



Blue Capital Global Reinsurance Fund Limited Annual Report

For the year ended 31 December 2016

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Highlights and Corporate Summary¹

As at December 31, 2016

\$171.6 million	\$226.9 million	\$1.1434
Market Capitalisation	Total Net Assets	Net Asset Value per Ordinary Share
\$1.1351	8.3% ²	44.2% ²
Net Asset Value per Redemption Share	Total Net Asset Value Return for the year	Total Net Asset Value Return since Inception
\$0.96	\$0.066	+ 1,500 ³
Mid-market Ordinary Share price	Dividends per Ordinary Share declared for the year	Number of Positions invested in

Company Highlights²

- Historic portfolio outperformance versus other insurance linked securities (“ILS”)⁴
- Increase in net assets of \$3.6 million to \$226.9 million (2015: \$223.3 million)
- Increase in net asset value (“NAV”) of 8.3 per cent. for the year and 44.2 per cent. since inception, representing an annualized return of 9.6 per cent. per annum
- Positive NAV return in 94 per cent. of months since inception
- Consistently in top quartile in non-life ILS funds⁴
- Achieved distribution target of \$0.066 per ordinary share, representing a dividend yield of LIBOR plus 6 per cent. for the period ending 31 December 2016
- Entered into a new \$20 million revolving credit facility with Endurance Investment Holdings Ltd. a wholly-owned subsidiary of Endurance Specialty Holdings Ltd.

The Company

Blue Capital Global Reinsurance Fund Limited (the “Company”) is an exempted closed-ended mutual fund company incorporated under the laws of Bermuda and listed on the London Stock Exchange’s Specialist Fund Segment (“SFS”) with a secondary listing on the Bermuda Stock Exchange (“BSX”). Trading in the Company’s shares commenced on 6 December 2012. The Company provides investors with access to the risk premia available from catastrophe reinsurance, largely uncorrelated to financial markets.

¹ All currency references in this Annual Report are in US Dollars unless otherwise noted.

² Past performance is not necessarily indicative of future results.

³ Shareholders who invest in a single Ordinary Share enjoy the benefit of investing in a share that is diversified by underlying instruments of greater than 1,500 positions in catastrophe related reinsurance contracts.

⁴ As reported by Eurekahedge ILS Advisors Index “Eurekahedge.” Eurekahedge tracks the performance of participating Insurance Linked Investment funds. It is the first benchmark that allows a comparison between different insurance-linked securities fund managers in the insurance-linked securities, reinsurance and catastrophe bond investment space. The index is calculated and maintained by Eurekahedge. The index includes funds that allocate at least 70 per cent. of their assets in non-life risk.

Target Return⁵

The Company targets an annualised dividend yield of LIBOR plus 6 per cent. per annum on the original issue price of the Ordinary Shares issued in December 2012. The Company's target net return (comprised of dividends and other distributions to Shareholders together with increases in the Company's net asset value ("NAV")) is LIBOR plus 8 per cent. per annum, to be achieved over the longer term.

Summary of Investment Objective and Investment Policy

The investment objective of the Company is to generate attractive returns from a sustainable annual dividend yield and longer-term capital growth by investing substantially all of its assets in shares linked to the segregated account identified as Blue Capital Global Reinsurance SA-1 (the "Master Fund") within Blue Water Master Fund Ltd., an exempted Bermuda mutual fund segregated accounts company.

The Master Fund invests in a diversified portfolio of fully collateralised reinsurance-linked contracts and other investments carrying exposures to insured catastrophe event risks. The Master Fund predominantly invests in fully collateralised reinsurance-linked contracts through preference shares issued by Blue Water Re Ltd. (the "Reinsurer"), a Bermuda special purpose insurer which helps to support the Company's investment objective. The Master Fund's investment in other reinsurance-linked investments carrying exposure to insured catastrophe event risks such as industry loss warranties ("ILWs"), 144A rated catastrophe bonds ("Cat Bonds") and other insurance-linked instruments ("Insurance-Linked Instruments") may be made directly by the Master Fund or indirectly via the Reinsurer.

An overview of the Company's investment policy, including investment restrictions, is set out in the Directors' Report.

Management Arrangements

The Company has entered into an agreement with Blue Capital Management Ltd. (the "Manager") for the provision of investment management services. The Manager also provides underwriting and administrative services to the "Reinsurer. The Manager and the Reinsurer are wholly owned by Endurance Specialty Holdings Ltd. ("Endurance").

As of 31 December 2016, Endurance owned 28 per cent. of the Company's ordinary shares. On October 5, 2016, Endurance announced that it had entered into a definitive merger agreement pursuant to which it will be acquired by Sampo Holdings, Inc. ("Sampo"). On 28 March 2017, Sampo completed its acquisition of Endurance. Through its ownership of Endurance, Sampo indirectly holds 28 per cent. of the ordinary shares of the company.

The Manager attends each quarterly Board meeting and maintains open dialogue with the Directors on an ongoing basis. Fees payable by the Company to the Manager are disclosed in the Directors' Report beginning on page 13.

Capital Structure

At 31 December 2016, the Company had 178,698,523 issued and outstanding Ordinary Shares and 19,855,391 Redemption Shares. The Company's NAV per Ordinary Share and per Redemption Share is calculated by the Company's administrator, SS&C Fund Services (Bermuda) Ltd. (the "Administrator") (or such other person as the Directors may appoint for such purpose from time to time) and published on a monthly basis, within 15 business days after the end of each calendar month through a regulatory information service ("RIS") authorised by the Financial Conduct Authority (the "FCA") and on the list of RISs maintained by the FCA.

⁵ These are targeted amounts and not profit forecasts. There can be no assurance that these targets can or will be met or that the Company will make any distributions at all and these should not be viewed as an indication of the Company's expected or actual results or returns.

Chairman's Statement

On behalf of the Company's Board of Directors (the "Board" or the "Directors"), I am pleased to present the Company's annual report for the year ended 31 December 2016 (the "Annual Report"), which includes the Company's annual audited financial statements for the year ended 31 December 2016. As at 31 December 2016, the Company had net assets of \$226.9 million compared to \$223.3 million at the beginning of the year. During the year, the Company earned \$17.2 million of which \$13.1 million was distributed in dividends to Shareholders and \$0.5 million in Ordinary Share repurchases.

Performance

The Company's total NAV return for the year was 8.3 per cent. Since inception the Company has provided total NAV return per share of 44.2 per cent., representing an annualised return of 9.6 per cent. Returns by month for the first four years of operations are shown in the table below. Further details relating to the performance of the Company are set out in the Manager's Report.

Ordinary Share NAV Total Return

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Year
2016	0.4%	0.3%	0.3%	0.2%	(1.8)%	0.5%	1.1%	2.5%	2.8%	(0.2)%	1.0%	0.9%	8.3%
2015	0.3%	0.3%	0.3%	0.2%	0.2%	0.7%	0.7%	2.0%	2.0%	1.6%	0.5%	0.6%	9.6%
2014	0.2%	0.3%	0.0%	(0.1)%	0.3%	0.4%	1.3%	1.9%	2.4%	1.1%	0.3%	0.5%	8.8%
2013	0.3%	0.4%	0.5%	0.7%	0.1%	0.8%	1.0%	2.4%	3.2%	1.9%	0.1%	0.0%	11.8%

Ordinary Share NAV Total Return for the Company and Select Indexes

	2013	2014	2015	2016	Four Year Average
The Company	11.8%	8.8%	9.6%	8.3%	9.6%
Swiss Re Cat Bond Index	11.4%	6.3%	4.4%	6.9%	7.3%
Eurekahedge ILS Advisors Index	7.6%	5.4%	4.2%	5.2%	5.6%

Dividend

The Company continues to target an annualised dividend of LIBOR plus 6 per cent. on the original issue price of its Ordinary Shares in December 2012. In July 2016, the Company declared dividends of \$0.033 per Ordinary Share for the period from 1 January 2016 to 30 June 2016, and in January 2017 declared a further \$0.033 per Ordinary Share for the second half of 2016. The combined dividends declared in respect of 2016 calendar year were at the Company's target.

The Company intends to move to quarterly dividends commencing with the first quarter of 2017.

Discount Management

On 23 June 2016, the Company announced that it has engaged Jefferies International Limited to effect share repurchases on its behalf. During the year ended 31 December 2016, 555,000 Ordinary Shares were repurchased and subsequently cancelled by the Company.

On 2 September 2016, the Company announced that its Ordinary Shares had traded at an average discount of more than 5 per cent. to the NAV per Ordinary Share calculated over the three month period ended 31 August 2016 which triggered the Board of Directors to offer Shareholders the opportunity to tender Ordinary Shares in accordance with the Company's discount management policy (the "Tender Offer"). Under the Tender Offer, the Company offered to repurchase up to 10 per cent. of the Ordinary Shares in issue. Each Ordinary Share tendered was converted into one Redemption Share, a new unlisted class of shares in the capital of the Company. Redemption Shares continue to participate in an indirect pro rata share of each underlying reinsurance-linked investment in the Company's portfolio as at the date of their issue, and will be redeemed for cash as and when these investments are realised. Conversion of 19,855,391 tendered Ordinary Shares into Redemption Shares under the Tender Offer was completed on 30 December 2016 (representing 10 per cent. of the Ordinary Shares in issue at that time).

Assuming that no additional loss events occur in respect of the portfolio attributable to the Redemption Shares, the Company anticipates (but can provide no assurances) that Redemption Shares will be redeemed and proceeds will be distributed to Shareholders in line with the following schedule:

Anticipated Redemption Value Date	Anticipated % of Redemption Shares issued on the Tender	Anticipated Payment Date
31 March 2017	58%	30 April 2017
31 August 2017	30%	30 September 2017
31 December 2017	12%	31 January 2017

On 21 March 2017, the Company announced that on or before 30 April 2017, an amount equal to US\$13.1 million was expected to be distributed to Shareholders of the Company who participated in the Tender Offer in consideration for the first partial redemption of Redemption Shares. Such amount will be distributed to Shareholders pro rata to their holdings of Redemption Shares, and their holdings of Redemption Shares will be reduced accordingly following such redemption.

Change of Name

Following consultation with the Manager, the Directors of the Company are proposing that the name of the Company is changed from Blue Capital Global Reinsurance Fund Limited to Blue Capital Alternative Income Fund Limited. The Directors and the Manager believe that the name of the Company should be changed to reflect (i) the uncorrelated nature of returns compared to other financial asset classes and (ii) emphasize what the Directors believe to be an attractive dividend yield offered by the Company. A resolution regarding the proposed name change will be proposed at the Company's Annual General Meeting.

Outlook

The Company has now begun its 5th year of operation with a consistent strategy of providing investors access to attractive, largely uncorrelated, investment returns of the traditional reinsurance and insurance linked securities market. The Company's preferred access to risk, proprietary methodology of portfolio construction, and its conservative approach to reserving allow the Company to continue to deliver superior portfolio returns.

The January 2017 underwriting period saw promising signs in market pricing, although conditions remained competitive during this renewal period. The Reinsurer observed reductions in risk adjusted pricing beginning to moderate at approximately 3 per cent. compared with more significant reductions during previous renewal periods. Despite such pricing pressure, the Manager successfully executed its renewal strategy. We remain confident that we can deliver attractive returns for our Shareholders in spite of the current insurance market cycle and the pro forma modelled return expectations for the portfolio constructed are consistent with the Company's target return.

The Board continues to monitor the effects of the Tender Offer and proposed share repurchase programme on the Company's Ordinary Share trading price compared with the Company's NAV. The Board, in conjunction with the Manager continuously reviews matters relating to the Company, with a view to ensuring the Company is best placed to meet its investment objectives and generate returns for Shareholders. To that end the Board has noted a number of proposed corporate changes. The Board has noted that commencing with the first quarter of 2017, the Company intends to move to quarterly dividends to provide more regular distributions to Shareholders. The Board has also noted that it proposes the name of the Company is changed from Blue Capital Global Reinsurance Fund Limited to Blue Capital Alternative Income Fund Limited. The Board also continues to consider ways to improve market valuation and to monitor fees and overall expenses in relation to the Company.

The Company remains pleased with the diversified portfolio that the Manager has created, which has attractive risk adjusted return characteristics, consistent with the Company's investment objectives. I am pleased with the performance achieved by this portfolio, and I would like to thank our Shareholders for their support. If you have any questions regarding your Company, please do not hesitate to contact the Company or the Manager.

John R. Weale



Chairman
31 March 2017

Manager's Report

During the year ended 31 December 2016, the NAV of the Company's Ordinary Shares increased by 8.3 per cent. net of fees and expenses, and inclusive of dividends to Shareholders. The Company declared dividends totaling \$0.066 per Ordinary Share relating to the period, representing a dividend yield of 6 per cent. for the period ending 31 December 2016.

The Company opened 2016 with net assets of \$223.3 million and finished it with net assets of \$226.9 million. The increase in NAV of c. \$3.6 million, represented profits generated by the Company's investment in underlying reinsurance contracts net of dividend distributions and reflected the successful deployment of capital during the year. The 8.3 per cent. return during 2016 was above the longer-term target of LIBOR plus 8 per cent.

The Company continues to benefit from a strong reception from insurance brokers and clients. The Company has successfully targeted heavily regulated regional insurance companies who purchase traditional reinsurance programmes, which, in the Manager's opinion, tend to be more persistent buyers of reinsurance and generally have a superior risk adjusted expected return. The Company views each of these relationships as the basis for a longer-term relationship which we hope to grow over time, subject to satisfactory terms and conditions.

The Company focuses on traditional reinsurance, which provides customised protection to insurance clients in bespoke indemnity programmes. Traditional reinsurance, which is most commonly provided in the rated (as opposed to collateralised) reinsurance market, represents the bulk of the more than \$375 billion of limits purchased annually. The advantage of establishing relationships with longer-term reinsurance buyers is that consistency of counterparties, service quality and claims-paying history are important considerations for these buyers of reinsurance.

Loss Events Impacting the Company

Loss activity during 2016 was higher than in previous years. The 2016 loss activity contributed to a 3.4 per cent. reduction in return related primarily to a series of earthquakes in Japan (0.1 per cent.), hailstorms throughout the Southeast and Plains regions in the United States (0.5 per cent.), Canadian wildfires (0.7 per cent.), Netherlands Hail (0.3 per cent.), Typhoon Meranti (0.2 per cent.) and Hurricane Matthew (1.6 per cent.).

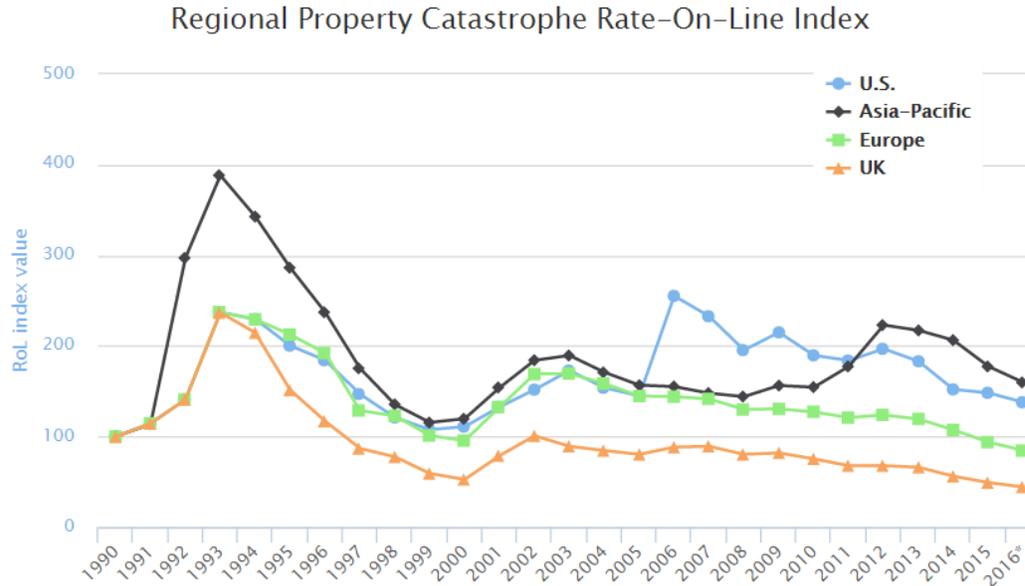
2017 General Market Overview

The increase in 2016 regional insured market loss activity, the largest since 2012, is anticipated to provide moderate pricing support to loss affected layers across reinsurance programs in 2017. The absence of a major catastrophe loss in 2016 (which typically stabilise reinsurance rates or drive rates higher) during the past several years, together with the continued influx of new capacity from capital markets, will contribute to continued pricing competition within the global property catastrophe reinsurance market. However, reinsurance rate decreases have not been uniform across the market, and rate pressures observed at January 2017 have shown to be less severe than the previous year with regional reinsurance programs facing price increases. In the Manager's opinion the softening rate of risk adjusted pricing decline is directly attributable to the prevailing influence and acceptance of analytical pricing considerations fostering disciplined underwriting in the market over this period.

Typically, those segments which are easiest for providers of securitised instruments or commoditised capacity to penetrate, such as Cat Bonds, Retrocession or ILWs, have seen the largest reductions in risk adjusted pricing. However, the Company focuses on accessing risks from small to medium-sized insurance companies with regional or sub-regional exposures. These insurers are generally less willing or able to purchase their reinsurance protections via the securitized or commoditised market, which has high frictional costs for the insurer and requires a minimum transaction size to be viable. These traditional reinsurance markets have seen rates reduce by approximately 5 per cent. to 10 per cent., although there have been some areas of the market, such as reinsurance programs exposed to attritional catastrophe losses, that have experienced small pricing increases and improvements in terms and conditions.

These market dynamics have also created opportunities for the Company as a buyer of reinsurance protection. In response to rate softening in the retrocessional markets, the Company may purchase collateralised protection to optimise its portfolio while managing downside risk. The Company will continue to monitor these opportunities and to purchase protections for risk management and/or arbitrage purposes.

