

HG Re Ltd.
Investment Portfolio Guidelines
for the
Regulation 114 Trust and Supplemental Trust

Scope

The investment guidelines contained herein (“Guidelines”) apply to the following:

- i. All the Investable Assets of the Regulation 114 Trust; and
- ii. All the Investable Assets of the Supplemental Trust.

These Guidelines establish an investment objective and policy, investment guidelines and limits and a governance framework. The Guidelines are established and reviewed annually by the HG Re Ltd. Board of Directors or its designated committee.

Investment Objectives

The primary Investment Objectives for the Portfolios subject to these Guidelines are:

- i. To preserve claims paying resources;
- ii. To provide for sufficient liquidity to pay claims;
- iii. To generally avoid realized capital losses;
- iv. To ensure compliance with the limitations set forth in Section 1404 of the New York Insurance Law, the Regulation 114 Trust Agreement, the Supplemental Trust Agreement and these Guidelines; and
- v. Subject to the foregoing, to maximize risk adjusted returns.

Investment Manager

HG Re Ltd. will outsource the management of the Portfolios to one or more Portfolio Managers. The Portfolio Manager/s shall be selected and monitored by HG Re Ltd. and may be changed from time to time with the approval of the HG Re Ltd. Board of Directors. The Portfolio Manager/s shall adhere to the Guidelines set forth herein.

Eligible Investments

Subject to the restrictions set forth in the Credit Quality and Compliance with New York Insurance sections below, the following are eligible investments:

- i. Cash and certificates of deposit issued by a U.S. bank;
- ii. Obligations issued or guaranteed by the U.S. Government or an agency thereof;
- iii. Obligations issued by a Government Sponsored Enterprise;
- iv. Obligations issued or guaranteed by U.S. states, U.S. municipalities and any agency or instrumentality thereof, limited to the following insurable sectors:
 - a. General Obligation (States, Counties, Cities, School Districts, Special Districts, and Community College Districts)
 - b. Special Tax Secured (Income, Ad Valorem, Sales, Excise, Public Service Tax, Income, Motor Vehicle Tax)
 - c. Public Colleges and Universities
 - d. Water, Sewer & Solid Waste Utility Revenue (without landfill or mass burn facilities)
 - e. General Fund, Non Ad Valorem or Appropriation
 - f. Electric and Gas Utility Revenue (retail and wholesale)
 - g. Transportation Facilities with 3 or more years of operating history (Airports, Ports, Toll Roads and Bridges, Parking, Mass Transit)
 - h. Municipal Pools (secured by loans from the categories listed above);
- v. Obligations issued by U.S. companies that are registered under the Securities Exchange Act of 1934 provided that such obligations are not issued by an institution that is the parent, a subsidiary or an affiliate of either the Grantor or the Beneficiary; and
- vi. Securities of any investment company registered under the Investment Company Act of 1940, if such company invests at least 90% of its assets in the eligible investments set forth above.

All of the Investable Assets shall be denominated in U.S. dollars.

Obligations that have been insured by BAM are not eligible for purchase unless the purchase of such obligations is part of a claim payment or has been specifically approved by the Surveillance and Risk Management Committees of BAM as part of a work out process.

Credit Quality

- i. At all times, Investable Assets with a term at purchase of 12 months or more shall have a Rating of A/A3 or higher;
- ii. At all times, Investable Assets with a term at purchase of less than 12 months must have a short term Rating of A1/P1 (MIG1-VMIG1 for tax-exempts);
- iii. At all times, the Regulation 114 Trust shall have an average Rating of at least AA-/Aa3 on a stand-alone basis without the benefit of insurance; and
- iv. At all times, the Supplemental Trust shall have an average Rating of at least AA-/Aa3 on a stand-alone basis without the benefit of insurance.

Concentration Limits

Investable Assets shall be diversified in order to minimize the risk of large losses. The following diversification guidelines shall apply to the Regulation 114 Trust and the Supplemental Trust each on a stand-alone basis and shall be maintained at all times. These limitations do not apply to securities issued by the U.S. Government or an agency thereof or securities issued or guaranteed by a Government Sponsored Enterprise.

- i. The total investment in any one issuer's securities having a Rating of AAA/Aaa shall not exceed 5% of the respective Portfolio;
- ii. The total investment in any one issuer's securities having a Rating of AA/Aa shall not exceed 3% of the respective Portfolio;
- iii. The total investment in any one issuer's securities having a Rating of A/A shall not exceed 2% of the respective Portfolio;
- iv. The total investment in obligations issued by entities in a single state shall be limited to:
 - a. 15% of the tax-exempt portion of the respective Portfolio for California, New York and Texas; and
 - b. 10% of the tax-exempt portion of the respective Portfolio for all other states;
- v. The total investment in obligations of companies within any one Industry shall not exceed 15% of the taxable portion of the respective Portfolio.

