

White Mountains Advisors LLC

August 15, 2012

This brochure provides information about the qualifications and business practices of White Mountains Advisors LLC (the "Advisor"), an investment adviser registered with the United States Securities and Exchange Commission (the "SEC"). If you have any questions about the contents of this brochure, please contact us at (203) 458-5800. This information has not been approved or verified by the SEC.

Additional information about White Mountains Advisors LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

Registration with the SEC does not imply a certain level of skill or training.

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Item 4 – Advisory Business

A. General Description of Advisory Firm. The Advisor is an investment adviser with its principal place of business in Guilford, Connecticut. The Advisor was formed on February 26, 2003.

White Mountains Insurance Group, Ltd. (“White Mountains”) is the parent company of the Advisor. The Advisor is a wholly-owned subsidiary of White Mountains. White Mountains is a financial services holding company. Its principal business interests are in property and casualty insurance and reinsurance and life insurance and reinsurance. White Mountains is publicly traded on the New York Stock Exchange and the Bermuda Stock Exchange under the symbol “WTM”.

B. Description of Advisory Services. The Advisor manages investments for insurance companies, principally for the subsidiaries and affiliates of White Mountains. Some of the Advisor’s clients are wholly owned by White Mountains; others are partially owned by White Mountains. In addition, the Advisor has a small number of insurance company clients not affiliated with White Mountains. Substantially all of the Advisor’s advisory services revenues are derived from providing discretionary investment supervisory services.

The nature and scope of the Advisor’s investment supervisory services are set forth in an Investment Management Agreement (“IMA”) with each client, and generally includes asset allocation, security selection, and portfolio tracking and monitoring services.

The IMA and the investment guidelines attached thereto set forth the types of securities that may be traded on the clients’ behalf and identifies certain constraints on the Advisor’s discretion. The investment guidelines may differ for each client, but they generally place an emphasis on maximizing long-term total returns and avoiding principal loss by taking prudent levels of risk and maintaining a diversified portfolio. In managing client assets, the Advisor is subject to certain regulatory restrictions, generally imposed by states’ insurance laws and administered by states’ Departments of Insurance. In addition, some clients are party to trust arrangements in respect of certain of their assets, and the terms of those trust arrangements may place limits on the Advisor’s discretionary authority.

It is the policy of the Advisor that all investment advisory clients should be treated fairly and that, to the extent possible, all clients should receive equivalent treatment. As further described in Item 12 C.1., the Advisor has policies and procedures in place to address potential conflicts of interest among clients.

Generally, the Advisor manages a wide variety of security types in the following categories:

- debt securities, including, but not limited to, debt issued by domestic and foreign corporations (public and private), governments, government agencies, government sponsored entities, and supranational entities; mortgage-backed securities, including collateralized mortgage obligations, whole loans, and agency pass-through securities; asset backed securities, including securities backed by consumer debt, loans/leases and similar economic interests; loan participations; bank loans; high yield bonds; and convertible bonds;
- equity securities (including but not limited to common stock; preferred stock; and warrants);
- alternative investments in the form of limited partnership interests in hedge funds, private equity and affordable housing tax credit vehicles;
- cash or cash equivalents; and
- derivatives, subject to derivative use plans and/or client guidelines.

The Advisor also enters into agreements with other qualified money managers who provide investment management services to the Advisor on behalf of its clients.

In addition, pursuant to a consulting agreement, Prospector Partners, LLC (the 'Consultant') advises the Advisor on matters including capital management, asset allocation, limited partnership interests in private equity investments and hedge funds, and mergers and acquisitions.

C. Availability of Tailored Services for Individual Clients. The Advisor provides advice to client accounts based on specific investment objectives and strategies. Under certain circumstances, the Advisor may agree to tailor advisory services to the individual needs of clients. Currently, the Advisor provides the following tailored services to certain of its clients:

- Treasury management services, including:
 - executing investment transactions to support short term treasury cash requirements;
 - providing preliminary valuation to support treasury security transactions;
 - supporting securities lending programs administered by custodians; and
 - collaborating with the client to provide treasury transaction support to custodians and accounting servicing providers in connection with client capital transactions.
- Life portfolio management services, including:
 - managing the asset / liability characteristics of the portfolio;

- designing and executing portfolio hedging strategies, e.g., through active trading in derivative instruments;
 - ensuring that investment strategies meet client accounting and financial objectives; and,
 - supporting the Client in the establishment of new product strategies and pricing new services.
- Sub-advisory services – the Advisor may engage other qualified money managers who specialize in managing asset types the Advisor does not directly manage.

D. Client Assets Under Management. As of December 31, 2011, the Advisor managed \$33,996,904,145 in client assets, all on a discretionary basis.

