

Blue Capital Management Ltd.

Part 2A of Form ADV The Brochure

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This brochure provides information about the qualifications and business practices of Blue Capital Management Ltd. (“Blue Capital” or the “Adviser”). If you have any questions about the contents of this brochure, please contact us at 441-278-5004. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Blue Capital is also available on the SEC’s website at: www.adviserinfo.sec.gov. Blue Capital is a registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.

Item 2: Material Changes

All Items – Merger

Various references and descriptions in the this Brochure have been amended to reflect that, with effect from December 15, 2014, Blue Capital Insurance Managers Ltd. ("BCIML") merged with Blue Capital and Blue Capital has continued as the surviving company. Prior to the merger, BCIML acted as the insurance manager and insurance agent to Blue Water Re (defined below) and any SPVs (defined below).

Following the merger, Blue Capital will act as insurance manager and insurance agent to Blue Water Re and any SPVs in place of, and on the same terms as, BCIML. Blue Capital has registered as an insurance manager and insurance agent under the Bermuda Insurance Act 1978, as amended.

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Background

Blue Capital is a Bermuda corporation, which has its principal office and place of business in Bermuda. Blue Capital was formed in 2006 as a wholly-owned subsidiary of Montpelier Re Holdings Ltd (“Montpelier Holdings”). Blue Capital adopted its role as the asset management arm of Montpelier Holdings in 2012. Blue Capital was formed by Montpelier Holdings to provide alternative asset management services focused exclusively on insurance-linked assets.

Montpelier Holdings, through its principal operating subsidiary Montpelier Reinsurance Ltd. (“Montpelier Re”), is a Bermuda-based provider of global specialty property insurance and reinsurance products. Montpelier Holdings was founded by White Mountains Insurance Group, Ltd. and Benfield Holdings Limited and commenced operations in December 2001. Montpelier Holdings’ common shares are listed on the New York Stock Exchange under the symbol “MRH” and the Bermuda Stock Exchange under the symbol “MRH BH.” On March 31, 2015, Blue Capital’s parent company, Montpelier Holdings, entered into a definitive merger agreement with Endurance Specialty Holdings Ltd. (“Endurance”) pursuant to which Endurance will acquire all of the issued and outstanding common shares of Montpelier Holdings.

Description of Services

Blue Capital provides investment management services across a range of funds and investment vehicles with varying investment strategies within the insurance-linked asset class. Principally, Blue Capital serves as investment manager to Non-U.S. entities and to pooled investment vehicles that are excepted from registration under the Investment Company Act of 1940, as amended (the “1940 Act”), and whose interests are offered to certain eligible investors in offerings that are exempt from registration under the Securities Act of 1933, as amended (the “1933 Act”) (such pooled investment vehicles are referred to in this brochure as the “Private Funds” or the “Clients”). Blue Capital manages or proposes to manage one or more Private Funds, as described in this Brochure. Blue Capital also manages and may in the future manage accounts for affiliates, pooled investment vehicles, and other entities that do not rely on Section 3(c)(7) or 3(c)(1) of the 1940 Act; the investment advisory services offered to such entities are substantially similar to those described in this Brochure. This Form ADV relates only to services provided to U.S. persons and pooled investment vehicles that admit U.S. persons as investors. For purposes of this brochure, the Private Funds are Blue Capital’s clients, and not the investors in those Private Funds.

The Private Funds invest primarily in the insurance-linked asset class. Blue Capital’s investment strategies implemented through the Private Funds may vary from one another in terms of return objective, risk profile, product focus, geographic diversification and liquidity structure. Blue Capital and its affiliated entities have significant experience in the insurance-linked asset class, including but not limited to, collateralized reinsurance, retrocession, industry loss warranties, quota share facilities, catastrophe bonds, event-linked swaps, insurance-linked preference shares,

reinsurance financing facilities and contingent capital facilities. Each Private Fund's investment objectives and strategies are described in detail in the Private Fund's private placement memorandum or related supplement (the "Offering Materials"). Additional information about these investment strategies and related risks can be found below in *Item 8*.

Blue Capital may provide insurance related services to its Clients when identifying potential investment opportunities. Blue Capital is registered with the Bermuda Monetary Authority as an insurance manager and insurance agent and is authorized to provide the services provided to the Private Funds pursuant to an "Underwriting and Insurance Management Agreement." Blue Capital provides underwriting, risk management, claims management, ceded retrocession agreements management, actuarial and accounting services to its Clients. These services may include the following:

1. Preparing and negotiating agreements and related documents for the risks being ceded or retroceded to or from Blue Water Re;
2. Determining premium rates and other underwriting terms and conditions with respect to the underwriting of the risks being ceded to Blue Water Re;
3. Establishing commissions and fees to be paid to producers and brokers;
4. Managing the settlement of all claims from Blue Water Re and providing other business support services;
5. Books- and record-keeping; and
6. Providing consulting services to its underwriting committee (the "Underwriting Committee") and its investment committee ("Investment Committee") with respect to major underwriting decisions or other risk management decisions.

The Private Funds may be part of a master-feeder structure. In such a circumstance, Blue Capital serves as investment manager to both the master fund and the feeder fund. Certain Private Funds may also conduct their investment program primarily through Blue Water Re Ltd. ("Blue Water Re"), an affiliate of the Adviser, which is a licensed special purpose reinsurance company registered in Bermuda that exists solely to facilitate access for Clients of Blue Capital to risk premia in the global reinsurance markets. The Private Funds currently expect to invest substantially all investable assets in Blue Water Re, but may in the future invest through one or more Bermuda special purpose insurers or other vehicles that assume property catastrophe risks, which may or may not be related persons of the Adviser (each, an "SPV"). Like Blue Water Re, each SPV would be a licensed reinsurance company domiciled in Bermuda that exists solely to facilitate access for Clients of Blue Capital to risk premia in the global reinsurance markets. For purposes of this Brochure, Blue Water Re and the SPVs will be referred to generally as "SPVs." To the extent any SPV enters into reinsurance contracts with other reinsurance companies, Clients may be exposed to some or all of the risks described in Item 8 with respect to both the SPV and the ceding insurer.

Wrap Fee Programs

Blue Capital does not participate in wrap fee programs.

Assets under Management

As of January 1, 2015, the most recent date such information is available, Blue Capital provided investment management services involving a significant amount of investment discretion to Clients with respect to approximately \$790 million in assets, including proprietary assets and assets of Non-U.S. clients. Blue Capital does not manage any assets on a non-discretionary basis.

