BlueSky
Alternatives
Access Fund

ANNUAL GENERAL MEETING

BLUE SKY ALTERNATIVES ACCESS FUND LIMITED

21 NOVEMBER 2014

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DIRECTORS' REPORT

BlueSky Alternatives Access Fund

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BLUE SKY ALTERNATIVES ACCESS FUND

ABOUT THE ALTERNATIVES FUND	Blue Sky Alternatives Access Fund Limited (‘Alternatives Fund’ or ‘BSAAF’) 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 to 30 June 2014 (14.9% p.a. net of fees since inception to 31 October 2014).

WHY ALTERNATIVES?

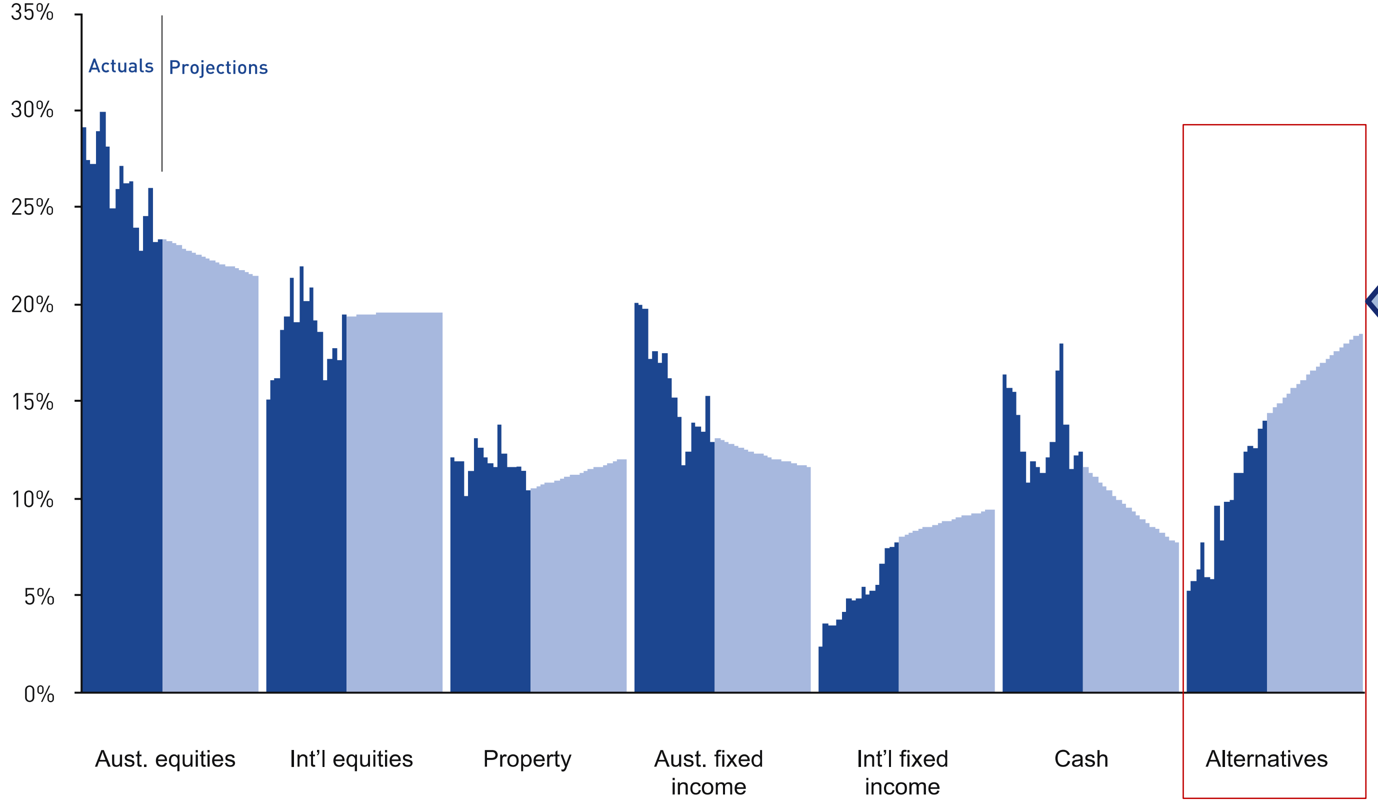
- Used to **enhance risk/return characteristics** of investment portfolios
  - Increase diversification
  - Reduce overall volatility in an investment portfolio (given low correlations to more traditional investments)
  - Potential for delivery of attractive absolute returns through periods of under performance in listed equities and bonds
- Potential for **strong returns** given wider opportunity set
  - Ability to selectively invest in private markets where pricing may be less efficient than public markets
- Alternative asset managers **incentives are typically based on absolute returns** (not relative returns)