Historic Changes in Catastrophe Rate on Line



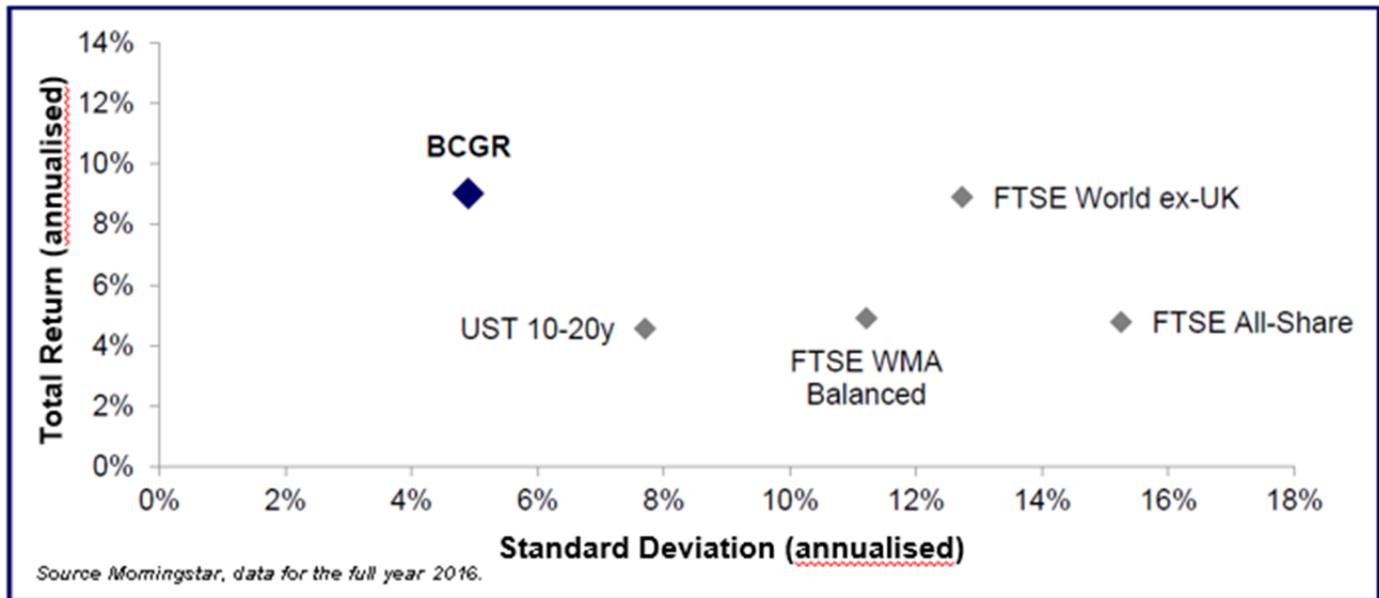
Source: Data from Guy Carpenter, presented by Artemis.bm

Portfolio Overview

Portfolio Overview as of December 31, 2016

Investment Type	%	Occurrence Type	%	Geography	%
Quota Share Retrocessional	39%	Property Cat - First Event	67%	Int'l Global/Pan Regional	45%
Indemnity Reinsurance	29%	ILW - Subsequent Event	13%	U.S. Single State	20%
Industry Loss Warranties ("ILW")	12%	ILW - First Event	4%	U.S. Nationwide	16%
Other Non-Property Catastrophe	5%	Property Cat - Subsequent Event	4%	U.S. Regional	8%
Indemnity Retrocession	3%	Property Cat - Aggregate	0%	Int'l Regional	0%
Retrocessional Hedging	0%	Cat Bond	1%	Cash	11%
Catastrophe Bond ("Cat Bond")	1%	ILW - Aggregate	0%		
Cash	11%	Cash	11%		

Volatility



Remuneration Practices of the Manager

On 18 November 2014, the Manager gave written notice to the FCA that it intended to market Ordinary Shares (and/or C shares) in the United Kingdom (the “UK”) in accordance with section 59(1) of the UK Alternative Investment Fund Managers Regulations (2013/1773). As a result, the Manager is required to comply, inter alia, with Article 22 of the Alternative Investment Fund Managers Directive (2011/61/EU) (the “Directive”) regarding the contents of this Annual Report insofar as it is relevant to the Manager and the Company. This includes the requirement to make certain disclosures on the remuneration practices of the Manager.

As a Bermuda based investment manager, the Manager is not required to implement a remuneration policy consistent with Annex II to the Directive, and the disclosures below address the Article 22 requirements to the extent they are relevant to the Manager's remuneration practices and appropriate information is available.

The Manager is a wholly owned subsidiary of Endurance, and is generally subject to Endurance's compensation practices and policies. The Manager is supported through service agreements with Endurance, which has approximately 1,240 employees globally. The costs of such services to the Manager are allocated according to a services agreement among various Endurance subsidiaries (the “Shared Services Agreement”).

The Manager provides services to several client funds and does not track its remuneration expenses by client. It is therefore impossible to determine the proportion of the Manager's remuneration expenses that are attributable to the services it performs for the Company. During 2016, the Manager recognised \$6.8 million in total remuneration expenses as follows:

	Remuneration Expense (in \$US)
Incurred directly by the Manager	3.2 million
Billed to the Manager by Endurance	3.6 million
Total	6.8 million

The performance fee payable by the Company to the Manager for 2016 was \$1.2 million.

Risk Management

Article 23(4) of the Directive requires the Company to disclose its current risk profile and the risk management systems employed by the Manager to manage those risks.

The Company benefits substantially from the Manager's relationship with Endurance by accessing and leveraging Endurance's management talent, proprietary reinsurance modeling tools, underwriting expertise, proprietary risk management systems and longstanding broker/client relationships. The Manager's affiliation with Endurance enables the Company to deploy capital to build a diversified portfolio of reinsurance risks with an attractive risk-adjusted return potential for Shareholders. The Company also benefits from Endurance's scale, experience and reputation in pricing reinsurance contracts and achieving key policy terms and conditions, which is a competitive advantage for the Company relative to other independent or small reinsurance platforms. The Company further benefits from Endurance's existing middle- and back-office support infrastructure.

Certain key risks are managed using a combination of Endurance's proprietary risk modeling application, various third-party vendor models and underwriting judgment. The Manager's approach focuses on tracking exposed contract limits, estimating the potential impact of a single natural catastrophe event, and simulating the yearly net operating result to reflect aggregate underwriting and investment risk. The Manager seeks to refine and improve each of these approaches based on operational feedback. Underwriting judgment involves important assumptions about matters that are inherently unpredictable and beyond the Manager's control and for which historical experience and probability analysis may not provide sufficient guidance.

An important component of any underwriting decision is the selection of ceding companies who have an effective and robust claims mitigation capability following loss. The Manager's experience indicates that there can be a significant variation in the performance of ceding companies following a large event if claims are handled judiciously and effectively by a dedicated in-house team or other committed resource. The Manager targets ceding companies who are expected to outperform in this regard to ensure that losses are minimised by leveraging the qualitative and quantitative underwriting reviews and historical analyses of the potential ceding company clients.

Material Changes

The Company has been required to make certain information available to investors under Article 23 of the Directive from 18 November 2014 following the Manager giving notice to the FCA of its intention to market the Company's shares in the UK.

This information can be found in the Directive Investor Disclosure Document available at www.bcgr.bm.

Board Members

The Company's directors (the "Directors") are as follows:

John R. Weale (58) (Chairman) has been a director since 5 November 2012. He is currently a non-executive director of Blue Capital Reinsurance Holdings Ltd., a Bermuda-based holding company listed on the NYSE that offers collateralised reinsurance in the property catastrophe market and invests in various insurance-linked securities, where he serves as a member chairman of the compensation and nominating committee. He has over 30 years of professional financial management and accounting experience in the insurance/reinsurance industry and has been resident in Bermuda since March 1983. Until November 2011, Mr. Weale was Chief Financial Officer of Catalina Holdings (Bermuda) Ltd., which acquires and manages non-life insurance and reinsurance companies and portfolios in run-off. Prior to this role, Mr. Weale spent over 13 years at IPCRe Limited and IPC Holdings, Ltd., a Bermuda publicly listed reinsurance company that specialised in property catastrophe business, which merged with Validus Holdings Ltd in 2009. At IPC, he was Executive Vice President from July 2008 and Chief Financial Officer from June 1996, and Interim President and Chief Executive Officer during 2009. Previously, he held various positions at American International Company, Limited, including Vice President – Insurance Management Services. Mr. Weale has also served as chairman and audit committee member of Butterfield Money Market Fund Limited and Butterfield Liquid Reserve Fund Limited, and as a director of Butterfield Select Fund Limited. Mr. Weale holds a Bachelor's degree in Accounting & Finance. He is a fellow of the Chartered Institute of Management Accountants and is a Chartered Global Management Accountant (a designation issued jointly by the Chartered Institute of Management Accountants and the American Institute of Certified Public Accountants).

Gregory D. Haycock (70) (Audit Committee Chairman) has been a director since 5 November 2012. He is currently chairman of several international exempt companies, including two life insurance companies and two investment companies. He is based in Bermuda and is also on the boards of various local companies, including BF&M Ltd., a general and life insurance company, and its Cayman subsidiary Island Heritage Limited. Mr. Haycock joined KPMG as a partner in 1985 and at his retirement in September 2006 was the Senior Partner of KPMG in Bermuda. In the year before his retirement, Mr. Haycock was Chairman of KPMG TOG Ltd with responsibility for ten offshore island jurisdictions and a member of KPMG's European Board and International Council. Before joining KPMG, Mr. Haycock held positions on a number of charities as well as government and local boards, including the Bermuda Monetary Authority, the Bank of Butterfield, The Bermuda Press Holdings Ltd and the Bermuda Electric Light Company Limited. He retired as Chairman of the Board of the Bermuda International Business Association in 2007. In 1993 Mr. Haycock was elected a Fellow of, and is a past President and Council member of, the Institute of Chartered Accountants of Bermuda. During his tenure he was also a member of the Canadian Institute of Chartered Accountants Board of Governors. He was appointed a Justice of the Peace by the Governor of Bermuda in 1987.

George Cubbon (64) was appointed as a director on 9 July 2015 to fill a vacancy. Mr. Cubbon retired from American International Group ("AIG") in 2012 after more than 30 years of service. From 2005, he served as President and Chief Executive Officer of American International Company Limited. During his career with AIG, Mr. Cubbon held various financial and management roles of increasing seniority and was the senior executive and a director of multiple AIG-controlled insurance, reinsurance and financial services companies. Mr. Cubbon holds an Honours degree in Engineering from the University of Liverpool and is an Associate Member of the Chartered Institute of Management Accountants.

Directors' Report

The Directors present their report and the annual audited financial statements of the Company for the year ended 31 December 2016.

Principal Activity

The Company was incorporated with limited liability in Bermuda as a closed-ended mutual fund company on 8 October 2012. The Ordinary Shares were listed on the SFS and admitted to trading on the London Stock Exchange, with a secondary listing on the BSX, on 6 December 2012.

Company Law

The financial statements provided in this Annual Report have been prepared in accordance with Bermuda law.

Investment Objective and Policy

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

The Company's published investment policy is consistent with that of the Master Fund set out below. Blue Water Master Fund Ltd. has agreed pursuant to the control agreement that it will not amend the Master Fund's investment policy without the consent of the Company. Any material change to the investment policy of the Company will be made only with the approval of Shareholders.

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

On 16 May 2016, the Company entered into a credit facility (the "2016 Credit Facility") with Endurance Investment Holdings Ltd. (the "Lender"), a wholly-owned subsidiary of Endurance. The 2016 Credit Facility provides the Company with an unsecured \$20.0 million revolving credit facility for working capital and general corporate purposes and expires on 30 September 2018. The 2016 Credit Facility replaces the 364-day \$20.0 million revolving credit facility which expired on 12 May 2016. Borrowings under the 2016 Credit Facility bear interest, set at the time of the borrowing, at a rate equal to the applicable LIBOR rate plus 150 basis points. The 2016 Credit Facility contains covenants that limit the Company's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, or incur debt. If the Company fails to comply with any of these covenants, the Lender could revoke the facility and exercise remedies against the Company. As of 31 December 2016, the Company was in compliance with all of its respective covenants associated with the 2016 Credit Facility. There were no borrowings from the 2016 Credit Facility as of 31 December 2016.

Investment Restrictions

The Master Fund has adopted the following investment restrictions which apply at the time of investment:

- the portfolio will be diversified geographically with an emphasis on 20 regions set out in the investment policy;
- the maximum net aggregate exposure (i.e. the sum of all collateral invested less reinsurance recoverable) in any one zone (each zone being defined by a combination of geography, peril and occurrence) will not exceed 50 per cent. of the company's NAV;

- the net probable maximum loss (i.e. net of (a) reinsurance recoverable, (b) net unearned premiums on loss impacted contracts and (c) any reinstatement premiums receivable) from any one catastrophe loss event, excluding earthquake, at the one in one hundred year return period will not exceed 35 per cent. of the Company's NAV;
- the net probable maximum loss (i.e. net of (a) reinsurance recoverable, (b) net unearned premiums on loss impacted contracts and (c) any reinstatement premiums receivable) from any one earthquake loss event at the one in two hundred and fifty year return period will not exceed 35 per cent. of the Company's NAV; and
- no more than 20 per cent. of the Company's NAV will be invested in any one catastrophe-linked contract or security (in the case of quota share or stop loss agreements, the analysis looks through to the underlying reinsurance contracts).

The following limits shall apply (at the time of investment) to the Master Fund's investments in the following classes of reinsurance (each limit being expressed as a percentage of the Company's NAV):

- up to 100 per cent. in indemnity reinsurance;
- up to 50 per cent. in indemnity retrocession;
- up to 50 per cent. in quota share retrocessional agreements;
- up to 50 per cent. in Industry Loss Warranties;
- up to 10 per cent. in Cat Bonds; and
- up to 10 per cent. in other non-property catastrophe risks.

Based on the information available to the Manager at the time, if a new investment being considered would cause an investment restriction to be breached, or if an investment restriction relevant to that new investment opportunity is already in breach, then that new investment shall not be made. The existence of investment restriction breaches does not preclude the Master Fund from making any new investments but only restricts it from making new investments that would result in a new breach or exacerbate existing breaches of investment restrictions.

Principal Risks and Uncertainties

The Board regularly reviews the principal risks facing the Company and, for the purposes of this Annual Report, has carried out an assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. As further set out in the Manager's Report (above), the Manager maintains risk management systems to manage risks the Company faces. Key risks relating to the Company's portfolio and borrowing are managed by the Manager applying Endurance's proprietary risk modeling approaches, various third-party vendor models and underwriting judgment, and by application of the Company's investment policy and restrictions.

The Board considers the following to be the principal risks facing the Company:

Institutional Credit Risk

In the event of the insolvency of the institutions, including brokerage firms, banks and custodians, with which the Master Fund and the Reinsurer may do business, or to which assets have been entrusted, the Master Fund and the Reinsurer may be temporarily or permanently deprived of the assets held by or entrusted to that institution, which will affect the performance of the Master Fund and the Reinsurer and, in turn, the performance of the Company.

For example, the Reinsurer may pay amounts owed on claims under fully collateralised reinsurance-linked contracts entered into in respect of the Master Fund to reinsurance brokers, and these brokers, in turn, may

pay these amounts over to the ceding companies that have reinsured a portion of their liabilities with the Reinsurer. In some jurisdictions, if a broker fails to make such a payment, the Reinsurer might remain liable to the ceding company for the deficiency. Conversely, in certain jurisdictions when the ceding company pays premiums in respect of reinsurance contracts to reinsurance brokers for payment over to the Reinsurer, these premiums are considered to have been paid and the ceding company will no longer be liable to the Reinsurer for those amounts, whether or not the Reinsurer has actually received the premiums. Consequently, consistent with industry practice, the Reinsurer assumes a degree of credit risk associated with brokers.

Furthermore, while the Master Fund invests predominantly in fully-collateralised reinsurance-linked contracts by subscribing for preference shares issued by the Reinsurer, it may, in accordance with its investment policy and when the Manager identifies suitable investment opportunities, also invest in other reinsurance-linked investments and such investments may form a material part of its investment portfolio from time to time. Where the Master Fund invests in certain Insurance-Linked Instruments, a broker may trade with an exchange as a principal on behalf of the Master Fund, in a “debtor/creditor” relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. That broker could, therefore, have title to all of the assets of the Master Fund (for example, the transactions which the broker has entered as principal as well as the margin payments that the Master Fund provides). In the event of the broker’s insolvency, the transactions which the broker has entered into as principal could default and the Master Fund’s assets could become part of the insolvent broker’s estate, resulting in the Master Fund’s rights being limited to that of an unsecured creditor.

Illiquidity of Insurance-Linked Instruments

Insurance-Linked Instruments have a limited or, in some cases, no secondary market. Fully collateralised reinsurance-linked contracts of the type that the Reinsurer enters into in respect of the Master Fund typically cover annual periods. Cat Bonds and investments in sidecars may have market quotes, but the trading volume may be low and pricing correspondingly ineffective. ILWs have even less liquidity and pricing transparency, and bilateral insurance contracts currently have no secondary market.

The liquidity of Insurance-Linked Instruments may also be affected by a number of other factors, such as whether a covered event has occurred or whether a catastrophe season has passed. It is anticipated that the Master Fund and/or the Reinsurer will retain their respective exposures for the duration of the Insurance-Linked Instruments, gradually recognising income as the likelihood of a covered event occurring in respect of one or more Insurance-Linked Instruments.

While these Insurance-Linked Instruments generally can be sold at a price, they are largely “buy and hold” instruments, and it may require substantial time to enter into or exit a position and the amount that could be recognised upon liquidation may be materially less than its theoretical fair value. Consequently, the Master Fund may need to realise assets at below fair value and the Master Fund may need to borrow to meet its financing needs, each of which will have an impact on the returns to Shareholders. Further, the illiquidity of Insurance-Linked Instruments means that the Master Fund’s portfolio is more likely to be mis-valued as the valuation ascribed to an Insurance-Linked Instrument may differ significantly from the price at which it may ultimately be realised. In turn, any mis-valuation is likely to have an impact on the trading price of the Ordinary Shares, which may be adverse to Shareholders, as well as on the fees based on such valuations.

Portfolio invested in Insurance-Linked Instruments

The Master Fund predominantly invests in a diversified portfolio of fully collateralised reinsurance-linked contracts, through preference shares issued by the Reinsurer, but also invests in other investments carrying exposures to insured catastrophe event risks, such as ILWs and Cat Bonds. The Master Fund’s portfolio is therefore concentrated in Insurance-Linked Instruments. Insurance-Linked Instruments are particularly exposed to sudden substantial or total loss due to, among other things, natural catastrophes or other covered risks, which together with other factors, can cause sudden and significant price movements in Insurance-Linked Instruments. The Master Fund’s, and hence the Company’s, portfolio is more exposed to such risks, than it would be if it were diversified across other asset classes in addition to Insurance-Linked Instruments.

Currency Risk

The Master Fund's and the Reinsurer's functional currency is the US dollar, but a portion of their respective businesses will receive premiums and hold collateral in currencies other than US dollars. The Master Fund and the Reinsurer may use currency hedges for balances held in non-US currencies. Therefore, they can choose (but are not obliged) to manage currency fluctuation exposure. The Master Fund and the Reinsurer may experience foreign exchange losses to the extent their respective foreign currency exposure is not hedged, which in turn would adversely affect their respective financial condition and that of the Company.

