

ABOUT THE ALTERNATIVES FUND

Blue Sky Alternatives Access Fund Limited ('Alternatives Fund') is a listed investment company that invests in a diverse range of alternative assets including:

- Private equity and venture capital;
- Real assets;
- Private real estate; and
- Hedge funds.

The Alternatives Fund is the only listed investment company on the Australian Securities Exchange ('ASX') that allows investors to make a strategic allocation to a diverse portfolio of directly managed alternative assets.

The Alternatives Fund is listed on the ASX under the code BAF, with options in the Alternatives Fund trading under the code BAFO.

OBJECTIVES OF THE ALTERNATIVES FUND

The primary objectives of the Alternatives Fund are to:

- Deliver long term absolute returns to shareholders, comprised of both capital appreciation and a dividend yield (franked to either 100% or the maximum extent possible);
- Provide investors with access to a diverse range of alternative assets; and
- Provide investors with the ability to invest in alternative assets through an ASX listed structure that is more readily accessible and liquid than is typical for many alternative assets.

MANAGER OF THE ALTERNATIVES FUND

BSAAF Management Pty Limited ('Manager') is the manager of the Alternatives Fund. All investments made by the Manager on behalf of the Alternatives Fund are directly managed by wholly owned subsidiaries of Blue Sky Alternative Investments Limited (ASX: BLA) ('Blue Sky').

Blue Sky has in excess of \$700 million in assets under management and an eight year track record of generating overall returns to investors in its funds of 14.8% p.a. (net of fees, since inception).¹

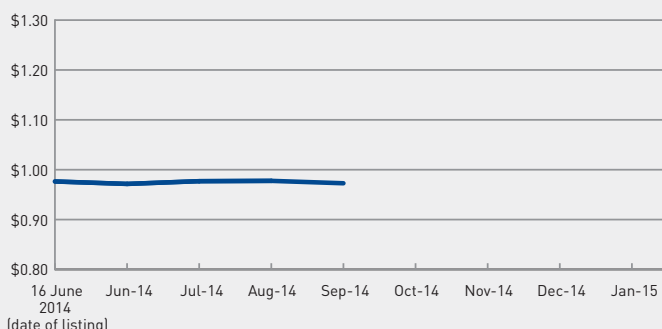
- Overall returns to investors in Blue Sky managed funds are equity weighted. For more details, please refer to BLA's regular ASX announcements on the investment performance of its funds. Please also note that past performance is not a reliable indicator of future performance.

NET TANGIBLE ASSETS – AS AT 30 SEPTEMBER 2014²

Net Tangible Assets (NTA) per share (pre tax) ³	\$0.9611
Net Tangible Assets (NTA) per share (post tax)	\$0.9728

- NTA figures in this report are unaudited and no adjustments have been made for future exercises of the BAFO options (exercise price \$1.00 per option). The pre tax NTA would be approximately 0.9805 per share if all of the BAFO options had been exercised on 30 September 2014.
- The pre-tax NTA per share is lower than the post-tax NTA per share due to the net Deferred Tax Asset (DTA) position of the company. The net DTA relates to future tax benefits to be received in relation to the retained losses of the company since inception and costs associated with listing on the ASX.

NET TANGIBLE ASSETS – SINCE INCEPTION

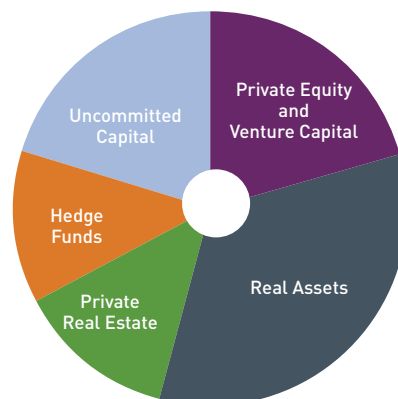


SUMMARY OF INVESTMENT PORTFOLIO⁴

	Current Value (\$M)	% of Portfolio
PRIVATE EQUITY AND VENTURE CAPITAL		
Private Equity investment(s)	\$8.19	14.1%
Venture Capital investment(s)	\$3.85	6.6%
Subtotal	\$12.04	20.7%
REAL ASSETS		
Blue Sky Water Fund	\$15.50	26.7%
Other Real Assets	\$3.95	6.8%
Subtotal	\$19.45	33.5%
PRIVATE REAL ESTATE		
Residential Development investment(s)	\$7.68	13.2%
Subtotal	\$7.68	13.2%
HEDGE FUNDS		
SRA Alliance Fund (16Q)	\$7.20	12.4%
Subtotal	\$7.20	12.4%
Uncommitted Capital	\$11.73	20.2%
GRAND TOTAL	\$58.10	100%

- Figures in this report are unaudited. The current value for each investment in the table above is consistent with the Alternatives Fund's investment valuation policy, which may be found at blueskyfunds.com.au/alternativesfund. Note that the total value of the investment portfolio will not directly reconcile to the NTA due to the impact of interest revenue, management fees, accrued performance fees, etc.

