

27 January 2016

Updated Investment Valuation Policy

The Board of Blue Sky Alternatives Access Fund Limited ("**Alternatives Fund**") has approved certain amendments to the Alternatives Fund's Investment Valuation Policy ("**Policy**").

The amendments are directed to ensuring that the Policy clearly reflects the Alternatives Fund's existing valuation practices as well as ensuring that the Policy is readily applicable to the broadening range of investment classes in which the Alternatives Fund has and will invest (e.g. student accommodation, commercial property).

The amendments to the Policy are not expected to impact either the present value of any of the Alternatives Fund's existing investments or the Alternatives Fund's net tangible assets and have been drafted to accord with the applicable Australian Accounting Standards.

A complete copy of the amended Policy is attached.

For further information please contact:

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About the Alternatives Fund

The 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. We are the only listed investment company on the ASX that allows investors to make a strategic allocation to a diverse portfolio of directly managed alternative assets. Listed on the ASX on 16 June 2014, investments are made by BSAAF Management Pty Limited with the aim of providing investors a balance between capital gains and income.

Investment Valuation Policy

Blue Sky Alternatives Access Fund Limited

ACN 168 941 704

Approved and adopted by the Board on **25 January 2016**

Unless the context requires otherwise, terms used in this Policy have the meaning given in paragraph 6.

1. Introduction

- 1.1. Blue Sky Alternatives Access Fund Limited ACN 168 941 704 (**Company**) is a public company listed on the Australian Securities Exchange (**ASX**).
- 1.2. This document sets out the Company's policy regarding the valuation of the Company's investments in each of the alternative asset classes it invests in. This Policy is separate from and additional to the legal constraints imposed by the common law, the Act, Australian Accounting Standards (particularly AASB 139 (Financial Instruments: Recognition and Measurement)) and the ASX Listing Rules.
- 1.3. To the extent that any conflict arises between this Policy and the Act, Australian Accounting Standards (particularly AASB 139 (Financial Instruments: Recognition and Measurement)) or the ASX Listing Rules then those other documents will prevail.
- 1.4. Overall responsibility for this Policy rests with the Board. The Company has delegated responsibility for the valuation of the Company's investments to BSAAF Management Pty Ltd ACN 168 941 704.

2. Objectives

- 2.1. The fundamental objectives of this Policy are to ensure that:
 - 2.1.1. The valuation of each of the Company's investments is consistently reported in a way that accurately reflects its fair value (for example, in the Company's monthly net tangible asset (**NTA**) disclosures to the ASX and in its half and full year statutory reports);
 - 2.1.2. Any change in value of one or more of the Company's investments that may have a material impact on the Company's NTA or share price is disclosed in a timely manner to the ASX in accordance with the ASX Listing Rules;
 - 2.1.3. The process by which valuations are conducted is rigorous and incorporates an appropriate level of independent input and oversight;
 - 2.1.4. Valuation methodologies that comply with Australian Accounting Standards are applied in a consistent manner and in a way that reflects an 'industry standard' approach (for example, within the Private Equity and Venture Capital asset class, by following the *International Private Equity and Venture Capital Valuation Guidelines*); and
 - 2.1.5. The Company meets all its compliance obligations imposed by the common law, the Act, Australian Accounting Standards, the ASX Listing Rules or otherwise.
- 2.2. To the extent that any of the valuation procedures identified below are inconsistent with these fundamental objectives, these objectives will prevail.

3. Valuation of Open-Ended Funds

- 3.1. At the time of approval and adoption of this Policy, open-ended funds that are eligible for investment by the Company refer to the Hedge Funds and Water Fund managed by wholly owned subsidiaries of Blue Sky Alternative Investments Limited (**Blue Sky**).
- 3.2. Hedge Funds
 - 3.2.1. The assets held by each Hedge Fund managed by Blue Sky are subject to External Valuation by a third party fund administrator based on observable market prices. These External Valuations are used by the fund administrator to determine a unit price for each Hedge Fund.
 - 3.2.2. At a minimum, External Valuations are conducted (and unit prices calculated by the fund administrator) at the end of each week as well as at the end of each month.

3.2.3. Blue Sky's management team are responsible for reviewing these unit prices. In addition, the valuation of each Hedge Fund's assets are reviewed by the funds' auditor as part of their standard audit procedures.

3.2.4. In its reporting, the Company will generally adopt the valuation and unit price determined by the third party fund administrator at the end of each month, less any costs that would have been incurred by the Company on that date to exit any units it may hold (for example, a sell spread).

