BlueSky
Alternatives
Access Fund

BLUE SKY ALTERNATIVES ACCESS FUND LIMITED

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5 November 2018

Blue Sky Alternatives Access Fund Limited (ASX: BAF) ('BAF')
Update on proposed transition to new manager and new investment mandate

- Variation of agreement with Alterum Investment Management Pty Ltd ('**Alterum**') to remove performance fees and reduce initial term of management agreement to five years.
- The date of the Extraordinary General Meeting ('**EGM**') for shareholder approval to be confirmed.
- Andrew Champion not seeking re-election to the board of BAF at the upcoming AGM to reflect his commitment to the Alterum proposal.

BAF received the **attached** correspondence from Alterum in relation to the management services agreement entered into between the parties dated 18 October 2018 ('**Alterum MSA**'). As set out in the attached letter, Alterum has agreed to amend the Alterum MSA to:

1. delete the provisions relating to the performance fee such that the only fee payable by BAF to Alterum under the Alterum MSA will be a 1.00% per annum (ex GST) management fee with an initial fee-free period on existing investments until 1 July 2019; and

2. amend the initial fixed term of the Alterum MSA to five years, following which shareholders will be entitled to vote to terminate the Alterum MSA on three months' notice by ordinary resolution.

BAF's independent non-executive directors welcome these proposed amendments, which bring the Alterum arrangements in line with the terms proposed by Wilson Asset Management ('**WAM**') (as announced on 24 October 2018) in respect of these key matters. All other terms of the Alterum MSA remain unchanged.

BAF's independent non-executive directors wish to advise that, reflecting his commitment to the proposal by Alterum, and in light of the matters to be considered at the EGM in December, Andrew Champion has, in consultation with the board of BAF, agreed that he will not stand for re-election at the AGM.

For completeness, the BAF board notes that at all times BAF has maintained, and will continue to maintain, appropriate protocols to deal with conflicts of interest.

BAF's independent non-executive directors also wish to take this opportunity to update shareholders on the process surrounding the proposed EGM (as announced on 18 October 2018). Relevantly, BAF's independent non-executive directors note the following.

1. as previously announced, BAF entered into agreements dated 18 October 2018 with Blue Sky Alternative Investments Limited (ASX: BLA) ('**BLA**') and its current manager BSAAF Management Pty Ltd ('**BSAAF**') pursuant to which the parties agreed to a mutual termination of the existing management services agreement in place between BAF and BSAAF on the condition that BAF:

    (a) enter into a new management services agreement with an affiliate of Pinnacle Investment Management Group Limited (ASX: PNI) ('**Pinnacle**'); and

    (b) obtain all necessary shareholder approvals in connection with termination of the existing management services agreement and the entry into the new management services agreement with an affiliate of Pinnacle.

2. As announced on 24 October 2018, BAF received a proposal from WAM for its appointment as BAF's new manager. Promptly following receipt of that proposal, BAF wrote to WAM noting that before BAF could further consider WAM's proposal they would require:

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(a) confirmation from BLA that it was willing to agree to terminate the existing management services agreement on the basis that WAM (rather than an Affiliate of Pinnacle) is appointed as BAF's ongoing manager; and

(b) a draft of the management services agreement WAM would propose be entered into between BAF and WAM.

3. WAM provided BAF with a draft management services agreement on 25 October 2018.

BAF notes that the independent expert is still preparing its report and that the notice of meeting for the proposed EGM will need to be reviewed by ASX and so will confirm the date of the proposed EGM as soon as possible.

For more information, please contact:

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Company Secretary
Blue Sky Alternatives Access Fund Limited

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4 November 2018

Mr Paul Masi, Mr Michael Cottier, Mr Peter Wade
Independent Non-Executive Directors
Blue Sky Alternatives Access Fund Limited

Dear Sirs

Variations to Agreements For Proposed New Manager and New Investment Mandate for BAF

We are pleased to have executed a deed of variation to the agreement executed and announced on 18 October 2018 between Blue Sky Alternatives Access Fund Limited ('BAF' or 'the Company') and Alterum Investment Management ('Alterum' or 'New Manager'), a majority owned affiliate of Pinnacle Investment Management Group Limited ('Pinnacle'), in relation to the proposed appointment of Alterum as the New Manager of BAF, subject to shareholder approval. The deed of variation amends the terms of the proposed new management agreement such that:

- **No performance fee will be charged by Alterum**

  The only fee payable to Alterum is a 1.0% per annum (plus GST) Management Fee calculated monthly on Portfolio Net Asset Value (with an initial fee-free period on existing investments until 1 July 2019 whilst the Company and the investment mandate is reset); and

- **Agreement with Alterum will be for an initial term of five years**

  Following the initial five year period shareholders will have the option to call a meeting in accordance with the ASX Listing Rules to vote on a resolution to terminate Alterum as the manager.

