ordinary shares are (and any C shares issued will be) admitted to trading on the Specialist Fund Market and to listing on the BSX and are freely transferable.

As a non-EEA AIF with a non-EEA AIFM, the Company is not subject to the provisions concerning liquidity risk management in the AIFMD. In that context, as regards liquidity risk management, a description of the discount management mechanisms which may be employed by the Company are contained in the 2014 Prospectus, although the exercise by the directors of the Company's powers to repurchase shares either pursuant to a tender offer or the general repurchase authority is entirely discretionary and investors should place no expectation or reliance on the directors exercising such discretion on one or more occasions.

## **11. Fees, charges and expenses**

Parts 4, 9 and 11 of the 2014 Prospectus contain a description of all fees, charges and expenses and, where applicable, the maximum amounts thereof, which are borne by the Company, the Master Fund and Blue Water Re Ltd. (the "**Reinsurer**") (and thus indirectly by investors). Notwithstanding the foregoing, the Performance Fee is as per the 2014 Prospectus except that (i) the Performance Trigger is LIBOR plus 8%; and (ii) the Performance Hurdle is increased from LIBOR plus 3% to LIBOR plus 5%.

There are no expenses charged directly to investors by the Company.

## **12. Fair treatment/ preferential treatment of investors**

As its ordinary shares and C shares (when in issue) are admitted to trading on the Specialist Fund Market, the Company will be required to comply with, *inter alia*, the relevant provisions of the Disclosure and Transparency Rules, which operate to ensure fair treatment of investors. The Investment Manager has entered into and (in its sole discretion) may in the future enter into a side letter or similar agreement with a Shareholder (without the approval of, or disclosure to, any other Shareholder) to rebate all or part of the Management Fee and/or Performance Fee attributable to that Shareholder's Shares. Such side letters may also contain "most favoured

nation" provisions. The types of investors who may benefit are investors making significant or strategic investments and investors who are affiliates of the Investment Manager.

### **13. Availability of the AIF's latest annual report**

The Company's latest annual report is available at [www.bcai.bm](http://www.bcai.bm).

### **14. Procedure and conditions for the issue and sale of Shares**

The procedure and conditions for the issue and sale of Shares under the placing programme is contained in Part 5 and the Appendix of the 2014 Prospectus. Shares can also be bought in the open market through a stock broker.

### **15. Latest net asset value of the AIF**

The Company's latest net asset value is available at [www.bcai.bm](http://www.bcai.bm) and the latest market price of the Shares in issue at the time is available from [www.londonstockexchange.com](http://www.londonstockexchange.com).

### **16. AIF's historical performance**

The Company's historical performance is described in its financial statements, its market announcements (available from [www.bcai.bm](http://www.bcai.bm) and [www.londonstockexchange.com](http://www.londonstockexchange.com)) and its share price history (available from [www.londonstockexchange.com](http://www.londonstockexchange.com)).

### **17. Prime brokerage**

The Company has not appointed a prime broker.

### **18. Periodic disclosures**

The AIFM will, at least as often as the annual report and accounts are made available to Shareholders, make the following information available to Shareholders:

- any changes to: (a) the maximum level of leverage that the AIFM may employ on behalf of the Company; and (b) any right of reuse of collateral or any guarantee granted under any leveraging arrangement;
- the total amount of leverage employed by the Company;
- the percentage of the Company's investments which are subject to special arrangement resulting from their illiquid nature;
- the current risk profile of the Company outlining: (a) measures to assess the sensitivity of the Company to the most relevant risks to which the Company is or could be exposed; and (b) if risk limits set by the AIFM have been or are likely to be exceeded and where these limits are exceeded, a description of the circumstances and, the remedial measures taken; and
- the risk management systems employed by the AIFM outlining the main features of the risk management systems employed by the AIFM to manage the risk to which the Company is or may be exposed. In the case of a change, information relating to the change and its anticipated impact on the Company and the Shareholders will be available.

The AIFM will inform Shareholders as soon as practicable after making any material changes to its liquidity management system and procedures. The information described above will be provided to Shareholders by way of a regulatory news service announcement on the London Stock Exchange and/or in the Company's annual report and accounts.

### **19. Amendment**

Where there is a material change to the information contained in this document, it shall be updated.

## APPENDIX A – THE REVISED 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 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.

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 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 following limits shall apply (at the time of investment) to the Master Fund's investments in the following classes of reinsurance (each limit being expressed as a percentage of the Company's Net Asset Value):
  - up to 100 per cent. in indemnity reinsurance;
  - up to 50 per cent. in indemnity retrocession;
  - up to 50 per cent. in quota share retrocessional agreements;
  - up to 50 per cent. in Industry Loss Warranties;
  - up to 10 per cent. in Cat Bonds; and

- up to 10 per cent. in other non-property catastrophe risks.
- The portfolio will be diversified geographically with an emphasis on the 20 regions set out below:

<i>North American Regions</i>	<i>European Regions</i>	<i>Rest of World Regions</i>
USA, Northeast	UK and Ireland	Middle East
USA, Mid-Atlantic	Northern Europe, Benelux	Australia
USA, Florida	and Scandinavia	New Zealand
USA, Gulf	Western Europe (France,	Japan
USA, New Madrid	Germany, Switzerland and	South America
USA, Midwest	Austria)	
USA, California	Southern Europe	
USA, Hawaii	Eastern Europe	
Canada, Eastern		
Canada, Western		

- The maximum net aggregate exposure (i.e. the sum of all collateral invested less reinsurance recoverable) in any one zone will not exceed 50 per cent. of the Company'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 1<sup>st</sup> event; USA Florida Windstorm 2<sup>nd</sup> event; UK and Ireland Windstorm 1<sup>st</sup> event; UK and Ireland Windstorm 2<sup>nd</sup> event; USA California Earthquake 1<sup>st</sup> event; Japan Earthquake 1<sup>st</sup> 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 35 per cent. of the Company's Net Asset Value. For these purposes, a single catastrophe loss event is defined by a combination of region, territory and peril. Examples of individual catastrophe loss events include, but are not limited to: USA Florida Hurricane; USA Gulf Hurricane; USA Northeast Hurricane; USA Hawaii Hurricane; UK and Ireland Windstorm; Western Europe (France) Windstorm; and Japan Typhoon.
- 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 35 per cent. of the Company's Net Asset Value. For these purposes, a single earthquake loss event is defined by reference to a region and territory. Examples of individual earthquake loss events include, but are not limited to: USA California Earthquake; USA New Madrid Earthquake; USA Pacific Northwest Earthquake; Canada Western (British Columbia) Earthquake; Southern Europe (Italy) Earthquake; and Japan Earthquake.
- No more than 20 per cent. of the Company's Net Asset Value will be invested in any one catastrophe linked contract or security. For avoidance of doubt, in the case of Quota Share or Stop Loss Agreements the analysis will look through to the underlying contracts.

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 Investment Manager's detailed credit review process, including Affiliated Reinsurers, 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 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 5 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 an Affiliated Reinsurer 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 those of the Directors who are independent of the Affiliated Reinsurer. For the avoidance of doubt, the Master Fund may enter into Quota Share and Stop Loss Agreements with rated reinsurers, including Affiliated Reinsurers. If transacted with an Affiliated Reinsurer, the terms of the agreements 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.