Counterparty Risk; Counterparty Credit Risk

Where the Master Fund invests other than in fully collateralised reinsurance-linked contracts, a number of the investment techniques that may be utilised by the Master Fund, and a number of markets in which the Master Fund may invest, will expose it to counterparty risk, which is the risk that arises due to uncertainty in a counterparty's ability to meet its obligations. Non-performance by counterparties for financial or other reasons could expose the Master Fund, and therefore Shareholders, to losses.

Shareholder Information

The Administrator calculates the NAV of the Company and the NAV per Ordinary and per Redemption Share as of the last day of each calendar month. The monthly NAV of the Ordinary and Redemption Shares are announced through an RIS provider within 15 business days after the end of each calendar month.

Results

The results for the period covered by this Annual Report are set out in the Statement of Operations. In July 2016, the Company declared dividends of \$0.033 per share for the period from 1 January 2016 to 30 June 2016, and in January 2017 declared a further \$0.033 per share for the second half of 2016. The combined dividends declared during 2016 were consistent with the Company's target.

Significant Events

Except as described elsewhere in this Annual Report, there were no significant events during the period.

Management Arrangements and Fees

The Manager – (Blue Capital Management Ltd.)

The Manager is a specialist alternative asset manager in the Insurance-Linked Instrument asset class. The Manager is licensed to conduct investment business by the Bermuda Monetary Authority and is run by a market-leading team of professionals with a deep bench of experience in both reinsurance and capital markets. Currently, the Manager manages approximately \$480 million in assets across a range of insurance-linked strategies. The Manager is wholly-owned by Endurance, a global specialty provider of property and casualty insurance and reinsurance.

The Manager has been retained by the Master Fund to manage its assets on a discretionary basis pursuant to an investment management agreement dated 27 November 2012. The Manager is entitled to a monthly management fee of: (a) 0.125 per cent. (1.5 per cent. per annum) of the month-end NAV (prior to accrual of the performance fee) of the Master Fund, up to a NAV of \$300 million; and (b) 0.104 per cent. (1.25 per cent. per annum) of such month-end NAV above \$300 million.

The Manager is also licensed with the Bermuda Monetary Authority as an insurance manager and insurance agent and is authorised to provide services to the Reinsurer under an Underwriting and Insurance Management Agreement.

The Manager provides management, administrative, underwriting and other services as well as operational infrastructure to the Reinsurer. The Manager also provides stand-alone and portfolio risk modelling and assists the Reinsurer to originate business by entering into reinsurance agreements with ceding companies.

The Manager is entitled to an annual performance fee equal to 15 per cent. of: (a) the aggregate appreciation in the NAV of the Master Fund shares held by the Company (excluding special memorandum account shares) over the previous high water mark; less (b) the performance hurdle of LIBOR plus 5 per cent. on the starting NAV of the Master Fund shares held by the Company, provided that the performance fee shall not be less than zero and provided further that no performance fee will be payable in a performance period unless the performance trigger of LIBOR plus 8 per cent. on the starting NAV of the Master Fund shares held by the Company during the performance period has been reached.

The Reinsurer – (Blue Water Re Ltd.)

The Reinsurer is an exempted company incorporated on 18 November 2011 with limited liability under the laws of Bermuda that is licensed by the Bermuda Monetary Authority as a special purpose insurer with an underwriting plan focused on fully collateralised reinsurance protection of the property catastrophe insurance and reinsurance markets.

The Master Fund invests in the Reinsurer by way of subscription for a separate series of non-voting redeemable preference shares of the Reinsurer linked to each reinsurance contract entered into by the Reinsurer per loss occurrence period or exposure period, as applicable. For each fully collateralised reinsurance-linked contract identified by the Manager in accordance with the investment policy, the Master Fund invests the necessary collateral in redeemable preference shares of the Reinsurer. The Reinsurer then pledges this collateral to secure its obligations under the relevant contract to the ceding company. Net premiums received from ceding companies may be used to make further investments or to pay distributions to the Master Fund, as appropriate.

The Administrator – (SS&C Fund Services (Bermuda) Ltd.)

The Company and the Master Fund have each appointed the Administrator as its administrator. The Administrator has been retained by the Company and the Master Fund to calculate their respective NAVs and to provide certain other administrative services.

Directors' Interests

The Directors all served during the period under review.

Beginning in June 2016, each of the Directors is required to purchase at least \$5,000 worth of the Company's Ordinary Shares in the secondary market per year. The table below sets forth the Directors' Ordinary Share ownership as of 31 December 2016:

	Number of Ordinary Shares Owned
John R. Weale	34,950
Gregory D. Haycock	5,000
George Cubbon	5,000
Total	44,950

Substantial Interests

As the Ordinary Shares have been admitted to trading on the SFS, the Company is required to comply with the Disclosure and Transparency Rules ("DTRs"), which are now contained in the FCA's handbook. Pursuant to the DTRs, Shareholders are required to notify the Company and the FCA when their holdings exceed, reach or fall below certain prescribed thresholds. The Company must then disseminate this information to the wider market.

Corporate Governance

Introduction

The Board strives to create a transparent corporate governance culture that meets the relevant listing requirements and provides fair and informative disclosures for investors.

Bermuda Regulatory Environment

Bermuda has no specific corporate governance regime applicable to the Company; but, in recognition of the importance of sound corporate governance, the Company has joined the Association of Investment Companies (the "AIC"). Furthermore, the Board endorses and has adopted the AIC Code of Corporate Governance (the "AIC Code"). The Company has carefully considered the principles and recommendations of the AIC Code and has elected to follow the AIC's Corporate Governance Guide for Investment Companies (the "AIC Guide").

The AIC Code of Corporate Governance "A framework of best practice for member companies" was issued in February 2015, and it is publicly available on the AIC website. On 18 February 2015, the Financial Reporting Council provided the AIC with an endorsement letter to cover the February 2015 edition of the AIC Code. The endorsement confirms that by following the AIC Code investment company boards should fully meet their obligations in relation to the UK Corporate Governance Code.

AIC and UK Corporate Governance Code Compliance

Management have undertaken a review of the corporate governance principles of the Board of the Company. The Directors confirm that during the period for the accounting year ended 31 December 2016, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as follows: (a) there was no chief executive position within the Company which is not in accordance with A.2.1 of the UK Corporate Governance Code but is not relevant to the Company as the Company does not have and does not intend to have employees or executive directors; (b) the Company did not establish a separate remuneration or nomination committee which is not in accordance with D.2.1 and B.2.1, respectively, of the UK Corporate Governance Code but is not relevant to the Company as the Company does not have and does not intend to have employees or executive directors; and (c) the Company did not have a senior independent director which is not in accordance with A.4.1 of the UK Corporate Governance Code, but it is not relevant to the Company or its Board because the Board is composed of only three directors, each of whom are independent.

The Board

The Board consists of three non-executive Directors, each of whom is independent of the Manager in accordance with Principle 2 of the AIC Code. The Board has determined that each non-executive Director met the independence criteria set forth in Principle 1 of the AIC Code upon appointment and has continued to meet this condition throughout his term of service. Moreover, no Director has a service contract with the Company. The names and biographies of each Director appear on page 12 of this Annual Report.

Messrs. Weale and Haycock have served as non-executive Directors since the Company's launch. Mr. Cubbon was appointed as a non-executive Director in July 2015 to fill a vacancy caused by the resignation of Neil W. McConachie who resigned to pursue other interests. When considering director nominees, the Board considers whether an individual has significant accomplishments in his or her chosen field, whether he or she has experience with a high degree of responsibility and whether he or she is able and willing to commit the appropriate time for preparing and participating in matters relating to his or her role as a director of the Company.

The Company's Bye-laws provide that one third of the Directors retire by rotation each year. This year, however, as in each prior year, each Director has retired and offered himself for re-election at the annual general meeting.

The Directors stay fully informed of the business affairs and internal investment and financial controls

of the Company. All matters relevant to the Company's business are brought to the attention of the Board, which also has access to independent professional advice at the expense of the Company. The Directors' terms of appointment are available at the Manager's office for review by Shareholders.

Each year, the Board performs a formal performance appraisal of itself and its individual Directors. In view of the Company's non-executive, independent nature and size, the Board considers it inappropriate for there to be a separate committee to perform this appraisal, as envisaged by the AIC Code.

In addition to reviewing the performance, independence and tenure of its individual Directors, the Board also considers its overall composition, diversity and balance as well as the adequacy and continuity of itself and its committees.

Presently, the Board is satisfied that all Directors continue to discharge their duties effectively and contribute to the work of the Board and its committees.

In considering its composition, the Board strives to achieve a balance of skills, experience, length of service and knowledge of the Company with the ultimate goal of creating value for investors while meeting a high standard of corporate governance. Given the Company's limited operating history and the considerable experience and expertise brought to bear by each Director, the Board has determined it to be in the best interest of the Shareholders to maintain the continuity of the Directors.

Accordingly, the Board recommends the election of each of the Directors, whose supporting biographies appear on page 12 of this Annual Report. A full list of other public company directorships for each Director is disclosed on page 70.

The Board holds regular meetings four times a year, at a minimum, and maintains ongoing communications with the Manager and the Company's other service providers. During the year ended 31 December 2016, the Board held seven Board meetings and three Audit Committee meetings.

The table below sets out the attendance record of the Directors.

	Board	Audit Committee
No. of Meetings:	7	3
Meetings Attended:		
John R. Weale (Chairman)	7	3
Gregory D. Haycock	7	3
George Cubbon	7	3

Notices and agendas, and any other materials that are deemed necessary or useful are circulated to the Board prior to each meeting so that the Directors have sufficient time to review the items to be addressed at the meeting. Directors may also request the addition to the agenda of any items they deem appropriate for Board consideration. Regular Board meetings primarily focus on the Company's investment performance, risk management, asset allocation, compliance, investor relations and any other matters the Board considers appropriate for review. If a Director has any potential or actual conflicts of interest, he must disclose such conflict prior to each Board meeting.

Directors' Authorities

The Directors have adopted a set of authorities reserved to the Board in accordance with Principle 16 of the AIC Code, which provide a non-exclusive list of the principal areas in which the Board reserves approval over activities or transactions by the Company. The principal authorities reserved to the Board include the following:

- design and maintenance of investment objectives, restrictions and policies;
- appointment, oversight and delegation of authorities to Committees of the Board;
- establishment of limits of authority of management relating to monetary expenditures and approval all expenditures exceeding such limits;
- declaration of all Shareholder dividends;
- review and approval of all borrowing by the Company;
- recommendation and approval of the compensation of Directors;
- oversight over all aspects of Company's risk management function, including the definition of the Company's risk appetite and design of the Company's risk management process; and
- any other matters having a material effect on the Company.

Manager's Authorities

The Manager has been retained by the Master Fund to manage its assets on a discretionary basis pursuant to an investment management agreement dated 27 November 2012.

The Manager provides management, administrative, underwriting and other services as well as operational infrastructure to the Reinsurer. The Manager also provides stand-alone and portfolio risk modelling and assists the Reinsurer to originate business by entering into reinsurance agreements with ceding companies.

Management, Remuneration and Audit Committees

The Company generally complies with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code.

In view of the Company's non-executive and independent composition, the Board considers it unnecessary for there to be a Management or Remuneration Committee as anticipated by the AIC Code. Further, the Company does not, and does not intend to, have employees or executive directors. Accordingly, the Board as a whole fulfils the functions of the Management and Remuneration Committees.

Each year, the Board undertakes an assessment of the Manager's performance. In evaluating the Manager, the Board considers the Company's performance, Shareholder feedback, management reporting and communication, risk management, and the Manager's interactions with the Board and the Shareholders. Based on this assessment, the Board remains pleased with the Manager's performance and it believes it is in the best interests of the Company and its Shareholders to retain the services of the Manager. The Board reviews each of its service providers on an ongoing basis.

Audit Committee

In accordance with the AIC Code, the Company has established an Audit Committee, which comprises all three of the Company's Directors. Mr. Haycock serves as Chairman of the Audit Committee. As discussed

above, all of the Company's Directors are independent, and the Board considers it appropriate for all three Directors to serve on the Audit Committee given the Board's small size.

The terms of reference of the Audit Committee, which are available from the Company Secretary upon request, provide that it will meet at least two times per year at appropriate times in the reporting and audit cycle and otherwise as required. The Audit Committee's principal duties are to consider among other things: (a) annual and interim financial statements; (b) auditor reports; and (c) terms of appointment and remuneration for the auditors (including overseeing the independence of the external auditors particularly as it relates to the provision of non-audit services).

The Audit Committee pays particular attention to the qualifications, expertise and resources of the external auditor, as well as the effectiveness of the audit process.

Where the external auditor is to provide non-audit services to the Company, the Audit Committee fully considers the implications of the provision of those services on the independence of the external auditor prior to undertaking any such engagement. If such non-audit services are provided, the Audit Committee reviews the services to ensure the preservation of the external auditor's independence.

In accordance with its terms of reference, the Audit Committee has reviewed the Annual Report, including the audited financial statements for the year ended 31 December 2016, in detail and considered all matters brought to the attention of the Board during the accounting period. The Audit Committee has subsequently determined that the Annual Report and the financial statements fairly represent the status of the Company's affairs.

Internal Controls

The Board bears ultimate responsibility for the Company's system of internal control. While the Company does not have its own employees to undertake an internal audit function, the Company has utilised Endurance's internal audit department to perform reviews of certain components of its internal control framework. Further, the terms of reference of the Audit Committee provide that the Board will perform the following functions relating to internal audit in addition to its functions associated with management and remuneration:

- rigorous selection process for key service providers;
- regular physical board meetings and ad hoc board meetings as required;
- receipt and consideration of quarterly (or more frequent if necessary) reporting from each of the Company's key service providers;
- receipt and consideration of quarterly reports from the Company's Administrator;
- establishment of committees of the Board (if any);
- ensure existence of dual signatories in respect of the Company's bank accounts;
- annual reviews of all key service providers;
- annual review of the Company's and the Administrator's systems of internal controls;
- quarterly review of management accounts; and
- quarterly review of reporting against budget.

The Board has reviewed the effectiveness of the Company's risk management and internal control systems and is satisfied at this time that these systems are appropriate to safeguard Shareholders' investments and the Company's assets.

Corporate Responsibility

In accordance with Principle 20 of the AIC Code, the Board takes responsibility for, and is kept aware of, all relevant communications with Shareholders. The Company relies upon its service providers to perform its operations, and it maintains an open line of communication with those providers to address the ongoing concerns of Shareholders. In addition, the Company may also address the concerns of its investors through direct discussions with Shareholders.

Relations with Shareholders

The Company maintains regular communications with institutional Shareholders through its Manager, and the Board is kept aware of the feedback received from such investors. Board members are also available to respond to Shareholder questions at the Annual General Meeting, and Shareholders may request meetings with Directors or communicate with the Board directly by contacting the Company Secretary.

Furthermore, in accordance with Principle 19 of the AIC Code, the Board monitors the Shareholder profile of the Company on a regular basis.

The Board encourages all Shareholders to attend and participate in the Annual General Meeting, at which the key issues affecting the Company will be addressed. The Notice on page 74 of this Annual Report, together with the Summary of the Resolutions beginning on page 71, sets out the business of the upcoming Annual General Meeting including the resolutions to be voted upon. The Company announces meeting results as soon as practicable after they are determined.

Going Concern Status

In accordance with the Financial Reporting Council's guidance on going concern and liquidity risk issued in October 2009, the Board of Directors has reviewed the Company's ability to continue as a going concern.

The Company's assets consist of cash and a diverse portfolio of fully collateralised reinsurance-linked contracts (held indirectly through investments in preference shares of the Reinsurer) and other Insurance-Linked Instruments. The Company provided a market update on its portfolio following its January 2017 reinsurance renewals, which can be found at www.bcgr.bm. The Board has considered the Company's assets and reviewed forecasts and has determined that the Company has sufficient financial resources to continue as a going concern. Accordingly, the Directors have adopted the going concern basis in preparing the financial statements for the year ended 31 December 2016.

Disclosure of Information to Auditors

The Directors have determined that, to their knowledge, there is no relevant audit information unknown to the Company's external auditor. Furthermore, each Director has taken adequate and appropriate steps to make himself aware of any relevant information and to convey such information to the Company's external auditor.

Auditors

The Company's Audit Committee appoints and annually evaluates the performance of the Company's independent auditor and provides assistance to the members of the Board in fulfilling their oversight functions of the financial reporting practices. The Company's current independent registered public accounting firm is Ernst & Young Ltd. Ernst & Young Ltd. has been the Company's independent registered public accounting firm since July 2015 and the Audit Committee has selected Ernst & Young Ltd. to be the Company's independent registered public accounting firm for 2017.

A resolution to re-appoint Ernst & Young Ltd. as the Company's independent auditor for 2017 and to authorise the Board, acting by the Company's Audit Committee, to set their remuneration will be proposed at the forthcoming Annual General Meeting.

Viability Statement

As detailed above, the Directors have conducted an assessment of the principal risks facing the Company and believe that the Company is well placed to manage these risks. Therefore, in accordance with principle 21 of the AIC Code, the Directors confirm that they have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due for the next four years.

The following factors were considered in determining the four year viability period:

- the Company operates within the property catastrophe reinsurance market which has matured steadily over the past several years, with greater participation by a wider and more knowledgeable investor base and increasing acceptance of third party capital by cedants;
- the Company's investment policy which imposes restrictions on the types of investments and the amount of risk that may be taken;
- the Company's projected financial performance over the four year viability period;
- the Manager's performance and its relationship with Endurance; and
- the acquisition of Endurance by Sompo Holdings, Inc.

After considering the above, the Directors believe that a four year viability period is the most appropriate to ensure that its projections are reasonable and that the Company can conduct a reasonable identification and assessment of its principal risks.

By order of the Board,

John R. Weale



Chairman
31 March 2017

Gregory D. Haycock



Director

George Cubbon



Director

Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with the applicable law and regulations.

The Directors consider that this Annual Report and the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the Shareholders to assess the Company's position and performance, business model and strategy.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Board has elected to prepare the financial statements in accordance with accounting principles generally accepted in the US ("US GAAP").

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Bermuda Companies Act 1981, as amended. The Board is also responsible for safeguarding the assets of the Company and taking all reasonably available steps to prevent and detect fraud and other irregularities.

Directors' Responsibility Statement

In accordance with Chapter 4 of the Disclosure and Transparency Rules, the Directors confirm that, to the best of their knowledge and belief, they have complied with the above requirements in preparing the financial statements and that:

- the Chairman's Statement, the Manager's Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and
- the financial statements, prepared in accordance with US GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the Company.

Signed on behalf of the Board by:

John R. Weale



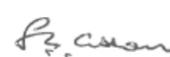
Chairman
31 March 2017

Gregory D. Haycock



Director

George Cubbon



Director

**Blue Capital Global Reinsurance
Fund Limited**

(Incorporated in Bermuda)

Audited Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars)

Report of Independent Auditors

The Board of Directors
Blue Capital Global Reinsurance Fund Limited

We have audited the accompanying financial statements of Blue Capital Global Reinsurance Fund Limited (the “Company”), which comprise the statements of assets and liabilities as of December 31, 2016 and 2015, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Capital Global Reinsurance Fund Limited at December 31, 2016 and 2015, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young Ltd.

