

9 November 2018

**Blue Sky Alternatives Access Fund Limited (ASX: BAF) (BAF)
Notice of Extraordinary General Meeting**

Attached is BAF's Notice of Extraordinary General Meeting to be held on Thursday, 13 December 2018. This notice will be dispatched to shareholders early next week.

For more information, please contact:

Leyya Taylor
Company Secretary
Blue Sky Alternatives Access Fund Limited

Telephone: 07 3270 7500
Email: ltaylor@blueskyfunds.com.au
Website: blueskyfunds.com.au



Notice of Extraordinary General Meeting

Blue Sky Alternatives Access Fund Limited
ACN 168 941 704 (Company)

**THURSDAY, 13 DECEMBER 2018
3:00PM (AEDT)
Dexus Place Conference Centre
Level 5, 1 Margaret Street
Sydney NSW 2000**

This notice of Extraordinary General Meeting is an important document and should be read in its entirety.

If you are unable to attend the Extraordinary General Meeting, please complete the enclosed Proxy Form and return it in accordance with the instructions set out in this notice.

Notice of Extraordinary General Meeting

The Extraordinary General Meeting of Blue Sky Alternatives Access Fund Limited (the **Company**) will be held at Dexus Place Conference Centre, Level 5, 1 Margaret Street, Sydney at 3:00pm (AEDT) on Thursday, 13 December 2018 (the **Meeting**).

IMPORTANT: The resolutions set out in this Notice of Extraordinary General Meeting (**Notice**) should be read in conjunction with the Explanatory Memorandum which follows.

Special Business

RESOLUTION 1 – APPROVAL TO TERMINATE EXISTING MANAGEMENT AGREEMENT AND ENTRY INTO NEW MANAGEMENT AGREEMENT

To consider, and if thought fit, pass the following as an **ordinary** resolution on a poll:

“THAT, the Company be authorised to terminate the management services agreement between the Company and BSAAF Management Pty Ltd dated 6 May 2014 and enter into a management agreement with Alterum Investment Management Pty Ltd on the terms summarised in the explanatory memorandum accompanying the notice of meeting, effective from 11.59pm AEST on 31 December 2018”.

RESOLUTION 2 – APPROVAL TO CHANGE COMPANY NAME AND CONSTITUTION

To consider, and if thought fit, pass the following as a **special** resolution on a poll:

“THAT, subject to Resolution 1 being passed:

- (a) the name of the Company be changed to Alternative Markets Access Fund Limited; and*
- (b) all references in the Company’s constitution to “Blue Sky Alternatives Access Fund Limited” be amended to “Alternative Markets Access Fund Limited” to reflect the Company’s new name,*

such changes to be effective from 12.00 am AEST on 1 January 2019.”

By order of the Board



Paul Masi
Board chair

Date: 9 November 2018

Notes to Notice of Extraordinary General Meeting

How to vote

You may vote by attending the Meeting in person or by proxy. A body corporate may vote by appointing a corporate representative.

Voting in person

To vote in person, attend the Meeting on Thursday, 13 December 2018 at Dexus Place Conference Centre, Level 5, 1 Margaret Street, Sydney. The Meeting will commence at 3:00pm (AEDT).

Voting entitlement

For the purpose of voting at the Meeting, persons holding fully paid ordinary shares in the capital of the Company at 7:00 pm (Sydney time) on Tuesday, 11 December 2018 will be treated as shareholders of the Company. This means that if you are not the registered holder of a relevant share at that time, you will not be entitled to vote in respect of that share at the Meeting.

All resolutions at the Meeting will be conducted by poll.

Voting exclusions

The Company has determined that it will disregard any votes cast by Alterum Investment Management Pty Ltd and its associates on Resolution 1.

For the purposes of the ASX Listing Rules, the Company will disregard any votes cast in favour of Resolution 1 by or on behalf of:

- Alterum Investment Management Pty Ltd or any associates of Alterum Investment Management Pty Ltd; and
- any person who might obtain a benefit if this Resolution is passed, except a benefit solely in the capacity of a holder of shares of the Company, and any Associate of that person (or those persons).

However the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

For the purpose of this voting exclusion, the relevant interpretation of **associate** is the interpretation in section 11 and sections 13 to 17 of the Corporations Act, with section 13 to be applied as if it was not confined to associate references occurring in Chapter 7 of the Corporations Act.

Voting by proxy

You may appoint any person to attend the Meeting and vote as your proxy, including the Chair. A proxy is not required to be a shareholder of the Company. A Proxy Form is enclosed with this Notice.

How is the proxy to vote

Unless the proxy is required by law to vote, the proxy may decide whether or not to vote on any particular item of business. If the appointment of proxy directs the proxy to vote on an item of business in a particular way, the proxy may only vote on that item as directed. Any undirected proxies on a given resolution may be voted by the appointed proxy as they choose, subject to the voting exclusions described on the previous page.

Notes to Notice of Extraordinary General Meeting - continued

Appointing more than one proxy

A shareholder entitled to cast two or more votes may appoint two proxies. If you appoint two proxies, you may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number of votes is specified, each proxy may exercise half of your votes (disregarding fractions).

How to appoint a proxy

You can appoint a proxy in four ways:

- **ONLINE:** www.linkmarketservices.com.au
Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgment facility, shareholders will need their 'Holder Identifier' (Security Holder Reference (SRN) or Holder Identification Number (HIN), as shown on the front of the Proxy Form).

BY MAIL: Blue Sky Alternatives Access Fund Limited
c/o Link Market Services Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235
- **BY FAX:** In Australia (02) 9287 0309
From outside Australia +61 2 9287 0309
- **BY HAND:** Delivering it to
Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

or
Level 12, 680 George Street
Sydney NSW 2000

To be valid, your proxy appointment must be made online or your Proxy Form must be received no later than 3:00pm (AEDT) on Tuesday, 11 December 2018 (being 48 hours before the commencement of the Meeting).

If the Proxy Form is signed by an attorney, the power of attorney or a certified copy of it must be sent with the Proxy Form.

Chair's intention

The Chair intends to vote all valid undirected proxies received in favour of each resolution subject to the voting exclusions on the previous page.

If you have any queries on how to cast your votes please call the Company on (07) 3270 7500 between 8:00am to 5:00pm (Brisbane time) Monday to Friday.



Explanatory Memorandum

Blue Sky Alternatives Access Fund Limited
ACN 168 941 704 (Company)

In relation to an Extraordinary General Meeting (EGM) of the Company at which the proposal to change the Company's investment manager and investment mandate is to be considered.

This Explanatory Memorandum forms part of the notice convening the **EGM** of the Company to be held at Dexus Place Conference Centre, Level 5, 1 Margaret Street, Sydney at 3:00pm (AEDT) on Thursday, 13 December 2018.

Information relevant to the business to be conducted at the EGM is provided in this Explanatory Memorandum.

You should read this Explanatory Memorandum in its entirety before making a decision in relation to the resolutions to be considered at the EGM.

Please refer to the Glossary in section 7 for definitions of terms used in this Explanatory Memorandum.

If you have any queries on the matters to be considered at the EGM please call the Company on (07) 3270 7500 between 8:00am to 5:00pm (Brisbane time) Monday to Friday.

This is an important document and requires your immediate attention.

Shareholders should seek legal, financial or other professional advice specific to your circumstances.

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1. Overview of the Proposal

1.1. OVERVIEW

On 18 October 2018, the Company announced a proposal (**Proposal**) to reposition the Company as a diversified alternatives, 'best of breed' multi-manager fund and a change of investment manager from BSAAF Management Pty Ltd (**BSAAF**), a wholly owned subsidiary of Blue Sky Alternative Investments Limited (ASX: BLA) (**BLA**) to Alterum Investment Management Pty Ltd (**Alterum**), an investment management entity that is majority owned by Pinnacle Investment Management Group Limited (ASX: PNI) (**Pinnacle**).