Item 5: Fees and Compensation

Each Private Fund pays a “Management Fee” as provided in the Private Fund’s Offering Materials. The Management Fee and other compensation payable to Blue Capital may vary from Private Fund to Private Fund, and may vary among classes of shares within a Private Fund. Typically, the Management Fee for a Private Fund ranges from 0.125% to 0.167% (1.5% to 2.0% annual rate) of the month-end net asset value of the Private Fund, and is payable monthly in arrears. Blue Capital may elect to reduce or waive a Management Fee with respect to an investor in a Private Fund. Blue Capital’s fees are exclusive of transaction, fronting, and similar fees which may be received by Blue Capital’s affiliates, as well as other related costs and expenses which are incurred directly by the Client (and each investor in each respective Private Fund bears their *pro rata* portion of such fees and expenses). Fronting fees are fees charged by Montpelier Re when it reinsures and cedes to an SPV a contract to provide the SPV with access to a transaction that the SPV would otherwise not have had access to. Clients may incur certain additional charges imposed by custodians, brokers and other third parties (see *Item 12*). Blue Capital does not directly receive any portion of these additional charges, although its related parties may.

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

The Private Funds may pay Blue Capital a performance fee consisting of a “carried interest,” which is a certain percentage of the realized returns in excess of certain performance hurdles (high water marks) with respect to a Private Fund. Typically, the performance fee will be accrued monthly and will be payable at the end of each fiscal year. The specific details of a Private Fund’s performance fee are disclosed in the Private Fund’s Offering Materials.

Performance-based fee arrangements may create an incentive for Blue Capital to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements may also create an incentive to favor higher fee paying Private Funds over other Clients in the allocation of investment opportunities. Blue Capital has designed and implemented procedures to ensure that all clients are treated fairly and equitably and to prevent this conflict from influencing the allocation of investment opportunities among Clients. Such safeguards are further discussed in *Item 11*.

Item 7: Types of Clients

Blue Capital provides investment advisory services to the Private Funds, and considers the Private Funds, and not the investors in the Private Funds, to be its clients. Each Private Fund sets its own minimum investment requirements for investors. Blue Capital may, in its sole discretion, waive the investment minimum.

Each investor participating in a Private Fund offered in the United States is generally required to meet certain suitability and net worth qualifications applicable to the respective Private Fund, i.e., the investor must be an “accredited investor” within the meaning of Rule 501 of Regulation D promulgated under the 1933 Act and, also must be a “qualified purchaser” as defined in Section 2(a)(51) of the 1940 Act. The Private Funds are intended for sophisticated institutional investors, although they may accept any investor that meets the applicable suitability and net worth qualifications. The Private Funds will also be offered to non-U.S. persons.

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

Investment Strategies and Methods of Analysis

The investment strategies of the Private Funds involve direct and indirect investment in insurance-linked assets. Blue Capital’s investment strategy involves the identification, analysis, and structuring of a portfolio of investments in the insurance-linked asset class, consistent with each Private Fund’s investment objective and strategies. As described herein, Blue Capital may provide insurance related services to its Clients when implementing its investment strategy. These strategies are described below under “*Investment Strategies.*”

Private Funds typically may not engage in collateralized reinsurance and similar transactions directly. Accordingly, the Private Funds will make many investments indirectly through one or more affiliated entities. The process by which the Private Funds gain exposure to these insurance-linked assets is described below under “*Investment Process.*”

Investment Strategies

The Private Funds will utilize the investment strategies described in the relevant Private Fund’s Offering Materials, which include, but are not limited to, investing in collateralized reinsurance, retrocession, industry loss warranties, quota share facilities, catastrophe bonds, event-linked swaps, insurance-linked preference shares, reinsurance financing facilities and contingent capital facilities. In the application of these investment strategies, Blue Capital will identify and recommend certain potential investments consistent with the Private Fund’s Offering Materials.

In most cases, each Private Fund’s investment strategies may include all types of insurance-linked securities and instruments, with varying terms relating to seniority or subordination, purchase price, payment type, product format and maturity. It is anticipated that substantially all of the investments made by a Private Fund will be into insurance-linked products related specifically to the non-life, property catastrophe reinsurance market. A Private Fund may enter into event-linked derivatives and/or reinsurance arrangements in order to take a directional (i.e. ‘short’) position in specified reference exposures, either for the Private Fund’s risk management purposes or to opportunistically arbitrage price discrepancies within the insurance-linked asset class as they arise. All of each Private Fund’s activities, long and short, will be fully collateralized.

Blue Capital applies a multi-step process to identify appropriate insurance-linked assets for investment by a Private Fund. The investment process is outlined in the chart below:



First, Blue Capital determines whether the expected returns of the asset in question are attractive in light of the risks associated with the investment. Blue Capital uses a proprietary pricing and risk management tool (“CATM®”), made available through a service agreement with Montpelier Re. CATM® is used to assess the attractiveness of each investment on a standalone basis and in the context of the portfolio, and is used to ensure that the investment guidelines are met.

Second, Blue Capital determines whether the proposed investment is consistent with a Private Fund’s stated investment strategies, and appropriate for inclusion in a Private Fund’s portfolio in light of the existing asset mix and concentration of risks in the portfolio. Each investment opportunity is presented by the portfolio manager for approval by the Investment Committee, which ultimately determines whether the investment opportunity meets the investment guidelines for the particular Private Fund

Third, Blue Capital seeks to identify the source of any counterparty or other credit risk that may create a risk of default on the part of a counterparty. Blue Capital then subjects the counterparty to a rigorous credit analysis, using quantitative and qualitative techniques. When considering an investment that may be subject to the risk of default of one or more parties in addition to the Client’s counterparty (for example, in a retrocession transaction), Blue Capital will consider the risk of each such party.

The Insurance-Linked Asset Class

The insurance-linked asset class has existed for approximately 20 years and enables institutional investors to access alternative, actuarial-based risk premia from the (re)insurance market which exhibit little or no directional correlation to the broader equity and fixed income markets.

Underlying risk exposures typically available through the insurance-linked asset class are generally focused on three key risk zones around the world where there are high levels of insurance penetration, namely the United States, Europe and Japan. Within these key risk zones, opportunities may be available in discrete sub-regions (such as Florida, California, and the UK)

as well as discrete perils (such as hurricane, earthquake, and flood). Blue Capital believes that, in addition to the diversification that actuarial-based risks can offer investors from traditional investment classes, it is possible to achieve risk diversification within the asset class itself.

Insurance-linked products in which the Private Funds invest generally fall into three categories: *Collateralized Reinsurance*, *Derivatives* and *Catastrophe Bonds*. The risks related to each category are described below under “*Risks*.”

Collateralized Reinsurance involves direct participation in the traditional reinsurance industry alongside, or in competition with, traditional reinsurance companies for the largest segment of risk opportunities within the asset class. Within this segment, participants are able to access risk premia across the entire risk spectrum, from high risk (opportunistic) to low risk (conservative). Participation Shares and Quota Shares are examples of collateralized reinsurance.