March 30, 2017

Blue Capital Global Reinsurance Fund Limited

Statements of Assets and Liabilities

(expressed in thousands of U.S. dollars, except shares and per share amounts)

	31 December	
	2016	2015
Assets		
Investment in the Master Fund at fair value (cost – \$155,467 ; 2015 cost – \$174,340)	221,283	229,280
Cash and cash equivalents	5,482	16
Other assets	158	174
Total assets	226,923	229,470
Liabilities		
Accrued expenses and other liabilities	64	134
Amounts drawn from credit facility (Note 6)	-	6,000
Total liabilities	64	6,134
Net assets	226,859	223,336
Ordinary Shares in issue	178,698,523	199,105,326
Net asset value per Ordinary Share	1.1434	1.1217
Redemption Shares in issue	19,855,391	-
Net asset value per Redemption Share	1.1351	-

See accompanying notes to Financial Statements and attached Financial Statements of Blue Water Master Fund Ltd. – Blue Capital Global Reinsurance SA-I

Blue Capital Global Reinsurance Fund Limited

Statements of Operations

(expressed in thousands of U.S. dollars)

	Year ended 31 December	
	2016	2015
Net investment loss allocated from Master Fund	<u>(4,267)</u>	<u>(5,847)</u>
Expenses		
Professional fees	(895)	(811)
Other fees	(93)	(184)
Administration fees	<u>(69)</u>	<u>(67)</u>
Total expenses	<u>(1,057)</u>	<u>(1,062)</u>
Net investment loss	<u>(5,324)</u>	<u>(6,909)</u>
Realised and unrealised gain on investments allocated from Master Fund:		
Net realised gain on investments in securities	29,182	21,722
Net change in unrealised (depreciation) appreciation on investments in securities	<u>(6,662)</u>	<u>4,990</u>
	<u>22,520</u>	<u>26,712</u>
Net increase in net assets resulting from operations	<u>17,196</u>	<u>19,803</u>

See accompanying notes to Financial Statements and attached Financial Statements of Blue Water Master Fund Ltd. – Blue Capital Global Reinsurance SA-I

Blue Capital Global Reinsurance Fund Limited

Statements of Changes in Net Assets

(expressed in thousands of U.S. dollars)

	Year ended 31 December	
	2016	2015
Increase in net assets		
From operations		
Net investment loss	(5,324)	(6,909)
Net realised gain on investments in securities	29,182	21,722
Net change in unrealised (depreciation) appreciation on investments in securities	(6,662)	4,990
Net increase in net assets resulting from operations	17,196	19,803
From capital transactions		
Share repurchases	(555)	-
Dividends declared	(13,118)	(13,141)
Net decrease in net assets resulting from capital transactions	(13,673)	(13,141)
Increase in net assets	3,523	6,662
Net assets – Beginning of year	223,336	216,674
Net assets – End of year	226,859	223,336

See accompanying notes to Financial Statements and attached Financial Statements of Blue Water Master Fund Ltd. – Blue Capital Global Reinsurance SA-I

Blue Capital Global Reinsurance Fund Limited

Statements of Cash Flows

(expressed in thousands of U.S. dollars)

	Year ended 31 December	
	2016	2015
Cash flows from operating activities		
Net increase in net assets resulting from operations	17,196	19,803
Adjustments to reconcile to net cash provided by (used in) operations:		
Sales / (purchases) of investments in Master Fund and net investment loss, net realised gain and net change in unrealised appreciation/depreciation on investments in securities allocated from Master Fund	7,997	(29,919)
Net change in other assets and liabilities:		
Decrease / (increase) in other assets	16	(15)
Decrease in funds on deposit with the Master Fund	-	9,054
(Decrease) / increase in accrued expenses and other liabilities	(70)	21
Net cash provided by (used in) operating activities	<u>25,139</u>	<u>(1,056)</u>
Cash flows from financing activities		
(Repayments to) / amounts drawn from credit facility	(6,000)	2,000
Share repurchases	(555)	-
Dividends paid	(13,118)	(13,141)
Net cash used in financing activities	<u>(19,673)</u>	<u>(11,141)</u>
Net increase (decrease) in cash and cash equivalents	5,466	(12,197)
Cash and cash equivalents – Beginning of year	<u>16</u>	<u>12,213</u>
Cash and cash equivalents – End of year	<u>5,482</u>	<u>16</u>
Non-Cash transactions		
3,588 Ordinary Shares issued in lieu of cash payments of dividends (Note 7)	<u>4</u>	<u>-</u>

See accompanying notes to Financial Statements and attached Financial Statements of Blue Water Master Fund Ltd. – Blue Capital Global Reinsurance SA-I

Blue Capital Global Reinsurance Fund Limited

Notes to Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except shares and per share amounts)

1. Nature of operations

Blue Capital Global Reinsurance Fund Limited (the “Company”) is a closed-ended exempted mutual fund company of unlimited duration incorporated under the laws of Bermuda on 8 October 2012, which commenced operations on 6 December 2012. The Company invests substantially all of its assets through a “master/feeder” structure in Blue Capital Global Reinsurance SA-I (the “Master Fund”). The Master Fund is a segregated account of Blue Water Master Fund Ltd., a mutual fund company incorporated under the laws of Bermuda on 12 December 2011, and registered as a segregated account company under the Segregated Accounts Company Act 2000. The investment objective of the Company is to generate attractive returns from a sustainable annual dividend yield and longer-term capital growth through its investment in the Master Fund. The Company is the only investor in the Master Fund. The financial statements of the Master Fund, including the condensed schedule of investments, are attached to this report and should be read in conjunction with these financial statements.

The Company’s shares are admitted to trading on the Specialist Fund Segment, a market operated by the London Stock Exchange (symbol BCGR LN). The Company’s shares are listed on the Bermuda Stock Exchange (symbol BCGR BH).

The investment objective of the Master Fund is to generate attractive returns by investing in a diversified portfolio of fully collateralized reinsurance-linked instruments (“RLI”) and other investments carrying exposures to insured catastrophe event risks. The Master Fund invests predominantly in fully collateralized RLIs through non-voting redeemable preference shares issued by Blue Water Re Ltd. (the “Reinsurer”) which in turn writes reinsurance contracts with the ceding companies. Each non-voting redeemable preference share of the Reinsurer corresponds to a specific reinsurance contract entered into by the Reinsurer. The Master Fund’s investments in other reinsurance-linked investments which carry exposure to insured catastrophe event risks such as industry loss warranties, catastrophe bonds and other reinsurance-linked instruments are made directly by the Master Fund. The manager of the Master Fund is Blue Capital Management Ltd. (the “Investment Manager”). The Investment Manager is licensed in Bermuda to carry on investment business under the Investment Business Act 2003, as amended, and as an agent and manager under the Insurance Act. The Investment Manager is a wholly-owned subsidiary of Endurance Specialty Holdings Ltd. (“Endurance”), a recognized global specialty provider of property and casualty insurance and reinsurance whose shares are listed on the New York Stock Exchange (symbol ENH).

The Reinsurer is an exempted limited liability company incorporated on 12 December 2011 under the laws of Bermuda and is licensed by the Bermuda Monetary Authority as a special purpose insurer with an underwriting plan focused on fully collateralized reinsurance protection of the property catastrophe insurance and reinsurance market. The Investment Manager also acts as the Reinsurer’s insurance manager and insurance agent.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The Company is an investment company and is therefore applying the specialized accounting and reporting requirements of ASC Topic 946, *Financial Services – Investment Companies*.

Blue Capital Global Reinsurance Fund Limited

Notes to Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except shares and per share amounts)

2. Summary of significant accounting policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Investment in Master Fund

The Company records its investment in the Master Fund at fair value, determined as the value of the net assets of the Master Fund. Valuation of investments held by the Master Fund is discussed in the notes to the Master Fund financial statements attached to this report.

Investment transactions

The Company records its participation in the Master Fund's income, expenses, and realized and change in unrealized gains and losses within the Statements of Operations. The Company records its investment transactions on a trade date basis. Realized gains and losses on disposals of investments are calculated using the first-in, first-out (FIFO) method. In addition, the Company records its own income and expenses on the accrual basis of accounting.

Cash and cash equivalents

Cash and cash equivalents include short-term, highly liquid investments, such as money market funds, that are readily convertible to known amounts of cash and have original maturities of three months or less.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars using rates of exchange prevailing at the date of the Statement of Assets and Liabilities. Foreign currency revenue and expense items are translated into U.S. dollars at the rates of exchange in effect at the date when transactions occurred. The resulting exchange gains and losses are reflected in the Statements of Operations.

The Fund does not isolate that portion of the results of operations arising from the effect of changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of investments held. Such fluctuations are included in net change in unrealized gains from investments in the statements of operations.

Offering costs

Offering costs are costs directly incurred in connection with the registration and distribution of the Company's shares at each capital raise and are recorded as a reduction in proceeds from the issuance of shares.

Blue Capital Global Reinsurance Fund Limited

Notes to Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except shares and per share amounts)

3. Administration fees

SS&C Fund Services (Bermuda) Ltd. (formerly Prime Management Limited) (the “Administrator”), a division of SS&C GlobeOp, serves as the administrator for the Company and the Master Fund. The Administrator receives a monthly fee based on the NAV of the Company and the Master Fund, subject to a monthly minimum fee. Administration fees relating to the Master Fund are charged to the Master Fund and flow through to the Company as part of the expenses allocated from the Master Fund in the Statements of Operations.

4. Related party transactions

As of 31 December 2016, Endurance Specialty Insurance Ltd. (“Endurance Bermuda”) owned 28.0% (2015 – 25.1%) of the voting rights of the Ordinary Shares issued by the Company. Endurance Bermuda and the Manager are 100% owned by Endurance Specialty Holdings Ltd. (“Endurance”).

Director’s Fees

The Company’s Board of Directors has overall management responsibility for the Company. The Company will reimburse all directors for their out-of-pocket expenses and will pay a customary fee, in accordance with reasonable and customary directors’ fees. For the year ended 31 December 2016, the directors’ fees amounted to \$180 (2015 – \$165), none of which remained payable at year end.

Management fees and performance fees

Management and performance fees are charged to the Master Fund and flow through to the Company as part of the net investment loss allocated from the Master Fund in the Statements of Operations. For details, investors should refer to Note 7 in the Master Fund financial statements attached to this report.

Issue costs

Issue costs are those fees, expenses and costs necessary for the establishment of the Company and for the issuance of its shares. Issuance costs include but are not limited to placing agreements fees, legal, accounting, registration, printing, advertising and distribution costs, and costs associated with the creation of depository interests. Each placing agreement sets limits for issuance costs to be borne by the Company. Issuance costs exceeding the limits are paid by the Investment Manager. At 31 December 2016 and 2015, no amount was owed from the Investment Manager in respect to issue costs.

5. Financial instruments

The Company’s investment activities expose it to various types of risk, which are associated with the securities and markets in which it invests. As the majority of the Company’s assets are invested in the Master Fund, they are primarily exposed to the risks faced by the Master Fund. Due to the nature of the “master-feeder” structure, the Company could be materially affected by subscriptions or redemptions in the Master Fund by other feeder funds. However, as the Master Fund was established solely for the Company to invest in, the Company is the only feeder fund of the Master Fund. For a summary of risks, investors should refer to the financial statements of the Master Fund attached to this report.

Blue Capital Global Reinsurance Fund Limited

Notes to Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except shares and per share amounts)

6. Credit agreement

On 16 May 2016, the Company entered into a credit facility (the “2016 Credit Facility”) with Endurance Investment Holdings Ltd. (the “Lender”), a wholly-owned subsidiary of Endurance. The 2016 Credit Facility provides the Company with an unsecured \$20,000 revolving credit facility for working capital and general corporate purposes and expires on 30 September 2018. The 2016 Credit Facility replaces the 364-day \$20,000 revolving credit facility (the “364-Day Credit Agreement”) which expired on 12 May 2016. Borrowings under the 2016 Credit Facility bear interest, set at the time of the borrowing, at a rate equal to the applicable LIBOR rate plus 150 basis points. The 2016 Credit Facility contains covenants that limit the Company’s ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, or incur debt. If the Company fails to comply with any these covenants, the Lender could revoke the facility and exercise remedies against the Company. As of December 31, 2016, the Company was in compliance with all of its respective covenants associated with the 2016 Credit Facility. There were no borrowings from the 2016 Credit Facility as of 31 December 2016.

In February 2016, the Company repaid the \$6,000 outstanding under the 364-Day Credit Agreement. During the year, the Company incurred interest expense of \$42 (2015 – \$100) including customary commitment fees, reflected in Other Fees in the Statement of Operations. Under the 364-Day Credit Agreement, the Company also paid Endurance, in its capacity as the Guarantor, an annual fee of 0.125% of the Commitment Amount for guaranteeing its obligations.

7. Capital share transactions

As at 31 December 2016 and 2015, the Company is authorized to issue up to 990,000,000 Shares of par value \$0.00001 per share.

On 15 January 2016, the Company declared a dividend covering the period 1 July 2015 to 31 December 2015 of \$0.033 per Ordinary Share. The Company offered a scrip dividend alternative so that shareholders could elect to receive new Ordinary Shares instead of all or part of their cash dividend. On 15 March 2016, a cash dividend of \$6,566 was paid and 3,588 Ordinary Shares were admitted to trading on the London Stock Exchange’s Specialist Fund Segment (previously known as the Specialist Fund Market) and on the Bermuda Stock Exchange. The Company recorded a subscription of \$4 in connection with the issuance of these Ordinary Shares. The 3,588 Ordinary Shares were issued in lieu of cash payments of dividends amounting to \$4.

On 22 July 2016, the Company declared a dividend covering the period 1 January 2016 to 30 June 2016 of \$0.033 per Ordinary Share. On 24 August 2016, a cash dividend of \$6,552 was paid.

On 23 June 2016, the Company announced share repurchases engagement (the “Engagement”). Share buy-backs under the Engagement were conducted in accordance with the authority granted to the Company at its annual general meeting. During the year ended 31 December 2016, 555,000 Ordinary Shares were repurchased and subsequently cancelled by the Company.

Blue Capital Global Reinsurance Fund Limited

Notes to Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except shares and per share amounts)

7. Capital share transactions (continued)

On 2 September 2016, the Company announced that its Ordinary Shares had traded at an average discount of more than 5% to the Net Asset Value per Ordinary Share calculated over the three month period ended 31 August 2016 which triggered the Board of Directors to offer Shareholders the opportunity to tender Ordinary Shares in accordance with the Company's discount management policy (the "Tender Offer"). Under the Tender Offer, the Company offered to repurchase up to 10% of the Ordinary Shares in issue. Each Ordinary Share repurchased was converted into one Redemption Share, a new unlisted class of share. Redemption Shares continue to participate in an indirect pro rata share of each underlying reinsurance-linked investment in the Company's portfolio as at the date of their issue, and will be redeemed for cash as and when these investments are realised. Conversion of tendered Ordinary Shares into Redemption Shares under the Tender Offer was completed on 30 December 2016.

Including Endurance Bermuda there are five shareholders who, in the aggregate, held approximately 63% of the share capital of the Company at 31 December 2016.

Transactions in Shares were as follows:

1 January 2016 to 31 December 2016

	<u>Beginning Shares</u>	<u>Shares Issued</u>	<u>Shares Repurchased</u>	<u>Shares Converted</u>	<u>Ending Shares</u>
Ordinary Shares	199,105,326	3,588	(555,000)	(19,855,391)	178,698,523
Redemption Shares	-	-	-	19,855,391	19,855,391

1 January 2015 to 31 December 2015

	<u>Beginning Shares</u>	<u>Shares Issued</u>	<u>Shares Redeemed</u>	<u>Ending Shares</u>
Ordinary Shares	199,105,326	-	-	199,105,326

The Company has been established as a closed-ended mutual fund and, as such, Ordinary Shares may not be redeemed from the Company.

8. Taxes

At the present time, no income, profit, capital transfer or capital gains taxes are levied in Bermuda and accordingly, no provision for such taxes has been recorded by the Company. The Company has received an undertaking from the Minister of Finance of Bermuda, under the Exempted Undertakings Tax Protection Act 1966 exempting the Company from income, profit, capital transfer or capital taxes, should such taxes be enacted, until 31 March 2035.

Blue Capital Global Reinsurance Fund Limited

Notes to Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except shares and per share amounts)

8. Taxes (continued)

The Investment Manager assesses uncertain tax positions by determining whether a tax position of the Company is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial information is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority.

The Investment Manager has not identified any uncertain tax positions in the Company arising in this or any preceding period. However, the Investment Manager's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analysis of changes to tax laws, regulations and interpretations thereof. The Investment Manager has determined that there are no reserves for uncertain tax positions necessary for any of the Company's open tax years.

9. Financial highlights

Financial highlights for Ordinary Shares are as follows:

	Year ended December 31	
	2016	2015
Per share operating performance		
Net asset value, beginning of year	\$ 1.1217	\$ 1.0882
Income from investment operations	0.0877	0.0995
Dividend payment per share	(0.0660)	(0.0660)
Net asset value, end of year	\$ 1.1434	\$ 1.1217
Total return		
Total return before performance fee	8.33 %	10.30 %
Dividend paid	(5.88)	(6.07)
Performance fee*	(0.52)	(1.15)
Total return after performance fee**	1.93 %	3.08 %
Ratio to average net assets		
Expenses other than performance fee	(2.01) %	(2.25) %
Performance fee*	(0.53)	(1.17)
Total expenses after performance fee	(2.54) %	(3.42) %
Net investment loss before performance fee	(1.83) %	(2.06) %

* The performance fee and management fee are charged in the Master Fund.

** The total return for the year ended 31 December 2016 before the dividends declared on 15 January 2016 and 22 July 2016 is computed as 8.26%. The total return for the year ended 31 December 2015 before the dividends declared on 29 January 2015 and 16 July 2015 is computed as 9.63%.

Blue Capital Global Reinsurance Fund Limited

Notes to Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except shares and per share amounts)

9. Financial highlights (continued)

Financial highlights are calculated for each permanent, non-managing class or series of Ordinary Share. An individual shareholder's return and ratios may vary based on different performance fee and/or management fee arrangements, and the timing of capital share transactions. The ratios include effects of allocations of net investment income from the Master Fund.

Per share operating performance is computed on the basis of average shares outstanding during the year.

Total return is calculated based on the percentage movement in net asset value per share. The expense ratio is calculated based on the expenses of the Company and the proportionate share of expenses allocated from the Master Fund over the average net asset value per share in the year. The net investment loss ratio is based on the net loss per share from investment operations of the Company and the proportionate share of net loss allocated from the Master Fund over the average net asset value per share in the year.