The Proposal follows a strategic review process to address the Company's recent trading discount to net tangible assets (**NTA**) and seeks to preserve the nature of the Company as an investment vehicle to access private market opportunities typically only accessible by institutional and wholesale investors, while broadening its scope to a 'best-of-breed' multi-manager strategy. It provides an opportunity to deploy capital into a multi-manager platform and broadens the scope of its investment opportunities, including into asset classes that are not currently available to it under the existing BLA-managed mandate.

A summary of the key terms of the Proposal is as follows:

- The Company has entered into a new management services agreement with Alterum that will be effective from 1 January 2019, subject to receiving shareholder approval at this meeting (**Alterum Management Agreement**).
- A new investment mandate will be implemented with Alterum under the Alterum Management Agreement to take effect from 1 January 2019 for a diversified alternatives 'best-of-breed' multi-manager fund.
- The Company has also entered into an implementation deed with BLA and BSAAF (**Blue Sky Implementation Deed**) governing the terms on which the Company and BLA have agreed to the mutual cessation of the existing management agreement (**Blue Sky Management Agreement**) from 31 December 2018.
- The Company and BLA have also agreed certain transitional and ongoing arrangements under the Blue Sky Implementation Deed, including new fee arrangements with BLA in relation to existing BLA-managed AUM going forward.
- Former BAF executive Chairman Andrew Champion will join Alterum and will hold a 25% minority equity interest in Alterum alongside Pinnacle, together with Adam Sharplin, current BAF Portfolio Analyst who will hold a 5% minority equity interest. As announced on 5 November 2018, Andrew Champion has, in consultation with the board of BAF, agreed that he will not stand for re-election at the AGM and accordingly he will not be a director at the time of the EGM.¹
- A new investment mandate will be implemented under the Alterum Management Agreement. The new mandate will continue to focus on investments in private market alternative assets but with a wider scope permitting investments in a broader potential alternative asset class mix than those under the existing arrangements (being real assets, private equity and private real estate consistent with the existing mandate, plus private debt, private infrastructure and other alternative asset classes as recommended by Alterum and approved by the Board from time to time²), and allowing allocations to 'best of breed' investment managers across a diversified portfolio of private market alternative assets as opposed to the current arrangements which restrict the portfolio to BLA-managed investments only.
- At this stage, no other changes are being proposed to the Company's board of directors in connection with the Proposal.

¹ Andrew Champion resigned as executive chair of the Board on 26 October 2018 as announced on that date.

² The Alterum mandate includes hedge funds which may be used to optimise returns where liquidity is required in the portfolio, such as for managing capital calls.

1. Overview of the Proposal - continued

If the Proposal is implemented, the Company also proposes to change its name to *Alternative Markets Access Fund Limited* with a new ASX code: 'AMF' to take effect from 1 January 2019 reflecting the new management arrangements.

The purpose of this EGM is for the Company's Shareholders to approve:

- the termination of BSAAF as existing investment manager and the entry into the Alterum Management Agreement to appoint Alterum as the new investment manager (**Resolution 1**); and
- the change of company name and corresponding changes to the Company's constitution (**Resolution 2**).

Resolution 1 is an ordinary resolution requiring approval by a majority (50%) of Shareholders voting at the meeting in person or by proxy. Resolution 2 (change of name and constitution) is a special resolution requiring 75% approval from Shareholders voting at the meeting in person or by proxy under the Corporations Act.

Resolution 2 is conditional on Resolution 1 being passed and Resolution 2 will only be put to the meeting if Resolution 1 is approved. Resolution 1 is not conditional on Resolution 2 being approved and if Resolution 1 is approved, the termination of BSAAF as manager and appointment of Alterum as new manager will take place irrespective of whether Resolution 2 is passed.

Please refer to the following sections for more detail on the various aspects of the Proposal, including:

- a summary of the terms of the Blue Sky Implementation Deed in section 2;
- a summary of the terms of the Alterum Management Agreement in section 3;
- details about Alterum and Pinnacle in section 4; and
- details of the proposed resolutions to be considered at the EGM in section 6.

1.2. WHY ARE THE INDEPENDENT DIRECTORS RECOMMENDING THE PROPOSAL?

As previously foreshadowed, the Board has undertaken a strategic review of the Company's existing arrangements in response to events affecting BLA during the 2018 financial year that resulted in BLA experiencing significant market and operating disruption. In particular, BLA announced a number of material balance sheet write downs, removal of earnings guidance, cost saving initiatives (including a rationalisation of investment focus and distribution models), a review of BLA's future strategic direction, and changes to its Board of Directors and senior management.

These events had an impact on the market for BAF shares, with BAF's share price falling to a 20%+ discount to pre-tax NTA after BLA emerged from its initial trading halt, following an extended period where BAF shares traded at a premium to NTA. The significant BAF share price discount to NTA has persisted to the time of this Explanatory Memorandum being prepared.

The BAF Board has closely monitored developments in this respect and to-date has taken the following action in response to the market events:

- in March 2018, BAF ceased deploying capital into new funds (other than existing contractual fund commitments);
- the standing twelve month forward schedule of independent valuation reviews of closed-ended fund carrying values was accelerated to occur across the last quarter of FY18, with results reported in the monthly NTA reports across that period;
- in April 2018, the Company announced and commenced an on-market share buyback program. As at 5 November 2018³, 9.27 million shares have been acquired at a weighted average price of \$0.8371 per share with approximately \$7.76 million returned to Shareholders;
- Peter Wade was appointed to the Board on 4 October 2018 as an additional independent non-executive director to create a majority of independent directors on the BAF Board;
- on 26 October 2018, the chair role was transitioned from executive director Andrew Champion to independent non-executive director Paul Masi. BAF had announced that this was to occur at the end of the upcoming AGM, but it was accelerated in the interests of prudent governance in light of the Proposal; and
- as announced on 5 November 2018, Andrew Champion will not stand for re-election at the AGM.

Concurrent to implementing the actions above, the Board undertook a comprehensive review of the Company's strategic alternatives. The result of this strategic review is a recommendation to Shareholders to reposition the Company to a diversified private market alternatives, 'best of breed' multi-manager fund, managed by Alterum. The proposed terms of Alterum's appointment under the new Alterum Management Agreement, including a comparison against the terms of the existing Blue Sky Management Agreement has been set out in section 3 of this Explanatory Memorandum, whilst information about Alterum and Pinnacle is provided in section 4.

³ 5 November 2018 was the last day on which shares were bought back under the on-market share buyback program prior to the dispatch of this Notice of Meeting

Whilst not formally required under the ASX Listing Rules or Corporations Act, in the interests of good governance, the Independent Directors have engaged BDO Corporate Finance (QLD) Ltd (**Independent Expert**) to undertake an independent assessment of the arrangements contemplated by the Proposal and prepare an independent expert's report (**Independent Expert's Report**).

The Independent Expert has concluded in the Independent Expert's Report that:

- the advantages to BAF Shareholders of the Proposal outweigh the disadvantages; and
- the new management services agreement with Alterum is at an arm's length.

A copy of the Independent Expert's Report has been provided to Shareholders with this notice of meeting. Shareholders are encouraged to read this Independent Expert's Report in full.

The view of the Independent Directors (being the three current non-executive directors, and excluding executive directors Andrew Champion and Laz Siapantas)⁴ is that:

- having regard to the Independent Expert's opinion and other factors, such as the broader mandate, Alterum's private markets investment experience, continuity afforded by Alterum's executive investment team, and Pinnacle's established fund manager infrastructure and support services (together with other factors set out in section 5.4); and
- subject to the Company not receiving a superior proposal to the Alterum proposal from a third party supported by an agreement between the third party and BLA allowing the proposal to be implemented,

the Proposal to transition the Company to a new manager in Alterum and a new investment mandate, provides the most attractive opportunity at this time relative to the alternatives considered and currently available to address the ongoing share price discount to NTA and is in the best interests of Shareholders.

The Independent Directors' note that the Alterum Proposal also preserves the unique elements of the Company's core product attributes, including:

- liquid access to sought-after private market opportunities typically only available to institutional and wholesale investors;
- a diversified portfolio of private market alternative assets;
- low total portfolio volatility;
- low correlation to traditional asset classes such as listed equities and fixed income; and
- opportunities to generate attractive absolute returns comprising both yield and capital gain.