SECTOR WEIGHTINGS



FURTHER INFORMATION:

Website: blueskyfunds.com.au/alternativesfund

Investor enquiries: investorservices@alternativesfund.com.au

Phone: +61 7 3270 7500

NEW INVESTMENTS

The Alternatives Fund made the following new investment in the month of September:

Private Real Estate

The Alternatives Fund invested \$2.0 million in the Duke Street Kangaroo Point Trust. The Duke Street Kangaroo Point Trust was established to invest in a residential development in Kangaroo Point, Brisbane. The development consists of an 82 apartment complex (comprising 28 one bedroom, 50 two bedroom and 4 three bedroom apartments) in the Brisbane suburb of Kangaroo Point, which is 1.5km from the Brisbane CBD. The project site has views over the Brisbane CBD and surrounding suburbs. The project's attractive location and price points are expected to fit well with market demand and generate strong returns.

INVESTMENT PERFORMANCE – EXISTING INVESTMENTS

The post-tax NTA of the Alternatives Fund decreased by \$0.005 in the month of September. Material⁵ changes that affected the NTA were:

- A 4.67% decrease in the value of units held in the SRA Alliance Fund (16Q) (the Alternatives Fund's hedge fund allocation). During the first fortnight of the month both equities and bond markets fell as they priced in a move towards an earlier increase in the US Federal Funds rate. Both of these moves contributed to losses in the portfolio due to long positions in these markets. At the end of September these positions were reversed, contributing to a strong rebound in the first two weeks in October.
- A 1.07% increase in the value of units held in the Blue Sky Water Fund, as a result of increased market prices for both water entitlements and unsold temporary water allocations. As described in more detail in the Quarterly Investment Commentary (below), the fundamental drivers of appreciation in the water market appear to remain in place.
- The investment in the Duke Street Kangaroo Point Trust had a negative impact on the Alternatives Fund's NTA, as the Alternatives Fund bore its share of project establishment costs in the underlying development project.

INVESTMENTS REALISED

There were no investments realised in the month of September.

QUARTERLY INVESTMENT COMMENTARY

The September quarter saw a significant shift in global financial markets, with equity markets retreating from historic highs, and the emergence of substantial volatility in global bond markets as investors sought to make sense of economic data and central bank announcements.

As a diversified alternative asset fund, the Alternatives Fund is expected to have low correlation to traditional equity and fixed income markets. Accordingly, the drivers of returns (and risk) in the four asset classes in which the Alternatives Fund invests are different from the macro drivers of traditional asset classes.

Our views on the outlook for each of these four asset classes are detailed below:

- **Real assets:** The Alternatives Fund's primary allocation in the real assets space is to the Blue Sky Water Fund ('Water Fund'), where underlying conditions have been strongly supportive over the last twelve months (and in the three months since the Alternatives Fund's investment in the Water Fund). Despite relatively full dams, farmers in the Murray-Darling Basin have been buying temporary water more strongly compared to previous years. As a result, returns in the Water Fund have been strong at 19% (pre-tax) in the twelve months to the end of September. Current forecasts indicate a dry season (potentially one of the ten driest on record) and we expect irrigation volumes to be high, supporting temporary water prices for the remainder of this irrigation season. Furthermore, a combination of high usage and dry conditions this year may lead to lower water availability and allocations in subsequent irrigation years, again supporting temporary water prices and permanent entitlement valuations. As a result of these factors, and the longer term convergence of water prices to their true economic value, we expect the Water Fund to continue contributing to the Alternatives Fund's returns, with a return profile with very low correlation to listed equities.
- **Hedge funds:** The hedge fund to which the Alternatives Fund has allocated is the Blue Sky SRA Alliance Fund (IS 16Q sub-trust). This fund is a portfolio of quantitative trading strategies diversified across currency, commodity, equity and interest rate markets, taking long and short positions through the use of futures contracts. The IS 16Q sub-trust is constructed to make money across a range of market conditions, and we expect IS 16Q to be well positioned over the coming quarters to contribute to the Alternatives Fund through its strong potential return profile, high liquidity and low correlation to listed equities.
- **Private equity and venture capital:** The current investing environment is attractive for private equity and venture capital. Increased levels of mergers and acquisitions and capital raisings are creating a more active market for private equity players, with respect to both entries and exits. This, combined with strong operational performance in the Alternatives Fund's underlying private equity portfolio, mean that the Alternatives Fund's private equity and venture capital allocation is expected to contribute to the returns profile of the Alternatives Fund (albeit in a way which is less liquid and more correlated than other elements of the portfolio, and with less frequent revaluations taking place).
- **Private real estate:** The Alternatives Fund is invested in private real estate through the Blue Sky development projects disclosed elsewhere in this report. All of these projects are based in Brisbane, where the property market has been strong but less so than the higher profile Sydney and Melbourne markets. As a result of lower entry prices, higher yields and attractive demographic trends, we continue to see strong demand from purchasers, particularly for high quality stock at attractive price points, close to transport and the Brisbane CBD. With no real prospect of near-term increases in interest rates, we are confident that the projects in which the Alternatives Fund has invested will generate strong returns for the Alternatives Fund.