> *"Over the next five years, net flows in the global alternatives market are expected to grow at an average annual pace of 5 percent, dwarfing the 1 to 2 percent expected annual pace for industry as a whole. By 2020, alternatives could comprise about 15 percent of global industry assets."*
>
> *McKinsey & Company – Capturing the Next Wave of Growth in Alternative Investments (2014)*

ALTERNATIVES ARE THE FASTEST GROWING ASSET CLASS IN AUSTRALIA

BlueSky Alternatives Access Fund

Asset class segment shares in Australia (1997 – 2033)[1]



Allocations to alternatives have more than tripled, from 5% in 1997 to 17% in 2014 (including growth of 27% in the last 12 months)[2].

Allocations anticipated to rise to >20% by 2033.

1. Rainmaker Roundup – Edition 64 (December 2013)
2. Rainmaker Roundup – Edition 67 (September 2014)

PRODUCT ATTRIBUTES:
A DIVERSIFIED ALTERNATIVES FUND

DIVERSIFIED FUND	Diversified across all alternative investments classes
ASX LISTED	Listed Investment Company structure
CO-INVESTMENT MODEL	Invests alongside Blue Sky direct investors
BLUE SKY ALIGNMENT	Blue Sky and executives have invested over $6 million
SEPARATE BOARD	Separate Board to Blue Sky including independent representation

PRODUCT ATTRIBUTES: UNIQUE INVESTMENT FEATURES

LIQUID INVESTMENT	Access via a listed security
LOW CORRELATIONS	A mixture of return streams, some of which will display low correlations with listed equities
HIGHLY DIVERSIFIED	Blue Sky managed optimal portfolio
YIELD AND GAIN	Mix of both yield and capital gain
EFFICIENT FEES	Fees set at a discount to underlying funds
BLUE SKY MANAGED	Fully managed and directly invested by Blue Sky

ALTERNATIVES FUND: CURRENT DEPLOYMENT

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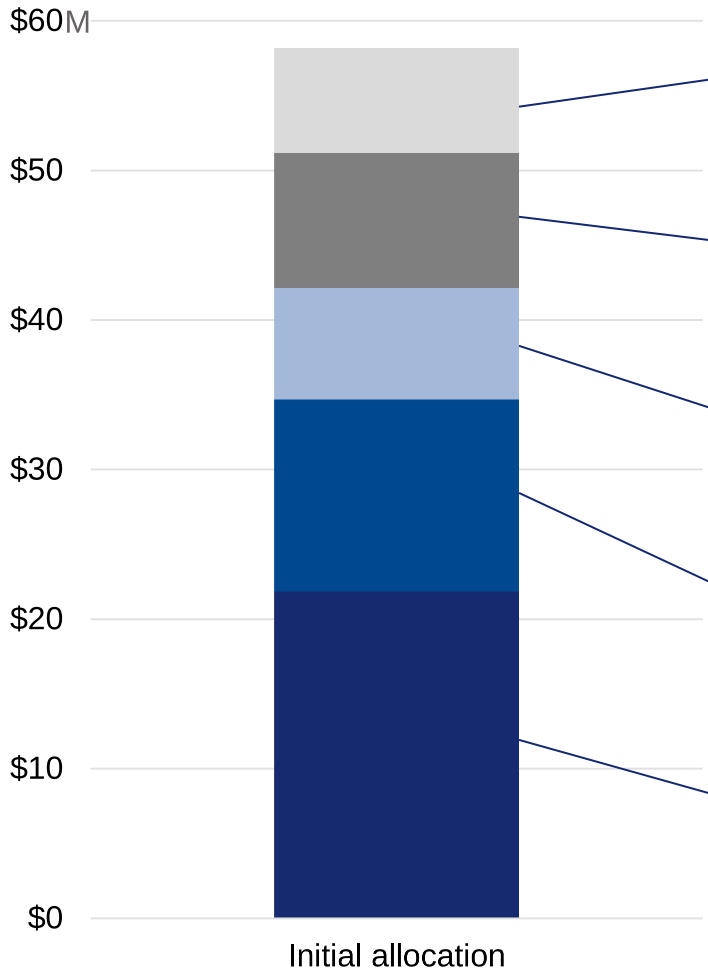