Accordingly, the Independent Directors unanimously recommend that Shareholders vote in favour of the Resolutions at the Meeting to enable the implementation of the Proposal, subject to the Company not receiving a superior proposal to the Alterum proposal from a third party supported by an agreement between the third party and BLA allowing the proposal to be implemented.

1.3. ADVANTAGES AND DISADVANTAGES OF THE PROPOSAL

There are a number of advantages and disadvantages associated with the Proposal which should be considered by Shareholders. Refer to section 5 for more details regarding the advantages and disadvantages.

1.4. WHAT WILL OCCUR IF THE PROPOSAL DOES PROCEED

If Resolution 1 is passed and the Proposal is implemented, BSAF's appointment as investment manager for the Company under the terms of the Blue Sky Management Agreement will cease at 11.59pm AEST on 31 December 2018 and Alterum's appointment as investment manager under the terms of the Alterum Management Agreement will commence from 12.00am AEST on 1 January 2019.

If Resolution 2 is also passed, the Company's name will change from *Blue Sky Alternatives Access Fund Limited* to *Alternative Markets Access Fund Limited* and the Company's ASX code will also change from 'BAF' to 'AMP' with effect from 1 January 2019. Consequential amendments to the Company's constitution to reflect the new name will also take effect.

⁴ As noted above, on 5 November 2018, Andrew Champion withdrew his intention to stand for re-election as a director of the Company at the AGM.

1. Overview of the Proposal - continued

1.5. WHAT WILL OCCUR IF THE PROPOSAL DOES NOT PROCEED

Implementation of the Proposal requires Resolution 1 to be approved by a majority of Shareholders voting at the EGM in person or by proxy. This will mean if Resolution 1 is not approved by the requisite majority the status quo will be maintained, with BLA (through BSAAF) managing the Company's portfolio under the existing Blue Sky Management Agreement and in accordance with the current investment mandate.

As noted above, no investments have been made under the existing BLA investment mandate since March 2018, other than existing contractual fund commitments. Cash has been partly deployed to fund the on-market share buy-back program (see section 1.2).

If the Proposal does not proceed the Company will consider the options that are available to it at that time. It is likely that:

- whilst a material share price discount to NTA persists, the Board will maintain its directive for no deployments or commitments to new BLA-managed funds; and
- the Company will continue operating under the existing management arrangements with BLA, but most likely on a wind-down basis with investments realised in the usual course by BLA.

The Independent Directors believe that a wind-down scenario would likely lead to sub-optimal outcomes for Shareholders, as:

- an orderly realisation of all existing assets in the portfolio is likely to take an extended period of time. Many of the private market funds in which BAF is invested are engaged in investment strategies with a medium to long term investment case and therefore any disposal may take considerable time to execute. On average, many of BAF's funds are less than two years into this investment cycle;
- BAF, having been established in 2014 as a co-investment fund for retail investors to access BLA's predominantly wholesale and institutional investment strategies, does not have control over the timing of exits / realisations from underlying investments. In many cases, BAF's capital is significantly less than the capital contributed by other investors in the relevant underlying fund (and BAF cannot hold more than 50% of an underlying BLA fund). BLA (through its subsidiaries), as investment manager of those underlying funds, has a fiduciary duty to act in the best interests of each fund's investors as a whole, which may not facilitate BAF's desire to accelerate the realisation of its portfolio in a wind-down scenario. BAF's manager may explore secondary sales of its units, but as a declared seller, this may lead to material discounts to fair value;
- it is unlikely that, with the Company's portfolio in wind-down mode and no investment-grade rating, the current share price discount to NTA would close. In fact, it may deteriorate further; and
- there would be reduced economies of scale in respect to the ongoing listed investment company operating costs. In FY18, BAF's total overheads were approximately \$3.7 million, composed of management fees of \$2.8 million and operating expenses of \$0.9 million. Although management fees are calculated according to portfolio net asset value, a large proportion of BAF's operating expenses are largely fixed in nature. These include audit fees, Board fees, Board and Company insurance, ASX listing fees, share registry costs, AGM costs, and other shareholder communications costs.

The Board notes that, during a wind-down period, it may receive and consider additional proposals for the new management of the Company as and when they arise. This may or may not include the proposal that has been received from WAM (refer section 1.6 below) or other proposals.

For further information see section 5.4 and the Independent Expert's Report set out in Appendix A.

1.6. ALTERNATIVES TO THE PROPOSAL CONSIDERED BY THE INDEPENDENT DIRECTORS

In considering the Proposal and making their recommendation, the Independent Directors have considered alternative initiatives that are available to the Company as well as the potential implications for Shareholders if any one or more of those initiatives were pursued.

In addition to:

- a new manager and new investment mandate; and
- an orderly wind-down of the Company's portfolio and return of capital to Shareholders,

the Independent Directors also considered:

- a mutually-agreed cessation of the Blue Sky Management Agreement and subsequent internalisation of the management function;
- broadening the investment mandate, but BLA remaining as the Company's investment manager; and
- the alternative management proposal that was received from Wilson Asset Management (International) Pty Limited ACN 081 047 118 (AFSL 247333) (**WAM**), as noted in the market announcements on 24 and 26 October 2018.

As at the time this Explanatory Memorandum was prepared, BLA has not agreed to the termination of the Blue Sky Management Agreement in place between BAF and BSAAF on the basis that WAM is appointed as BAF's new manager. Consequently, as at the time this Explanatory Memorandum was prepared, the WAM proposal is not a proposal which BAF is able to put to Shareholders for consideration. In any event, BAF's Independent Directors note that the proposal and draft management services agreement put forward by WAM:

- provide for WAM to deliver a significantly narrower scope of services than those to be provided under the Alterum Proposal;
- do not identify key personnel or resources with experience in private market alternatives; and
- in the case of the management services agreement, do not include any provision for the fee-free period in respect of BLA-managed assets as described in WAM's proposal.

These matters have been communicated to WAM.

1.7. WHAT SHOULD SHAREHOLDERS DO?

Before making a decision in relation to the Proposal and considering whether you wish to follow the Independent Directors' recommendations, you should:

- read this Explanatory Memorandum in full, including the Independent Expert's Report set out in Appendix A of this Explanatory Memorandum;
- consider your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- consult your legal, financial or other professional adviser if you believe that is necessary.

The information in this Explanatory Memorandum should be read in conjunction with the Company's other periodic and continuous disclosure announcements and other announcements to ASX which are available at www.asx.com.au.

If you have any questions regarding the matters set out in this Explanatory Memorandum (or elsewhere in the EGM Notice) please call the Company on (07) 3270 7500 between 8:00am to 5:00pm (Brisbane time) Monday to Friday.

2. Summary of Blue Sky Implementation Deed

2.1. BACKGROUND

The Company has entered into the Blue Sky Implementation Deed with BLA and BSAAF to set out their agreement in relation to the mutual cessation of the existing Blue Sky Management Agreement in place between the Company and BSAAF if the Proposal is implemented.

The Blue Sky Management Agreement was entered into on 6 May 2014 in advance of the Company's IPO and admission to the official list of the ASX. Under the terms of the existing management agreement, BSAAF was appointed as investment manager of the Company's portfolio for an initial term of 10 years.⁵

If the Proposal is implemented, the Blue Sky Management Agreement will be terminated and BSAAF's appointment as the investment manager to manage the Company's portfolio will cease from 11.59 pm AEST on 31 December 2018 (**Effective Time**). New arrangements will come into effect with BLA with respect to the ongoing management of existing BLA-managed assets within the current portfolio from 1 January 2019.

Shareholder approval of the Proposal is a condition precedent to the Blue Sky Implementation Deed coming into effect. If Resolution 1 is approved by Shareholders at the EGM, the actions under the Blue Sky Implementation Deed will take effect automatically from the Effective Time.

2.2. SUMMARY OF KEY TERMS

A summary of the key terms of the Blue Sky Implementation Deed are set out below.