Compliance with New York Insurance Law

Notwithstanding to the limitations set forth herein, the Regulation 114 Trust shall at all times remain in compliance with paragraphs (1), (2), (3), (8) and (10) of subsection (a) of section §1404 of the New York Insurance Law, as described in Appendix B.

Liquidity

The Portfolios shall maintain adequate liquidity on a stand-alone basis to meet their respective obligations under the Reinsurance Agreement, provided further that at least 90% of the Investable Assets in each of the Portfolios shall be invested in securities that are commonly traded in established secondary markets.

Reporting

The Investment Manager will provide HG Re Ltd. a report for each of the Portfolios to BAM within 10 business days following the end of each calendar quarter containing but not limited to the following:

- i. A list of all Investable Assets in the Portfolio,
- ii. The market value on the last business day of such calendar quarter of each Investable Asset in the Portfolio, and
- iii. Certification that the Investable Assets in the Portfolio comply with these Guidelines.

HG Re Ltd. will in turn provide a copy of the aforementioned reports to BAM within 15 business days following the end of each calendar quarter.

APPENDIX A
GLOSSARY OF TERMS

"BAM" – Build America Mutual Assurance Company, a New York domiciled mutual insurance corporation.

"Government Sponsored Enterprise" ("GSE") – A financial services corporation created by the U.S. Congress to enhance the availability of credit and reduce the cost of credit in targeted sections of the economy including agriculture, home finance and education. GSEs include but are not limited to: (i) Federal National Mortgage Association ("FNMA") and (ii) Federal Home Loan Mortgage Corporation ("FHLMC").

"Industry" – For the purpose of this document, an Industry will be determined with reference to the Bloomberg industry classifications.

"Investable Assets" – All cash and securities supervised and directed by HG Re Ltd. pursuant to these Guidelines.

"Moody's" – Moody's Investor Service.

"Portfolio/s" – All of the Investable Assets of the Regulation 114 Trust and/or the Supplemental Trust.

"Portfolio Manager/s" – Nationally recognized qualified third party asset manager.

"Rating" – For purposes of the Guidelines and limitations contained herein, the rating of each security will be the lesser of the credit rating issued by S&P or Moody's for Investable Assets that are rated by such agencies. In the event of disparate ratings between S&P and Moody's, the lower credit rating will be used. If neither S&P nor Moody's has rated a particular Investable Asset, then the lowest credit rating available from another major rating agency shall be assigned.

"Regulation 114 Trust" – All of the Investable Assets of the Regulation 114 Trust established pursuant to the Regulation 114 Trust Agreement dated as of July 20, 2012 entered into by and among BAM (the "Beneficiary"), HG Re Ltd (the "Grantor") and the Bank of New York Mellon (the "Trustee").

"Reinsurance Agreement" – The First Loss Reinsurance Treaty Agreement dated as of July 20, 2012 entered into by and between BAM and HG Re Ltd.

"S&P" – Standard & Poor's Rating Service.

"Supplemental Trust" – All of the Investable Assets of the Supplemental Trust, established pursuant to the Supplemental Trust Agreement dated as of July 20, 2012 entered into by and among BAM (the "Beneficiary"), HGR Patton (Luxembourg) S.à r.l., United States of America Branch, a subsidiary of HG Re Ltd. (the "Grantor") and the Bank of New York Mellon (the "Trustee").

APPENDIX B

SECTION 1404 OF THE NEW YORK INSURANCE LAW

The types of assets described in paragraphs (1), (2), (3), (8) and (10) of Insurance Law §1404(a) are as follows:

Paragraph 1 (Government Obligations).

(1) Government obligations. Obligations which are not in default as to principal or interest, which are valid and legally authorized, and which are issued, assumed, guaranteed or insured by:

- (A) the United States or by any agency or instrumentality thereof,
- (B) any state of the United States,
- (C) any territory or possession of the United States or any other governmental unit in the United States, or
- (D) any agency or instrumentality of any governmental unit referred to in subparagraphs (B) and (C) of this paragraph, provided that obligations to be eligible under this paragraph shall be by law (statutory or otherwise) payable, as to both principal and interest, from taxes levied or by law required to be levied or from adequate special revenues pledged or otherwise appropriated or by law required to be provided for the purpose of such payment, but in no event shall obligations be eligible for investment under this paragraph if payable solely out of special assessments on properties benefited by local improvements.

Paragraph 2 (Obligations of American Institutions).

(2) Obligations of American institutions.