Derivatives generally include ISDA-based derivative contracts (or in reinsurance contract format, “industry loss warranties”). The Private Funds will typically invest in derivatives in which a protection buyer pays a fixed premium upfront to a protection seller, who collateralizes in full the notional amount of protection they are providing. The contract may reference an independent, measurable event, such as a given quantum of loss suffered by the insurance industry as a result of a defined, covered event (such as a \$20 billion hurricane event in Florida) or a given wind speed at a pre-specified measuring location during the contract risk period. These contracts are typically available within limited segments of the risk spectrum, ranging from high risk to moderate risk. The Private Funds may also invest in derivatives tied to interest rates, currencies, or other reference assets for risk management purposes.

Catastrophe Bonds generally relate to rated fixed income or zero coupon securities which are generated as a result of a securitization of a (re)insurance liability from a sponsoring insurer or reinsurer. Typically rated by one rating agency, these securities are often distributed under Rule 144A under the 1933 Act and commonly have a tenor of three years. Catastrophe Bonds represent the most commoditized side of the insurance-linked asset class with relatively low barriers to investor entry.

The Reinsurance Market Generally

Property insurers write insurance policies in exchange for premiums paid by the policyholder. An insurance policy is a contract between the insurance company and the policyholder whereby the insurance company agrees to pay for losses suffered by the policyholder that are covered under the contract. Property insurance typically covers the financial consequences of accidental losses to the policyholder’s property.

Property reinsurers assume, from insurance and reinsurance companies (referred to as “ceding companies” or “cedants”), all or a portion of the insurance risks that the ceding company has underwritten under one or more insurance policies. In return, the reinsurer receives a premium. Reinsurance can benefit a ceding company in a number of ways, including reducing exposure on individual risks and providing protection from larger or multiple losses arising from natural catastrophes, and helping the ceding company manage earnings volatility. Reinsurance can also provide a ceding company with additional underwriting capacity permitting it to accept larger

risks and/or write more insurance policies than would be possible without an accompanying increase in its capital or surplus.

Reinsurers may also purchase reinsurance, known as retrocessional reinsurance, to cover their own risks assumed from ceding companies. Reinsurance companies often enter into retrocessional agreements for many of the same reasons that ceding companies enter into reinsurance agreements.

Property reinsurance products are often written in the form of treaty reinsurance contracts, which are contractual arrangements that provide for the automatic reinsurance of a type or category of risk underwritten. Treaty reinsurance premiums, which are typically due in installments, are a function of the number and type of contracts written, as well as prevailing market prices. The timing of premiums written vary by line of business. The majority of property catastrophe business is written on the 1 January, 1 April, 1 June and 1 July annual renewal periods.

Property catastrophe reinsurance contracts are typically “all risk” in nature, providing protection to the ceding company against losses from earthquakes and hurricanes, as well as other natural catastrophes such as floods, tornadoes, storms and fires, also known as perils. The predominant exposures covered by these contracts are losses stemming from property damage and business interruption resulting from a covered peril.

Reinsurance Structure

Property catastrophe reinsurance contracts are typically written on an excess-of-loss basis, which provides coverage to the ceding company when aggregate claims and claim expenses from a single occurrence for a covered peril exceed a certain amount specified in a particular contract. Under these contracts, protection is provided to an insurer for a portion of the total losses in excess of a specified loss amount, up to a maximum amount per loss specified in the contract. The coverage provided under excess-of-loss reinsurance contracts may be on a worldwide basis or limited in scope to specific regions or geographical areas. Coverage can also vary from “all natural” perils, which is the most expansive form, to more limited types such as windstorm-only coverage.

Excess-of-loss contracts are typically written on a losses occurring basis, which means that they cover losses that occur during the contract term, regardless of when the underlying policies came into force. Premiums from excess-of-loss contracts are earned ratably over the contract term, which is ordinarily twelve months. Most excess-of-loss contracts provide for a reinstatement of coverage following a covered loss event in return for an additional premium.

Insurers generally purchase multiple tranches of reinsurance protection above an initial retention elected by the insurer. The amount of reinsurance protection purchased by an insurer is typically determined by the insurer through both quantitative and qualitative methods. In the event of losses, the amount of loss that exceeds the amount of reinsurance protection purchased is retained by the insurer. As a program is constructed from ground up, each tranche added generally has a lower probability of loss than the prior tranche and therefore generally is subject to a lower reinsurance premium charged for the reinsurance protection purchased. Insurer

catastrophe programs are typically supported by multiple reinsurers per program.

Investment Process

As noted in Item 4, certain Private Funds may invest substantially all investable assets in, and conduct their investment programs primarily through Blue Water Re, which is a licensed reinsurance company domiciled in Bermuda that exists solely to facilitate access for the Private Funds managed by Blue Capital to risk premia in the global reinsurance markets. In the future the Private Funds may conduct their investment programs through one or more SPVs in addition to, or in lieu of Blue Water Re. To gain exposure to insurance-linked assets, the Private Funds invest in instruments issued by the SPV structured as preference shares designed to provide the Private Fund investment exposure to underlying reinsurance transactions or similar insurance-linked investment products.

Each SPV will underwrite and accept catastrophe risk involving property exposures throughout the world, with an emphasis on key zones, including North America (primarily the USA), Europe (primarily the European Union) and Asia (primarily Japan). The portfolio will be diversified via geography, perils and time allowing no single event to fully consume the applicable SPV's capital. Additionally, strategies to retrocede, mitigate, lay off or otherwise hedge each SPV's exposures may be utilized as appropriate.

Each SPV intends to fully collateralize its potential obligations to Ceding Insurers.

Ceding Insurers

The applicable SPV will reinsure Montpelier Re or other sophisticated reinsurance or insurance companies. The investment strategy of a Private Fund will generally require that such companies have a financial-strength evidenced by a minimum credit rating, or otherwise be well capitalized, sophisticated insurance companies that meet Blue Capital's detailed credit review process. Regardless of whether such contracts are entered into on a direct or fronted basis, all such reinsurance contracts will be subject to underwriting guidelines described in the applicable Offering Materials. Upon the execution of reinsurance contracts, cash or other assets of the applicable SPV will be pledged to Ceding Insurers pursuant to individual Reinsurance Collateral Arrangements (as defined below).

Reinsurance Collateral Arrangements

Each SPV's license to conduct an insurance and reinsurance business requires that it post collateral to Ceding Insurers in the full amount of the coverage provided. Accordingly, upon the execution of each reinsurance contract, whether on a direct or fronted basis, the applicable SPV will pledge cash or assets in the amount required to secure such SPV's obligations under such reinsurance contract to the applicable Ceding Insurer through a collateral arrangement (a "Reinsurance Collateral Arrangement"). The legal form of the Reinsurance Collateral Arrangements will vary depending on the Ceding Insurer's legal, regulatory and other requirements and may include trust accounts, letters of credit, custodial or similar arrangements.