3.2.5. The key exception to this rule is that in the event the Company believes there may have been a change in the value of a Hedge Fund investment in between the month end External Valuations of the Hedge Funds, and that this change would have a material impact on the Company's share price (through a change in its overall net tangible assets), the Company will instruct the fund administrator to conduct an interim valuation and (if material) report the impact of this change to the ASX.

3.3. Water Fund

3.3.1. Assets held by the Water Fund are subject to External Valuation by a third party valuation expert based on observable market prices in the Australian water entitlements market. These External Valuations are used by the Water Fund's third party administrator to calculate a unit price.

3.3.2. At a minimum, External Valuations are conducted (and unit prices calculated) at the end of each month.

3.3.3. Blue Sky's management team have a responsibility to review these External Valuations and unit prices and confirm their accuracy. In addition, the valuation of the Water Fund's assets are reviewed by the fund's auditor as part of their standard audit procedures.

3.3.4. In its reporting, the Company will adopt the valuation implied by the unit price from the fund administrator that relates to the relevant reporting period, less any costs that would have been incurred by the Company on that date to exit any units it may hold (for example, a sell spread).

3.3.5. In the event the Company believes there may have been a change in the value of a Water Fund investment in between each month end External Valuation, and that this change would have a material impact on the Company's share price (through a change in its overall net tangible assets) the Company will instruct the valuer and fund administrator to conduct an interim External Valuation and (if material) report the impact of this change to the ASX.

4. Valuation of Closed-Ended Funds

4.1. At the time of approval and adoption of this Policy, closed-ended funds that are eligible for investment by the Company refer to all other investments managed by Blue Sky, including investments in the following asset classes:

- Private Equity and Venture Capital;
- Real Assets (excluding the Water Fund); and
- Private Real Estate.

4.2. **General Principles:** The following general principles will apply to the valuation of all closed-ended funds subject to any asset class-specific or fund-specific valuation principles set out later in this document.

4.2.1. At the end of each month, Blue Sky's management team will conduct an internal review of each investment held by a closed-ended fund (including those held at cost in accordance with paragraph 4.2.2) to determine whether there has been or may have been a material change in its value. Where it is determined that there has been or may have been such a change the management team will conduct an Internal Valuation.

- 4.2.2. In the first 12 months following an investment, any Internal Valuation will reflect the original cost of the investment unless there has been a material change in its value.
- 4.2.3. Following the first 12 months, any Internal Valuation will reflect the management team's view of the value of the investment determined using an industry-appropriate valuation methodology (e.g. earnings based multiple, discounted cash flow).
- 4.2.4. The Internal Valuations prepared by the management team in accordance with paragraph 4.2.3 will be subject to External Review (or the Fund's assets will be subject to External Valuation) by an independent third party valuer at least annually. These External Reviews (or External Valuations) will typically be conducted as at 30 June each year and may also be reviewed by the Company's auditor.
- 4.2.5. The valuations adopted by the management team when calculating a unit price for each closed-ended fund will be:
 - 4.2.5.1. (in the first 12 months): the valuation determined in accordance with clause 4.2.2; and
 - 4.2.5.2. (following the first 12 months): the most recent Internal Valuation which has been subject to External Review (or the most recent External Valuation) unless a more recent Internal Valuation indicates that there has been a change to the value of the investment which would have a material impact on the overall net tangible assets of the Company.
- 4.2.6. These unit prices will be calculated based on the relevant fund's net tangible assets and as a consequence will include an adjustment for fees incurred in the fund. This includes in the first 12 months where the unit value will generally reflect the cost of the fund's investments less the proportionate share of any transaction costs payable by the Company.
- 4.2.7. These unit prices will be reflected in the Company's subsequent monthly NTA statement to the ASX as well as in its statutory accounts.
- 4.2.8. Blue Sky's management team are responsible for reviewing these unit prices.
- 4.2.9. In the event that the Company believes there may have been a change in the value of an investment in between each month end Internal Valuation, and that this change would have a material impact on the overall net tangible assets of the Company, the Company will instruct Blue Sky's management team to conduct an interim Internal Valuation.
- 4.2.10. If required to comply with the ASX Listing Rules, any material change in valuation will be reported to the ASX.
- 4.2.11. While an External Review (or External Valuation) is required at least annually, the Board may request that they be performed more regularly in relation to one or more closed-ended fund investments. For example, where there has been a material change in the value of an investment which is likely to have a material impact on the net tangible assets of the Company, the Board may request an 'off-cycle' External Review (or External Valuation) by an independent third party valuer be performed.
- 4.3. **Residential Development Funds:** The following specific valuation principles will apply to the valuation of all residential development funds. To the extent of any inconsistency with the general principles above the specific principles identified below will prevail.
 - 4.3.1. The "**Initial Period**" for all residential development funds will commence when the fund is established and will end when all of the following criteria have been satisfied:
 - 4.3.1.1. The acquisition of the development land is un-conditional;
 - 4.3.1.2. A level of pre-sales sufficient to secure debt against the project is achieved;
 - 4.3.1.3. An amount of debt sufficient to complete the project is arranged; and