Item 5 – Fees and Compensation

A. Advisory Fees and Compensation. Investment advisory fees payable to the Advisor are negotiated by each client. The Advisor generally charges each client an asset based fee that may, in certain cases, decline relative to the amount of assets under management. In some cases, the management fee may also be segmented by asset class. Different percentages are charged for different classes of assets, such as investment grade fixed-income, high-yield debt, equity securities, and alternative investments (limited partnership interests in hedge funds, private equity funds and affordable housing tax credit funds).

Management fees are generally billed and payable in arrears on a quarterly basis within 60 days after the last day of a calendar quarter, based upon the value of the clients' assets under management as of the last day of said calendar quarter. Management fees are pro-rated for any partial quarter and if the account terminates on a day other than the last day of the quarter. New capital flows in the current quarter are time weighted so that management fees are charged for only the period of time that such assets were actually managed by the Advisor.

Below is the Advisor's fee schedule for wholly-owned subsidiaries of White Mountains:

<u>Assets Under Management</u>	<u>Annual Fee</u>
Up to \$100 million	30.0 bps
Next \$400 million	20.0 bps
More than \$500 million	15.0 bps

Below is the Advisor's fee schedule for other clients:

<u>Assets Under Management</u>	<u>Annual Fee</u>
Investment Grade Fixed Income	
Up to \$1 billion	10.0 bps
Next \$1 billion	8.5 bps
Next \$3 billion	7.5 bps
Greater than \$5 billion	2.5 bps
High Yield	25.0 bps
Equities	100.0 bps
Hedge Funds	100.0 bps
Private Equities & Deferreds	
First 2 Years of Fund's Life (Committed)	100.0 bps
Thereafter (Fair Value)	100.0 bps
Affordable Housing Tax Credit Funds	
First Year of Fund's Life (Committed)	100.0 bps
Thereafter (Fair Value)	10.0 bps
Derivatives (Notional)	4.0 bps

B. Payment of Fees. The Advisor bills clients for fees owed. The Advisor does not deduct fees from client accounts.

C. Other Fees and Expenses. In certain circumstances, the Advisor is paid an asset based fee for providing tailored advisory services (i.e., life insurance portfolio management and treasury management services). Life insurance portfolio management fees charged equal three quarters of one basis point (0.0075%) per year, calculated in accordance with the total aggregate value of the assets under management for the client. Treasury management services fees charged equal 1.75 basis points (0.0175%), calculated in accordance with the total aggregate value of assets under management for the client. The Advisor may also enter into agreements with other qualified money managers, or sub-advisors, who provide investment management services to the Advisor on behalf of its clients. In such cases, clients will either pay the sub-advisory fees directly to the sub-advisor, or the Advisor will pay these fees and seek

reimbursement from the client without any markup. Clients do not pay a management fee to the Advisor on any assets on which sub-advisor fees are paid.

Each client is responsible for all expenses incurred directly in connection with transactions executed for its account. Such expenses include, but are not limited to: (a) custodial fees; (b) investment accounting service and support fees; (c) compliance service fees; (d) investment expenses such as commissions; and (e) other expenses reasonably related to the purchase, sale or transmittal of assets which the Advisor manages on their behalf. In the event that any of these investment expenses are billed and paid by the Advisor, the expense will be distributed to each client participating in the services on a pro-rata basis in accordance with the amount of assets under management. The Advisor is responsible for its own research fees and expenses.

The termination provision of the standard IMA generally states that the IMA shall continue in force until terminated by either party without penalty. Upon termination of the IMA, any accrued unpaid management fees shall be paid by the client to the Advisor in accordance with the terms of the IMA.

Item 6 - Performance-Based Fees and Side-by-Side Management

This item is not applicable.

Item 7 – Types of Clients

The Advisor's clients are principally the subsidiaries and affiliates of White Mountains. In addition, the Advisor has a small number of insurance company clients not affiliated with White Mountains.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

A. Methods of Analysis and Investment Strategies. The Advisor uses a variety of methods and strategies to make investment decisions. The methods of analysis include fundamental research, as well as use of quantitative tools and techniques. The main sources of information the Advisor uses include:

- Financial newspapers and magazines;
- Inspections of corporate activities;
- Research materials prepared by others;

- Corporate rating services;
- Annual reports, prospectuses, filings with the SEC; and
- Company press releases.

The Advisor employs the following investment strategies:

Invest for Total Return

The Advisor's investment strategy has historically been to maximize long-term total returns while taking prudent levels of risk and maintaining a diversified portfolio.

Asset and Liability Management.

For its one life insurance client, the Advisor's strategy focuses on matching investment assets with the client's liabilities, using a broad range of asset liability management ("ALM") methods and techniques.