Regardless of the legal form, each Reinsurance Collateral Arrangement will secure the

obligations of the applicable SPV to the individual Ceding Insurer under the applicable reinsurance agreement. Except for collateral that must be paid as a result of a loss occurrence, upon the termination of a reinsurance agreement, assets held under a Reinsurance Collateral Arrangement shall be returned to the applicable SPV. Upon receiving such assets, the applicable SPV may use such assets as collateral for subsequent reinsurance transactions on behalf of a Private Fund, or return those assets to the Private Fund to meet redemption requests. For the entire period of a reinsurance transaction, an SPV's aggregate liability at any given time shall in no event exceed the value of (i) the collateral held or delivered by such SPV for the benefit of the Ceding Insurer plus (ii) premiums due from the Ceding Insurer to such SPV; and the Ceding Insurer shall have no recourse against such SPV other than for such amount.

Risks

All investments involve the risk of loss that the Private Funds and their underlying investors should be prepared to bear. A more detailed discussion of the risks relating to an investment in one of the Private Funds can be found in the Private Fund's Offering Materials.

Reinsurance-Related Securities Risk. The principal risk of an investment in a reinsurance-related security is that a triggering event(s) (e.g., (i) natural events, such as a hurricane, tornado or earthquake of a particular size/magnitude in a designated geographic area; or (ii) non-natural events, such as large aviation disasters) will occur and a Client will lose all or a significant portion of the principal it has invested in the security and right to additional interest payments with respect to the security. If multiple triggering events occur that impact a significant portion of the securities held by a Client, the Client could suffer substantial losses and will lose money. A majority of a Client's assets will be invested in reinsurance-related securities tied to natural events and non-natural other large catastrophes and there is inherent uncertainty as to whether, when or where such events will occur. There is no way to predict with complete accuracy whether a triggering event will occur, and because of this significant uncertainty, reinsurance-related securities carry a high degree of risk.

Participation Shares and Quota Shares. Each Client is expected to invest a substantial portion of its assets indirectly in reinsurance contracts, by holding notes or preferred shares issued by an SPV or by a related reinsurance company such as Blue Water Re, whose performance is tied to an underlying reinsurance transaction. The preferred shares issued by the SPV or reinsurance company ("Participation Shares") may reference a single underlying reinsurance transaction, or may reference a portfolio or "basket" of reinsurance transactions. Participation Shares that reference a portfolio or basket of reinsurance transactions are referred to as including quota shares ("Quota Share Note"). If a trigger event, as defined within the terms of the reinsurance contract, involves losses or other metrics exceeding a specific magnitude in the geographic region and time period specified therein, a Client may lose a portion or all of its investment in such security, including accrued interest and/or principal invested in such security. Such losses may be substantial. In addition, because Quota Share Notes represent an interest in a basket of underlying reinsurance contracts, a Client may have limited transparency into the individual underlying contracts and therefore must rely upon the risk assessment and sound underwriting practices of the issuer. Accordingly, it may be more difficult for the Adviser to fully evaluate the underlying risk profile of a Client's investment in Quota Share Notes than in Participation Shares that reference a single underlying reinsurance transaction. The lack of

transparency may also make the valuation of Quota Share Notes more difficult and potentially result in mispricing that could result in losses to a Client. Participation Share trades typically must be fully collateralized such that a Client cannot lose more than the amount invested.

Participation Shares, including Quota Share Notes, are also subject to extension risk. The sponsor of such an investment might have the right to extend the maturity of the notes to verify that the trigger event did occur or to process and audit insurance claims. In certain circumstances, the extension may exceed two years. An extension to verify the potential occurrence of a trigger event will reduce the value of the note due to the uncertainty of the occurrence of the trigger event and will hinder the Client's ability to sell the note. Even if it is determined that the trigger event did not occur, such an extension will delay the Client's receipt of the note's principal and prevent the reinvestment of such proceeds in other, potentially higher yielding securities.

Event-Linked Bonds. Event-linked or catastrophe bonds carry large uncertainties and major risk exposures to adverse conditions. Event-linked bonds are subject to the same risks as Participation Shares and Quota Shares. Because catastrophe bonds cover "catastrophic" events, that will result in significant losses if the events occur, catastrophe bonds carry a high degree of risk of loss and are considered "high yield" or "junk bonds." If the bond is rated, the rating primarily reflects the rating agency's calculated probability that a pre-defined trigger event will occur. Thus, lower-rated bonds have a greater likelihood of a triggering event occurring and loss to a Client.

Catastrophe bonds are also subject to extension risk. The sponsor of such an investment might also have the right to extend the maturity of the bonds to verify that the trigger event did occur or to process and audit insurance claims. The typical duration of mandatory and optional extensions of maturity for reinsurance-related securities currently is between three to six months. In certain circumstances, the extension may exceed two years. An extension to verify the potential occurrence of a trigger event will reduce the value of the bond due to the uncertainty of the occurrence of the trigger event and will hinder a Client's ability to sell the bond. Even if it is determined that the trigger event did not occur, such an extension will delay a Client's receipt of the bond's principal and prevent the reinvestment of such proceeds in other, potentially higher yielding securities.

Catastrophe bonds have a limited trading history, and in certain instances there may be a limited or no active trading market, which may impair the ability of a Client to realize full value in the event of the need to liquidate such assets.

Industry Loss Warrants. Each Client may invest in industry loss warrants ("ILWs"), which are similar to event-linked bonds, but are in the form of a contract rather than a debt instrument. An ILW is a type of reinsurance contract or option where the payout is triggered when a catastrophic event causes losses to the entire insurance industry in excess of a predetermined trigger amount. The industry insurance losses are calculated and reported by a third party index provider such as Property Claims Services (PCS) in the United States and PERILS outside the United States. ILWs are subject to similar risks as event-linked bonds. If a trigger event, as defined within the terms of the contract, involves losses or other metrics exceeding a specific magnitude in the geographic region and time period specified therein, a Client may lose a portion or all of its investment in such security, including accrued interest and/or principal invested in such security. Such losses may be substantial. For example, assume

two counterparties agree to an option trade where the option settles in-the-money if a single Florida hurricane causes losses to the insurance industry of \$50 billion. For this protection, the option buyer agrees to pay an option premium of 10%. If a Florida hurricane then occurs and causes a total industry insured loss greater than \$50 billion, the seller of an ILW option would lose the full notional amount of the contract, less the option premium paid by the buyer.

Risk-Modeling Risk. The Adviser will generally consider risk models (created by the Adviser, a related party, independent third parties, the sponsor of a reinsurance-related security, or a broker) with respect to a Client's investments. Risk models are designed to assist investors, governments, and businesses understand the potential impact of a wide variety of catastrophic events and allow such parties to analyze the probability of loss in regions with the highest exposure. The Adviser will use the output of the risk models before and after investment to assist the Adviser in assessing the risk of a particular reinsurance-related security or a group of such securities. A risk model uses the most then-current scientific and statistical data to estimate the losses that could be sustained due to a catastrophic event, but even the most sophisticated models cannot predict actual losses. Risk models are used by the Adviser as one input in its risk analysis process for Fund investments. Risk models are created using historical, scientific and other related data. Therefore, because such risk models are based upon historical data and averages, there is no guarantee that such information will accurately predict the future occurrence, location or severity of any particular catastrophic event and thus may fail to accurately calculate the probability of a trigger event and may underestimate the likelihood of a trigger event. In addition, any errors or imperfections in a risk model, or in the data on which they are based, or technical issues with the construction of the models (including, for example, data problems and/or software or other implementation issues) could adversely affect the ability of the Adviser to use such analyses or models effectively, which in turn could adversely affect a Client's performance.

