BlueSky
Alternatives
Access Fund

# MONTHLY REPORT
## DECEMBER 2014

## 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 14.9% p.a. (net of fees, since inception).[1]

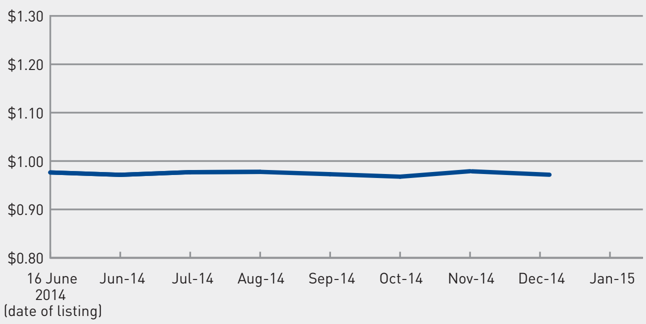
1. Overall returns to investors in Blue Sky managed funds are equity weighted. For more details, please refer to BLA's regular ASX announcements on the investment performance of its funds. Please also note that past performance is not a reliable indicator of future performance.

## NET TANGIBLE ASSETS – AS AT 31 DECEMBER 2014[2]

| | |
|---|---|
| Net Tangible Assets (NTA) per share (pre tax)[3] | $0.9578 |
| Net Tangible Assets (NTA) per share (post tax) | $0.9705 |

2. 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 0.9789 per share if all of the BAFO options had been exercised on 31 December 2014.
3. 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

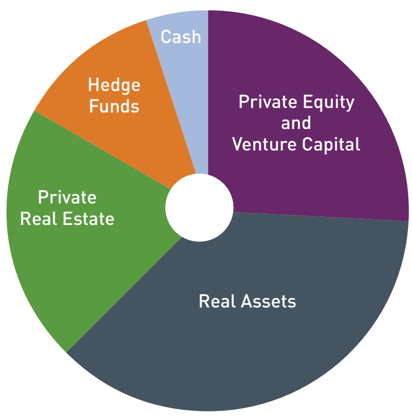



## SUMMARY OF INVESTMENT PORTFOLIO[4]

| | Current Value ($M) | % of Portfolio |
|---|---|---|
| **PRIVATE EQUITY AND VENTURE CAPITAL** | | |
| Private Equity investment(s) | $11.85 | 19.6% |
| Venture Capital investment(s) | $3.84 | 6.3% |
| Subtotal | $15.69 | 25.9% |
| **REAL ASSETS** | | |
| Water Fund | $16.02 | 26.4% |
| Other Real Assets | $6.18 | 10.2% |
| Subtotal | $22.20 | 36.6% |
| **PRIVATE REAL ESTATE** | | |
| Residential Development investment(s) | $7.65 | 12.6% |
| Residential Asset Management investment(s) | $1.87 | 3.1% |
| Commercial Asset Management investment(s) | $3.23 | 5.3% |
| Subtotal | $12.75 | 21.0% |
| **HEDGE FUNDS** | | |
| SRA Alliance Fund (IS 16Q) | $7.06 | 11.6% |
| Subtotal | $7.06 | 11.6% |
| Cash | $3.00 | 4.9% |
| **GRAND TOTAL** | **$60.70** | **100%** |

4. 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 investments in the month of December:

### Private Equity

The Alternatives Fund invested $3.5 million in the Blue Sky Private Equity Hospital Pharmacy Services Fund. The Blue Sky Private Equity Hospital Pharmacy Services Fund was established to invest in a leading Australian healthcare business. While we are not yet in a position to provide more details on the acquisition (due to confidentiality obligations that remain in place), the investment meets many of Blue Sky Private Equity's investment criteria. The target business is in an attractive, defensive sector supported by strong structural and demographic tailwinds, has a strong market position and is led by a strong and highly aligned management team.

### Private Real Estate

The Alternatives Fund invested $2.0 million in the Blue Sky Darra Industrial Income Fund. The Blue Sky Darra Industrial Income Fund was established to invest in the freehold title to a 3,479$m^2$ single-tenant industrial manufacturing, distribution and office facility sited on a 7,254$m^2$ land holding in the Brisbane suburb of Darra. This investment is expected to provide the Alternatives Fund with a combination of capital growth and strong, stable cash yield.

The Alternatives Fund invested $1.5 million in the Blue Sky Student Accommodation Fund. The Blue Sky Student Accommodation Fund was established to invest in the development and ownership of a 283 bed purpose built student accommodation facility located in the Brisbane suburb of Woolloongabba. The purchase of the property is due to settle in March 2015, with the facility expected to become operational in July 2016.