- 4.3.1.4. A fixed price construction contract for the project has been signed.
- 4.3.2. The Company and Blue Sky have adopted the above four hurdles on the basis that, once they are met, there is sufficient degree of certainty around the likely returns to calculate a unit price.
- 4.3.3. During the Initial Period, any land assets of residential development funds will be valued in accordance with paragraph 4.2.2. The values will be used to calculate a unit price in accordance with paragraph 4.2.6.
- 4.3.4. At the end of the Initial Period, Blue Sky's management team will conduct an Internal Valuation of each residential development project using a discounted cash flow methodology (or other industry standard approach, if applicable).
- 4.3.5. Following the end of the Initial Period, at the end of each month Blue Sky's management team will conduct a further Internal Valuation of each residential development project on the same basis as the valuation undertaken in accordance with paragraph 4.3.4.
- 4.3.6. Following the end of the Initial Period, these valuations will be subject to External Review (or an External Valuation of the Fund's assets will be prepared) by an independent third party valuer at least annually. These External Reviews (or External Valuations) will typically be conducted as at 30 June each year and may also be reviewed by the Company's auditor.
- 4.3.7. The valuations adopted by the management team as a unit price for each residential development fund will be:
- 4.3.7.1. (where an External Review has not occurred): the Internal Valuation conducted by the management team in accordance with clause 4.3.4;
- 4.3.7.2. (where an External Review has occurred): the most recent Internal Valuation which has been subject to External Review (or the most recent External Valuation);
- unless a subsequent Internal Valuation in accordance with paragraph 4.3.5 indicates that there has been a change to the value of the investment which would have a material impact on the overall net tangible assets of the Company.
- 4.3.8. This valuation will be reflected in the Company's subsequent monthly NTA statement to the ASX as well as in its statutory accounts.
- 4.3.9. Despite the guidelines described above, the Board may request that an External Review or External Valuation be performed at any time in relation to one or more residential development funds. For example, where there has been a material change in the value of an investment which is likely to have a material impact on the net tangible assets of the Company, the Board may request an 'off-cycle' External Review (or External Valuation) by an independent third party valuer be performed.

5. Review and changes

The Board will review this Policy as often as it considers necessary and may change this policy from time to time by resolution.

6. Defined Terms

In this Policy:

- 6.1. '**Act**' means the *Corporations Act* 2001 (Cth).
- 6.2. '**ASX**' means the Australian Securities Exchange.
- 6.3. '**ASX Listing Rules**' means the listing rules issued by the ASX.

- 6.4. **'Blue Sky'** means Blue Sky Alternative Investments Limited ACN 136 866 236 and its subsidiaries.
- 6.5. **'Board'** means the board of directors of the Company.
- 6.6. **'Company'** means Blue Sky Alternatives Access Fund Limited ACN 168 941 704.
- 6.7. **'External Valuation'** means a valuation prepared by an independent third party based on observable market prices or other acceptable industry valuation standards (e.g. earnings based multiple, discounted cash flow).
- 6.8. **'External Review'** means a process whereby an independent third party reviews an Internal Valuation to confirm that it reflects observable market prices and/or has been prepared in accordance with acceptable industry valuation standards and is a reasonable reflection of the investment's fair value.
- 6.9. **'Hedge Funds'** means the Blue Sky Alliance Fund and each of its sub-funds managed by Blue Sky Investment Science Asset Management Pty Limited along with any other products in the nature of a hedge fund managed by a wholly owned subsidiary of Blue Sky Alternative Investments Limited in future.
- 6.10. **'Internal Valuation'** means a valuation prepared by Blue Sky's internal management team based on observable market prices or other acceptable industry valuation standards (e.g. earnings based multiple, discounted cash flow).
- 6.11. **'Policy'** means this Investment Valuation Policy.
- 6.12. **'Water Fund'** means the Blue Sky Water Fund managed by Blue Sky Water Partners Pty Limited.