Illiquidity and Restricted Securities Risk. Liquidity risk is the risk that the reinsurance-related securities held by a Client may be difficult or impossible to sell at the time that the Client would like or at the price that the Client believes the security is currently worth. A Client may invest substantially in securities that are illiquid. There can be no assurances that a liquid market will be maintained, in which case a Client's ability to realize full value in the event of the need to liquidate such assets may be impaired and/or result in losses to the Client.

Certain reinsurance-related securities in which a Client may invest will be Rule 144A securities, which are securities that generally can be purchased and sold only by institutions with at least \$100 million of securities (called "qualified institutional buyers" or "QIBs"). Rule 144A securities are considered "restricted" securities. Restricted securities may have an active trading market, but carry the risk that the active trading market may not continue. To the extent that qualified institutional buyers become for a time uninterested in purchasing reinsurance-related securities, the securities will become illiquid while held by a Client. Illiquid securities may be difficult to value, a Client may be required to hold illiquid securities when it otherwise would sell such securities or may be forced to sell securities at a price lower than the price the Client has valued such securities. This may result in losses to a Client.

Valuation Risk. Each Client is subject to valuation risk, which is the risk that one or more of the securities in which the Client invests are priced incorrectly due to factors such as incomplete data, market instability, or human error. In addition, pricing of reinsurance-related securities is subject to the added uncertainty caused by the inability to generally predict whether,

when or where a natural disaster or other triggering event will occur. A Client's investments in reinsurance-related securities for which market quotations are not available will be valued pursuant to procedures adopted by the Adviser. Upon the occurrence or possible occurrence of a trigger event, and until the completion of the processing and auditing of applicable loss claims, a Client's investment in a Participation Share or an event-linked bond may be priced using fair value methods. Portfolio securities that are valued using techniques other than market quotations, including fair valued securities, may be subject to greater fluctuation in their value from one day to the next than would be the case if market quotations were available and used. In addition, there is no assurance that a Client could sell a portfolio security for the value established for it at any time and it is possible that the Client would incur a loss because a portfolio security is sold at a discount to its established value. If securities are mispriced, investors in a Client could lose money upon redemption (because the value of the interests sold is worth more due to the mispricing) or could pay too much for interests purchased (because the Client overvalued the interests due to the mispricing).

Moral Hazard Risk. Reinsurance-related securities are generally subject to one or more types of triggers, including so-called "indemnity-triggers". An indemnity trigger is a trigger based on the actual losses of the ceding sponsor. Reinsurance-related securities subject to indemnity triggers are often regarded as being subject to potential moral hazard, since such reinsurance-related securities are triggered by actual losses of the ceding sponsor and the ceding sponsor may have an incentive to take actions and/or risks that would have an adverse effect on a Client. For example, if an event-linked bond will be triggered at \$500 million in losses to the sponsor, once that trigger is hit (i.e., the sponsor experiences \$500 million in losses under the contracts it has written), the bond purchaser will lose all or a portion of its principal invested (plus any additional interest). In this situation, the ceding sponsor has an incentive to pay the claims more generously when the loss amount is near the trigger amount set in the bond (i.e., to claim \$500 million in losses, when perhaps it could be argued that actual losses were \$499.9 million). Thus, bonds with indemnity triggers may be subject to moral hazard, because the trigger depends on the ceding sponsor to properly identify and calculate losses that do and do not apply in determining whether the trigger amount has been reached. In short, "moral hazard" refers to this potential for the sponsor to influence bond performance, as payouts are based on the individual policy claims against the sponsor and the way the sponsor settles those claims.

Limited Availability and Reinvestment Risk. Investments in reinsurance-related securities may be limited, which may limit the amount of assets a Client may be able to invest in reinsurance-related securities. The limited availability of reinsurance-related securities may be due to a number of factors, including seasonal concentration of issuances, limited selection that meets a Client's investment objective and lack of availability of reinsurance-related securities in the secondary market. Original issuances of event-linked bonds (and in particular hurricane-related catastrophe bonds) may be concentrated in the first two calendar quarters of each year while original issuances of Participation Shares (including Quota Share Notes) may be concentrated in particular reinsurance renewal months (January, and to a lesser extent, April, June, and July). Thereafter, the availability of reinsurance-related securities is subject to natural fluctuations in the secondary market. Therefore, if reinsurance-related securities held by a Client mature, or a Client must sell securities to meet redemption requests, a Client may be required to hold more cash than it normally would until reinsurance-related securities meeting the Client's investment objectives become available. Due to the potentially limited availability of additional reinsurance-related securities, a Client may be forced to reinvest in securities that are lower

yielding or less desirable than the securities the Client sold. This is known as reinvestment risk, and may reduce the overall return on its portfolio securities.

Investments in Non-Voting Stock Risk. For various reasons, a Client may hold some or all of its interest in the SPV in non-voting form. To the extent a Client contractually forgoes its right to vote securities or purchases non-voting securities of an SPV, it will not be able to vote on matters that require the approval of the investors in the issuer, including matters that could adversely affect a Client's investment in the issuer. Interests in a particular SPV, even without voting rights, are selected based on the investment merits of those interests consistent with the fiduciary duties of the Adviser, and generally reflect the judgment of the Adviser that such investments are an attractive and appropriate opportunity for a Client for any number of reasons.

To the extent a Client holds non-voting securities of a SPV, it will not be able to vote to the full extent of its economic interest on matters that require the approval of the investors in such issuer. This restriction could diminish the influence of a Client in the issuer and adversely affect its investment in the issuer, which could result in unpredictable and potentially adverse effects on investors.

Reinsurance Industry Risk. The performance of reinsurance-related securities and the reinsurance-industry itself are tied to the occurrence of various triggering-events, including weather, other natural disasters (hurricanes, earthquakes, etc.), as well as non-natural other large catastrophes. Major disasters in populated areas (such as in the cases of hurricane Katrina in New Orleans in 2005 and super storm Sandy in the New York City metropolitan area in 2012) can result in significant losses and investors in reinsurance-related securities tied to such events, may also experience substantial losses. If the likelihood and severity of natural and other large disasters increases, the risk of significant losses to reinsurers may increase. Typically, one significant triggering event (even in a major metropolitan area) will not result in financial failure to a reinsurer. However, a series of major triggering events could cause the failure of a reinsurer. Similarly, to the extent a Client invests in reinsurance-related securities for which a triggering event occurs, it will result in losses to the Client and a series of major triggering events affecting a large portion of the reinsurance-related securities held by a Client will result in substantial losses to the Client.