Unallocated capital provides BSAAF with flexibility to invest in new alternative investment opportunities

Private real estate contributes to portfolio returns (16.3% p.a. since inception[1]) with a different set of risk drivers to listed equities; currently focused on residential development

Hedge fund allocation contributes liquidity, low correlation with listed equities and a strong historic return profile in targeted portfolio (13.3% p.a. since inception[2])

Private equity and venture capital contribute potential for returns (19.5% p.a. since inception[1]); likely to be least liquid and most correlated asset class in the portfolio

Real assets (primarily water entitlements) contributes high expected returns (17.5% for the 12 months to Oct-14 and 12.5% p.a. since inception[2]) with low correlations to listed equities and relatively high levels of underlying liquidity

Note: Past performance is not a reliable indicator of future performance. Historical returns reflect the historical performance of Blue Sky funds only and do not relate to the past or future performance of the Alternatives Fund, and should not be relied upon as an indicator of future performance of the Alternatives Fund. Historical returns include a mix of realised and unrealised returns.
(1) To 30 June 2014
(2) To 31 October 2014

REAL ASSETS: BLUE SKY WATER FUND

Investment description	• Blue Sky Water Fund holds a **diversified portfolio of agricultural water entitlements** in the Southern Murray-Darling Basin • Provides exposure to the Australian water market, a **$20 billion market** with more than **$1.5 billion of turnover** each year
Return drivers	• Ongoing **global demand for soft commodities** supports higher commodity prices, increasing producers' willingness to pay for water, their key input • **Migration from low value crops** (e.g. rice at ~$80 per megalitre) **to high value crops** (e.g. almonds at ~$1,000 per megalitre) increases value of water • **Supply tightening** due to a **very dry season** underpins prices of short term water allocations, supporting yield
Expected return profile	• Annualised **return since inception of 11.9%**, with relatively low volatility (5.5%); fundamentals support **strong return outlook** • **Low correlation** to traditional asset classes due to different return drivers • **Ideal way to express agriculture** as an investment theme: the market allows water to move across locations and commodities to its highest economic use, and market turnover enhances liquidity

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REAL ASSETS: BLUE SKY AGRICULTURE FUND

BlueSky Alternatives Access Fund

Investment description	• Blue Sky Agriculture Fund has invested in Gundaline Pty Ltd, the owner and operator of a **large scale irrigated farming operation** in the Murrumbidgee region of New South Wales • Asset-backed **private equity into agriculture**, with Blue Sky backing a strong, aligned management team deploying capital to generate returns
Return drivers	• Primary value driver is **change of land use:** conversion of land from low value crops (e.g. rice) to higher value crops (e.g. cotton) • This change is enabled by **new cotton varieties** that thrive in colder climates, and **increased infrastructure** (i.e. cotton gins) in the region • Secondary exposure to increasing soft commodity prices due to global demand for Australian food and fibre
Expected return profile	• Targeted **IRR of 15%** over a 5-7 year holding period • Likely to display lower volatility relative to similar operations due to access to 100% **reliable ground water** irrigation source, helping to underpin a crop even in very dry years

REAL ASSETS:
WATER UTILITIES AUSTRALIA

- **Private sector investment** in **water infrastructure** is becoming possible for the first time, due to
  - Changes to **regulatory regimes** to encourage **competition and investment**
  - Asset owners with **insufficient balance sheet capacity** to fund expansion or refurbishment of aging assets
- Water Utilities Australia is the **first mover** in water infrastructure investment in Australia, with two **initial investments**
  - **Willunga Basin Water Company**, the owner of irrigation networks supplying the McLaren Vale grape growing district in South Australia
  - **Lightsview Rewater**, the owner of a recycled water reticulation scheme in Adelaide
- Water Utilities Australia is building a portfolio of water assets across the **residential, agricultural and industrial** sectors
- BSAAF's allocation to this investment is expected to deliver a combination of **capital growth and yield**

PRIVATE EQUITY AND VENTURE CAPITAL

- Foundation Early Learning ('FEL') is a premium Australian child care operator
- FEL has successfully built a portfolio of 9 centres, with an additional 3 - 4 centres expected to settle in the coming weeks and additional centres in the acquisition pipeline
- The investment will be revalued six monthly in line with BSAAF's valuation policy, with the potential for an exit (IPO or trade sale) in FY16