(A) Obligations which are issued by any solvent American institution or which are assumed or guaranteed by any solvent American institution (other than an insurance company) and which are not in default as to principal or interest provided such obligations:

- (i) are adequately secured by collateral security having a market value not less than the principal amount thereof and have investment qualities and characteristics wherein the speculative elements are not predominant, or
- (ii) are rated A or higher (or the equivalent thereto) by a securities rating agency recognized by the superintendent, or if not so rated, are similar in structure and in all material respects to other obligations of the same institution which are so rated, or
- (iii) are insured by one or more authorized insurance companies (other than the investing insurer or any parent, subsidiary or affiliate of such insurer) who are licensed to insure obligations in this state and, after considering such insurance, are rated Aaa (or the equivalent thereto) by a securities rating agency recognized by the superintendent, or

(iv) have been given the highest quality designation by the Securities Valuation Office of the National Association of Insurance Commissioners.

(B) No investment in or loan upon the obligations of any institution, other than an institution which issues mortgage related securities, and no investment in any one mortgage related security, made pursuant to the provisions of this paragraph shall exceed five per centum of the admitted assets of such insurer as shown by its last statement on file with the superintendent.

Paragraph 3 (Preferred or guaranteed shares of American institutions).

(3) Preferred or guaranteed shares of American institutions.

(A) Preferred or guaranteed shares issued or guaranteed by a solvent American institution if all of the institution's obligations are eligible as investments under item (ii) or (iv) of subparagraph (A) of paragraph two of this subsection.

(B) No investment in the preferred or guaranteed shares of any institution made pursuant to the provisions of this paragraph shall exceed two percent of such insurer's admitted assets as shown by its last statement on file with the superintendent.

Paragraph 8 (Equity interests).

(8) Equity interests.

(A) Investments in common shares or partnership interests of any solvent American institution, if:

(i) all its obligations and preferred shares, if any, are eligible as investments under this subsection and

(ii) such equity interests of any such institution except an insurance company are registered on a national securities exchange, as provided in the Securities Exchange Act of 1934, 15 U.S.C. §§78a-78kk or otherwise registered pursuant to said act and, if so otherwise registered, price quotations therefor are furnished through a nationwide automated quotations system approved by the National Association of Securities Dealers, Inc., provided that an insurer may invest under this paragraph an amount not exceeding one percent of the insurer's admitted assets as shown by its last statement on file with the superintendent even though such equity interests are not so registered and are not issued by an insurance company.

(B) Investment limitations.

(i) No insurer subject to the provisions of paragraph two of subsection (a) or subsection (b) of section one thousand four hundred three of this article shall invest in or loan upon any one institution's outstanding equity interests an amount exceeding one percent of the insurer's admitted assets as shown by its last statement on file with the superintendent, and

(ii) the cost of any investment in equity interests, made pursuant to this paragraph, when added to the aggregate cost of all other investments in

equity interests then held pursuant to this paragraph, paragraph six and clause (ii) of subparagraph (A) of paragraph ten of this subsection shall not exceed:

(I) in the case of an insurer authorized to make investments under item (i) of this subparagraph except a retirement system organized pursuant to article forty-six of this chapter, the lesser of its surplus to policyholders or ten percent of its admitted assets as shown by its last statement on file with the superintendent, and

(II) in the case of a retirement system organized pursuant to article forty-six of this chapter, thirty percent of its admitted assets as shown by its last statement on file with the superintendent.

Paragraph 10 (Investment companies).

(10) Investment companies.

(A) Securities of any investment company registered pursuant to the federal Investment Company Act of 1940, 15 U.S.C. § 802, if such company:

(i) invests at least ninety percent of its assets in the types of securities which qualify as a reserve investment pursuant to the provisions of paragraph one, two or three of this subsection or which invest in securities which are determined by the superintendent to be substantively similar to the types of securities set forth in such paragraphs; or

(ii) invests at least ninety percent of its assets in the types of equity interests which qualify as a reserve investment pursuant to the provisions of paragraph eight of this subsection.

(B) Investment limitations. Investments made by an insurer subject to the provisions of paragraph two of subsection (a) or subsection (b) of section one thousand four hundred three of this article shall not exceed the following limitations:

(i) in any investment company qualifying under item (i) of subparagraph (A) hereof, ten percent of such insurer's admitted assets as shown by its last statement on file with the superintendent and the aggregate amount of investment in such qualifying investment companies shall not exceed twenty-five percent of such insurer's admitted assets as shown by its last statement on file with the superintendent; and

(ii) in any investment company qualifying under item (ii) of subparagraph (A) hereof, five percent of such insurer's admitted assets as shown by its last statement on file with the superintendent and the aggregate amount of investment in such qualifying investment companies shall be included when calculating the permissible aggregate value of equity interests pursuant to the provisions of subparagraph (B) of paragraph eight of this subsection.