Provisions relating to the termination of BSAAF's appointment as manager

- The Blue Sky Management Agreement and the obligations of the Company and BSAAF under the Blue Sky Management Agreement will be terminated at the Effective Time.
- No fee will be payable to BSAAF or BLA in connection with the termination of the Blue Sky Management Agreement but there will be a reconciliation of management fees and performance fees to occur promptly following the preparation of the Company's monthly NTA report for December as follows:
 - management fees owing to BSAAF for the period ending at the Effective Time (that have not been previously paid) will be calculated and paid in accordance with the terms of the Blue Sky Management Agreement; and
 - performance fees owing to BSAAF for the six month period ending at the Effective Time (1 July 2018 to 31 December 2019) will be calculated and paid in accordance with the terms of the Blue Sky Management Agreement but will be based on the NTA-backing of the portfolio for December 2018.⁶
- BSAAF and the Company have agreed that certain transitional services will continue to be provided by BSAAF and BLA (for no consideration) for a period after the Effective Time including services required:
 - for the preparation of BAF's monthly NTA backing reports for December 2018 to facilitate lodgement of the NTA report with the ASX by the requisite lodgement date;
 - for the preparation and audit of BAF's financial statements and half year report (Appendix 4D) for the period ending at the Effective Time to facilitate lodgement of the half year report and financial statements with the ASX by the requisite lodgement date; and
 - to transition all other back office administration support functions that are currently being provided by BSAAF or other entities related to BLA to Alterum or Pinnacle pursuant to the new management arrangements.

⁵ A waiver to the operation of Listing Rule 15.16 was granted by the ASX prior to its IPO permitting the management agreement to have a 10 year initial term, notwithstanding the requirement in Listing Rule 15.16(b) that fixed terms not exceed 5 years.

⁶ To the extent the calculated performance fee is a positive amount, BAF will pay that amount to BSAAF, however to the extent it is a negative amount, no amount will be payable and it will be carried forward and offset against any future performance fee that may be payable to BSAAF in respect of existing assets in BAF's investment portfolio which are managed by entities associated with BLA. It is presently expected that the calculated performance fee will be a negative amount.

Provisions relating to ongoing fee arrangements on BLA-managed assets within the portfolio

- Going forward from 1 January 2019, existing BLA-managed assets in the Company's portfolio as at the Effective Time will be retained but will be subject to new management and performance fee arrangements from 1 January 2019 as follows:
 - a 1.2% p.a. management fee (consistent with the current fee rate) will be payable to BLA on a fund by fund (not a portfolio) basis, monthly in arrears from 1 January 2019 and:
 - for closed-ended funds, the fee will be calculated based on the carrying value at 31 December 2018; and
 - for the Blue Sky Water Fund, the fee will be calculated based on the net asset value of BAF's interest in the Blue Sky Water Fund calculated:
 - in respect of the month commencing on 1 January 2019, at 31 December 2018; and
 - in respect of each other period, on the basis of the prevailing unit price for units in the Blue Sky Water Fund as at the calculation date;
 - a 17.5% performance fee in excess of an 8% IRR hurdle (consistent with current fee rate)⁷, will be calculated from 1 January 2019 and payable on a fund by fund (not a portfolio) basis on the same terms as the underlying fund and:
 - for closed-ended funds, payable only on final exit with the investment cost base for units in each fund reset to the higher of \$1 per unit or the carrying value at 31 December 2018; and
 - for Blue Sky Water Fund, payable annually subject to a 'high water mark' with the investment cost base for units in the Blue Sky Water Fund reset to the higher of \$1 per unit or the carrying value at 31 December 2018; and
 - any underperformance to the 8% pa hurdle rate in the existing management agreement through to 31 December 2018 must be caught up prior to future performance fees being paid.
- Alterum's investment mandate under the Alterum Management Agreement allows for deployments into new BLA-managed investment offerings where they meet the investment criteria under the new Alterum investment mandate at the discretion of Alterum's investment committee.

2.3. INTENTIONS REGARDING BLA-MANAGED INVESTMENTS AFTER THE EFFECTIVE TIME

It is intended that the Company's investments in BLA-managed real assets (water and agricultural investments) will remain a cornerstone position of the Company's portfolio.

Other BLA-managed investments in the Company's portfolio will be progressively realised and recycled in accordance with the new multi-manager mandate over time, in accordance with their investment horizons.

⁷ After accounting for payment of any management fees in respect of BAF's interest in the fund.

3. Summary of Alterum Management Agreement

3.1. BACKGROUND

The Company has entered into the Alterum Management Agreement with Alterum governing the terms on which Alterum will provide investment management services to the Company after the Effective Time if the Proposal is implemented.

If the Proposal is implemented, the Alterum Management Agreement will come into effect and Alterum's appointment as the new investment manager to manage the Company's portfolio will commence from 12.00 am AEST on 1 January 2019.

Shareholder approval of the Proposal and termination of the Blue Sky Management Agreement are conditions precedent to the Alterum Management Agreement coming into effect. If the resolutions are approved by Shareholders at the EGM, the actions under the Alterum Management Agreement will take effect automatically.

3.2. SUMMARY OF KEY TERMS OF ALTERUM MANAGEMENT AGREEMENT

A summary of the key terms of the Alterum Management Agreement is set out below. The below summary includes the variations to the Alterum Management Agreement announced to the ASX on 5 November 2018 pursuant to the deed of variation executed between BAF and Alterum on 5 November 2018.

Term	Summary
Parties	The Company and Alterum Investment Management Pty Ltd.
Services	Alterum is appointed as manager of the Company's investment portfolio for the term of the Alterum Management Agreement and must manage and supervise all investments in accordance with the terms of the Alterum Management Agreement.
Term	The initial term of the Alterum Management Agreement is five years unless terminated earlier in accordance with the Alterum Management Agreement (see below). At the end of the initial term, the term will be automatically renewed for successive five year terms unless terminated earlier in accordance with the terms of the agreement.
Termination	<i>Termination by Shareholders</i> After the expiry of the initial term, the Alterum Management Agreement will automatically terminate three months after an ordinary resolution of the Company is passed to end the Alterum Management Agreement. <i>Termination by Company for Alterum breach</i> At any time, the Company is entitled to immediately terminate the Alterum Management Agreement and remove Alterum by written notice on the occurrence of any one of the following events: ■ Alterum breaches a material term of the Alterum Management Agreement and fails to remedy the breach within 30 days following written notice to it by the Company specifying the breach and requiring it to be remedied; ■ Alterum persistently fails to manage the portfolio and supervise investments in accordance with Applicable Regulations and the Investment Mandate (as defined under the Alterum Management Agreement); or ■ Alterum ceases to hold all authorisations necessary for the lawful performance of its duties under the Alterum Management Agreement. <i>Termination by Alterum</i> At any time, Alterum is entitled to terminate the Alterum Management Agreement on one month's written notice to the Company in the event of any breach of a material term of the Alterum Management Agreement by the Company, where the Company has failed to remedy the breach within 30 days following written notice to it specifying the breach and requiring it to be remedied. After the initial term, Alterum is entitled to terminate the Alterum Management Agreement by providing three months' written notice to the Company. <i>Other termination rights</i> In addition to the above rights, the Alterum Management Agreement will also automatically terminate immediately where either party: ■ ceases to carry on business; or ■ suffers a stated insolvency event.
Termination payment	If the agreement is terminated by Shareholder ordinary resolution after the initial term, Alterum will be entitled to a termination payment that is equivalent to 12 months' management fees based on the 12 month period ending on the termination date.