10. Commitments and contingencies

In the normal course of business, the Company may enter into contracts or agreements that contain indemnifications or warranties. The Company's exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, management expects the risk of loss to be remote.

11. Subsequent events

On 19 January 2017, the Company declared a dividend covering the period 1 July 2016 to 31 December 2016 of \$0.033 per Ordinary Share. On 24 February 2017, a cash dividend of \$5,897 was paid.

On 28 March 2017, Endurance was acquired by Sompo Holdings Inc., a company incorporated in Japan.

These Financial Statements were approved by the Manager and the Directors and were made available for issuance on 30 March 2017. Subsequent events have been evaluated through this date.

**Blue Water Master Fund Ltd. –
Blue Capital Global Reinsurance SA-I**
(Incorporated in Bermuda)

Audited Financial Statements
31 December 2016
(expressed in thousands of U.S. dollars)

Report of Independent Auditors

The Board of Directors
Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

We have audited the accompanying financial statements of Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I (the “Master Fund”), which comprise the statements of assets and liabilities, including the condensed schedule of investments, as of December 31, 2016 and 2015, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I at December 31, 2016 and 2015, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young Ltd.

March 30, 2017

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Statements of Assets and Liabilities

(expressed in thousands of U.S. dollars, except share and per share amounts)

	December 31	
	2016	2015
Assets		
Investments in securities, at fair value (cost – \$188,453; 2015 cost – \$194,275)	209,802	220,025
Unrealised gain on derivatives (premiums paid - \$2,335)	555	-
Cash and cash equivalents	13,749	17,657
Other receivables	264	-
Receivable from related party (Note 7)	118	-
Interest receivable	29	28
Total assets	224,517	237,710
Liabilities		
Unrealised loss on derivatives (premiums received - \$1,179; 2015 premiums received – \$1,703)	146	190
Performance fee payable	1,157	2,501
Management fee payable	1,108	3,520
Accrued expenses and other liabilities	823	440
Payable to related party (Note 7)	-	1,779
Total liabilities	3,234	8,430
Net assets	221,283	229,280
Offered Shares in issue	133,403	167,099
Net asset value per Offered Share	1,492.8732	1,372.1208
Redemption Shares in issue	14,823	-
Net asset value per Redemption Share	1,492.8732	-

See accompanying notes to the Financial Statements

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Statements of Operations

(expressed in thousands of U.S. dollars)

	Year ended December 31,	
	2016	2015
Income		
Interest	410	406
Other income	45	-
Total income	<u>455</u>	<u>406</u>
Expenses		
Management fees	(3,293)	(3,270)
Performance fees	(1,157)	(2,501)
Administrative fees	(224)	(222)
Professional fees	(43)	(46)
Other fees	(5)	(214)
Total expenses	<u>(4,722)</u>	<u>(6,253)</u>
Net investment loss	<u>(4,267)</u>	<u>(5,847)</u>
Realised and unrealised gain on investments in securities and derivative contracts		
Net realised gain on investments in securities and derivative contracts	29,182	21,722
Net change in unrealised (depreciation) appreciation on investments in securities and derivative contracts	(6,662)	4,990
Net gain on investments in securities and derivative contracts	<u>22,520</u>	<u>26,712</u>
Net increase in net assets resulting from operations	<u>18,253</u>	<u>20,865</u>

See accompanying notes to the Financial Statements

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Statements of Changes in Net Assets

(expressed in thousands of U.S. dollars)

	Year ended December 31,	
	<u>2016</u>	<u>2015</u>
(Decrease) / Increase in net assets		
From operations		
Net investment loss	(4,267)	(5,847)
Net realised gain on investments in securities and derivative contracts	29,182	21,722
Net change in unrealised (depreciation) appreciation on investments in securities and derivative contracts	<u>(6,662)</u>	<u>4,990</u>
Net increase in net assets resulting from operations	<u>18,253</u>	<u>20,865</u>
From capital share transactions		
Issuance of shares	-	9,054
Redemption of shares	<u>(26,250)</u>	<u>-</u>
Net decrease in net assets resulting from capital transactions	<u>(26,250)</u>	<u>9,054</u>
(Decrease) / Increase in net assets	<u>(7,997)</u>	<u>29,919</u>
Net assets – Beginning of year	<u>229,280</u>	<u>199,361</u>
Net assets – End of year	<u>221,283</u>	<u>229,280</u>

See accompanying notes to the Financial Statements

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Statements of Cash Flows

(expressed in thousands of U.S. dollars)

	Year ended December 31,	
	2016	2015
Cash flows from operating activities		
Net increase in net assets resulting from operations	18,253	20,865
Adjustments to reconcile to net cash provided by operations:		
Purchases of investments in securities	-	(6,654)
Premiums paid on ILW Swaps	(2,335)	(1,685)
Proceeds from sale of investments in securities	33,300	14,200
Premiums received on ILW Swaps	1,179	1,703
Net realised gain on investments in securities and derivative contracts	(29,182)	(21,722)
Net change in unrealised depreciation (appreciation) on investments in securities and derivative contracts	6,662	(4,990)
Change in other assets and liabilities:		
Increase in other receivable	(264)	-
Increase in receivable from related party	(118)	-
Increase in interest receivable	(1)	(1)
Decrease in funds on deposit with Reinsurer	-	6,654
(Decrease) / increase in performance fee payable	(1,344)	2,501
(Decrease) / increase in management fee payable	(2,412)	3,271
Increase in accrued expenses and other liabilities	383	365
(Decrease) / increase in payable to related party	(1,779)	137
Net cash provided by operating activities	<u>22,342</u>	<u>14,644</u>
Cash flows from financing activities		
Proceeds from issuance of shares	-	9,054
Decrease in subscription received in advance	-	(9,054)
Payments for redemption of shares	(26,250)	-
Net cash used in financing activities	<u>(26,250)</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents	(3,908)	14,644
Cash and cash equivalents – Beginning of year	<u>17,657</u>	<u>3,013</u>
Cash and cash equivalents – End of year	<u>13,749</u>	<u>17,657</u>

Non-Cash transactions

During the year ended December 31, 2016, the Fund had non-cash purchases and sales of investment in securities amounting to \$362,339.

See accompanying notes to the Financial Statements

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Condensed Schedule of Investments

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

31 December 2016

Type	Cost / Proceeds \$	Number of Shares / Principal / Notional	Fair Value \$	Percentage of Net Assets %
Investments held in Risk Linked Instruments of Blue Water Re Ltd.				
Blue Water Re Ltd Series A	64	64.5088	272	0.12
Blue Water Re Ltd Series A 14	142	142.2241	238	0.11
Blue Water Re Ltd Series A15	858	858.0400	802	0.36
Blue Water Re Ltd Series A16	16,016	16,015.5819	17,833	8.06
Blue Water Re Ltd Series AB 14	5	5.0783	5	-
Blue Water Re Ltd Series AB 1 16	2,613	2,612.8003	2,805	1.27
Blue Water Re Ltd Series ADJ	100	100.0000	238	0.11
Blue Water Re Ltd Series AF 16	11,492	11,492.0364	12,454	5.63
Blue Water Re Ltd Series AG	1,579	1,579.0470	960	0.43
Blue Water Re Ltd Series AH	22	22.5285	30	0.01
Blue Water Re Ltd Series AH 15	442	441.8060	909	0.41
Blue Water Re Ltd Series AH 16	68,581	68,581.0000	79,647	35.98
Blue Water Re Ltd Series AN 1 16	4,484	4,484.0870	4,775	2.16
Blue Water Re Ltd Series AP 1 16	699	698.6779	897	0.41
Blue Water Re Ltd Series AV 15	4,278	4,277.7953	4,594	2.08
Blue Water Re Ltd Series AX 16	2,377	2,377.2311	2,923	1.32
Blue Water Re Ltd Series BD 1 16	2,031	2,031.4152	2,474	1.12
Blue Water Re Ltd Series BH 16	2,360	2,360.0189	2,604	1.18
Blue Water Re Ltd Series BI 1 16	8,919	8,919.0000	10,000	4.52
Blue Water Re Ltd Series BK 1 16	667	666.8750	196	0.09
Blue Water Re Ltd Series BL	4,253	4,252.5714	4,548	2.06
Blue Water Re Ltd Series BM 1 2016	3,475	3,475.2401	3,777	1.71
Blue Water Re Ltd Series BN 1 2016	1,511	1,510.7540	1,738	0.79
Blue Water Re Ltd Series C	92	52.7208	153	0.07
Blue Water Re Ltd Series C14	2,371	2,371.1322	2,400	1.08
Blue Water Re Ltd Series E16	1,204	1,203.9994	1,469	0.66
Blue Water Re Ltd Series H 1 16	25,130	25,052.8197	28,348	12.80
Blue Water Re Ltd Series J 1 14	1,616	1,641.4770	444	0.20
Blue Water Re Ltd Series J 1 15	580	446.2389	-	-
Blue Water Re Ltd Series K 1 16	2,497	2,497.4497	3,198	1.45
Blue Water Re Ltd Series L 1 16	1,132	1,132.3373	1,363	0.62
Blue Water Re Ltd Series M 1 16	6,792	6,792.1599	7,573	3.42
Blue Water Re Ltd Series Z SAI	17	17.3073	17	0.01
Blue Water Re Ltd Series ZZ	8,054	8,054.0894	8,054	3.64
	186,453	186,230.0488	207,738	93.88
Catastrophe Bonds				
Residential Re 2013-II	2,000	2,000,000.0000	2,064	0.93
	2,000	2,000,000.0000	2,064	0.93
Total investments in securities, at fair value	188,453		209,802	94.81

See accompanying notes to the Financial Statements

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Condensed Schedule of Investments

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

Type	Cost / Proceeds \$	Number of Shares / Principal / Notional	Fair Value \$	Percentage of Net Assets %
Inward ILW Swaps				
Unrealised gain on derivatives	2,335	11,000,000.0000	555	0.25
Total unrealised gain on derivatives	2,335		555	0.25
Outward ILW Swaps				
Unrealised loss on derivatives	(1,179)	11,509,138.0000	(146)	(0.07)
Total unrealised loss on derivatives	(1,179)		(146)	(0.07)

See accompanying notes to the Financial Statements

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Condensed Schedule of Investments

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

31 December 2015

Type	Cost / Proceeds \$	Number of Shares / Principal / Notional	Fair Value \$	Percentage of Net Assets %
Investments held in Risk Linked Instruments of Blue Water Re Ltd.				
Blue Water Re Ltd Series A	65	64.5088	139	0.06
Blue Water Re Ltd Series A 14	142	142.2241	243	0.11
Blue Water Re Ltd Series A 15	32,829	32,829.3208	36,784	16.04
Blue Water Re Ltd Series AB 14	5	5.0783	1	0.00
Blue Water Re Ltd Series AB 15	6,525	6,524.9545	6,964	3.04
Blue Water Re Ltd Series ADJ	100	100.0000	207	0.09
Blue Water Re Ltd Series AF 15	14,544	14,544.3010	15,896	6.93
Blue Water Re Ltd Series AG	1,579	1,579.0470	987	0.43
Blue Water Re Ltd Series AH	23	22.5285	32	0.01
Blue Water Re Ltd Series AH 15	30,426	30,426.1992	37,749	16.46
Blue Water Re Ltd Series AN 1 15	5,933	5,932.8097	6,319	2.76
Blue Water Re Ltd Series AO 1 15	1,655	1,655.0537	2,028	0.88
Blue Water Re Ltd Series AP 1 15	922	921.5537	1,129	0.49
Blue Water Re Ltd Series AV 15	4,278	4,277.7953	4,281	1.87
Blue Water Re Ltd Series AW	4,156	4,155.5780	4,754	2.07
Blue Water Re Ltd Series AX	1,918	1,918.1630	2,401	1.05
Blue Water Re Ltd Series BD 1 15	1,604	1,603.6575	1,962	0.86
Blue Water Re Ltd Series BF	2,551	2,551.1224	2,995	1.31
Blue Water Re Ltd Series BG	3,707	3,706.8864	3,865	1.69
Blue Water Re Ltd Series C14	2,371	2,371.1322	2,335	1.02
Blue Water Re Ltd Series E15	1,133	1,133.3850	1,430	0.62
Blue Water Re Ltd Series H 1 15	33,781	33,780.8764	38,553	16.81
Blue Water Re Ltd Series I 1 15	5,892	5,892.1099	6,761	2.95
Blue Water Re Ltd Series J 1 14	1,616	1,641.4770	460	0.20
Blue Water Re Ltd Series J 1 15	436	436.2058	503	0.22
Blue Water Re Ltd Series K 1 15	5,643	5,643.0262	7,143	3.12
Blue Water Re Ltd Series L 1 15	871	870.7522	1,111	0.48
Blue Water Re Ltd Series M 1 15	7,603	7,603.3442	9,750	4.25
Blue Water Re Ltd Series Q 1 15	2,016	2,015.5200	2,395	1.04
Blue Water Re Ltd Series S 1 15	581	581.0055	773	0.34
Blue Water Re Ltd Series T 1 15	542	542.2973	728	0.32
Blue Water Re Ltd Series U 1 15	550	549.9317	741	0.32
Blue Water Re Ltd Series V 1 15	330	329.5610	442	0.19
Blue Water Re Ltd Series W 1 15	468	468.2064	622	0.27
Blue Water Re Ltd Series Z SAI	17	17.3073	17	0.01
Blue Water Re Ltd Series ZZ	15,463	15,463.8707	15,466	6.74
	192,275	192,300.7907	217,966	95.06
Catastrophe Bonds				
Residential Re 2013-II	2,000	2,000,000.0000	2,059	0.90
	2,000	2,000,000.0000	2,059	0.90
Total investments in securities, at fair value	194,275		220,025	95.96
ILW Swaps				
Unrealized loss on derivatives	(1,703)	14,305,048.0000	(190)	(0.08)
Total unrealized loss on derivatives	(1,703)		(190)	(0.08)

See accompanying notes to the Financial Statements

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

1. Nature of operations

Blue Water Master Fund Ltd. (the “Master Fund SAC”) is an open-ended mutual fund company of unlimited duration incorporated with limited liability under the laws of Bermuda on 12 December 2011 that commenced operations on 1 June 2012. The Master Fund SAC is registered as a segregated account company under the Segregated Accounts Companies Act 2000, as amended (the “SAC Act”). The Master Fund SAC establishes a separate account for each class of shares comprised in each segregated account (each, a “Segregated Account”). Each Segregated Account is a separate individually managed pool of assets constituting, in effect, a separate fund with its own investment objective and policies and overseen by Blue Capital Management Ltd. (the “Manager”), a wholly owned subsidiary of Endurance Specialty Holdings Ltd. (“Endurance”), a holding company headquartered in Bermuda whose common shares are listed on the New York Stock Exchange under the symbol “ENH”. The Manager is licensed in Bermuda to carry on investment business under the Investment Business Act 2003, as amended, and as an agent and manager under the Insurance Act.

The Master Fund SAC currently has four Segregated Accounts that have commenced operations, being Blue Capital Global Reinsurance SA-I (the “Master Fund”), BCAP Mid Vol Fund, Blue Capital Low Volatility Strategy and Blue Capital Global Reinsurance SA-II. The Master Fund operates under a “master/feeder” structure. Blue Capital Global Reinsurance Fund Limited (the “Company”), a closed-ended exempted mutual fund company of unlimited duration with limited liability incorporated under the laws of Bermuda on 8 October 2012 that commenced operations on 6 December 2012, invests substantially all of its assets by way of subscription for non-voting redeemable preference shares of the Master Fund (“Offered Shares”). Outside of the activities of the Segregated Accounts, the Master Fund SAC has no substantial operations of its own. The Master Fund commenced operations on 1 January 2013. These financial statements relate to the Master Fund only.

The investment objective of the Master Fund is to generate attractive returns by investing in a diversified portfolio of fully collateralised reinsurance-linked instruments (“RLI”) and other investments carrying exposures to insured catastrophe event risks. The Master Fund predominantly invests in fully collateralised RLIs through non-voting redeemable preference shares issued by Blue Water Re Ltd. (the “Reinsurer”) which in turn writes reinsurance contracts with ceding companies. Each non-voting redeemable preference share of the Reinsurer corresponds to a specific reinsurance contract entered into by the Reinsurer. The Master Fund’s investments in other reinsurance-linked investments, which carry exposure to insured catastrophe event risks such as industry loss warranties, catastrophe bonds and other insurance-linked instruments, are made directly by the Master Fund. The manager to the Master Fund is also the Manager.

The Manager provides underwriting, investment management, insurance management and other administrative services to the Reinsurer. The Manager’s fees are obligations of the Master Fund.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

1. Nature of operations (continued)

The capital of the Master Fund is represented by the net assets attributable to holders of Offered Shares and Redemption Shares (see Note 6). It is the Manager's responsibility when managing capital to safeguard the Master Fund's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Master Fund. In order to maintain or adjust the capital structure, the Manager's policy is to monitor any subscriptions and redemptions relative to the liquid assets and adjust the amount of distributions the Master Fund may pay to the Company.

The Reinsurer is an exempted limited liability company incorporated on 18 November 2011 under the laws of Bermuda and is licensed by the Bermuda Monetary Authority as a special purpose insurer with an underwriting plan focused on fully collateralised reinsurance protection of the property catastrophe insurance and reinsurance market.

2. Summary of significant accounting policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The Master Fund is an investment company and is therefore applying the specialised accounting and reporting requirements of ASC Topic 946, *Financial Services – Investment Companies*.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments, such as money market funds, that are readily convertible to known amounts of cash and have original maturities of three months or less.

Reinsurance premiums written and purchased

Premiums written by the Reinsurer are earned, net of any applicable brokerage fees, taxes and commissions, over the term of the related policy or contract, based on earnings patterns appropriate to the types of cover provided and the exposure period thereon.

The Reinsurer purchases reinsurance from third parties in order to manage its exposures. Such ceded reinsurance premiums are accounted for on bases consistent with those used in accounting for the underlying premiums assumed, and are reported as reductions in net premiums written and earned.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

2. Summary of significant accounting policies (continued)

Loss and Loss Adjustment Expenses Reserves

Loss and Loss Adjustment Expense (“LAE”) reserves recorded by the Reinsurer on reinsurance contracts are comprised of case reserves and incurred but not reported (“IBNR”) reserves. Case reserve estimates are initially set on the basis of loss reports received from third parties if it is expected that these losses would result in a loss for the Reinsurer based on the underlying exposures. IBNR reserves consist of a provision for additional losses and LAE in excess of the case reserves reported by ceding companies as well as a provision for claims which have occurred but which have not yet been reported by ceding companies. IBNR reserves are estimated by management using various actuarial methods as well as a combination of historical insurance industry loss experience and management’s professional judgment.