Runoff Portfolios

Certain client accounts are in runoff and are generally managed to provide liquidity.

Currency and Foreign Exchange

The Advisor manages client accounts that are domiciled in many countries and denominated in multiple currencies.

Liquidity

The Advisor generally manages client portfolios with the goal of retaining enough liquidity to meet the prospective needs communicated by clients to the Advisor.

Fundamental Value

The Advisor generally seeks to invest in securities the Advisor believes are undervalued by the market.

Cash Flow Sufficiency

The Advisor generally seeks to invest in securities of companies whose cash flows the Advisor expects to be more than adequate to pay off said securities at maturity.

Buy and Hold

The Advisor generally buys securities and holds them for a relatively longer period of time, regardless of short-term factors such as fluctuations in the market or volatility of the security price.

Hedging

Subject to the investment guidelines of its clients, the Advisor may utilize financial derivative instruments such as options, interest rate swaps, caps, collars and floors, futures and forward contracts for risk management purposes.

Alternative Investments

The Advisor manages alternative investments, including limited partnership interests in hedge funds, private equity and affordable housing tax credit vehicles, all managed by third parties. Investment strategies for the hedge funds include, but are not limited to, long-short, market neutral and long-short/long bias.

Funds of Funds / Sub-Advisory Agreements

With respect to investments in other pooled vehicles and investments with sub-advisors, the Advisor primarily focuses on the underlying portfolio managers (each, a “Portfolio Manager”) rather than the individual securities those Portfolio Managers select. The Advisor’s analytical process includes both quantitative and qualitative elements. The Advisor endeavors to analyze a Portfolio Manager’s strategy, philosophy and decision making process, proprietary models, research and portfolio management systems, the quality of its investment professionals and its organizational structure.

All of the methods of analyses and investment strategies used by the Advisor involve the risk of loss to clients. Clients must be prepared to bear the loss of their entire investment.

B. Material Risks (Including Significant, or Unusual Risks) Relating to Investment Strategies

Interest Rate Risks

Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities. This risk can also be greater for securities with imbedded options, including but not limited to mortgage-backed securities.

Issuer-Specific Changes

Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political

conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

Relative Value Risk

In the event that the perceived mispricing underlying the Advisor's relative value trading positions were to fail to converge toward, or were to diverge further from, relationships expected by the Advisor, client accounts may incur a loss.

Regulatory Risk

In the event that a governmental or regulatory authority retroactively changes statutes affecting a security and or changes security specific rules by fiat, clients' investments may be subject to price decline and or non-payment. In such cases, clients will incur a loss.

Hedging

There can be no assurances that a particular hedge will be effective or that certain risk is measured properly. Further, while the Advisor may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance than if the Advisor did not engage in any such hedging transactions.

C. Risks Associated With Types of Securities that are Primarily Recommended (Including Significant, or Unusual Risks)

Fixed-Income and Debt Securities

Investment in fixed-income and debt securities such as bonds, notes and asset-backed securities, subject a client's portfolios to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio's income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline. Lastly, investments in lower-rated debt securities will also subject the investments to the risk that the securities may fluctuate more in price, and are less liquid than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially, and are

more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.

Asset-Backed Securities

Asset-backed securities are subject to interest rate risk and, to a lesser degree, prepayment risk. Each type of asset-backed security also entails unique risks depending on the type of assets involved and the legal structure used. In addition, asset-backed securities also experience credit risk. There is the possibility that recoveries on repossessed collateral may not be available to support payments on these securities because of the inability to perfect a security interest in such collateral.

Mortgage-Backed Securities

Mortgage-backed securities are subject to credit risk associated with the performance of the underlying mortgaged properties. Factors such as consumer spending habits, local economic and competitive conditions, tenant occupancy rates and regulatory or zoning restrictions, or the loss of a major tenant may adversely affect the economic viability of a mortgaged property. In addition, these securities are subject to prepayment risk. Some securities have a structure that makes their reaction to interest rates and other factors difficult to predict, making their value highly volatile. Mortgage-backed securities are especially subject to regulatory risk.

Non-U.S. Securities

Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. In addition, evaluating credit risk for foreign debt securities involves greater uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Certain foreign sovereign credits may be at material risk of default as well. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

Emerging Markets

The risks of foreign investments typically are greater in less developed countries, sometimes referred to as emerging markets. For example, political, legal and economic structures in these countries may be less established and may change rapidly. These countries also are more likely to experience high levels of inflation, deflation, or currency devaluation, which can harm their economies and securities markets and increase volatility. Restrictions on currency trading that may be imposed by emerging market countries will have an adverse effect on the value of the securities of companies that trade or operate in such countries, and may make it difficult or impossible to retrieve a client's in-country investment(s).