3. Summary of Alterum Management Agreement - continued

Management fee	Alterum will be paid a management fee of 1.00% of the net asset value of the Company's portfolio (excluding accruals for management fees and performance fees) per annum calculated and paid monthly in arrears within 14 days of the portfolio net asset value of the Company being calculated. The management fee is calculated exclusive of GST. Alterum will not charge management fees on existing BLA-managed investments for the period from 1 January 2019 until 1 July 2019.
Performance fees	Alterum will not be entitled to any performance fees.
Expenses	The Company is liable for all taxes (excluding taxes assessed or payable on any fees earned by Alterum or its agents pursuant to the Alterum Management Agreement) costs, charges and expenses properly and reasonably incurred in connection with the provision of services under the Alterum Management Agreement, investment and management of the portfolio or the investment, redemption, disposal or maintenance of any authorised investment of the portfolio including all third party adviser, authorised intermediary, custodian and clearing house fees, all legal, tax, accounting and due diligence costs relating to the investment, redemption, disposal or maintenance of any authorised investment (including direct out of pocket expenses such as travel) and all costs incurred in connection with investor and shareholder communications and executing capital management transactions and events including capital raisings, dividends and buy-backs and liaising with the share registry but excluding Alterum's in-house administration costs in the nature of rent of Alterum's premises, computer charges, salaries (including any remuneration agreed to be paid to the independent non-executive investment committee member), back office and administrative expenses.
Powers and discretions of Alterum as manager	Subject to applicable regulations (including the ASX Listing Rules and the Corporations Act) and the proper and reasonable directions of the Board required for the Board to meet working capital requirements, pay dividends to Shareholders, carry out capital management strategies, maintain solvency, comply with applicable laws and Alterum managing the portfolio by investing in authorised investments in accordance with the investment parameters set out in the Alterum Management Agreement, Alterum has absolute and unfettered discretion to manage the portfolio and to do all things considered necessary or desirable in relation to the portfolio, including, without limitation: ■ identifying, investigating, negotiating, executing, managing and realising investments on behalf of the Company in accordance with the Investment Mandate (as defined under the Alterum Management Agreement); ■ managing the Company's cash position to ensure that it has sufficient cash to meet its obligations as and when due; ■ managing the Company's ratings and ratings agency relationships; ■ managing the Company's Shareholder and investor relations and communications; ■ making recommendations to the Board with respect to dividends and capital management activities; ■ managing and executing capital management transactions and events including capital raisings, dividends and buy-backs and liaising with the share registry; and ■ ensuring the Company complies with the Investment Mandate (as defined under the Alterum Management Agreement), the Corporations Act, the ASX Listing Rules and other applicable regulations to the extent that it concerns the duties of Alterum under the Alterum Management Agreement.

Investment parameters

Alterum will invest the Company's funds in a portfolio of funds and investments. The portfolio will consist on a range of funds and investments with differing characteristics.

Authorised investments

Alterum may only invest (on behalf of the Company) in '*Authorised Investments*'. Authorised Investments are defined as:

- any security, right, title or interest of whatsoever nature (including, without limitation, shares, units or notes which are redeemable, preference or deferred, fully or partly paid, with or without a par value and any right, title or interest thereto or therein (including a right to subscribe for or convert to any such security whether listed on ASX or not)) in any vehicle (including, without limitation, any trust, company, partnership or joint venture) in any Alternative Asset Class; and
- the taking and/or giving of options to purchase any investment and the taking and/or giving of options to sell any investment which is an authorised investment outlined in the previous paragraph,

but excludes any direct investment in exchange-traded instruments including listed equities, fixed income or commodities except where they constitute an indirect interest in an investment which would itself have been an authorised investment.

An *Alternative Asset Class* means those asset classes that display different risk and return characteristics to traditional asset classes such as listed equities and bonds and includes:

- real assets;
- private equity;
- private real estate;
- private debt;
- private infrastructure; and
- other alternative asset classes as recommended by Alterum and approved by the Board from time to time.

Note, that the mandate includes hedge funds which may be used to optimise returns where liquidity is required in the portfolio, such as for managing capital calls.

Aggregate investments in any single asset class are limited to 35% of total portfolio value.

Delegation

Alterum must not delegate or subcontract the performance of its obligations under the Alterum Management Agreement at any time for any reason whatsoever without the prior consent of the Company.

3. Summary of Alterum Management Agreement - continued

Valuation	Alterum must arrange for calculation of the value of the portfolio market value and the net tangible asset backing of each Share in each class of Shares in accordance with the ASX Listing Rules at least monthly and provide such calculations to the Company. The value of the portfolio shall be determined based on the aggregate carrying values of each investment forming part of or comprised in the portfolio provided by underlying managers, which are external to the Company. Alterum must ensure that reliance on the carrying value provided by underlying managers is reasonable by adopting the following methodology: ■ undertaking due diligence in relation to the frameworks, policies and practices applied by an underlying manager; ■ ensuring the underlying manager's practices adhere to industry and market standards; ■ ensuring the underlying manager's documented obligations are consistent with the fundamental objectives of the Company's valuation policy; ■ ensuring that underlying manager valuation frameworks and policies are reviewed by Alterum on an annual basis; ■ Alterum will request underlying managers provide detailed portfolio reporting / reviews on a quarterly basis (and no less than semi-annually) and also provide periodic access to an underlying manager's portfolio managers on a reasonable basis; and ■ ensuring that, except where it would be unreasonable having regard to the nature of the underlying investment, underlying managers conduct independent external valuations or external valuation reviews on at least an annual basis.
Exclusivity	The Alterum Management Agreement does not impose restrictions on Alterum preventing it from providing similar services to other persons; including for example, investing the portfolio in the same or similar manner as to how Alterum manages other portfolios for other third parties.
Amendment	The Alterum Management Agreement may only be varied by the agreement of the parties. No material changes to the Alterum Management Agreement may be made without first obtaining approval by ordinary resolution of the ordinary Shareholders in general meeting.
Related party protocols	Alterum must not (either directly or indirectly) acquire assets from, or disposes of assets to, an associate of Alterum without the Company's prior consent.
Change of control provisions	Alterum has no right to terminate the Alterum Management Agreement in the event of a change of control of the Company. Similarly, the Company has no right to terminate the Alterum Management Agreement in the event of a change of control of Alterum. The Alterum Management Agreement does not contain any pre-emptive rights over the BAF portfolio which are exercisable by either the Company, Alterum or a related entity of Alterum in the event of a change of control of either the Company or Alterum.

Company indemnity	The Company must indemnify Alterum against any losses, liabilities, costs, charges and expenses reasonably incurred by Alterum (including without limitation, all reasonable legal costs incurred on a solicitor and own client basis) arising out of, or in connection with Alterum, its officers or any supervised agents which it has properly appointed in accordance with its authority under the Alterum Management Agreement acting under, or on account of any bona fide investment decision made by Alterum or its officers or agents, and in accordance with, the Alterum Management Agreement, except insofar as any loss, liability, cost, charge or expense is caused by the gross negligence, wilful default, bad faith, recklessness, wilful misconduct, fraud or dishonesty of Alterum or its officers or supervised agents or material breach of the Alterum Management Agreement by Alterum. This obligation continues after the termination or expiry of the Alterum Management Agreement.
Alterum indemnity	Alterum must indemnify the Company against any losses, liabilities, costs, charges or expenses reasonably incurred by the Company (including without limitation all reasonable legal costs incurred on a solicitor and own client basis) arising out of, or in connection with any negligence, default, fraud or dishonesty of Alterum or its officers, employees or agents or any breach of the Alterum Management Agreement by Alterum. This obligation continues after the termination of the Alterum Management Agreement.

Corporate services

In addition to the management services provided by Alterum under the Alterum Management Agreement as noted above, Pinnacle has also agreed to provide certain CFO and company secretarial support services directly to the Company after the Effective Time as reasonably required by the Company to conduct its business. These services were previously provided by BLA under the terms of the Blue Sky Management Agreement.

3. Summary of Alterum Management Agreement - continued

3.3. COMPARISON OF ALTERUM MANAGEMENT AGREEMENT TERMS AGAINST BLUE SKY MANAGEMENT AGREEMENT

The below table provides a summary comparison of the key terms of the Alterum Management Agreement against the terms of the existing Blue Sky Management Agreement.