## INVESTMENT PERFORMANCE – EXISTING INVESTMENTS

The post-tax NTA of the Alternatives Fund decreased by $0.0084 in December. Material[5] changes that affected the NTA were:

- **Private equity and venture capital:** The Alternatives Fund's investment in the Blue Sky Hospital Pharmacy Services Fund contributed to $0.0029 of the decline in the Alternatives Fund's NTA in December due to the upfront transaction costs associated with this investment. There were no material changes to the value of the Alternatives Fund's existing investments in private equity in December. Under the Alternatives Fund's valuation policy (available on our website) private equity assets must be valued annually, and more frequently if it is considered that the value has changed to an extent that would be material to the Alternatives Fund's NTA. In December none of the Alternatives Fund's investments were revalued.
- **Real assets:** The value of the Alternatives Fund's units in the Blue Sky Water Fund increased by 0.52%, however there were no material changes to the value of the Alternatives Fund's investments in real assets in December. This growth represents ongoing strength in the value of water entitlements, and strong prices realised for the sale of temporary water allocations. More information on the outlook for the Australian water market is included in the Quarterly Investment Outlook on the following page.
- **Private real estate:** There were no material changes to the value of the Alternatives Fund's investments in private real estate in December. More information on the outlook for private real estate is included in the Quarterly Investment Outlook on the following page.
- **Hedge funds:** The value of the Alternatives Fund's units in the Blue Sky SRA Alliance Fund - IS 16Q decreased by 5.37% in December giving back most of the gains from November. Falling prices in US natural gas and livestock drove losses in the IS 16Q's commodity positions. Further depreciation in the Australia dollar negatively affected foreign exchange investments, whilst geopolitical uncertainty about the price of crude oil, which has fallen 40% in the quarter ended December 2014, drove up the price of option protection. The portfolio remains positioned to profit from a continuation of 2014 international equity market strength and falling interest rates globally.

## INVESTMENTS REALISED

There were no investments realised in the month of December.

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

## QUARTERLY INVESTMENT OUTLOOK

As previously disclosed, most of the decline in NTA for the Alternatives Fund since inception can be attributed to the initial costs associated with deploying capital in alternative asset classes (where transaction costs are generally higher than in the listed equities space due to the illiquidity of underlying investment markets). Now that the Alternatives Fund is fully deployed, we expect to see investment performance become the key driver of NTA movements. Our view on the outlook for each of the asset classes in which the Alternatives Fund invests is as follows:

- **Private equity and venture capital:** With the allocation to the Blue Sky Private Equity Hospital Pharmacy Services Fund, the Alternatives Fund is unlikely to allocate additional capital to private equity and venture capital in the short term. Instead, the focus will be on monitoring the current portfolio of investments, where current trading at each of Foundation Early Learning, Wild Breads and Readify is pleasing. In addition, we remain focused on Readify's IPO, with the appointment of Ord Minnett and Shaw Stockbroking as joint lead managers recently flagged in the media. Early feedback has been positive and we expect Readify to list this financial year.
- **Real assets:** The Alternatives Fund's primary allocation in the real assets space is to the Blue Sky Water Fund, where underlying conditions remain strongly supportive. Dry seasonal conditions have persisted, and farmers in the Murray-Darling Basin have been buying temporary water more strongly compared to previous years. More importantly, we expect ongoing structural change in the water market where water continues to move to its highest economic use. Examples of this trend include reductions in rice plantings (leading to the recent closure of SunRice's Coleambally mill) and increases in almond plantings across the Murray-Darling Basin. In each case, the application of water to crops generating a higher return per megalitre increases the clearing price for water, which we believe underpins a strong medium term outlook for water markets.
- **Private real estate:** The Alternatives Fund is invested in private real estate through the Blue Sky development projects, largely based in Brisbane, disclosed elsewhere in this report. As a result of expectations of ongoing low interest rates, and Brisbane's lower entry prices, higher yields and attractive demographic trends, the Brisbane market continues to experience strong demand from purchasers, particularly for high quality stock at attractive price points close to transport and the Brisbane CBD. We also expect to see a number of private real estate projects trigger revaluations towards the end of the financial year, as the revaluation criteria (unconditional land purchase, pre-sales targets met, debt arranged and a fixed price construction contract signed) are met. In addition, we are beginning to see attractive risk-return opportunities in other segments of private real estate, particularly in the development and ownership of student accommodation.
- **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. While performance has not been as strong as we would have liked since the Alternatives Fund's investment, the IS 16Q sub trust is constructed to make money across a range of market conditions, and has a strong track record of delivering returns over a seven year period. 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.

## 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 Fund LP | To hold a diversified portfolio of venture capital investments. |
| Hospital Pharmacy Services Fund | To hold equity in HPS Holdings Group (Aust) Pty Ltd, the market leading provider of outsourced pharmacy services to hospitals, oncology clinics and correctional facilities in Australia. |
| **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. |
| Water Utilities Australia Fund 2 | To hold equity in the Water Utilities Group, which owns and operates a portfolio of high-quality water infrastructure assets. |
| **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 650m$^2$ of ground floor commercial space in the Brisbane suburb of Greenslopes. |

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| 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. |
| Management Rights Income Fund 4 | Management rights for the 3 tower, 788 apartment 'Southport Central' precinct on the Gold Coast, plus the freehold title to the manager's office. |
| Student Accommodation Fund | A social accommodation development project consisting of a 12 storey, purpose-built, 283 bed student accommodation building in the Brisbane suburb of Woolloongabba. |
| Darra Industrial Income Fund | To hold the freehold title to a 3,479m$^2$ single-tenant industrial manufacturing, distribution and office facility sited on a 7,254m$^2$ land holding in the Brisbane suburb of Darra. |
| **HEDGE FUNDS** | |
| SRA Alliance Fund (IS 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. |