Derivatives

Derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments may have a high degree of leverage, meaning the overall contract notional amount (and/or the potential for profits or losses) may be greater than the cash paid/received at the initiation of the position. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the client or the Advisor. Further, transactions in derivative instruments need not be undertaken on recognized exchanges, and therefore will expose the client's account to different risks than regulated exchange transactions that may provide greater liquidity and more readily observable valuation of positions. In connection with the use of derivatives as hedges, there may be an imperfect correlation between the change in market value of a security and the change in the market value of derivative contracts in the client's account. In addition, the Advisor's derivatives positions may encounter a lack of a liquid secondary market and the resulting inability to close these contracts prior to maturity.

Illiquid Instruments

Certain instruments may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price and the Advisor's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may

also make it more difficult for the Advisor to obtain market quotations based on actual trades for the purpose of valuing a fund's portfolio.

Item 9 – Disciplinary Information

This item is not applicable.

Item 10 - Other Financial Industry Activities and Affiliations

This item is not applicable.

Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

A. Code of Business Conduct. All the Advisor's personnel, including directors, officers and employees, are obligated to put the interests of the Advisor's clients before their own personal interests. They are required to act honestly and fairly in all respects in dealings with clients. Potential conflicts of interest between the interests of the Advisor's personnel and the interests of the Advisor's clients may arise in connection with the operation of:

- the Advisor's investment advisory activities;
- the personal trading activities and outside business activities of the Advisor's personnel; and
- the exchange of business gifts and invitations to entertainment events between the Advisor's personnel and the Advisor's clients and/or vendors.

The Advisor recognizes its fiduciary duty to its clients and desires to maintain high standards. Accordingly, the Advisor has adopted a Code of Business Conduct (the "Code") containing provisions designed to prevent improper personal trading, identify conflicts of interest and provide a means to resolve any actual or potential conflict in favor of the Advisor's clients. Adherence to the Code (and the related restrictions on personal trading) and compliance with all applicable federal securities laws, rules and regulations are considered basic conditions of employment by the Advisor.

The Chief Compliance Officer oversees the administration of the Code. The Chief Compliance Officer annually distributes copies of the Code and promptly distributes amendments thereto to all employees. Personnel are required to acknowledge and certify their receipt of the Code and any amendments.

Conflicts of interest or suspected violations of the Code are required to be reported immediately to the Chief Compliance Officer. Violations of the Code may result in the imposition of sanctions or remedial actions deemed appropriate or required by law. Such sanctions may include formal reprimand, disgorgement of profits, suspension or termination of employment with the Advisor, in addition to any criminal or civil penalties imposed by federal or state authorities.

B. Investing in Securities Recommended to Clients. As referenced in sub-part 11.A. above, potential conflicts of interest between the interests of the Advisor's employees and the interests of the Advisor's clients may arise in connection with the operation of the Advisor's investment advisory activities and the personal trading activities of the Advisor's employees. The Advisor has adopted the following procedures in an effort to minimize such conflicts.

Under the Code, an employee must obtain prior written authorization ("Pre-clearance") from the Chief Compliance Officer, or an individual designated in her absence, before engaging in any securities transactions for his/her personal account, subject to certain limited exceptions. Prior to pre-clearing a trade for an employee, the Chief Compliance Officer will assess the trade's economic impact on client accounts and the proposed transaction's compatibility with the Code's provisions. The Code exempts certain involuntary transactions from this Pre-clearance process. Proposed securities transactions on behalf of the Chief Compliance Officer's personal account are pre-cleared through the President of the Advisor.

In conjunction with the general Pre-clearance process, the Code implements prohibitions or special Pre-clearance considerations in connection with the following situations, among others:

- employee trades in a security for his/her personal account on the same day in which the Advisor trades or implements a trade order in that security on behalf of a client account;
- front-running;
- short sales;
- private placements, limited investment opportunities and initial public offerings; and,
- proposed trade is for a security issued by a company on the Advisor's Restricted List. (See Procedures to Prevent Insider Trading, below).

The Code requires an employee to submit holdings reports to the Chief Compliance Officer describing securities the employee beneficially owns. An employee must submit an initial report within ten days of becoming an employee and then annually thereafter. The Code also requires employees to:

- promptly notify the Chief Compliance Officer of any new brokerage accounts in which any personal securities are held;
- direct their broker-dealers or custodians to supply the Chief Compliance Officer with duplicate copies of securities trade confirmations (“Broker’s Confirmations”) within 15 days after effecting any personal securities transaction; and,
- submit a quarterly certification stating that all Broker’s Confirmations have been sent to the Advisor and any newly opened brokerage accounts have been communicated to the Advisor.