Floating-Rate Loan Risks. Certain of the reinsurance-related securities in which a Client invests are expected to be variable rate, or floating rate, event-linked bonds. Floating rate loans and similar investments may be illiquid or less liquid than other investments. In addition, while the collateral securing most event-linked bonds in which a Client currently intends to invest will be invested in low-risk investments, certain SPVs in which the Client invests may permit investment of collateral in higher risk, higher yielding investments. Thus, the value of collateral, if any, securing a Client's investments in event-linked bonds can decline or may be insufficient to meet the issuer's obligations or may be difficult to liquidate. Market quotations for these securities may be volatile and/or subject to large spreads between bid and ask prices.

Leveraging Risk. A Client may borrow or enter into derivative transactions for investment purposes, which will cause the Client to incur investment leverage. Therefore each Client is subject to leveraging risk. Leverage magnifies a Client's exposure to declines in the value of one or more underlying investments or creates investment risk with respect to a larger pool of assets than the Client would otherwise have. This risk is enhanced for a Client because it invests substantially all its assets in reinsurance-related securities. Reinsurance-related securities

can quickly lose all or much of their value if a triggering event occurs. Thus, to the extent assets subject to a triggering event are leveraged, the losses could substantially outweigh a Client's investment and result in significant losses to a Client's net asset value. The value of an investment in a Client will be more volatile and other risks tend to be compounded if and to the extent the Client borrows or uses derivatives or other investments that have embedded leverage. Engaging in such transactions may cause a Client to liquidate positions when it may not be advantageous to do so to satisfy its obligations or meet segregation requirements.

Derivative Investments Risk. A Client may obtain event-linked exposure by investing in, among others, event-linked swaps, which typically are contingent, or formulaically related to defined trigger events, or by pursuing similar event-linked derivative strategies. Trigger events include hurricanes, earthquakes, weather-related phenomena and other criteria determined by independent parties. If a trigger event(s) occurs, a Client may lose the swap's notional amount. As derivative instruments, event-linked swaps are subject to risks in addition to the risks of investing in reinsurance-related securities, including counterparty risk and leverage risk.

The use of derivatives can lead to losses because of adverse movements in the price or value of the asset, index, rate or instrument underlying a derivative, due to failure of a counterparty or due to tax or regulatory constraints. Derivatives may create economic leverage in a Client, which magnifies the Client's exposure to the underlying investment. Derivatives risk may be more significant when derivatives are used to enhance return or as a substitute for a cash investment position, rather than solely to hedge the risk of a position held by a Client. When derivatives are used to gain or limit exposure to a particular market or market segment, their performance may not correlate as expected to the performance of such market thereby causing a Client to fail to achieve its original purpose for using such derivatives. A decision as to whether, when and how to use derivatives involves the exercise of specialized skill and judgment, and a transaction may be unsuccessful in whole or in part because of market behavior or unexpected events. Derivative instruments may be difficult to value, may be illiquid, and may be subject to wide swings in valuation caused by changes in the value of the underlying instrument. If a derivative's counterparty is unable to honor its commitments, the value of Client interests may decline and a Client could experience delays in the return of collateral or other assets held by the counterparty and may lose money. The loss on derivative transactions may substantially exceed the initial investment.

Below Investment Grade Securities Risk. A Client can invest without limit in reinsurance-related securities that are rated below investment grade, commonly called "junk bonds," which are bonds rated below BBB- by Standard & Poor's Ratings Services ("S&P") or Baa3 by Moody's Investors Service, Inc., ("Moody's"), or that have comparable ratings by another rating organization. The rating primarily reflects the rating agency's calculated probability that a pre-defined trigger event will occur. Therefore, securities with a lower rating reflect the rating agency's assessment of the substantial risk that a triggering event will occur and result in a loss. The rating also assesses the reinsurance-related security's credit risk and the model used to calculate the probability of the trigger event. The rating system for reinsurance-related securities is less developed than that of corporate bonds and continues to evolve as the market develops. There is no minimum rating on the bonds in which a Client may invest. Each Client may also invest without limit in reinsurance-related securities that are unrated and are judged by the Adviser to be of below investment grade quality. Most rating agencies rely upon one or more of the reports prepared by the following three independent catastrophe-modeling

firms: EQECAT, Inc., AIR Worldwide Corporation and Risk Management Solutions, Inc. In addition to one or more of these tools, Blue Capital utilizes proprietary modelling tools developed by Montpelier Re. One or more of these modeling firms may be used by the Adviser as part of its investment process. These firms utilize different methodologies to evaluate the probability of various types of pre-defined trigger events. If the reports used by the rating agency are flawed, it may cause a rating agency to assign a rating to a reinsurance-related security that is not justified. Therefore, to the extent the Adviser relies on rating agency ratings to select securities for a Client, the Client may be exposed to greater risks. Additionally, because there are only three major independent catastrophe-modeling firms, the effects of a flawed model or report issued by one or more of such firms will be magnified.

Credit Risk. The reinsurance-related securities in which a Client invests will be subject to credit risk. The principal invested in a reinsurance-related security is held by the SPV or reinsurance company in a collateral account and invested in various permissible assets set forth under the terms of such issuer. Typically, the collateral account is invested in high quality U.S. government securities (i.e., U.S. Treasury bonds). However, in certain reinsurance-related securities, the collateral account may be invested in high yielding, higher risk securities. In such instances a Client will be subject to the risk of non-payment of scheduled principal and interest on such collateral account investments. Such non-payments and defaults may reduce the income to a Client from the collateral account and negatively impact the value of Client interests. In addition, the collateral will be invested in accordance with the terms of the issuer and overseen by a collateral manager appointed by the issuer, therefore a Client is dependent upon the manager to invest the collateral account proceeds appropriately.

Foreign Investing Risk. Each Client will invest in reinsurance-related securities issued by foreign sovereigns and foreign entities that are corporations, partnerships, trusts or other types of business entities. Because the majority of reinsurance-related security issuers are domiciled outside the United States including Montpelier Re and Blue Water Re, each Client will normally invest significant amounts of its assets in non-U.S. entities. Accordingly, a Client may invest without limitation in securities issued by non-U.S. entities, including those in emerging market countries. Participation Shares in which a Client invests will typically be sponsored by non-U.S. insurers, including Blue Water Re, that are not subject to the same regulation as that to which U.S. ceding insurers are subject. Such Participation Shares may pose a greater risk of loss, for example, due to less stringent underwriting and/or risk-retention requirements. A Client's investments will consist primarily of Participation Shares, including Quota Share Notes, which provide the Client with contractual rights under the terms of the issuance. While the contractual rights of event-linked bonds and Quota Share Notes issued are similar whether they are issued by a U.S. issuer or a non-U.S. issuer, there may be certain additional risks associated with non-U.S. issuers. For example, foreign issuers could be affected by factors not present in the U.S., including expropriation, confiscatory taxation, lack of uniform accounting and auditing standards, less publicly available financial and other information, potential difficulties in enforcing contractual obligations, and increased costs to enforce applicable contractual obligations outside the U.S. Settlements of securities transactions in foreign countries are subject to risk of loss, may be delayed and are generally less frequent than in the U.S., which could affect the liquidity of a Client's assets.