The uncertainties inherent in the reserving process, potential delays by cedants in the reporting of loss information, together with the potential for unforeseen adverse developments, may result in loss and LAE reserves ultimately being significantly greater or less than the reserve provided at the end of any given reporting period. The degree of uncertainty is further increased when a significant loss event takes place near the end of a reporting period. Loss and LAE reserve estimates are regularly reviewed and updated as new information becomes known. Any resulting adjustments are reflected in the Reinsurer’s income in the period in which they become known.

During the year ended 31 December 2016, the Reinsurer incurred \$14,587 (2015 – \$3,821) of losses and LAE in connection with reinsurance contracts written on behalf of the Master Fund. For the year ended 31 December 2016, the Reinsurer had paid claims of \$7,097 (2015 – \$4,840).

Investment Transactions and Related Investment Income

Investment transactions are accounted for on a trade-date basis. Realised gains or losses on the sale of investments are calculated using the specific identification method of accounting. Interest is recognised on the accrual basis.

The Master Fund enters into ILW Swap Contracts (“ILW Swaps”) as an additional means of managing its underwriting risk. ILW Swaps provide reinsurance-like protection for specific loss events. However, unlike traditional reinsurance, ILW Swap loss payments are determined purely on the basis of losses incurred by the insurance industry as a whole, with no reference to losses incurred by the ILW Swap counterparty. The ILW Swaps are not accounted for as hedging instruments under ASC 815-10-50, *Disclosures about Derivative Instruments and Hedging Activities*.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

2. Summary of significant accounting policies (continued)

Translation of Foreign Currency

The accounting records of the Master Fund are maintained in United States dollars. Assets and liabilities denominated in foreign currencies are translated into United States dollar amounts at the year-end exchange rates. Transactions denominated in foreign currencies, including purchases and sales of investments, and income and expenses, are translated into United States dollar amounts on the transaction date. Adjustments arising from foreign currency transactions are reflected in the statement of operations.

The Master Fund does not isolate that portion of the results of operations arising from the effect of changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of investments held. Such fluctuations are included in net change in unrealised gains from investments in the statements of operations.

Income Taxes

At the present time, no income, profit, capital transfer or capital gains taxes are levied in Bermuda and accordingly, no provision for such taxes has been recorded by the Master Fund. The Master Fund has received an undertaking from the Minister of Finance of Bermuda, under the Exempted Undertakings Tax Protection Act 1966 exempting the Master Fund from income, profit, capital transfer or capital gains taxes, should such taxes be enacted, until 31 March 2035.

The Manager assesses uncertain tax positions by determining whether a tax position of the Master Fund is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognised in the financial statements is reduced by the largest benefit that has a greater than fifty per cent likelihood of being realised upon ultimate settlement with the relevant taxing authority. The Manager has not identified any uncertain tax positions in the Master Fund arising in this or any preceding period. However, the Manager's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analysis of changes to tax laws, regulations and interpretations thereof. The Manager has determined that there are no reserves for uncertain tax positions necessary for any of the Master Fund's open tax years. The Manager does not expect the total amount of unrecognised tax benefits will materially change over the next twelve months.

3. Fair value measurements

The Master Fund records its investments at fair value. Fair value is the amount for which an asset could be exchanged, or a liability transferred, between knowledgeable, willing parties in an arm's length transaction. Determining the fair value for these instruments requires the use of the Manager's judgment. The fair values of the Master Fund's investments in ILW Swaps and contracts written by the Reinsurer are ultimately dependent on the nature of the underlying fully-collateralised property catastrophe reinsurance protection risk assumed or purchased.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

3. Fair value measurements (continued)

Under US GAAP, the Master Fund must determine the appropriate level in the fair value hierarchy for each fair value measurement. The fair value hierarchy prioritises inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three-levels. It gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement. The guidance establishes three levels of the fair value hierarchy as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Master Fund has the ability to access at the measurement date;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 - Inputs that are unobservable.

Level 3 includes financial instruments that are valued using the income approach valuation technique. These methods incorporate both observable and unobservable inputs. The Master Fund's financial instruments in this category consist of collateralised property catastrophe risks from traditional reinsurance markets.

For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. The Manager's determination of fair value is then based on the best information available in the circumstances, and may incorporate the Manager's own assumptions and may involve some degree of judgment.

The fair values assigned to Level 2 and 3 securities are based upon available information and do not necessarily represent amounts which might ultimately be realised. Because of the inherent uncertainty of valuation, the estimated fair value may differ significantly from the values that would have been used had a ready market for such securities existed and these differences could be material.

Fully Collateralised Reinsurance-Linked Instruments

The fair value of each RLI held by the Master Fund will generally equal:

- (i) the amount of capital invested in such RLI; plus
- (ii) the amount of net premium earned to date for such RLI; plus
- (iii) the amount of the investment earnings earned to date on both the capital invested in the RLI and the associated reinsurance premiums; minus
- (iv) the amount of any losses paid and Loss and Loss Adjustment Expense reserves.

Valuations are performed on a monthly basis, whereby each redeemable preference share of the Reinsurer will be valued on the basis of the remaining risk inherent in the agreement, adjusted for any potential covered events.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

3. Fair value measurements (continued)

ILW Swaps

The fair value of an ILW Swap at each reporting date is determined through the use of an internal valuation model. Inputs to the internal valuation model are based on proprietary data as observable market inputs are not available. The most significant unobservable input is the potential payment that would become due to the counterparty following the occurrence of a triggering event as reported by an external agency. The initial investment represents a short position on the statements of assets and liabilities. Generally, an increase (decrease) in the potential payment would result in an increase (decrease) to the fair value of the ILW liability.

Catastrophe Bonds

The fair value of catastrophe bonds held directly by the Master Fund is based on broker or underwriter bid indications for the same or similar catastrophe bond, as of the valuation date.

The following tables present information about the Master Fund's assets and liabilities measured at fair value:

31 December 2016

	Level 1	Level 2	Level 3	Total
Assets (at fair value)				
Investments in Blue Water Re Ltd.				
Redeemable preference shares	\$ -	\$ -	\$ 207,738	\$ 207,738
Investments in Catastrophe Bonds	-	2,064	-	2,064
Investments in ILW Swaps	-	-	555	555
Total investments	\$ -	\$ 2,064	\$ 208,293	\$ 210,357
Liabilities (at fair value)				
Investments in ILW Swaps	\$ -	\$ -	\$ (146)	\$ (146)
Total investments sold short	\$ -	\$ -	\$ (146)	\$ (146)

31 December 2015

	Level 1	Level 2	Level 3	Total
Assets (at fair value)				
Investments in Blue Water Re Ltd.				
Redeemable preference shares	\$ -	\$ -	\$ 217,966	\$ 217,966
Investments in Catastrophe Bonds	-	2,059	-	2,059
Total investments in securities	\$ -	\$ 2,059	\$ 217,966	\$ 220,025
Liabilities (at fair value)				
Investments in ILW Swaps	\$ -	\$ -	\$ (190)	\$ (190)
Total securities sold short	\$ -	\$ -	\$ (190)	\$ (190)

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

3. Fair value measurements (continued)

There were no transfers between levels during the years presented.

The following tables present additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Master Fund has classified within the Level 3 category. As a result, the change in unrealised gains from investments within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

Changes in Level 3 assets and liabilities measured at fair value for the year were as follows:

31 December 2016

	Beginning Balance 1 January 2016	Change in Unrealized Depreciation on Investments in Securities	Purchases	Sales	Realized Gain on Investments in Securities	Ending Balance 31 December 2016	Change in Unrealized Appreciation on Investments still held at 31 December 2016 ^(e)
Assets (at fair value)							
Investments in Blue Water Re Ltd.							
Redeemable							
preference shares	\$ 217,966	\$ (4,407)	\$ 362,339	\$ (395,639)	\$ 27,479	\$ 207,738	\$ 11,431
Investments in							
ILW swaps	\$ -	\$ (1,780)	\$ 2,335	\$ -	\$ -	\$ 555	\$ (1,780)
Liabilities (at fair value)							
Investments in							
ILW swaps	\$ (190)	\$ (480)	\$ -	\$ (1,179)	\$ 1,703	\$ (146)	\$ 1,032

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

3. Fair value measurements (continued)

31 December 2015

	Beginning Balance 1 January 2015	Change in Unrealized Appreciation on Investments in Securities	Purchases	Sales	Realized Gain on Investments in Securities	Ending Balance 31 December 2015	Change in Unrealized Appreciation on Investments still held at 31 December 2015 ^(a)
Assets (at fair value)							
Investments in Blue Water Re Ltd.							
Redeemable							
preference shares	\$ 198,625	\$ 3,480	\$ 302,345	\$ (309,891)	\$ 23,407	\$ 217,966	\$ 25,970
Investments in							
ILW swaps	\$ -	\$ -	\$ 1,685	\$ -	\$ (1,685)	\$ -	\$ -
Liabilities (at fair value)							
Investments in							
ILW swaps	\$ -	\$ 1,513	\$ -	\$ (1,703)	\$ -	\$ (190)	\$ 1,513

a) The change in unrealised appreciation on investments for the year ended 31 December 2016 and 31 December 2015 for securities still held at 31 December 2016 and 31 December 2015 are reflected in the net change in unrealised depreciation on investments in securities in the statements of operations.

The table below summarises information about the significant unobservable inputs used in determining the fair value of the Master Fund's Level 3 assets:

Asset/Liability	Valuation Technique	Unobservable Inputs	Range / Weighted average
Investments in Blue Water Re Ltd. Redeemable preference shares	Premium earned	Premiums earned - straight line	12 months
		Premiums earned - seasonally adjusted	5 to 6 months
	- loss incurred and loss reserves	Loss Reserves	0 to contractual limit
ILW Swaps	Premium earned	Premiums earned - seasonally adjusted	12 months

4. Derivative Contracts

During the year ended 31 December 2016, the Master Fund entered into 9 (2015 – 7) ILW Swaps with notional values ranging from \$500 to \$7,401 (2015 – \$700 to \$9,555). The notional exposure of ILW Swaps still held at 31 December 2016 amounts to \$27,009 (2015 – \$14,305). The Master Fund's derivative positions are not subject to a master netting agreement and are shown gross on the statements of assets and liabilities.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

4. Derivative Contracts (continued)

The following tables present the realised and unrealised appreciation and depreciation on ILW Swaps reflected in the statements of operations:

Derivative Contracts	The Effect of Derivative Instruments on the Statement of Operations for the year ended 31 December 2016		
	Net Realised Gain on Investments in Securities and Derivative Contracts	Net Change in Unrealised Depreciation on Investments in Securities and Derivative Contracts	Total
ILW Swaps	\$ 1,703	\$ (2,260)	\$ (557)

Derivative Contracts	The Effect of Derivative Instruments on the Statement of Operations for the year ended 31 December 2015		
	Net Realised Gain on Investments in Securities and Derivative Contracts	Net Change in Unrealised Appreciation on Investments in Securities and Derivative Contracts	Total
ILW Swaps	\$ (1,685)	\$ 1,513	\$ (172)

5. Financial Instruments: Risks

Liquidity Risk

Liquidity risk represents the potential loss due to the difficulty in liquidating holdings quickly. RLIs have a limited or, in some cases, no secondary market. Fully collateralised reinsurance-linked contracts of the type that the Reinsurer enters into in respect of the Master Fund typically cover annual periods. Catastrophe bonds and investments in sidecars may have market quotes, but the trading volume may be low. ILWs have even less liquidity and pricing transparency, and bilateral insurance contracts currently have no secondary market.

The liquidity of RLIs may also be affected by a number of other factors, such as whether a covered event has occurred or whether a catastrophe season has passed. It is anticipated that the Master Fund and/or the Reinsurer will retain their respective exposures for the duration of the RLIs, gradually recognising income as the likelihood of a covered event occurring in respect of one or more RLIs, and therefore the Master Fund and/or the Reinsurer incurring a loss, diminishes.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

5. Financial Instruments: Risks (continued)

Liquidity Risk (continued)

While these RLIs generally can be sold at a price, they are largely “buy and hold” instruments, and it may require substantial time to enter into or exit a position and the amount that could be recognised upon liquidation may be materially less than its theoretical fair value. Consequently, the Master Fund may need to realise assets at below fair value and the Master Fund may need to borrow to meet its financing needs, each of which will have an impact on the returns to shareholders. Further, the illiquidity of RLIs means that the Master Fund’s portfolio is more likely to be mis-valued as the valuation ascribed to an RLI may differ significantly from the price at which it may ultimately be realised. In turn, any mis-valuation is likely to have an impact on the trading price of the Company’s shares, which may be adverse to shareholders, as well as on the fees based on such valuations.

Portfolio Concentration Risk

The Master Fund predominantly invests in a diversified portfolio of fully collateralised reinsurance-linked contracts, through preference shares issued by the Reinsurer, but also invests in other investments carrying exposures to insured catastrophe event risks, such as ILWs and catastrophe bonds. The Master Fund’s portfolio is therefore concentrated in RLIs. RLIs are particularly exposed to sudden substantial or total loss due to, among other things, natural catastrophes or other covered risks, which together with other factors, can cause sudden and significant price movements in RLIs. The Master Fund’s, and hence the Company’s, portfolio is more exposed to such risks, than it would be if it were diversified across other asset classes in addition to RLIs.

Valuation Risk

Valuation risk is the risk that a financial asset is overvalued and will realise less than expected when it matures or is sold by the entity that holds it. The valuation of the Master Fund’s RLI is driven by the Reinsurer’s internal model which involves estimating the risk and impact of severe but infrequent natural catastrophe events and, consequently, a dimension of uncertainty to which most investment funds are not subject.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

5. Financial Instruments: Risks (continued)

Market Risk

Market risk represents the potential loss that can be caused by a change in the market value of the insurance contract. Exposure to market risk is determined by a number of factors, including foreign currency exchange rates and market volatility caused by the supply and demand of similar property catastrophe capacity in the broader reinsurance markets. Additionally, as the occurrence of a covered property catastrophe event could lead to an immediate and total loss of the value of the affected RLI the risks of sudden major losses in RLI value are qualitatively different than those applicable to most conventional financial market investments such as equities and bonds. The Master Fund's RLIs in the Reinsurer may sometimes assume relatively large risks in a single geographic region or in similar perils. The Master Fund may from time to time hold substantial amounts of capital which has not been invested in RLIs due to the unpredictable nature of the Master Fund's cash flows or the inability to deploy capital into the reinsurance market at a risk-adjusted rate of return that the Manager considers adequate. Such uninvested cash cannot earn a return consistent with the Master Fund's objectives.

The following tables illustrate the risk profile of the Reinsurer's portfolio by geography and peril:

31 December 2016

Key Single Event Exposure Zone	% of NAV Value	Key Single Event Exposure Zone	% of NAV Value
US Hurricane ^(a)		European Wind ^(c)	
US - Gulf	14%	UK and Ireland	10%
US - Florida	31%	Western Central Europe	6%
US - MidAtlantic	10%	Southern Europe	1%
US - NorthEast	9%		
US - Hawaii	1%		
Earthquake ^(b)		Other	
US - Northwest	3%	US - Midwest Severe Convection ^(d)	2%
US - California	7%		
Japan	11%		

31 December 2015

Key Single Event Exposure Zone	% of NAV Value	Key Single Event Exposure Zone	% of NAV Value
US Hurricane ^(a)		European Wind ^(c)	
US - Gulf	7%	UK and Ireland	10%
US - Florida	26%	Western Central Europe	6%
US - MidAtlantic	6%	Northern Europe	5%
US - NorthEast	5%	Western Europe	7%
US - Hawaii	2%		
Earthquake ^(b)		Other	
US - California	4%	US - Midwest Severe Convection ^(d)	2%
Japan	11%		

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

5. Financial Instruments: Risks (continued)

Market Risk (continued)

The tables above detail the projected net impact to NAV from single event losses as of December 31 for selected zones at specified return periods using industry-recognised third-party vendor models. For hurricane and wind events a 1 in 100 year return period is reflected and for earthquake events a 1 in 250 year return period is reflected. A “100-year” return period can also be referred to as the 1.0% occurrence exceedance probability (“OEP”), meaning there is a 1.0% chance in any given year that this level will be exceeded. A “250-year” return period can also be referred to as the 0.4% OEP, meaning there is a 0.4% chance in any given year that this level will be exceeded. The tables group contracts by the key underlying peril. These contracts may include other perils as follows:

- (a) US Hurricane contracts often cover secondary perils, including earthquake, terrorism, and other perils;
- (b) Earthquake contracts often cover secondary perils, including windstorm, terrorism and other perils;
- (c) European Wind contracts often cover secondary perils, including terrorism and other perils;
- (d) US Midwest Severe Convection contracts often cover secondary perils, including earthquake, terrorism, and other perils;

The exposures above are net of any coverage purchased by the Reinsurer.

None of the reinsurance contracts bound on behalf of the Master Fund carry exposure to nuclear, biological, chemical or radioactive perils. Therefore, the Manager considers the risk of incurring losses equal to the aggregate limits associated with terrorism or other secondary perils to be remote.

Counterparty Risk

Where the Master Fund invests other than in fully collateralised reinsurance-linked contracts, a number of the investment techniques that may be utilised by the Master Fund, and a number of markets in which the Master Fund may invest, will expose it to counterparty risk. Counterparty risk represents the potential loss that the Master Fund would incur if counterparties failed to perform pursuant to the terms of their obligations to the Master Fund. The Master Fund is subject to counterparty risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. The Master Fund has counterparty risk in relation to cash and investments held with HSBC Bank Bermuda, Ltd. and The Bank of New York Mellon, which have credit ratings of A- and A+ respectively. The Manager monitors the financial condition of such financial institutions and does not anticipate any losses from these counterparties at either the Master Fund or the Reinsurer.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

5. Financial Instruments: Risks (continued)

Counterparty Risk (continued)

The Reinsurer underwrites its business through certain established brokers and, in other cases, directly from Endurance Specialty Insurance Ltd. (“Endurance Bermuda”), a Bermuda domiciled company registered as a Class 4 insurer under the Insurance Act 1978. Business underwritten directly from Endurance Bermuda consists of reinsurance contracts assumed via (i) fronting agreements for specific cedents and (ii) quota-share participation of a portfolio of business originally underwritten by Endurance Bermuda. Amounts due to the Reinsurer from brokers and Endurance Bermuda in connection with business written on behalf of the Master Fund totaled \$10,441 and \$16,828 as of 31 December 2016 and 31 December 2015, respectively.

Although the Reinsurer purchases reinsurance from, and enters into ILW swaps with, third parties in order to manage its exposures, it is not relieved of its obligations to ceding companies entering into such transactions and it is subject to counterparty risk to the extent that a counterparty is unable to pay amounts owed to it.