Employees are not required to submit any reports with respect to transactions in securities that are excluded from the definition of Reportable Securities, as defined in the Adviser’s Act, including transactions in money market instruments, direct obligations of the U.S. government, shares of certain registered open-end funds, accounts over which an employee does not exercise influence or control and transactions effected pursuant to automatic investment plans.

Holdings reports and Broker’s Confirmations are reviewed on a regular basis and compared to approved Pre-clearance requests and client transactions. Any violations of the Code discernable from the Chief Compliance Officer’s review are reported promptly to the President of the Advisor.

The President or the Chief Compliance Officer have the authority to exempt any employee or any personal securities transaction of an employee from any or all of the provisions of this Code if the President or the Chief Compliance Officer determine that an exemption would not negatively impact the interests of any client and is in accordance with applicable law. The Chief Compliance Officer will prepare and file a written memorandum of any exemption granted, describing the circumstances and reasons for the exemption.

Clients may obtain a copy of the Advisor’s Code by contacting the Chief Compliance Officer via e-mail at crepasy@whitemountains.com, by U.S. mail at the Advisor’s primary place of business at 200 Hubbard Road, Guilford, CT 06437, or by telephone at (203) 458-5800.

Procedures to Prevent Insider Trading

The Advisor has adopted and implemented written Policies and Procedures to Prevent Insider Trading. Pursuant to these procedures, the Advisor forbids employees, either personally or on behalf of others, within and outside their duties at the Advisor, from trading on material nonpublic information or communicating material nonpublic information to others in violation of the law. For example, the Advisor maintains a Restricted List, which contains the names of issuers for which any Supervised

Persons of the Advisor have been deemed to be in possession of material nonpublic information. The Restricted List is for internal use only and is designed to prevent the misuse of material nonpublic information. The Restricted List and the information it contains prohibit all of the Advisor's trading activities, and any personal trading activity by the Advisor's employees, with respect to issuer(s) named therein until such time as the material nonpublic information in question has: a) been announced to the public, or b) been deemed to be no longer material.

Item 12 - Brokerage Practices

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.

Generally, the Advisor has discretionary authority to determine (i) securities to be purchased and sold for its clients, (ii) the amount of those securities, (iii) the broker-dealer to be used, and (iv) the amount of commission to be paid for a purchase or sale of a security.

The Advisor has the authority and discretion to select broker-dealers to execute portfolio transactions and to determine the commissions paid in connection with securities transactions. Fixed income securities will generally be traded with broker-dealers without a stated commission. The broker-dealer's margin is reflected in the price of the security. Money market obligations may be traded directly with the issuer. Transactions in exchange listed equity securities are usually executed through broker-dealers that receive a commission paid by the client account for which the transaction is executed.

When executing securities transactions, the Advisor will generally select only those broker-dealers that have been approved pursuant to its internal procedures. A number of factors are considered by the Advisor in selecting a broker-dealer include, but are not limited to:

- the integrity of the broker-dealer to handle transactions and ability to maintain confidentiality;
- the breadth of the market in the security;
- the broker-dealer's ability to execute transactions in an efficient and effective manner;
- the financial stability and reputation of brokerage firm;
- the quantity and nature of any disciplinary or regulatory events disclosed by the broker-dealer;
- the size of the order;
- the speed of execution on competing markets;
- the broker-dealer's ability to understand trading characteristics of the security;

- the broker-dealer's demonstrated ability to achieve the best net results on transactions in a particular sector or of a particular size;
- the broker-dealer's ability to complete the transactions satisfactorily through to clearance, confirmation and delivery;
- the competitiveness of the commission rates; and
- the value of research and services offered by the broker-dealer.

In selecting the broker-dealers that are capable of meeting these criteria on a consistent basis, the Advisor will base its judgment principally on such broker-dealers' past performance. Typically, the Advisor's selection is based on an evaluation of the quality of execution in comparison to other broker-dealers. Evaluation of brokerage activity is conducted on a continuous basis.

1. Research and Other Soft Dollar Benefits. It is common industry practice for investment advisers to receive brokerage and research services, pursuant to Section 28(e) of the Securities Exchange Act of 1934, as amended, from broker-dealers that execute portfolio transactions for clients and third parties with which such broker-dealers have arrangements. The Advisor's policy provides that when several broker-dealers can satisfy the Advisor's obligation to obtain "best execution", the Advisor may place orders with broker-dealers that provide the Advisor with brokerage and research services and products, either directly or through third parties with which these broker-dealers have arrangements, subject to applicable legal requirements. Some of the services received relating to the investment decision process are in the form of research reports that are furnished by broker-dealers or other vendors including, but not limited to:

- written information and analyses concerning specific securities, companies or sectors;
- market, finance and economic studies and forecasts;
- certain financial publications;
- statistic and pricing services;
- discussions with research personnel; and
- software and data bases utilized in the investment management process

Research products and services provided by broker-dealers through which transactions are effected on behalf of client accounts are used for the benefit of all clients collectively.