- Wild Breads Pty Ltd ('Wild Breads') is a leading business in the rapidly growing artisan and specialty bread market
- Since investment, Wild Breads has expanded its offerings to major supermarket chains and secured its first sales into Asia
- With a second production facility under construction the investment is likely to be a hold and grow period of 3 - 4 years, with return expectations of >20% IRR (with six monthly revaluations, in line with BSAAF's valuation policy)

- Readify is a leading Australian IT-services company focused on application development and platform deployment in the Microsoft environment
- Readify has made strong progress since investment, delivery strong trading results and the acquisition of user experience design agency Folk
- Readify and the Blue Sky Private Equity team are driving towards an IPO in May 2015

- The Blue Sky VC2014 Fund was established to invest in a portfolio of high growth venture capital opportunities
- Quality and quantity of deal flow has been strong, due to the strength of Australia's innovation sector and the relative shortage of venture capital funding
- VC2014 has not yet made any investments

PRIVATE REAL ESTATE: RESIDENTIAL DEVELOPMENT

- BSAAF has invested in seven residential development opportunities sharing a number of common characteristics
  - Close to the Brisbane CBD
  - Less than 110 apartments
  - Relatively affordable product
- BSAAF expects to recycle capital rapidly, with hold periods from 21 to 26 months and targeted IRRs of 20-25%
- Fundamentals in the market remain strong, with ongoing interstate migration, property prices substantially lower than Sydney and Melbourne, and limited prospect of near term interest rate increases

PRIVATE REAL ESTATE: MANAGEMENT RIGHTS

BlueSky Alternatives Access Fund

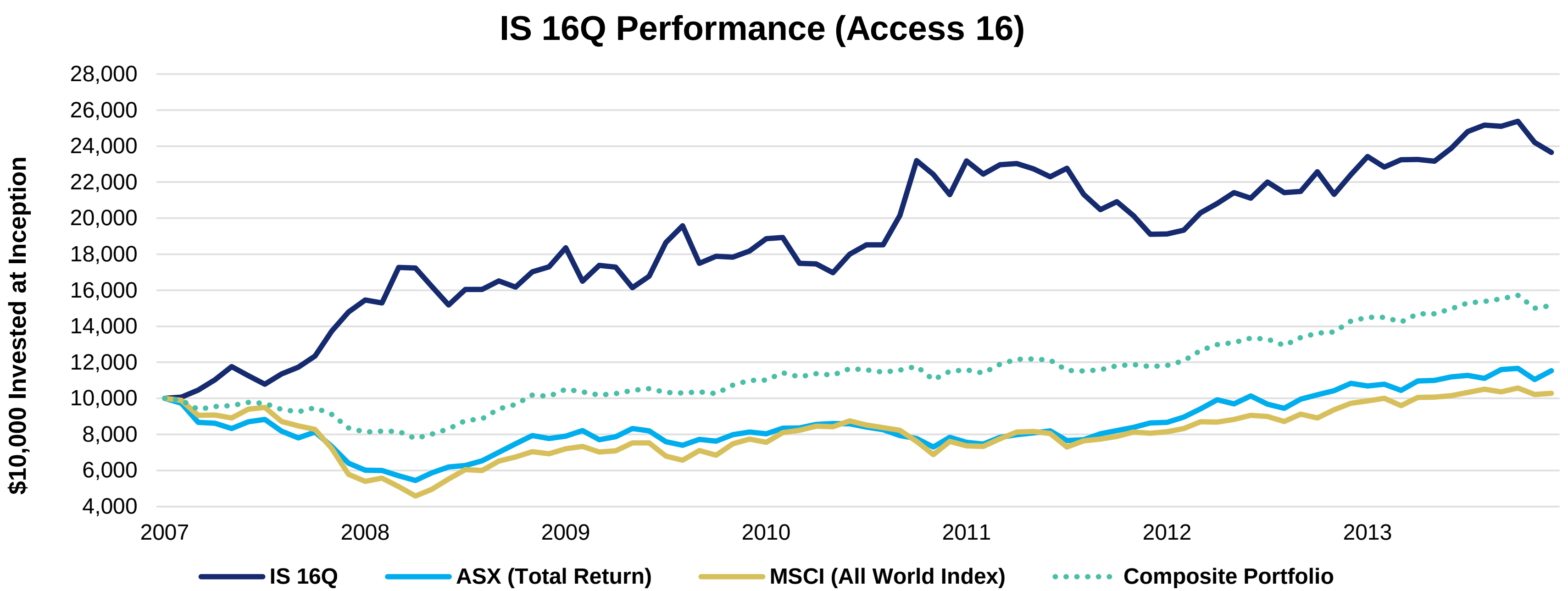
- BSAAF has invested in the Blue Sky Management Rights Income Fund 4, which owns the management rights to Southport Central

