Our investment policies and strategies are subject to change, depending on regulatory, economic and market conditions and our then-existing or anticipated financial condition and operating requirements, including our tax position. The investments held at our insurance subsidiaries are also subject to insurance regulatory requirements applicable to such insurance subsidiaries and are highly liquid. (See "Regulation—State Regulation—*Risk-to-Capital—Freddie Mac Approval*" below.)

Oversight responsibility of our investment portfolio rests with management—allocations are set by periodic asset allocation studies, calibrated by risk and return and after-tax considerations and are approved by the Investment and Finance Committee of our board of directors (the "Investment Committee"). Selection of our external portfolio managers, monitoring, reporting and accounting (including valuation) of all assets are performed by management. We manage over 25% of the portfolio—the portion of the portfolio largely consisting of municipal bonds and short-term investments—internally, with the remainder managed by 10 external managers. External managers are selected by management based primarily upon the allocations approved by the Investment Committee, as well as factors such as historical returns and stability of their management teams. Management's selections are presented to and approved by the Investment Committee.

At December 31, 2012, our investment portfolio had a cost basis of $5,088.3 million and carrying value of $5,152.4 million, including $777.5 million of short-term investments. Our investment portfolio did not include any real estate or whole mortgage loans at December 31, 2012. The portfolio included 77 privately placed, investment grade securities with an aggregate carrying value of $369.8 million at December 31, 2012. At December 31, 2012, 90.3% of our investment portfolio was rated investment grade.

### A. Investment Portfolio Diversification

The diversification of our investment portfolio at December 31, 2012 was as follows:

| ($ in millions) | Fair Value | Percent |
|---|---|---|
| U.S. government and agency securities (1) | $ 433.8 | 8.4% |
| State and municipal obligations | 688.6 | 13.3 |
| Money market instruments | 638.0 | 12.4 |
| Corporate bonds and notes | 1,373.6 | 26.6 |
| RMBS (2) | 663.4 | 12.9 |
| CMBS | 237.3 | 4.6 |
| Other ABS (3) | 254.1 | 4.9 |
| Foreign government securities | 117.7 | 2.3 |
| Hybrid securities | 211.9 | 4.1 |
| Equity securities (4) | 265.9 | 5.1 |
| Other investments (5) | 137.3 | 2.7 |
| Short-term investments—U.S. government treasury bills | 139.5 | 2.7 |
| Total | $ 5,161.1 | 100.0% |

(1) Substantially all of these securities are backed by the full faith and credit of the U.S. government.
(2) These RMBS are guaranteed by Fannie Mae, Freddie Mac or Government National Mortgage Association ("Ginnie Mae").
(3) Primarily comprised of AAA-rated corporate obligations.
(4) Comprised of broadly diversified domestic equity mutual funds ($98.9 million fair value) and various preferred and common stocks invested across numerous companies and industries ($167.0 million fair value).
(5) Includes $57.4 million (fair value) of investments not accounted for at fair value that have a carrying value of $48.7 million, which represents amortized cost, as well as a guaranteed investment contract that is accounted for at fair value.