Consistent with the foregoing, the Advisor has a duty to obtain "best execution" of the securities transactions being effected for its clients' accounts. In selecting broker-dealers to execute transactions, the Advisor need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Advisor's practice to negotiate "execution only" commission

rates. In negotiating commission rates, the Advisor's clients may be deemed to be paying for other services including research provided by the broker-dealer, which are included in the commission rate. Accordingly, the Advisor may pay broker-dealers a brokerage commission in excess of that which another broker-dealer might have charged for effecting the same transaction. In these circumstances, the Advisor expects clients will generally benefit from the Advisor's access to and use of such products, research and services, which serves to enhance the Advisor's investment decision-making and the effectiveness of the overall performance delivered by the Advisor to its clients.

"Soft dollars" refers to the practice of using commission dollars to recognize broker-dealers for investment research and brokerage execution services and other products and services provided by the broker-dealer to the Advisor. The Advisor does not currently engage in any soft dollar arrangements. If the Advisor permits soft dollar arrangements in the future, any such arrangements must be reviewed and approved by the Chief Compliance Officer before being implemented and must be in accordance with the Advisor's policy and procedures concerning the use of soft dollars. Although the Advisor is not currently a party to any formal soft dollar arrangements, the Advisor does execute securities transactions with multiple broker-dealers, many of whom provide the Advisor with access to proprietary research and brokerage services (e.g., standard investment, securities and economic research and credit reports, securities price and market data, and access to representatives of issuers). To the best of the Advisor's knowledge, these services are generally made available to all institutional investors doing business with these broker-dealers.

2. Directed Brokerage Arrangements. The Advisor does not currently permit clients to direct the Advisor in executing all or a portion of a trade for such client's account through a specific broker-dealer. If the Advisor permits directed brokerage arrangements in the future, the Chief Compliance Officer will review the arrangements and obtain all necessary acknowledgements from the clients.

B. Order Aggregation. Although the Advisor is not required to aggregate client orders, from time to time it may be appropriate for the Advisor to aggregate client orders for the purchase or sale of securities through the same broker-dealer. Each client that participates in an aggregated order with the same broker-dealer will participate at the average price for a given trade. Transaction costs will be shared pro rata based on each client's participation in the transaction. In the event that the aggregated order is partially filled, the order will generally be allocated pro rata among clients participating in the

order, although exceptions may be made to avoid odd lots, de minimis allocations and other similar issues.

C. Brokerage Related Practices

1. Allocation of Transactions to Clients. It is the policy of the Advisor that all investment advisory clients should be treated fairly and that, to the extent possible, all clients should receive equivalent treatment. When allocating trades among clients, the Advisor first assesses the appropriateness of the trade for each client, taking into account a range of factors including, but not limited to:

- the outlook for risk and return in various investment markets;
- each client's general investment objectives, strategies, policies, guidelines, limitations, available liquidity, tax status, risk tolerances, account size, liquidity needs, regulatory restrictions, operating risks and business requirements;
- certain factors unique to alternative assets and to life insurance portfolio management.

It is important to note that these factors can vary widely among clients, even among clients who have similar overall investment objectives.

If the Advisor determines that a particular investment opportunity is appropriate for multiple clients, the Advisor generally allocates the opportunity as follows:

- **Corporate Bonds.** Institutional corporate bonds generally trade in a minimum par lot size of 1 million. An allocation of less than this amount often results in inefficient pricing. As a result, the Advisor generally allocates corporate bond trades among clients based on a rotational approach.
- **Other Fixed Income Securities.** Other fixed income securities will generally be allocated among clients pro rata, provided that the Advisor may allocate trades in government debt or GSE debentures to specific client accounts on an ad hoc basis in order to, among other things, manage duration and clients' liquidity needs.

Derivatives. From time to time, the Advisor may determine that certain derivative strategies may be appropriate for one or more of its clients. The Advisor's life insurance client has written and approved a Derivatives Use Plan which enumerates the specific permissible uses of derivatives as well as the entire workflow and compliance processes associated therewith. Accordingly, the Advisor will use derivative strategies in the context of that framework in order to achieve specific investment or risk management

goals of that client. Derivative strategies for the Advisor's other clients are proposed and examined on an ad-hoc basis.

On occasions when clients have an opportunity to participate in limited investment opportunities, such as primary issuances of fixed income securities, the Advisor will also generally follow a pro rata approach.