Matter	Blue Sky Management Agreement	Alterum Management Agreement
Manager	BSAAF Management Pty Ltd.	Alterum Investment Management Pty Ltd.
Initial term	10 years.	5 years.
Subsequent terms	Automatic renewal for successive five year terms unless terminated earlier in accordance with the terms of the agreement.	Automatic renewal for successive five year terms unless terminated earlier in accordance with the terms of the agreement.
Termination during subsequent term	After the initial term, the agreement can be terminated: - by ordinary resolution of BAF's Shareholders at a general meeting, with the termination taking effect 3 months' after the date of such resolution; or - by BSAAF on 3 months' notice to BAF.	After the initial term, the agreement can be terminated: - by ordinary resolution of BAF's Shareholders at a general meeting, with the termination taking effect 3 months' after the date of such resolution; or - by Alterum on 3 months' notice to BAF. Alterum will be entitled to a termination payment equal to 12 months' management fees based on the 12 month period ending on the termination date if the agreement is terminated by Shareholder resolution after the initial term.
Termination for cause	At any time, the Company may terminate the agreement immediately without notice if, there is a material and substantial breach of a material term of the agreement by BSAAF that remains un-remedied, BSAAF fails to manage the portfolio and supervise investments in accordance with applicable regulations and the investment policy, or BSAAFs authorised representative status under Blue Sky Private Equity Limited's AFSL is suspended for a period of no less than one month or cancelled at any time and BSAAF fails to obtain a replacement authorisation. BSAAF may terminate the agreement on one months' notice if there is a material and substantial breach of a material term of the agreement by BAF that remains un-remedied. The agreement will also be terminated automatically if either BSAAF or BAF ceases to carry on business or is subject to a stated insolvency event.	At any time, the Company may terminate the agreement immediately without notice if there is a breach of a material term of the agreement by Alterum that remains un-remedied, Alterum persistently fails to manage the Portfolio and supervise investments in accordance with applicable regulations and the investment mandate, or Alterum ceases to hold all authorisations necessary for the lawful performance of its duties under the agreement. Alterum may terminate the agreement on one months' notice if there is a breach of a material term of the agreement by BAF that remains un-remedied. The agreement will also be terminated automatically if Alterum or BAF ceases to carry on business or is subject to a stated insolvency event.
Base management fee	1.2% per annum of portfolio net asset value (plus GST).	1.0% per annum of portfolio net asset value (plus GST). Fee-free period on existing BLA-managed investments until 1 July 2019.

Performance fees	17.5% performance fee after Investors have received an 8% return. Investor return will be determined on the movement in portfolio net asset value and distributions/ capital returns for the period.	No performance fees payable.
Expense Recoveries	BSAAF is entitled to recover the Company's pro-rata share of any transaction costs and establishment fees charged by a Blue Sky related entity to investors.	Alterum is entitled to recover certain expenses properly and reasonably incurred in connection with the provision of services, investment and management of the portfolio. These may include: ▪ arrangement and due diligence costs with respect to acquisitions and disposals of investments; ▪ investor and shareholder communications; ▪ capital management transactions and events such as capital raisings, dividends, buy-backs; and ▪ liaising with share registry.

4. Information about Alterum and Pinnacle

4.1. INTRODUCTION

This Section 4 provides an overview of Alterum and Pinnacle as well as Alterum's intentions regarding the management of the Company's portfolio if the Proposal is implemented and Alterum's appointment as manager is effected.

This section has been prepared by Alterum and Pinnacle, who have assumed responsibility for the accuracy and completeness of it. Neither BAF nor its directors, officers, employees or advisors assume any responsibility for the accuracy and completeness of this information.

4.2. ABOUT ALTERUM AND ALTERUM'S INVESTMENT TEAM

Alterum Investment Management Pty Ltd is a newly established boutique investment manager majority owned by Pinnacle.

Andrew Champion (who has been a member of the BSAAF investment committee, Executive Director on the Board of the Company since IPO and Executive Chair from November 2016 to October 2018) will lead Alterum and will hold a 25% minority equity position alongside Pinnacle. Adam Sharplin (who has been a portfolio analyst for the manager of BAF since 2014) will also join Alterum and will hold a 5% minority equity position alongside Pinnacle and Andrew Champion.

Andrew Champion and Adam Sharplin are currently employed by BLA and will cease employment with BLA and commence employment with Alterum pursuant to new executive services agreements if the Proposal is implemented.

Alterum's directors will be Andrew Champion (as executive shareholder representative) and Chris Meyer and Andrew Chambers (as Pinnacle's representatives).

The Alterum management team maintains a deep working knowledge of the current investment portfolio, which includes a diverse and illiquid range of specialised investments managed by BLA. BLA-managed investments currently account for approximately 75% of BAF's portfolio net asset value.⁸ From IPO in mid-2014 BAF has delivered total portfolio returns of 8.56% p.a. (to 30 September 2018),⁹ a weighted average IRR on realised investments of 22%¹⁰, and a share price that traded at a premium to NTA for 30 of the 45 months since initial listing until Easter of this year (including 22 consecutive months prior to Easter 2018), when significant disruption to BLA had an adverse impact on the market for BAF shares.

In addition, 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.

Additional team members are expected to be recruited by Alterum in due course following BAF Shareholder approvals with a plan to hire at least one additional experienced private market alternatives fund manager, and junior investment analyst. Alterum has set aside 10% of issued capital for alignment with new executives as the team is expanded.

If the Proposal is implemented, Alterum will establish an investment committee comprising the following members:

- Andrew Champion as executive shareholder representative;
- a senior Pinnacle representative; and
- one independent non-executive member with appropriate experience in the alternatives industry (who is to be appointed in due course following BAF Shareholder approvals).

⁸ As at 30 September 2018, adjusting for settlement of the announced exit from BAF's retirement living investments.

⁹ Includes NTA growth, dividends and franking credits.

¹⁰ Including fee rebates but before tax and fees on BAF's portfolio as a whole.

4.3. ABOUT PINNACLE

Pinnacle was founded in 2006 and currently holds an existing equity interest in 12 other specialist investment managers who collectively manage \$48 billion of FUM.¹¹ Pinnacle is a 'pure-play' investment management firm providing affiliated investment managers with distribution, infrastructure and other support services.

Pinnacle has significant and successful LIC/LIT experience and Pinnacle's affiliated investment managers continue to deliver sustained, long-term outperformance over their benchmarks.

Pinnacle's support for Alterum and this Proposal reflects two of its core strategic initiatives:

- a commitment to the listed investment market (Pinnacle affiliates currently manage 4 existing LIC/LITs with an aggregate \$1.75 billion in FUM at 31 October 2018); and
- a commitment to private market alternative asset investments.

Pinnacle's four LIT/LIC's trade at a weighted average discount of 0.8% to NTA,¹² compared to the market average discount for ASX listed-LIC's of 4.4% to NTA (as at 31 October 2018). The most comparable to BAF is the MCP Master Income Trust (ASX: MXT) is a private market alternatives LIT with a market cap of \$756 million and a share price which trades at a 4% premium to NTA (as at 31 October 2018).

Existing private market alternative asset investment capabilities amongst current Pinnacle affiliates include Metrics Credit Partners (private debt) (**Metrics**) and Palisade Investment Partners (private infrastructure) (**Palisade**).

Metrics is a specialist Australian private debt fund manager providing access to the attractive returns of Australia's corporate loan market that would otherwise be inaccessible to non-bank investors. Its investment team has experience encompassing all aspects of originating, structuring, negotiating, executing and distributing corporate loans and managing portfolio risk. Metrics currently manages one LIC holding private markets investments (ASX: MXT) that has a market capitalisation of \$0.85 billion and a share price trading at a premium to NTA.¹³ MXT was recently awarded the Lonsec Listed Fund Award for 2018.

Palisade is a specialist, independent infrastructure manager that provides institutional investors with access to Australian infrastructure projects through tailored portfolios and co-mingled funds. It focuses on attractive mid-market assets that are essential to the efficient functioning of the communities and economies they serve, within sectors such as social, transport, energy, utilities and agriculture.

Pinnacle was recognised as the Zenith Distributor of the Year for 2018 (3rd consecutive year). It was recently added to MSCI Australian Small Cap Index and the S&P/ASX 300 Index.