A more detailed overview of the proposed new management agreement and investment mandate is available in BAF's ASX announcements of 18 October 2018. These proposals were designed and negotiated by Alterum to ensure that:

- **Optimal returns are achieved for BAF shareholders from the current portfolio of investments managed by Blue Sky Alternative Investments Limited ('BLA') as well as the future deployment of existing cash and new capital; and**

- **The Company continues to offer a unique, attractive and scalable platform for retail investors to access sought-after best of breed private market alternative investment opportunities.**

Alterum believes that its proposal is the most attractive alternative available to the Company, and that it offers substantial benefits for BAF shareholders :

1. Alterum has a comprehensive working knowledge of the current BLA managed portfolio

The current portfolio includes a diverse and illiquid range of specialised investments managed by BLA. BLA-managed-investments currently account for approximately 75% of BAF's portfolio.[1]

- The Alterum management team maintains a deep working knowledge of the current investment portfolio and is best placed to manage the transition from the current portfolio to the new multi-manager mandate.
- Andrew Champion, who will lead Alterum, has been a member of the current manager's Investment Committee, an executive director of the Company since IPO, and executive chairman since November 2016.[2] Adam Sharplin, who will also join Alterum, has been the current manager's lead portfolio analyst since 2014.

2. Alterum has the requisite experience and track record to manage the new best of breed multi-manager mandate, and to reset the Company's share price to NTA

BAF has delivered total portfolio returns since inception of 8.56% p.a. to 30 September 2018,[3] a weighted average IRR on realised investments of 22%,[4] and a share price that traded at a premium to NTA for the majority of months from IPO until March 2018 (including for 22 consecutive months prior to March 2018).

- Andrew Champion has significant experience in private market alternatives, with it being a key area of his focus across various roles since the late 1990's.
- The Alterum executive team will be expanded in due course following shareholder approvals with a plan to hire at least one additional experienced private market alternatives fund manager and a junior investment analyst.
- Alterum's Investment Committee will include at least one independent non-executive senior private market alternatives industry participant, as well as senior representatives from Pinnacle.
- Alterum will be solely focused on managing BAF's portfolio, and its executives will have alignment through minority ownership of Alterum as well as through investment in BAF shares.

[1] As at 30 September 2018, adjusting for settlement of the announced exit from BAF's retirement living investments.
[2] On 26 October 2018, Andrew Champion transitioned the chair to Paul Masi, independent non-executive director.
[3] Includes growth in NTA plus dividends and franking credits.
[4] Including fee rebates but before tax and fees on BAF's portfolio as a whole.

3. Pinnacle has a highly successful track record of supporting new boutique fund managers and has significant private market alternatives experience

- Pinnacle, the majority owner of Alterum, has two highly successful affiliates that specialise in private market alternative asset investment: Metrics Credit Partners (in private debt), and Palisade Investment Partners (in unlisted infrastructure).
- Pinnacle is a 'pure-play' investment management firm providing a stable of boutique investment managers with market leading institutional grade distribution, fund management and other support services. Pinnacle was founded in 2006 and currently holds an existing equity interest in 12 other specialist investment managers which have in aggregate $48bn of AUM (as at 31 August). Pinnacle was recognised as the Zenith Distributor of the Year for 2018 (third consecutive year). Pinnacle is listed on the ASX (ASX code: PNI) and was recently added to MSCI Australian Small Cap Index and the S&P/ASX 300 Index. Pinnacle has a stated strategy to grow its stable of private market alternatives managers.

4. Pinnacle has a successful track record in LIC's and is best placed to assist Alterum reset the Company's share price

- Pinnacle has significant and successful LIC/LIT experience. Pinnacle affiliates currently manage four LIC/LIT's with an aggregate $1.75bn of AUM.[5]
- These four LIC/LITs trade at a weighted average discount of 0.8% to NTA, compared to the market average discount of 4.4% to NTA for ASX listed LICs.[5] Of these four Pinnacle LIC/LITs, the MCP Master Income Trust (ASX: MXT) is a private market alternatives LIT with a market cap of approximately $0.8b. Its share price trades at a 4% premium to NTA.[5]

Alterum and Pinnacle offer a unique opportunity to reset the Company and its share price from 1 January 2019, and are excited at the prospect of shareholder approval to begin implementing this strategy.

Yours faithfully,

Ian Macoun
Managing Director
Pinnacle Investment Management Group Limited
on behalf of Alterum Investment Management Pty Ltd

[5] As at 31 October 2018