If a given client has multiple subsidiaries, the Advisor generally allocates the client's share of a particular investment opportunity pro rata among those subsidiaries.

The Advisor allocates alternative assets somewhat differently. Because alternative assets have high investment minimums, restrictions on liquidity and unique investment characteristics, the Advisor will allocate these investments on a case-by-case basis in light of all circumstances. In general, the Advisor will allocate alternative assets only to those clients:

- whose investment guidelines authorize investments in alternative assets;
- which have at least \$100 million in equity investment assets.

2. Transactions Between Client Accounts. From time to time, the Advisor may seek to execute transactions between client accounts (including rebalancing trades between client accounts). It is the policy of the Advisor not to act as a principal or a broker in such transactions, and the Chief Compliance Officer will monitor such transactions to ensure that they are not principal or agency cross transactions.

3. Trading Error Procedures. The Advisor believes that clients must not suffer from mistakes of the Advisor. Accordingly, the Advisor will make its best efforts to assure that orders are entered correctly and that trade tickets and trade allocations will be documented in writing and maintained in accordance with the Advisor's and the SEC's record retention policies. When an error is made that impacts a client account, the Advisor will make its best efforts to break or otherwise correct the error as soon as practicable and in a manner that minimizes loss or expense to clients.

The Advisor is responsible for its own errors but not the errors of other persons, including broker-dealers and custodians. In the event that an error is discovered, the error is required to be reported to the Chief Compliance Officer, who will investigate the matter and ensure the error is corrected as soon as practicable. The primary factors that will be investigated are: (i) whether one or more client account(s) has been adversely impacted by the error; (ii) the dollar impact (e.g., gain or loss) of such

error on the client account(s); (iii) whether the client account(s) can and/or desire(s) to own or transact in the security to which the error relates; and (iv) the trade and settlement dates of the erroneous transaction.

Trades that are misallocated and are discovered prior to settlement date (trade misallocations) shall be reallocated at the terms of the original trade. If an error (other than a trade misallocation) is discovered on trade date or thereafter, the Chief Compliance Officer, with assistance from the Portfolio Manager, as needed, will determine the appropriate resolution that serves the best interest of the client, which may include the following:

- entering into an offsetting trade in the marketplace;
- breaking the trade with the executing broker;
- reallocating the trade and its correcting trade to the Advisor's error account maintained at the executing broker-dealer, or to a client account; and/or
- reimbursing the client for the economic loss incurred as a result of the error.

After a complete investigation and evaluation of the circumstances surrounding an error, the Chief Compliance Officer has discretion to resolve a particular error in a manner other than specified above, as long as the best interests of the client are served. Errors resulting from unique circumstances shall be resolved on a case-by-case basis.

Item 13 – Review of Investment Portfolios

A. Frequency and Nature of Review. Client investment portfolios are monitored on a daily basis. Portfolio Managers monitor the composition of the portfolio and analyze the impact of current events to ensure the portfolios are being managed in a manner consistent with the client's investment objectives, guidelines and restrictions as communicated to the Advisor.

In addition to the daily monitoring by Portfolio Managers, each investment portfolio is subject to periodic quantitative review to determine whether the portfolio is being managed consistently with the client's investment objectives, guidelines and restrictions, as communicated to the Advisor. This review and analysis includes, but is not limited to, the following:

Asset Class Allocations

The allocation among asset classes, such as governments, agencies, corporates, structured products, equities/convertibles and money market/cash (based on month-end prices and exchange rates) is reviewed for each investment portfolio, and compared with information from prior periods in order to identify trends.

Industry/Sector Allocations

The allocation among major industries and sectors (such as Basic Material, Communications, Consumer-Cyclical, Consumer-Non Cyclical, Diversified, Energy, Financial, Industrial, Technology, Utilities, etc.) is reviewed for each investment portfolio, and compared with information from prior periods in order to identify trends.

Investment Grade Allocations

Fixed income investments are grouped by composite ratings and compared with information from prior periods in order to identify trends.

Currency Allocations

The allocation of investments among currencies is calculated and reviewed.

Fixed Income Analytics

All fixed income analytics are performed using the PolyPaths, Derivative Solutions, Bloomberg, Intex and Trepp applications. Bloomberg data is used for governments, agencies and corporate securities. Intex data is used for structured products. Yield-to-maturity, yield-to-worst, effective duration, effective convexity, OAS spread vs. interpolated treasury yield curves are generated from Derivative Solutions. Inputs include closing prices, exchange rates, settlement date conventions, yield curve and prepayment assumptions (for structured products).