Past performance is not a reliable indication of future performance and past performance of Pinnacle's affiliated investment managers are not a guide to future performance of the Company should the Proposal be implemented.

¹¹ As at 30 September 2018

¹² Weighted average by market capitalisation on 31 October 2018.

¹³ As at 1 November 2018.

4. Information about Alterum and Pinnacle - continued

4.4. AUTHORISED INVESTMENTS, INVESTMENT PARAMETERS AND INVESTMENT STRATEGY

Refer to section 3 above for a summary of the investment parameters that will apply under the new mandate in the Alterum Management Agreement.

The authorised investments and investment parameters that will apply under Alterum's investment mandate will be similar to those currently applying to BSAAF under the existing Blue Sky Management Agreement with the following key exceptions:

- the current restrictions under the Blue Sky Management Agreement requiring investments in BLA –managed investments only will no longer apply, and the mandate will allow allocations to 'best of breed' investment managers across a diversified portfolio of private market alternative assets. Alterum will select best-of-breed underlying managers in a particular asset class which may include Pinnacle-affiliated investment managers where they meet this criteria (subject to compliance with the related party protocols in the Alterum Management Agreement);
- in addition to moving to a multi-manager mandate, the Alterum investment mandate permits investments in a broader potential alternative asset class mix than those under the existing arrangements being real assets, private equity, private real estate, private debt, private infrastructure and other alternative asset classes as recommended by Alterum and approved by the Board from time to time; and¹⁴
- the Alterum Management Agreement restricts investments in any single asset class to 35% of the total portfolio value (this is compared with the limit of 40% under the Blue Sky Management Agreement). In addition, the current right in the Blue Sky Management Agreement giving BAF a first right to invest in up to 50% of any Blue Sky fund entity or co-investment vehicle will no longer apply.

The new investment mandate maintains a target total fund performance of 8.0% - 12.0% per annum, comprised growth in NTA and dividend yield. The Company's current dividend policy will also be maintained, targeting yield to Shareholders of at least 4.0% per annum (based on closing post-tax NTA), paid through interim and final dividends and franked to the maximum extent possible provided there is sufficient profit and cash flow to do so. Dividend yield in FY17 and FY18 totalled 4.5% of closing post-tax NTA.

For further details regarding Alterum, Pinnacle and the new investment mandate, please refer to the investment presentation lodged by the Company with the ASX on 18 October 2018, in particular from page 9, noting that the term has since been reduced to five years and performance fees are no longer payable.

¹⁴ Note, the Alterum mandate includes hedge funds which may be used to optimise returns where liquidity is required in the portfolio, such as for managing capital calls.

5. Factors to consider in relation to the Proposal

5.1. ADVANTAGES OF THE PROPOSAL

The following are reasons why the Independent Directors consider you may choose to vote in favour of the Resolutions to implement the Proposal.

Opportunity to reset following disruption to BLA

The Proposal will allow BAF to rebrand and signal to the market a separation from BLA. The transition to Alterum as investment manager, majority owned by Pinnacle, provides a viable solution to what BAF directors consider to be a key cause of sustained significant share price discount to NTA.

As noted in Section 4, both Alterum and Pinnacle have strong and demonstrated commitment to private market alternatives, as well as track records of maintaining a share price at or above NTA for private market alternative LIC's. The Proposal further aligns with the Company's multi-manager strategy whilst seeking to preserve the nature of BAF as a unique vehicle for retail investors to gain access to sought after private market investments typically only accessible by institutional and wholesale investors.

Opportunity to optimise returns from the current portfolio of BLA-managed investments

As noted in Section 4, Alterum has a deep working knowledge of the current BLA managed investment portfolio. In addition, Alterum has significant direct investment experience in private market alternatives, and long-running experience in working with best of breed private market alternative fund managers both locally and globally.

Alterum's knowledge of the current portfolio and working relationship with BLA as an underlying investment manager will assist it to manage the transition from the current portfolio to the new multi-manager mandate, including to recycle existing BLA-managed AUM into the new mandate over time. It will also provide a fee-free period on existing BLA-managed investments until 1 July 2019 whilst the portfolio strategy is repositioned. During this time Alterum will also focus on addressing fund ratings, and its marketing and communications with Shareholders and capital markets.

The Company will adopt a broader investment policy

The Company will be in a position to pursue a broader investment strategy under the proposed investment mandate with Alterum than under its current arrangements. This broader strategy will be implemented in a way that is intended to enhance portfolio diversification, both by allocations to multiple 'best of breed' investment managers and across a greater number of private markets alternative asset classes, whilst preserving the unique elements of the Company's core product attributes, such as:

- liquid access to sought-after private market opportunities typically only available to institutional and wholesale investors;
- a diversified portfolio of private market alternative assets;
- low total portfolio volatility;
- low correlation to traditional asset classes such as listed equities and fixed income; and
- opportunities to generate attractive absolute returns comprising both yield and capital gain.

Further details of this proposed investment strategy are set out in sections 3 and 4.4 of this Explanatory Memorandum.

5.2. DISADVANTAGES OF THE PROPOSAL

The following are reasons why the Independent Directors consider you may choose to **vote against** the Resolutions to implement the Proposal.

You may disagree with the conclusions of the Independent Directors and/or the Independent Expert about the Proposal's benefits

You may disagree with the conclusion of the Independent Directors that the Proposal is in the best interests of Shareholders.

Alternatively, you may disagree with the conclusion of the Independent Expert that the advantages to Shareholders of the Proposal outweigh the disadvantages and the Alterum Management Agreement is at an arm's length.

Alterum will have responsibility to identify and manage investments on behalf of the Company

The Company is appointing Alterum to be exclusively responsible for the identification and management of the Company's investments, pursuant to the terms of the Alterum Management Agreement and as such the Company will not have direct control over the investment process.

The success and profitability of the Company in part will depend upon the ability of Alterum to make investments that increase in value over time and the retention of Alterum as manager of the portfolio (together with the retention of key personnel within Alterum and Pinnacle). While the Company will seek to mitigate the risks that may adversely affect Alterum's investment performance or its investment decisions, through implementation of internal risk management policies and procedures designed to monitor and address these risks, there can be no guarantee Alterum will achieve any particular investment return within the portfolio or that its future performance will match or exceed the Company's past performance.

Alterum will be entitled to receive fees from the Company

Under the terms of the Alterum Management Agreement, the Company will be required to pay a management fee to Alterum and, in certain circumstances, a termination fee.

As a multi-manager, funds-of-funds product, the new investment mandate will involve a dual layer of fees which were not charged under the existing Blue Sky Management Agreement. The Company will however, save on certain upfront fees and transaction costs that are currently not rebateable under the existing Blue Sky Management Agreement. Further, the new mandate's change to arm's-length negotiated mandates for larger individual allocations, and the resultant buying power, creates the potential for more efficient underlying manager fees than the go-forward fee arrangements on BLA-managed AUM.

In aggregate, the fee structure is considered to represent a competitive and market-based fee model for a listed multi-manager offering in the illiquid alternatives sector.

5. Factors to consider in relation to the Proposal - continued

Alterum's composition and backing support its appointment to manage and implement investments on behalf of the Company

If the Proposal is approved, as the Company's investment manager, Alterum will be responsible for identifying investment opportunities and deploying the Company's capital in accordance with the investment mandate under the Alterum Management Agreement. Alterum will be solely focused on managing the Company's portfolio, and will be majority-owned and backed by Pinnacle a 'pure-play' investment management firm providing affiliated investment managers with established distribution, infrastructure and other support services.

As noted in Section 4, Pinnacle has a successful track record of establishing and supporting new boutique managers such as Alterum, and two existing and successful affiliates who specialise in private market investments: Metrics Credit Partners (in private debt), and Palisade Investment Partners (in unlisted infrastructure).

The involvement of Andrew Champion and Adam Sharplin with Alterum (both as executives employed by Alterum and as minor equity holders in Alterum) provides continuity to the Company and Shareholders. Their experience in direct investing in private markets, intimate knowledge of the current portfolio, knowledge of BLA as an underlying investment manager, and LIC operational capability (assisted by Pinnacle) provides an opportunity to optimise Shareholder returns over the medium to long term.