- Southport Central is a 3 tower, 788 apartment complex located on the Gold Coast, occupied by long term (as opposed to holiday rental) tenants

- The investment is expected to deliver BSAAF strong yields (>8% pa) and modest capital growth

HEDGE FUNDS:
SRA ALLIANCE 16Q FUND

BlueSky Alternatives Access Fund



- BSAAF's hedge fund allocation is to the Blue Sky SRA Alliance Fund ARSN 127 228 675 (IS 16Q sub-trust), a portfolio of quantitative trading strategies diversified across currency, commodity, equity and fixed income markets
- The strategy utilises derivatives for implementation and has the flexibility to take long and short positions
- The strategy has demonstrated the ability to make money across a broad range of market conditions, with returns since inception of 13.3% per year, volatility of 17.1% and correlation to listed equities of 0.17

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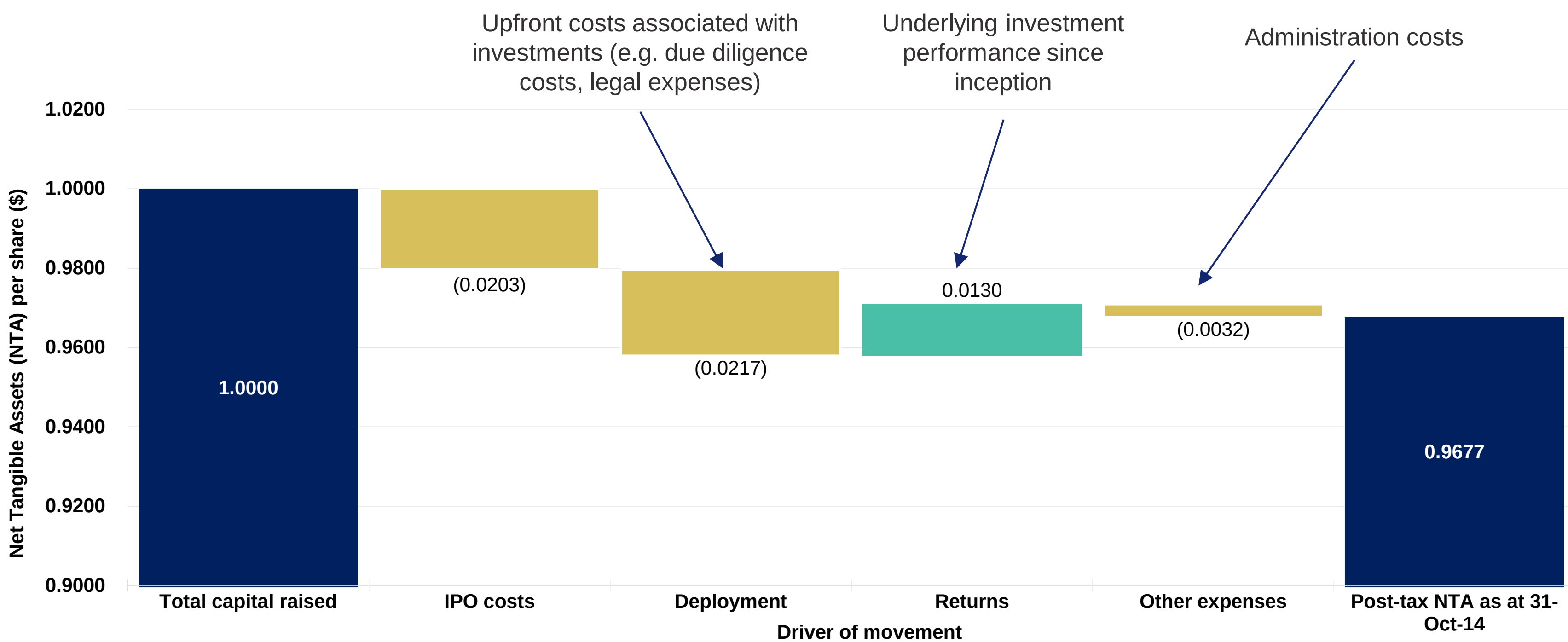
NTA PERFORMANCE SINCE INCEPTION