Foreign Currency Risk. It is expected that a substantial portion of a Client's investments in reinsurance-related securities will be U.S. dollar denominated investments. To the

extent a Client invests in non-U.S. denominated instruments, a change in the value of a foreign currency against the U.S. dollar will result in a change in the U.S. dollar value of securities denominated in that foreign currency. If the U.S. dollar rises in value against a foreign currency, a security denominated in that currency will be worth less in U.S. dollars and if the U.S. dollar decreases in value against a foreign currency, a security denominated in that currency will be worth more in U.S. dollars. The dollar value of foreign investments may also be affected by exchange controls.

Prepayment or Call Risk. Many fixed income securities give the issuer the option to prepay or call the security prior to its maturity date. Issuers often exercise this right when interest rates fall. Accordingly, if a Client holds a fixed income security that can be prepaid or called prior to its maturity date, it may not benefit fully from the increase in value that other fixed income securities generally experience when interest rates fall. Upon prepayment of the security, a Client also would be forced to reinvest the proceeds at then current yields, which would be lower than the yield of the security that was prepaid or called. In addition, if a Client purchases a fixed income security at a premium (at a price that exceeds its stated par or principal value), the Client may lose the amount of the premium paid in the event of prepayment.

Subordinated Securities Risk. Certain SPVs in which a Client invests may issue multiple tranches of interests to investors. A holder of securities that are subordinated or "junior" to more senior securities of an issuer is entitled to payment after holders of more senior securities of the issuer. Subordinated securities are more likely to suffer a credit loss than non-subordinated securities of the same issuer, any loss incurred by the subordinated securities is likely to be proportionately greater, and any recovery of interest or principal may take more time. As a result, even a perceived decline in creditworthiness of the issuer is likely to have a greater impact on them.

Item 9: Disciplinary Information

There are no legal or disciplinary events that would be material to a Client's or prospective Client's evaluation of Blue Capital's advisory business.

Item 10: Other Financial Industry Activities and Affiliations

Neither Blue Capital nor any of its management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant ("FCM"), commodity pool operator ("CPO") or commodity trading advisor ("CTA"). In addition, neither Blue Capital nor any of its management persons is an associated person of a registered FCM, CPO, or CTA.

Certain conflicts of interest may arise out of Blue Capital's relationship with Montpelier Re. Blue Capital is wholly-owned by Montpelier Holdings. As a result, many officers and directors of Blue Capital are employees of a Montpelier Holdings company, and may have conflicts between their duties to Blue Capital and their duties to, and interests in, Montpelier Re or other related parties.

As part of their business model and strategy, the Private Funds (through one or more SPVs) rely on affiliates of Montpelier Holdings for access to certain segments of the reinsurance market. In

particular, a Private Fund may participate in: (i) retrocessional, quota share or other agreements in which Montpelier Re or its affiliates have an interest; and (ii) fronting arrangements with Montpelier Re. These transactions may present conflicts of interest including, but not limited to, the possibility that Blue Capital may: (i) consider Montpelier Re's risk management interests when selecting reinsurance transactions on behalf of a Private Fund; (ii) enter into reinsurance contracts with Montpelier Re on terms more favorable to Montpelier Re than are available from third parties; or (iii) pay inflated or unnecessary fronting fees to Montpelier Re.

The Adviser has a Conflicts of Interest policy to identify and address conflicts of interest that may arise when transacting with affiliated entities. To the extent that the Private Funds enter into transactions with affiliated entities of Blue Capital, including Montpelier Re, the independent directors of each Private Fund will review the terms of the transaction and approve the transaction if the Board of Directors determines that the transaction is in the best interest of the Private Fund. Blue Capital does not consider transactions with affiliated SPVs such as Blue Water Re to be transactions with an affiliated entity because Blue Water Re's sole purpose is to facilitate access for Private Funds managed by Blue Capital to risk premia in the global reinsurance markets, and it does not have interests distinct from those of the Private Funds.

Blue Capital's investment activities overlap with portions of Montpelier Re's reinsurance business. In addition to managing accounts for Montpelier Holdings, Blue Capital manages other accounts that may compete with the Private Funds, including other accounts affiliated with Montpelier Holdings. Blue Capital has established allocation policies designed to ensure equitable allocation of opportunities to enter into reinsurance contracts and insurance-linked securities, and makes investments that it determines are appropriate for the Private Funds in accordance with these allocation policies and each Private Fund's investment guidelines. In particular, prior to allocating an investment opportunity to any Client, Blue Capital runs the investment opportunity through its proprietary allocation model, which establishes objective allocations based on a variety of inputs including, among others, each Client's available assets and investment guidelines. The Underwriting Committee reviews all allocations and may seek to make an allocation exception to alter the determination of the allocation model. Any allocation exception must be approved the Adviser's Investment Committee.

Each SPV may also utilize the front, middle and back office capabilities of Montpelier Re including: (1) Front Office: Underwriting and Distribution Capabilities; (2) Mid Office: Modeling Capabilities; (3) Back Office: Accounting and Claims Capabilities. Additionally, Montpelier Re will typically invest in Private Funds, and will thereby have its interests aligned with other investors.

As stated above in Item 4, when identifying potential investment opportunities for its Clients, Blue Capital may provide insurance related services, including underwriting, risk management, claims management, ceded retrocession agreements management, actuarial and accounting services. The Underwriting and Insurance Management Agreement was negotiated between affiliated parties, and it may not be as favorable to the Adviser of the Private Funds as if it had been negotiated with an unaffiliated third party, and may be costly and difficult to terminate. However, the Underwriting and Insurance Management Agreement is approved by the independent directors of each Private Fund after a determination that such agreement is in the best interest of the Private Fund.

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

Code of Ethics Adopted Pursuant to SEC Rule 204A-1

Blue Capital has adopted a Code of Ethics (“Code”) pursuant to Rule 204A-1 under the Advisers Act. The Code includes guidelines about the appropriate use of company-related information, appropriate relationships with clients and vendors, and the appropriate behavior for gifts offered or received. All Blue Capital employees must accept in writing the terms of the Code upon employment, annually, and as amended.

The Code states that Blue Capital personnel must always place the interests of Blue Capital’s clients first. The Code sets forth standards of conduct expected of Blue Capital’s personnel, which reflect the fiduciary obligations of Blue Capital and its personnel to its clients, and requires Blue Capital’s personnel to comply with applicable federal securities laws. The Code also requires any employee of Blue Capital to report potential violations of the Code promptly to the Chief Compliance Officer (“CCO”). Blue Capital provides each employee with a copy of the Code and any amendments thereto, and employees are required to provide a written acknowledgement that they have received the Code, as amended from time to time.