⁵ Movements are considered material if they are greater than 5% of an asset sub-class or greater than \$100,000.

Important Notice: BSAAF Management Pty Ltd ACN 168 923 279 ('Manager') has prepared the information in this announcement. This announcement has been prepared for the purposes of providing general information only and does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any securities in the Alternatives Fund nor does it constitute financial product or investment advice nor take into account your investment objectives, taxation situation, financial situation or needs. An investor must not act on the basis of any matter contained in this announcement in making an investment decision but must make its own assessment of the Alternatives Fund and conduct its own investigations and analysis. Past performance is not a reliable indicator of future performance.

DESCRIPTION OF INVESTMENTS

INVESTMENT	DESCRIPTION
PRIVATE EQUITY AND VENTURE CAPITAL	
Early Learning Fund	To hold equity in Foundation Early Learning Limited, a premium Australian child care operator.
Wild Breads Fund	To hold equity in Wild Breads Pty Ltd, a leading business in the rapidly growing artisan and specialty bread category in Australia.
Software Services Fund II	To hold equity in Readify Pty Ltd, a leading Australian IT-services company focused on application development and platform deployment in the Microsoft environment.
VC2014	To hold a diversified portfolio of venture capital investments.
REAL ASSETS	
Water Fund	Invests in a diversified portfolio of agricultural water entitlements, largely in the Southern Murray-Darling Basin.
Agriculture Fund	To hold equity in Gundaline Pty Ltd, the owner and operator of a large scale irrigated cropping business east of Hay in NSW.
HEDGE FUNDS	
SRA Alliance Fund (16Q)	A portfolio of quantitative trading strategies, diversified across currency, commodity, equity and interest rate markets, utilising derivatives and short selling in its strategy execution.
PRIVATE REAL ESTATE	
Regina Street Greenslopes Trust	A residential development consisting of a 61 apartment complex (comprising 29 one bedroom and 32 two bedroom apartments) in the Brisbane suburb of Greenslopes.
37 Regent Street Woolloongabba Trust	A residential development consisting of a 44 apartment complex (comprising 9 one bedroom and 35 two bedroom apartments) in the Brisbane suburb of Woolloongabba.
Alice Street Kedron Trust	A residential development consisting of a 38 apartment complex (comprising 5 one bedroom and 33 two bedroom apartments) in the Brisbane suburb of Kedron, which is 8km from the Brisbane CBD.
Main Street Kangaroo Point Trust	A residential development consisting of a 104 apartment complex (comprising 25 one bedroom, 71 two bedroom and 8 three bedroom apartments) in the Brisbane suburb of Kangaroo Point.
Logan Road Greenslopes Trust	A residential development consisting of a 53 apartment complex (comprising 12 one bedroom, 36 two bedroom and 5 three bedroom apartments) and 650 m2 of ground floor commercial space in the Brisbane suburb of Greenslopes.
Grantson Street Windsor Trust	A residential development consisting of a 65 apartment complex (comprising 2 one bedroom, 49 two bedroom and 14 three bedroom apartments) in the Brisbane suburb of Windsor.

DESCRIPTION OF INVESTMENTS

INVESTMENT	DESCRIPTION
PRIVATE REAL ESTATE	
Duke Street Kangaroo Point Trust	A residential development consisting of a 82 apartment complex (comprising 28 one bedroom, 50 two bedroom and 4 three bedroom apartments) in the Brisbane suburb of Kangaroo Point.