- Early NTA performance has been affected by IPO costs and costs of initial deployment
- Now that initial deployment is largely complete, investment performance is expected to dominate NTA movements
- Early investment performance has been affected by:
  - Deployment schedule: Most of the assets were added to the portfolio only recently
  - Valuation policy: Illiquid underlying assets (e.g. private equity, real estate) are revalued infrequently and have not yet begun to materially affect NTA
  - Investment performance: Strong performance in the Blue Sky Water Fund has offset negative returns in the hedge fund

ASX:BAF
SHARE PRICE PERFORMANCE

Fund performance	$
Net tangible assets (post-tax) at 31 October 2014	$0.9677
VWAP (since inception)	$0.9763
VWAP (1 month)	$0.9572
Share price (ASX:BAF)	$0.9400
Option price (ASX:BAFO)	$0.0250

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All data as at close of trade on 18 November 2014 unless otherwise indicated.

FORMAL BUSINESS

ORDINARY BUSINESS

RESOLUTION 1	**Approval and adoption of the Remuneration Report** Resolution 1 seeks approval: “THAT the Company’s Remuneration Report for the financial year ended 30 June 2014 is approved.”

PROXIES RECEIVED (1 OF 4)

BlueSky Alternatives Access Fund

RESOLUTION 1

Approval and adoption of the Remuneration Report

Resolution 1 seeks approval:

“THAT the Company’s Remuneration Report for the financial year ended 30 June 2014 is approved.”

	Proxies Received		
	For	**Against**	**Discretion**
# of shareholders			
# of votes cast			
% of votes to be able to cast			

ORDINARY BUSINESS

RESOLUTION 2(a)	**Re-election of Philip Hennessy as Director** Resolution 2(a) seeks approval: “THAT Philip Hennessy, who was appointed a Director by the Board of the Company on 15 April 2014 and will retire at the close of the Meeting in accordance with clause 19.2(b) of the Company’s Constitution, being eligible, be elected as a director of the Company.”

PROXIES RECEIVED (2 OF 4)

RESOLUTION 2(a)

Re-election of Philip Hennessy as Director

Resolution 2(a) seeks approval:

"THAT Philip Hennessy, who was appointed a Director by the Board of the Company on 15 April 2014 and will retire at the close of the Meeting in accordance with clause 19.2(b) of the Company's Constitution, being eligible, be elected as a director of the Company."

	Proxies Received		
	For	Against	Discretion
# of shareholders			
# of votes cast			
% of votes to be able to cast			

ORDINARY BUSINESS

RESOLUTION 2(b)	**Re-election of Paul Masi as Director** Resolution 2(b) seeks approval: “THAT Paul Masi, who was appointed a Director by the Board of the Company on 16 April 2014 and will retire at the close of the Meeting in accordance with clause 19.2(b) of the Company’s Constitution, being eligible, be elected as a director of the Company.”

PROXIES RECEIVED (3 OF 4)

RESOLUTION 2(b)

Re-election of Paul Masi as Director

Resolution 2(b) seeks approval:

"THAT Paul Masi, who was appointed a Director by the Board of the Company on 16 April 2014 and will retire at the close of the Meeting in accordance with clause 19.2(b) of the Company's Constitution, being eligible, be elected as a director of the Company."

	Proxies Received		
	For	Against	Discretion
# of shareholders			
# of votes cast			
% of votes to be able to cast			

SPECIAL BUSINESS

RESOLUTION 3	**Appointment of Company Auditor** Resolution 3 seeks approval: “THAT, for the purposes of section 327B(1) of the Corporations Act and for all other purposes, Ernst & Young, having been nominated by a shareholder of the Company and consented in writing to act, be appointed as auditor of the Company.”

PROXIES RECEIVED (4 OF 4)

RESOLUTION 3

Appointment of Company Auditor

Resolution 3 seeks approval:

"THAT, for the purposes of section 327B(1) of the Corporations Act and for all other purposes, Ernst & Young, having been nominated by a shareholder of the Company and consented in writing to act, be appointed as auditor of the Company."

	Proxies Received		
	For	Against	Discretion
# of shareholders			
# of votes cast			
% of votes to be able to cast			

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