The Reinsurer may pay amounts owed on claims under fully collateralised reinsurance-linked contracts entered into in respect of the Master Fund to reinsurance brokers, and these brokers, in turn, may pay these amounts over to the ceding companies that have reinsured a portion of their liabilities with the Reinsurer. In some jurisdictions, if a broker fails to make such a payment, the Reinsurer might remain liable to the ceding company for the deficiency. Conversely, in certain jurisdictions when the ceding company pays premiums in respect of reinsurance contracts to reinsurance brokers for payment over to the Reinsurer, these premiums are considered to have been paid and the ceding company will no longer be liable to the Reinsurer for those amounts, whether or not the Reinsurer has actually received the premiums. Consequently, consistent with industry practice, the Reinsurer assumes a degree of credit risk associated with brokers.

Furthermore, while the Master Fund invests predominantly in fully collateralised reinsurance-linked contracts by subscribing for preference shares issued by the Reinsurer, it may, in accordance with its investment policy and when the Manager identifies suitable investment opportunities, also invest in other RLIs and such investments may form a material part of its investment portfolio from time to time. Where the Master Fund invests in certain RLIs, a broker may trade with an exchange as a principal on behalf of the Master Fund, in a “debtor/creditor” relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. That broker could, therefore, have title to all of the assets of the Master Fund (for example, any transactions which the broker has entered into as principal as well as the margin payments that the Master Fund provides). In the event of the broker’s insolvency, the transactions which the broker has entered into as principal could default and the Master Fund’s assets could become part of the insolvent broker’s estate, resulting in the Master Fund’s rights being limited to that of an unsecured creditor.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

5. Financial Instruments: Risks (continued)

Foreign Currency Risk

Foreign currency risk represents the potential loss caused by fluctuations in the prevailing levels of market exchange rates. The Master Fund's and the Reinsurer's functional currency is the US dollar, but a portion of their respective businesses may receive premiums and hold collateral in currencies other than US dollars. The Master Fund and the Reinsurer may use currency hedges for balances held in non-US currencies. Therefore, they can (but are not obliged) to manage currency fluctuation exposure. The Master Fund and the Reinsurer experience foreign exchange losses to the extent their respective foreign currency exposure is not hedged, which in turn would adversely affect their respective financial condition and that of the Company.

6. Capital share transactions

The Master Fund SAC has an authorised share capital of 100 ordinary, voting, non-redeemable shares (the "Management Shares") of \$0.01 par value each and 10,000,000 non-voting, redeemable preference shares of par value \$0.001 (the "Shares"). The Shares are divided upon issue into a designated class of shares, each class referencing a segregated account. As of 31 December 2016, the Master Fund SAC has issued 100 Management Shares with a total par value of \$1 to the Manager, which has been fully paid. Holders of Management Shares are to attend and vote at general meetings of the Master Fund SAC, are not entitled to any dividend or other distribution and will, in the event of a winding-up or dissolution of the Master Fund SAC, whether voluntary or involuntary, be entitled to receive the amount of capital paid up on their Management Shares after payment in full of the capital paid up on the participating shares to the holders thereof, but will not be entitled to participate further in the surplus assets of the Master Fund SAC.

The Master Fund issued Offered Shares to the Company at an initial price of \$1,000 per Share. The Company's additional investments in the Master Fund will be issued shares at the current Net Asset Value ("NAV"). Annual distributions will not be made in respect of the Offered Shares.

From time to time, investments held by the Reinsurer which are attributable to the Master Fund may be subject to a loss occurrence but the amount of such loss occurrence may be uncertain. At such time and at the discretion of the Master Fund SAC's Board of Directors, if a Special Memorandum Account ("SMA") is established, a portion of each investor's Offered Shares will be converted into a new series of SMA shares at a price of \$1,000 per share to reflect the investor's pro rata interest in such SMA (each, an "SMA Investment"). SMA shares may not be redeemed by an investor at any Redemption Date.

SMA Investments will be segregated for accounting purposes and increases or decreases in the value of a particular SMA Investment will be separately accounted for in the series of SMA shares established for the SMA Investment. Upon the disposition of the SMA Investment or reclassification of the investment as a non-SMA Investment, the Master Fund will convert the corresponding series of SMA shares held by investors into additional Offered Shares.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

6. Capital share transactions (continued)

Shareholders have redemption rights which contain certain restrictions with respect to rights of redemption of Offered Shares. Subject to the Master Fund's ability to liquidate assets efficiently and other substantial limitations including those relating to SMA shares as discussed above, a holder of Offered Shares may redeem its Offered Shares monthly on the last day of each calendar month (each, a "Redemption Date") by giving ten calendar days' prior written notice to the Master Fund. Any such redemption of Offered Shares will be affected at the NAV of such shares as of the applicable Redemption Date, with cash settlement within forty-five days after such Redemption Date; provided, however, the Master Fund reserves the right to withhold amounts for its contingent liabilities.

The Master Fund had no SMA investments at 31 December 2016 and 31 December 2015.

In 2016, the Master Fund's share capital was reorganised to establish a new class of shares ("Redemption Shares") in connection with the redemption of Offered Shares to facilitate a tender offer by the Company. Redemption Shares are issued at \$1,000 per Share, are not redeemable at the option of the holder and are not entitled to receive or participate in any dividends. Redemption Shares continue to participate in an indirect pro rata share of each underlying RLI in the Master Fund's portfolio held at the time of their issue. The RLI's primarily comprise preference shares issued by Blue Water Re Ltd. and the Redemption Shares will be redeemed for cash as and when the RLI's are realised.

Transactions in shares are as follows:

1 January 2016 to 31 December 2016

	<u>Beginning Shares</u>	<u>Shares Redeemed</u>	<u>Shares Converted</u>	<u>Ending Shares</u>
Offered Shares	167,099	(18,873)	(14,823)	133,403
Redemption Shares	-	-	14,823	14,823

1 January 2015 to 31 December 2015

	<u>Beginning Shares</u>	<u>Shares Issued</u>	<u>Shares Redeemed</u>	<u>Ending Shares</u>
Offered Shares	159,840	7,259	-	167,099

As at 31 December 2016, 100% (2015 - 100%) of the Offered Shares and Redemption Shares are owned by the Company.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

7. Related party transactions

As of 31 December 2016, the Master Fund had a \$nil (2015 – \$1,642) payable balance due to Endurance for swap payments made on behalf of the Master Fund.

As of 31 December 2016, the Master Fund had a \$118 (2015 – \$nil) receivable balance due from the Master Fund SAC for expenses incurred in the Master Fund SAC that are allocated to the Master Fund.

Directors' Fees

The Master Fund SAC's Board of Directors has overall management responsibility for the Master Fund. The Manager has two directors in common with the Master Fund SAC. The Master Fund SAC will reimburse all directors for their out-of-pocket expenses and will pay a customary fee, in accordance with reasonable and customary directors' fees.

Fronting Agreements with Endurance Bermuda

The Master Fund (via the Reinsurer) has entered into fronting agreements with Endurance Bermuda, under which Endurance Bermuda agreed to enter into certain reinsurance contracts that were underwritten by the Reinsurer and transferred all risks and premiums to the Reinsurer via a collateralised retrocessional reinsurance contract in exchange for a fronting fee. Fronting fees for the year ended 2016 recorded by the Reinsurer were \$224 (2015 – \$392). Where it is proposed that Endurance Bermuda acts as fronting reinsurer, the Manager has established procedures to deal with any potential conflicts of interest that may arise. Any such fronting services would only be supplied with the approval of the Directors of the Company, all of whom are independent of Endurance Bermuda.

Quota Shares with Endurance Bermuda

The Master Fund (via the Reinsurer) has entered into quota share agreements with Endurance Bermuda, under which Endurance Bermuda ceded an agreed percentage of every risk it insures falling within certain agreed classes of business, subject to a reinsurance treaty. The Manager has established procedures to deal with any potential conflicts of interest that may arise. The terms of the quota share agreements are on an arms' length basis and are approved in advance by the Directors of the Company, all of whom are independent of Endurance Bermuda.

Management Fee

Pursuant to the Investment Management Agreement dated 27 November 2012, the Manager is empowered to formulate the overall investment strategy to be carried out by the Master Fund and to exercise full discretion in the management of the trading, investment transactions and related borrowing activities of the Master Fund in order to implement such strategy. The Manager is entitled to a management fee, calculated and payable monthly in arrears equal to (a) 1/12 of 1.5% of the month-end NAV (prior to accrual of the performance fee, as defined below) of all Shares held by investors, up to a NAV of \$300,000 and (b) 1/12 of 1.25% of the month-end NAV (prior to accrual of the performance fee, as defined below) of all Shares held by investors, above a NAV of \$300,000.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

7. Related party transactions (continued)

Performance Fee

The Manager is entitled to a performance fee, payable by the Master Fund on an annual basis, or earlier upon the redemption or transfer of Offered Shares and Redemption Shares, which will generally be equal to 15% of the aggregate increase in NAV of the Master Fund over the previous High Water Mark (as defined below) of all series of shares (except for SMA shares) held by investors, minus the performance hurdle. The “High Water Mark” for a holder of Offered Shares at the end of any period is equal to (i) where there is New Net Profit (as defined below) in such period, the then current NAV of such Offered Shares, or (ii) where there is no New Net Profit in such period, the previous High Water Mark. The initial High Water Mark for any holder of Offered Shares is equal to the initial subscription amount of such Offered Shares. Appropriate adjustments will be made to account for subscriptions, redemptions and distributions, if any. “New Net Profit” for any series of Offered Shares for any period is the appreciation of the NAV of such series for such period (“Profit”) after deducting any depreciation in NAV of such series in any prior period that has not been previously eliminated by Profit in prior periods.

The performance trigger in respect of a Performance Period (“Performance Trigger”) is reached when New Net Profit, if any, in respect of an investor’s Offered Shares at the end of such Performance Period exceeds the sum of: (i) the NAV of such investor’s Offered Shares as of the beginning of the Performance Period multiplied by the average of the one-month U.S. Dollar LIBOR (“LIBOR”) on the last Business Day of each month during such Performance Period and (ii) 8% (2015 – 10%) of the NAV of such investor’s Offered Shares as at the beginning of the Performance Period. The Performance Trigger is calculated on an annual basis. If a Performance Period is a partial calendar year, the Performance Trigger will be adjusted proportionately. The Performance Trigger is not cumulative and resets at the beginning of each Fiscal Year. Shortfalls or outperformance of the Performance Trigger in a given year has no effect on the performance fee calculated with respect to any other year. The Performance Trigger may be further equitably adjusted to reflect subscriptions which are made during a Performance Period or partial redemptions or distributions of an investor’s Offered Shares.

The performance hurdle in respect of a Performance Period (“Performance Hurdle”) is the amount of New Net Profit, if any, in respect of an investor’s Offered Shares at the end of such Performance Period which equals the sum of: (i) the NAV of such investor’s Offered Shares as of the beginning of the Performance Period multiplied by the average of the LIBOR on the last Business Day of each month during such Performance Period and (ii) 5% (2015 – 3%) of the NAV of such investor’s Offered Shares as at the beginning of the Performance Period. The Performance Hurdle is calculated on an annual basis. If a Performance Period is a partial calendar year, the Performance Hurdle will be adjusted proportionately. The Performance Hurdle is not cumulative and resets at the beginning of each Fiscal Year. Shortfalls or outperformance of the Performance Hurdle in a given year has no effect on the Performance Fee calculated with respect to any other year. The Performance Hurdle may be further equitably adjusted to reflect subscriptions which are made during a Performance Period or partial redemptions or distributions of an investor’s Offered Shares.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

7. Related party transactions (continued)

Performance Fee (continued)

The performance fee attributable to the SMA shares upon the disposition of the SMA Investment or the recharacterization or reclassification of the investment as a non-SMA Investment (e.g., when the amount of loss has become sufficiently certain with respect to the loss occurrence, as determined by the Manager in its sole discretion), if any, will be allocated to any series of Offered Shares held by the holder of the SMA shares. Any excess owing thereafter will be allocated and paid from any subsequent redemption proceeds payable to the investor.

The redemption of Offered Shares in consideration for the issue of Redemption Shares shall not be treated as a redemption or a subscription, with the effect that the Performance Period will not end on the redemption date and the Performance Hurdle will not be adjusted at such time. For purposes of calculating the performance fee for the Performance Period ended 31 December 2016, the Offered Shares and the Redemption Shares shall be treated as being of the same series.

Performance fees for Redemption Shares shall be calculated in the same manner as Offered Shares. Performance fees shall be determined separately for Offered Shares and Redemption Shares so that the performance of one class does not impact the performance fee paid in respect of the other. Performance fees will only be payable in respect of the Redemption Shares at the end of each fiscal year and/or the date on which the last Redemption Share is redeemed.

Expenses

The Master Fund SAC pays on behalf of the Reinsurer the portion of the Reinsurer's operating costs relating to the four Segregated Accounts, including legal fees, government licensing fees and fees in connection with the establishment of the Reinsurer. For the year ended 31 December 2016, the Master Fund SAC recovered expenses of \$87 (2015 - \$210 incurred) on behalf of the Reinsurer. As of 31 December 2016, the Master Fund has \$118 receivable from (2015 - \$137 payable) Master Fund SAC. The expenses of the Master Fund SAC and the Reinsurer are allocated between the Master Fund, BCAP Mid Vol Fund, Blue Capital Low Volatility Strategy and Blue Capital Global Reinsurance SA-II on a monthly basis based on their gross asset value. For the year ended 31 December 2016, the Master Fund was allocated recoveries totaling \$45 (2015 - \$213 expenses).

8. Administrative fee

SS&C Fund Services (Bermuda) Ltd. (formerly Prime Management Limited) (the "Administrator"), a division of SS&C GlobeOp, serves as the administrator, secretary, and registrar for the Master Fund SAC. For its administration and registrar services, the Administrator receives a monthly fee based on the NAV of the Master Fund, subject to a monthly minimum fee. For its secretarial services, the Administrator receives a fixed annual fee.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

9. Financial highlights

Financial highlights for Offered Shares are as follows:

	Year ended December 31	
	2016	2015
Per share operating performance		
Net asset value, beginning of year	\$ 1,372.1208	\$ 1,247.2555
Income from investment operations:		
Net investment gain (loss)	1.2437	(0.4557)
Performance fees	(7.8027)	(14.9698)
Management fees	(21.2879)	(19.5714)
Net gain from investments	148.5993	159.8622
Total income from investment operations	120.7524	124.8653
Net asset value, end of year	\$ 1,492.8732	\$ 1,372.1208
Total return		
Total return before performance fee	9.37 %	11.21 %
Performance fee	(0.57) %	(1.20) %
Total return after performance fee	8.80 %	10.01 %
Ratio to average net assets		
Expenses other than performance fee	(1.62) %	(1.73) %
Performance fee	(0.53) %	(1.16) %
Total expenses after performance fee	(2.15) %	(2.89) %
Net investment loss before performance fee	(1.43) %	(1.55) %
Performance fee	(0.53) %	(1.16) %
Net investment loss after performance fee	(1.96) %	(2.71) %

Financial highlights are calculated for each permanent, non-managing class or series of preference shares. An individual shareholder's return and ratios may vary based on different performance fee and/or management fee arrangements, and the timing of capital share transactions.

Per share operating performance is computed on the basis of average shares outstanding during the year.

Total return is calculated based on the percentage movement in net asset value per share. The expense ratio is calculated based on the expenses of the Master Fund over the average net asset value per share in the year. The net investment loss ratio is based on the net loss per share from investment operations of the Master Fund over the average net asset value per share in the year.

Blue Water Master Fund Ltd. - Blue Capital Global Reinsurance SA-I

Notes to the Financial Statements

31 December 2016

(expressed in thousands of U.S. dollars, except share and per share amounts)

10. Commitments and contingencies

In the normal course of business, the Master Fund may enter into contracts or agreements that contain indemnifications or warranties. The Master Fund's exposure under these arrangements is unknown, as this would involve future claims that may be made against the Master Fund that have not yet occurred. However, based on experience, the Manager expects the risk of loss to be remote.

As of 31 December 2016, the Master Fund had pledged cash and cash equivalents of \$11,946 (2015 - \$14,305) as collateral held in trust under the terms of its ILW Swaps.

11. Subsequent events

On 1 February 2017, the Company redeemed \$2,000 from the Master Fund which was equivalent to 1,330.1307 Offered Shares. In addition, on 20 March 2017, the Company's Board of Directors approved the redemption of a further \$17,000 from the Master Fund to be effected on 1 April 2017.

On 28 March 2017, Endurance was acquired by Sompo Holdings Inc., a company incorporated in Japan.

These financial statements were approved by the Manager and the Master Fund SAC's Board of Directors, and available for issuance on 30 March 2017. Subsequent events have been evaluated through this date.

Corporate Information

Directors of the Company

John R. Weale – Chairman
(Appointed 5 November 2012)
Gregory D. Haycock – Audit
Committee Chairman (Appointed 5
November 2012)
George Cubbon (Appointed 9 July
2015)

Manager to the Company and the Master Fund

Blue Capital Management Ltd.
Canon's Court
22 Victoria Street
Hamilton HM 12 Bermuda

Administrator to the Company and the Master Fund

SS&C GlobeOp
Mechanics Building
12 Church Street
Hamilton HM 11 Bermuda

Company Secretary

Estera (Bermuda) Ltd. Canon's
Court
22 Victoria Street Hamilton HM EX
Bermuda

Custodian to the Master Fund and the Reinsurer

Bank of New York Mellon 101
Barclay Street, 8W New York, NY
10286

Solicitors to the Company

Hogan Lovells International LLP
Atlantic House
Holborn Viaduct London EC1A 2FG
United Kingdom

Bermuda Legal Advisor to the Company and the Master Fund

Appleby (Bermuda) Limited
Canon's Court
22 Victoria Street
Hamilton HM EX Bermuda

Financial Advisor and Corporate Broker

Jefferies International Limited
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Registrar, Paying Agent and Transfer Agent

Computershare Investor Services (Bermuda)
Limited
5 Reid Street Hamilton HM11 Bermuda

Depository

Computershare Investor Services PLC
The Pavilions
Bridgwater Road Bristol, BS99 6ZY

Auditors to the Company, the Master Fund and the Reinsurer

Ernst & Young Ltd. 3 Bermudiana Road
Hamilton HM 08 Bermuda

Bermuda Listing Sponsor

SS&C Fund Services (Bermuda) Ltd.
5 Reid Street
Hamilton HM 11 Bermuda

Disclosure of Directors in Public Companies Listed on Recognised Exchanges (Principle 5 of the AIC)

Director Name	Company Name	Exchange
John R. Weale	Blue Capital Reinsurance Holdings Ltd.	New York Stock Exchange & Bermuda Stock Exchange
Gregory D. Haycock	BF&M Limited The Bermuda Press (Holdings) Ltd.	Bermuda Stock Exchange Bermuda Stock Exchange

Summary of Resolutions to be Proposed at the Annual General Meeting

The following section gives details of the business to be transacted and the resolutions (the "Resolutions") to be put to the Shareholders at the Company's 2017 Annual General Meeting to be held at Waterloo House, 100 Pitts Bay Road, Pembroke HM 08, Bermuda at 1:00 p.m. (Bermuda time) on 9 May 2017. Notice of the Annual General Meeting is set out in the following section.