Consistency with Client Investment Objectives/Restrictions

Each investment portfolio is reviewed on a periodic basis by the Chief Compliance Officer with the assistance of Portfolio Managers, as considered necessary, to determine whether the portfolio is being managed in a manner that is consistent with the client's investment objectives, guidelines and restrictions, as communicated to the Advisor. The Advisor utilizes an automated compliance system to monitor portfolio compliance with client investment guidelines and/or restrictions. Investment guidelines and/or restrictions are coded and recorded into the system and then linked to the relevant portfolios to allow for ongoing monitoring. A dedicated Advisor employee reviews the automated compliance system on a daily basis for any breaches.

Comparative Review of the Performance of Similarly Managed Accounts

Further, on a regular basis and at least annually, the Chief Compliance Officer with the assistance of the Chief Financial Officer and Portfolio Managers, as considered necessary, will compare the performance of client investment portfolios with substantially similar investment objectives, guidelines and restrictions. The Chief Compliance Officer will report any unexplained significant discrepancies to senior management to determine appropriate action.

Other Analyses

Examples of other monthly analyses of fixed income investments include analyses of principal types (e.g., bullet, callable, putable, sinkable), coupon type (e.g., fixed rate, floating, and step coupons) and years to maturity. Scenario analysis may be performed for assumed spread and yield curve shifts (e.g., assuming up and down shifts of various basis points, both immediately and over a time horizon).

B. Content and Frequency of Regular Investment Reports. Clients generally receive monthly reports on the holdings, transactions, income received and performance of the account. All records maintained pursuant to client agreements shall be subject to examination by clients and by persons authorized by clients, or by appropriate governmental authorities, at all times upon reasonable notice. The Advisor shall provide copies of trade tickets, custodial reports and other records clients require for accounting or tax purposes. Clients have access to their account holdings directly via their custodian banks and their investment records via the investment accounting application.

Item 14 – Client Referrals and Other Compensation

This item is not applicable.

Item 15 – Custody

This item is not applicable.

Item 16 - Investment Discretion

The Advisor principally provides discretionary investment supervisory services to its clients. Please see item 4 for a description of any limitations clients may place on the Advisor's discretionary authority.

The nature and scope of the Advisor's discretionary investment supervisory services are set forth in a written Investment Management Agreement ("IMA") with each client.

Item 17 – Voting Client Securities**A. Policies and Procedures Relating to Authority to Vote Client Securities**

The Advisor has adopted proxy voting policies and procedures (the "Proxy Voting Policy and Procedures") designed to ensure that, to the extent the Advisor is responsible for voting proxies with respect to client securities, the Advisor votes the proxies in the best interests of its clients without regard to the interests of the Advisor or related parties. The Advisor may also rely on its sub-advisors to vote proxies on behalf of its clients. The Advisor monitors sub-advisors, where applicable, to ensure that all proxies are being properly voted and appropriate records are being retained.

Any proxy voted directly by the Advisor will be voted in accordance with the general voting guidelines adopted by the Advisor and set forth in the Advisor's Proxy Voting Policy and Procedures. The Proxy Voting Policy and Procedures also require that the Advisor identify and address conflicts of interest between the Advisor and its clients. If a material conflict of interest exists, the Advisor will determine whether voting in accordance with the general voting guidelines is in the best interests of the client, or if taking some other action is more appropriate.

The Advisor generally votes in favor of routine corporate “housekeeping” proposals and has adopted specific guidelines with respect to proposals relating to the election of directors, appointment of auditors, changes in capital structure, corporation restructurings, mergers and acquisitions, proposals affecting shareholder rights, corporate governance, anti-takeover measures and executive compensation. For all other proposals, the Advisor will determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others:

- whether the proposal was recommended by management and the Advisor’s opinion of management;
- whether the proposal acts to entrench existing management; and
- whether the proposal fairly compensates management for past and future performance.

Generally, the Advisor believes that voting proxies in accordance with its general voting guidelines is in the best interests of its clients. However, it is anticipated that circumstances may arise where votes are inconsistent with the general voting guidelines. In addition, the Advisor will vote proxies in the best interests of each particular client, which may result in different votes being cast for proxies of the same issuer. Additionally, the Advisor will review the proxy voting guidelines of its sub-advisors to ensure that they are consistent with the general voting guidelines of the Advisor, and that the interests of the Advisor’s clients are served.

Clients may obtain a copy of the Advisor’s Proxy Voting Policy and Procedures and information about how the Advisor voted a client’s proxies by contacting the Chief Compliance Officer via e-mail at crepasy@whitemountains.com, by mail at the Advisor’s primary place of business at 200 Hubbard Road, Guilford, CT 06437, or by telephone at (203) 458-5800.

Item 18 – Financial Information

This item is not applicable.

Item 19 – Requirements for State-Registered Advisors

This item is not applicable.

Appendix: Material Changes

This item is not applicable.