The Code addresses conflicts that could arise from personal securities trading by Blue Capital’s “access persons” – i.e., the officers, directors and employees of Blue Capital:

- who have access to material nonpublic information regarding any client’s purchase or sale of securities, or material nonpublic information regarding the portfolio holdings of any clients, or
- who are involved in making securities recommendations to clients or have access to such recommendations that are nonpublic.

The Code generally requires access persons to submit an annual report of brokerage accounts and holdings along with an annual acknowledgement and certification stating that the individual will comply with the Code. In addition, the Code requires personnel to submit quarterly transaction reports (or brokerage statements) that detail the individual’s securities transactions for the quarter, and for the CCO to review those reports. The Code also contains restrictions on the use of insider information and material non-public information regarding a client of Blue Capital.

Blue Capital keeps records of reports and other information that access persons are required to provide under the Code. The CCO reports on issues that arise under the Code to Blue Capital’s senior management at least annually. Blue Capital’s clients or prospective clients may request a copy of the firm’s Code of Ethics by contacting the firm’s CCO by telephone at (441) 299-7502 or by email at allison.kiene@bluecapital.bm.

Participation in Client Transactions

As part of their business model and strategy, the Private Funds (through the SPVs) may invest in retrocessional, quota share, or other agreements in which Montpelier Re or its affiliates have an interest, and may enter into fronting arrangements to access opportunities that are not available to the SPVs directly, but are available indirectly through Montpelier Re. Such transactions raise conflicts of interest between the Private Funds and Montpelier Re, as well as all of its affiliates, including Blue Capital. These conflicts, and Blue Capital's process for addressing them, are described in Item 10.

Item 12: Brokerage Practices

Counterparty Selection

In connection with their investment activities, the Private Funds will transact, directly or indirectly through an SPV, primarily with insurance or reinsurance companies as cedants, and counterparties to derivatives trades. In each case, Blue Capital believes that the primary risk of transacting with such counterparties is the risk that the counterparty will become insolvent, file for bankruptcy, or otherwise fail to meet its obligations. To address this risk, each counterparty must meet Blue Capital's detailed credit review process.

The types of assets in which the Private Funds invest may only be available from one or a small number of counterparties, and the Private Funds may use counterparties located in various jurisdictions outside the United States. Such local counterparties are subject to various laws and regulations designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Private Funds' assets are subject to substantial limitations and uncertainties.

In seeking best execution, Blue Capital considers a variety of factors, including:

- (i) the ability of a counterparty to present the applicable Private Fund with a transaction that meets its investment goals;
- (ii) the contractual terms (if any) that the counterparty is willing to provide to the Private Funds in connection with the acquisition of the investment;
- (iii) the reliability, integrity, financial condition and execution capability of the counterparty being considered for effecting transactions in light of the size and complexity of the transaction;
- (iv) the price or spread;
- (v) the commission, fronting, or similar transaction costs, if any;
- (vi) the ability of the counterparty to maintain confidentiality of a transaction;
- (vii) the speed of execution;
- (vii) settlement reliability and accuracy of the counterparty; and
- (viii) other qualitative factors that may be taken into consideration.

Although Blue Capital generally seeks to pay the best price under the circumstances, they will not necessarily always do so. Transactions may involve specialized services or considerations (such as the type of assets the Private Fund is seeking to purchase) that must be considered when

selecting a counterparty and thereby entail potentially higher markups, fronting expenses, or commissions than would be the case with transactions that do not involve any specialized services or considerations.

A majority of an SPV's reinsurance business will be originated through independent brokers. Brokers are intermediaries that assist the relevant parties in negotiating and placing risks with third-party reinsurers. However, in this capacity, the broker is selected and retained by the Ceding Insurer rather than by the SPV or Blue capital. The broker in this reinsurance situation is not a party to the reinsurance contract. Accordingly, Blue Capital may not be in a position to negotiate brokerage fees or select an alternative broker when seeking access to any given opportunity.

Research, Other Soft Dollar Arrangements and Client Referrals

Blue Capital does not receive any soft dollar benefits. In selecting brokers and other counterparties, Blue Capital does not consider whether Blue Capital or a related person receives client referrals from a broker or third party, as Blue Capital does not receive any such referrals. Blue Capital does not enter into commission sharing agreements with broker-dealers relating to transactions executed for the benefit of the Private Funds, or participate in directed brokerage arrangements. Further, the Blue Capital will not accept directed brokerage instructions from the Private Funds or their underlying investors.

Aggregation of Client Transactions

Due to the nature of insurance-linked investments, Blue Capital generally does not aggregate orders for the Private Funds.

Item 13: Review of Accounts

Blue Capital conducts ongoing reviews of the Private Funds' portfolios. The Underwriting Committee meets twice weekly to discuss the Private Funds' portfolios generally, and to discuss potential investment opportunities for the Private Funds. On a monthly basis, the Underwriting Committee and the Investment Committee each meet to review each Private Fund's portfolio, any allocation exceptions, upcoming deals, portfolio performance and preferred share values. The Investment Committee also reviews certain material actions of the Underwriting Committee on a monthly basis. Investors in the Private Funds will typically receive annual audited financial statements from the Private Funds within six months after a Private Fund's fiscal year end. Investors in certain Private Funds may receive more frequent reports concerning the value of the Investor's investment in a Private Fund's, as detailed in the Private Fund's Offering Materials.

Item 14: Client Referrals and Other Compensation

Blue Capital does not receive economic benefits from any non-clients for providing investment advice or other advisory services to the Clients. Also, Blue Capital does not directly or indirectly compensate any third party for client referrals, although the Private Funds may employ the services of one or more placement agents.

Item 15: Custody

Blue Capital does not presently have custody (as defined in the Advisers Act) of the assets of the Private Funds.

Item 16: Investment Discretion

Blue Capital provides discretionary investment management services to the Private Funds, including discretionary authority to buy and sell investments on behalf of the Private Funds and to determine the amount of such investments to be bought and sold. This discretionary authority is generally granted to Blue Capital pursuant to its investment management agreements with the Private Funds and the Private Fund's governing documents. Blue Capital observes investment limitations and restrictions that are outlined in each Private Fund's Offering Materials and management agreement. Such limitations may include allocation restrictions pertaining to certain types of investments.

Item 17: Voting Client Securities

Blue Capital typically does not engage in proxy voting on behalf of its Clients as the instruments the Private Funds invest in do not carry voting rights. From time to time instruments held by the Private Funds may have fundamental rights that grant the holder the opportunity to approve certain changes to the instrument's structure. In the event Blue Capital has the opportunity to vote with respect to such rights, Blue Capital vote in the best interest of its Clients as determined by the Advisers Investment Committee.

Item 18: Financial Information

Blue Capital does not require or solicit prepayment of fees. Blue Capital has never filed for bankruptcy and is not aware of any financial condition that is expected to affect or is reasonably likely to impair its ability to meet their contractual obligations to its Clients.