The Resolutions below under the heading "Ordinary Resolutions" deal with the ordinary business and the Resolution below the heading "Special Resolution" details the special business to be transacted at this meeting. The Ordinary Resolutions require approval by a majority of votes cast and shall be decided on a show of hands unless a poll is demanded. The Special Resolution requires approval of not less than 75 per cent. of votes cast. Further explanation in relation to each of the Resolutions is set out below.

ORDINARY RESOLUTIONS

Resolution 1 – Approval of Financial Statements

In accordance with the Bermuda Companies Act 1981, as amended, the Company's annual audited financial statements for the year ended 31 December 2016 will be laid before the meeting. The Board will authorise any two Directors to sign the balance sheet on its behalf. Shareholders are being asked to receive and consider the Company's audited financial statements for the year ended 31 December 2016.

Resolution 2 – Board Size and Vacancies

Shareholders are being asked pursuant to Bye-Law 37 of the Company's Bye-laws (the "Bye-laws") to set the size of the Company's Board at three (3) and to authorise the Directors to fill any vacancy on the Board which may occur from time to time as they may see fit.

Resolution 3 – Re-Election of John R. Weale as a Director

John R. Weale was appointed as Chairman and a member of the Board on 5 November 2012 and his biography appears in the section of this Annual Report entitled "Board Members" above.

It is proposed that Mr. Weale be re-elected as Chairman and a Director of the Company for a term expiring as required by Bye-law 37.6.

Resolution 4 – Re-Election of Gregory D. Haycock as a Director

Gregory D. Haycock was appointed as a member of the Board on 5 November 2012 and his biography appears in the section of this Annual Report entitled "Board Members" above.

It is proposed that Mr. Haycock be re-elected as a Director of the Company and Chairman of the Board's Audit Committee for a term expiring as required by Bye-law 37.6.

Resolution 5 – Re-Election of George Cubbon as a Director

George Cubbon was appointed as a member of the Board on 9 July 2015 and his biography appears in the section of this Annual Report entitled "Board Members" above.

It is proposed that Mr. Cubbon be re-elected as a Director of the Company for a term expiring as required by Bye-law 37.6.

Resolution 6 – Re-Appointment of Ernst & Young Ltd. as Auditors of the Company

Shareholders are being asked to approve Ernst & Young Ltd.'s re-appointment as the Company's auditors until the close of the next Annual General Meeting and to approve the giving of authority to the Board to determine their reasonable compensation.

Resolution 7 – Share buy-back authority

Shareholders are requested to approve the authority for the Company to make market acquisitions of its own Ordinary Shares up to a maximum of 14.99 per cent. of the Ordinary Shares in issue as at the date of passing of the Resolution, subject to certain pricing parameters. This means that the Company will have the authority to make market acquisitions of up to 26,786,908 Ordinary Shares.

This authority will expire at the conclusion of the Company's next annual general meeting or eighteen (18) months from the passing of the Resolution (whichever is earlier). As previously stated, the Board intends to seek Shareholder approval for the continued ability for the Company to make such market purchases at each annual general meeting. In addition, the Board may seek to refresh this authority from time to time to reflect the issue of further shares, such that the authority will be in relation to 14.99 per cent. of the shares in issue at the time such authority is refreshed.

Resolution 8 – Change of name

Shareholders are requested to approve the authority for the Company to change its name from Blue Capital Global Reinsurance Fund Limited to Blue Capital Alternative Income Fund Limited. The Company believes that the new name better reflects the nature of the Company's operations and may be more attractive to prospective investors.

SPECIAL RESOLUTION

Special Resolution – Waiver of pre-emption rights for limited further issues

Pursuant to a Special Resolution of the Company's Shareholders passed at the Company's 2016 annual general meeting, the Board was granted the authority to allot a limited number of Ordinary Shares for cash without first offering them to Shareholders on a pro rata basis. This authority will expire on the date of the Company's 2017 annual general meeting. Shareholders are requested to approve, by way of Special Resolution, the renewal of this authority until the earlier of the next annual general meeting or eighteen (18) months from the passing of this Resolution.

The number of Ordinary Shares which may be allotted under such authority is limited to the number of Ordinary Shares representing 10 per cent. of the Ordinary Shares in issue at the date on which the Resolution is passed. This means that, until the expiry of this authority, the Board may allot up to 17,869,852 Ordinary Shares for cash without first offering them to Shareholders on a pro rata basis.

ACTION TO BE TAKEN

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

****ONLY FOR SHAREHOLDERS WHO DO NOT HOLD DEPOSITORY INTERESTS THROUGH CREST**** Shareholders are asked to complete the accompanying Form of Proxy in accordance with the instructions printed on it and return it to Computershare Investor Services (Bermuda) Limited, c/o The Pavilions, Bridgwater Road, Bristol BS99 6ZY so as to be received as soon as possible and, in any event, not later than 4:00 p.m. (UK Time) on 5 May 2017.

****ONLY FOR SHAREHOLDERS WHO HOLD DEPOSITORY INTERESTS THROUGH CREST**** Depository Interest Holders are asked to complete a Form of Instruction in accordance with the instructions printed on it and return it to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY so as to be received as soon as possible and, in any event, not later than 4 p.m. (UK Time) on 4 May 2017.

Holders of Depositary Interests in CREST may transmit voting instructions by utilising the CREST voting service in accordance with the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take appropriate action on their behalf. In order for instructions made using the CREST voting service to be valid, the appropriate CREST message (a “CREST Voting Instruction”) must be properly authenticated in accordance with Euroclear’s specifications and must contain the information required for such instructions, as described in the CREST Manual (available via www.euroclear.com/CREST).

To be effective, the CREST Voting Instruction must be transmitted so as to be received by the Company’s agent (3RA50) no later than 4:00 p.m. (UK Time) on 4 May 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST Voting Instruction by the CREST applications host) from which the Company’s agent is able to retrieve the CREST Voting Instruction by enquiry to CREST in the manner prescribed by CREST. Holders of Depositary Interests in CREST and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the transmission of CREST Voting Instructions. It is the responsibility of the Depositary Interest holder concerned to take (or, if the Depositary Interest holder is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that the CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a CREST Voting Instruction is transmitted by means of the CREST voting service by any particular time. In this connection, Depositary Interest holders and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

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

RECOMMENDATION

The Board believes that the proposed Resolutions are in the best interests of the Company and the Shareholders and are in accordance with the Company’s constitutional documents. Accordingly, the Board unanimously recommends that you vote in favour of the proposed Resolutions at the 2017 Annual General Meeting.

Notice of Annual General Meeting

BLUE CAPITAL GLOBAL REINSURANCE FUND LIMITED

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

NOTICE IS HEREBY GIVEN that the 2017 ANNUAL GENERAL MEETING of Blue Capital Global Reinsurance Fund Limited (the "Company") will be held at Waterloo House, 100 Pitts Bay Road, Pembroke HM 08, Bermuda on 9 May 2017 at 1:00 p.m. (Bermuda time). Capitalised terms in this notice will have the meaning given to them in the Company's Annual Report published on 31 March 2017. The Annual General Meeting is being convened for the purpose of considering and, if thought fit, passing the following nine Resolutions, the first eight of which will be proposed as ordinary resolutions, each of which require the approval by a simple majority of the votes cast by Shareholders, and the last one of which will be proposed as a special resolution requiring the approval of not less than three-quarters of the votes cast by Shareholders.

ORDINARY RESOLUTIONS

1. THAT the audited financial statements of the Company for the year ended 31 December 2016 be and hereby are received and adopted.
2. THAT pursuant to Bye-Law 37 of the Company's bye-laws the maximum number of directors on the Company's Board shall be three (3) and that the directors are hereby authorised to fill any vacancy on the Board which may occur from time to time as they may see fit.
3. THAT the re-election of John R. Weale as Chairman and a Director of the Company for a term expiring as required by Bye-law 37.6 be and is hereby approved and adopted with immediate effect.
4. THAT the re-election of Gregory D. Haycock as a Director of the Company and Chairman of the Board's Audit Committee for a term expiring as required by Bye-law 37.6 be and is hereby approved and adopted with immediate effect.
5. THAT the re-election of George Cubbon as a Director of the Company for a term expiring as required by Bye-law 37.6 be and is hereby approved and adopted with immediate effect.
6. THAT the re-appointment of Ernst & Young Ltd., an independent registered public accounting firm, as the Company's independent auditors for 2017 be and is hereby approved and adopted with immediate effect, and that the Board, acting through the Company's Audit Committee, is hereby authorised to set the auditor's remuneration.
7. THAT the Company be and is hereby generally and unconditionally authorised to make market acquisitions of its Ordinary Shares in issue provided that:
 - a. the maximum number of Ordinary Shares hereby authorised to be purchased is 14.99 per cent. of the Company's Ordinary Shares in issue on the date on which this resolution is passed;
 - b. the minimum price (exclusive of expenses) which may be paid for an Ordinary Share shall be US\$0.00001;
 - c. the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be not more than the higher of: (i) 5 per cent. above the average of the middle market quotations for the Ordinary Shares as derived from the price quoted by the London Stock Exchange plc

for the Ordinary Shares for the five (5) business days before the day the purchase is made; and (ii) the higher of the price of the last independent trade and the highest independent bid at the time of the purchase of the Ordinary Shares;

- d. the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company or, if earlier, eighteen (18) months from the date on which this resolution is passed, unless such authority is renewed, varied or revoked prior to such time;
 - e. the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make an acquisition of Ordinary Shares pursuant to any such contract; and
 - f. any Ordinary Shares bought back may be subsequently cancelled by the Company or placed in Treasury.
- 8 THAT, the Company be and is hereby generally and unconditionally authorised to change its name to Blue Capital Alternative Income Fund Limited.

SPECIAL RESOLUTION

1. THAT, in addition to any subsisting or other authorities, the provisions of Bye-Law 14.1 of the Bye-Laws shall not apply and shall be excluded in relation to the allotment of up to an aggregate number of Ordinary Shares as represents 10 per cent. of the number of Ordinary Shares in issue at the date of the passing of this resolution, provided that such disapplication and exclusion shall expire on the date which is eighteen (18) months from the date of the passing of this resolution or, if earlier, at the end of the next annual general meeting of the Company following the date of the passing of this resolution (unless previously renewed, revoked or varied by the Company by special resolution), save that the Company may before such expiry make an offer or agreement which would or might require Ordinary Shares to be allotted after such expiry and the Directors may allot shares in pursuance of such an offer or agreement as if the disapplication and exclusion conferred hereby had not expired.

By order of the Board

31 March 2017

Registered Office:

Canon's Court 22 Victoria Street Hamilton HM12 Bermuda

Notes:

1. A Shareholder who is entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a Shareholder of the Company.
2. ****ONLY FOR INVESTORS WHO DO NOT HOLD DEPOSITORY INTERESTS THROUGH CREST**** A Form of Proxy is enclosed for use at the Annual General Meeting. The Form of Proxy should be completed and sent together with (if not previously registered with the Company) the power of attorney or other authority (if any) under which it is executed, to Computershare Investor Services (Bermuda) Limited, c/o The Pavilions, Bridgwater Road, Bristol BS99 6ZY so as to be received as soon as possible and, in any event, not later than 4:00 p.m. (UK Time) on 5 May 2017. The Form of Proxy may also be returned by fax or email in accordance with the instructions printed on the form. Completing and returning a Form of Proxy will not prevent a Shareholder from attending and voting in person at the Annual General Meeting should he or she so wish. To have the right to attend and vote at the Annual General Meeting (and also for the purpose of calculating how many votes the Shareholder may cast on a poll), a Shareholder must first have his or her name entered in the Company's register of Shareholders as at the close of business on [5 May 2017]. Changes to entries in the register after that time shall be disregarded in determining the rights of any Shareholder to attend and vote at the Annual General Meeting.
3. ****ONLY FOR INVESTORS WHO HOLD DEPOSITORY INTERESTS THROUGH CREST**** A Form of Instruction is enclosed for use at the Annual General Meeting. The Form of Instruction should be completed and sent together with (if not previously registered with the Company) the power of attorney or other authority (if any) under which it is executed, to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY so as to be received as soon as possible and, in any event, by no later than 4:00 p.m. (UK Time) on 4 May 2017. In the case of joint holders of Depository Interests, a Form of Instruction completed by the senior holder will be accepted to the exclusion of a Form of Instruction completed by any of the other joint holders. For this purpose seniority is determined by the order in which the names stand in the register of Depository Interests in respect of the joint holding. Depository Interest Holders wishing to attend the Annual General Meeting should contact the Depository at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY.

Holders of Depository Interests in CREST may transmit voting instructions by utilising the CREST voting service in accordance with the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take appropriate action on their behalf. In order for instructions made using the CREST voting service to be valid, the appropriate CREST message (a "CREST Voting Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual (available via www.euroclear.com/CREST).

To be effective, the CREST Voting Instruction must be transmitted so as to be received by the Company's agent (3RA50) no later than 4:00 p.m. (UK Time) on 4 May 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST Voting Instruction by the CREST applications host) from which the Company's agent is able to retrieve the CREST Voting Instruction by enquiry to CREST in the manner prescribed by CREST. Holders of Depository Interests in CREST and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the transmission of CREST Voting Instructions. It is the responsibility of the Depository Interest holder concerned to take (or, if the Depository Interest holder is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that the CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a CREST Voting Instruction is transmitted by means of the CREST voting service by any particular time. In this connection, Depository Interest holders and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual

concerning practical limitations of the CREST system and timings.

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

Form of Proxy for the Annual General Meeting

I/We _____

of _____

Being (a) member(s) of Blue Capital Global Reinsurance Fund Limited, and entitled to vote, hereby appoint the Chairman of the Meeting or the representative of the Company Secretary (such appointment may be determined at the discretion of the Company Secretary)

or _____

As my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 1:00 p.m. (Bermuda time) on 9 May 2017 at Waterloo House, 100 Pitts Bay Road, Pembroke HM08, Bermuda and at any adjournment thereof.

Please indicate by placing a cross in the appropriate spaces below how you wish your votes to be cast. Unless otherwise indicated the proxy will exercise his discretion both as to how he votes and as to whether or not he abstains from voting.

Ordinary Resolutions	For	Against	Vote Withheld
1. Adoption of the financial statements of the Company for the year ended 31 December 2016.			
2. Setting of the size of the Company's Board of Directors at three (3) and authorisation to fill any vacancy on the Board which may occur from time to time as the Board may see fit.			
3. Re-election of Mr. John R. Weale.			
4. Re-election of Mr. Gregory D. Haycock.			
5. Re-election of Mr. George Cubbon.			
6. Re-appointment of Ernst & Young Ltd., an independent registered public accounting firm, as the Company's independent auditor for 2017 and authorisation of the Company's Board of Directors, acting by the Company's Audit Committee, to set the auditor's remuneration.			
7. Authorisation to make market acquisitions of the Company's Ordinary Shares in issue provided that: a. the maximum number of Ordinary Shares hereby authorised to be purchased is 14.99 per cent. of the Company's Ordinary Shares in issue on the date on which this resolution is passed; b. the minimum price (exclusive of expenses) which may be paid for an Ordinary Share shall be US \$0.00001; c. the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be not more than the higher of: (i) 5 per cent. above the average of the middle market quotations for the Ordinary Shares as derived from the price quoted by the London Stock Exchange plc for the Ordinary Shares for the five (5) business days before the day the purchase is made; and (ii) the higher of the price of the last independent trade and			

<p>the highest independent bid at the time of the purchase of the Ordinary Shares;</p> <p>d. the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company or, if earlier, eighteen (18) months from the date on which this resolution is passed, unless such authority is renewed, varied or revoked prior to such time;</p> <p>e. the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make an acquisition of Ordinary Shares pursuant to any such contract; and</p> <p>f. any Ordinary Shares bought back may be subsequently cancelled by the Company or placed in Treasury.</p>			
<p>8. Authorisation to change the name of the Company to Blue Capital Alternative Income Fund Limited.</p>			

Special Resolution	For	Against	Vote Withheld
<p>1. Authorisation to exclude the provisions of Bye-Law 14.1 of the Company's Bye-Laws in relation to the allotment of up to an aggregate number of Ordinary Shares as represents 10 per cent. of the number of Ordinary Shares in issue at the date of the passing of this resolution, provided that such disapplication and exclusion shall expire on the date which is 18 months from the date of the passing of this resolution or, if earlier, at the end of the next annual general meeting of the Company following the date of the passing of this resolution (unless previously renewed, revoked or varied by the Company by special resolution), save that the Company may before such expiry make an offer or agreement which would or might require Ordinary Shares to be allotted after such expiry and the Directors may allot shares in pursuance of such an offer or agreement as if the disapplication and exclusion conferred hereby had not expired.</p>			

Signed this _____ day of _____ 2017

Signature _____

Please see Notes on the following page of this Form of Proxy

Notes:

1. If you desire someone other than the Chairman or a representative of the Company Secretary to act as your proxy, delete “the Chairman of the Meeting or the representative of the Company Secretary (such appointment may be determined at the discretion of the Company Secretary)” above and insert the name of the proxy desired. If you wish to appoint the representative of the Company Secretary to act as your proxy delete “the Chairman of the Meeting or”. If you do not delete these words and you do not insert the name of an alternative proxy in the space provided, you will be deemed to have appointed the Chairman of the Meeting as your proxy. Any such proxy need not be a member of the Company.
2. In the case of a corporation this proxy must be executed under Common Seal or under the hand of an officer or duly authorised attorney.
3. In the case of joint holders the signature of the person whose name stands first in the Register is sufficient.
4. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. To be effective this Form of Proxy, duly completed together with any power of attorney or authority under which it is signed or a notarially certified copy of such power of attorney or other authority, must be lodged with the Company's Registrar, to Computershare Investor Services (Bermuda) Limited, c/o The Pavilions, Bridgwater Road, Bristol, BS99 6ZY not later than 4:00 p.m, (UK Time) on 5 May 2017.
6. The lodging of a completed Form of Proxy does not preclude a member from attending, speaking and voting at the AGM.
7. The quorum for this Meeting is one or more persons holding or representing by proxy not less than one third of the total issued Share capital of the Company (excluding any Share capital represented by treasury shares). If such a quorum is not present within five minutes from the time appointed for the Meeting, or if during the Meeting such a quorum ceases to be present, it shall stand adjourned to the same day, time and place in the next week or such other day as a Chairman may determine and if at such adjourned meeting a quorum is not present within half an hour from the time appointed for the holding of the meeting, those Members present in person or by proxy shall be a quorum.
8. A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against a resolution.