Alterum's intentions stated in Section 4 to expand its executive team in due course following BAF Shareholder approvals and appoint at least one independent non-executive senior private market alternatives industry participant to the Alterum investment committee are also noted, and through these management arrangements, the Company will have access to the expertise, experience and resources of the Alterum investment team combined with Pinnacle distribution support services.

A brief summary of the key members of Alterum's investment team is contained in section 4.2 of this Explanatory Memorandum.

The Proposal is an alternative to the likely wind-down scenario

As noted in Section 1.5 above, if the Proposal does not proceed the Company will consider the options that are available to it at that time, however it is likely that the Company will continue operating under the existing management arrangements with BLA and, for so long as a material share price discount to NTA persists, the Board will maintain its directive for no deployments or commitments to new BLA-managed funds and will operate on a wind-down basis with investments in the Company's portfolio realised in the usual course by BLA and capital returned to Shareholders.

For the reasons noted in Section 1.5 above, the Independent Directors believe that a wind-down scenario would likely lead to sub-optimal outcomes for Shareholders.

Independent Expert has concluded the advantages to Shareholders of the Proposal outweigh the disadvantages and the Alterum Management Agreement is at an arm's length

The Independent Directors have commissioned an Independent Expert, BDO Corporate Finance (QLD), to provide an Independent Expert's Report on certain aspects of the Proposal, in particular to opine on:

- whether the advantages to the Company's Shareholders of the Proposal outweigh the disadvantages; and
- whether the new management services agreement with Alterum is at an arm's length.

The Independent Expert has concluded the advantages of the Proposal to Shareholders outweigh the disadvantages and the Alterum Management Agreement is at an arm's length.

A copy of the Independent Expert's Report is set out in Appendix A of this Explanatory Memorandum, which Shareholders are encouraged to read in full.

5. Factors to consider in relation to the Proposal - continued

5.3. OTHER MATTERS RELEVANT FOR SHAREHOLDERS' CONSIDERATION

Related party aspects of the Proposal

As has been noted elsewhere, Andrew Champion (currently an Executive Director of the Company)¹⁵ and Adam Sharplin (currently the Company's Portfolio Analyst) will join Alterum in an executive capacity and will hold minority equity positions alongside Pinnacle.

As a director of the Company at the date of this Explanatory Memorandum, Andrew Champion is a related party of the Company. As a director, shareholder and employee of Alterum, Andrew Champion has a material personal interest in the Proposal and the grant of contractual rights and benefits to Alterum under the Alterum Management Agreement will constitute a financial benefit being given to Andrew Champion pursuant to section 208 of the Corporations Act.

The giving of a financial benefit to a related party does not require shareholder approval under section 208 of the Corporations Act if it is given on reasonable arm's length terms.

The Alterum Management Agreement has been the subject of a number of rounds of negotiation and the Company's Independent Directors and Pinnacle have each been independently advised on the terms of the Alterum Management Agreement by external advisors.

The Independent Directors have formed the view having regard to the Independent Expert's Report that the Alterum Management Agreement is on arm's length terms.

Notwithstanding this, in the interests of good governance, and in light of ASX guidance in Guidance Note 26 (*Management Agreements*) the Independent Directors have decided to put the Proposal to Shareholders for approval. As noted in section 6.1, the Company will apply certain voting exclusions on Resolution 1 with regards to any shares held by Alterum and its associates.

5.4. INDEPENDENT DIRECTORS' RECOMMENDATION

The Independent Directors have concluded that the advantages of the Proposal outweigh the disadvantages of the Proposal and that the Proposal is in the best interests of Shareholders, subject to the Company not receiving a superior proposal to the Alterum proposal from a third party supported by an agreement between the third party and BLA allowing the proposal to be implemented.

In arriving at this conclusion the Independent Directors have had regard to the Independent Expert's opinion in the Independent Expert's Report and have separately conducted an assessment of the Proposal as a whole, including the matters set out in this section 5.

In particular, the Independent Directors believe that the broader mandate offered under the Alterum Management Agreement, Alterum's private markets investment experience, continuity afforded by Alterum's executive investment team, Pinnacle's established fund manager infrastructure and support service, when combined with the fact the Alterum Proposal preserves the unique elements of the Company's core product attributes, provides the most attractive opportunity at this time to address the ongoing share price discount to NTA and is in the best interests of Shareholders.

In considering whether you wish to follow the Independent Directors' recommendations, you should:

- read this Explanatory Memorandum, including the Independent Expert's Report set out in Appendix A of this Explanatory Memorandum;
- consider your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- consult your legal, financial or other professional adviser if you believe that is necessary.

¹⁵ As noted above, on 5 November 2018, Andrew Champion withdrew his intention to stand for re-election as a director of the Company at the AGM.

6. Details on the proposed resolutions

6.1. RESOLUTION 1 – APPROVAL TO TERMINATE EXISTING MANAGEMENT AGREEMENT AND ENTRY INTO NEW MANAGEMENT AGREEMENT

Resolution 1 seeks approval for the Company to terminate the existing management agreement with BSAAF to terminate BSAAF's appointment as investment manager and to enter into a new management agreement with Alterum to appoint Alterum as the Company's investment manager.

Resolution 1 must be passed as an ordinary resolution requiring approval by a majority (50%) of Shareholders voting at the meeting in person or by proxy. If Resolution 1 is passed the termination and appointment will take effect from the Effective Time. Resolution 1 will be conducted by poll.

A summary of the terms of the Blue Sky Implementation Deed (in respect of the termination of the existing investment manager) and Alterum Management Agreement (in respect of the appointment of the new investment manager) is set out in sections 2 and 3 respectively.

ASX Guidance Note 26

As a listed investment company, the Company is subject to the ASX guidance in ASX Guidance Note 26 *Management Agreements* in relation to management agreements, which relevantly apply to the Company with regards to the Proposal as follows:

- as one of the conditions to listing on the official list of ASX at the time of the Company's IPO in 2014, the Company provided an undertaking in favour of ASX that it would obtain the approval of ordinary shareholders for any material changes to the Blue Sky Management Agreement; and
- in the case of listed entities, entry into a management agreement whilst listed is subject to the general requirement in ASX Listing Rule 12.5 that the entity's structure and operations continue to be appropriate for a listed entity. Whilst not mandatory, ASX does encourage listed entities who intend to enter into a management agreement after listing to obtain shareholder approval for the management agreement, where all material information about the management agreement has been included in the notice of meeting and the manager and its associates have been the subject of a voting exclusion statement, as a means of determining appropriateness.

In light of the above matters, the Independent Directors do not wish to proceed with implementing the Proposal without obtaining shareholder approval in the manner contemplated by Resolution 1. Implementation of the Proposal is subject to the Company receiving confirmation from ASX that the Company's structure and operations will remain appropriate following implementation for the purposes of Listing Rule 12.5.

A voting exclusion will be applied in relation to any votes cast in favour of Resolution 1 by or on behalf of:

- Alterum or any associates of Alterum; and
- any person who might obtain a benefit if Resolution 1 is passed, except a benefit solely in the capacity of a holder of shares of the Company, and any Associate of that person (or those persons).¹⁶

¹⁶ However the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

6. Details on the proposed resolutions - continued

6.2. RESOLUTION 2 – APPROVAL TO CHANGE COMPANY NAME AND CONSTITUTION

If Resolution 1 is approved, it is also proposed that the Company's name is changed from *Blue Sky Alternatives Access Fund Limited* to *Alternative Markets Access Fund Limited*. In addition, minor changes are required to be made to the Company's existing constitution to reflect the name in the Company's name.

To reflect the change in corporate name, it is intended that the Company's ASX ticker code is changed from *BAF* to *AMF*.

The Board considers that the change of name represents the Company's new multi-manager strategy and allows the Company to rebrand and signal to the market a separation from BLA management. Further details of the rationale for the change of name is set out above in this Explanatory Memorandum.

Resolution 2 is a special resolution (pursuant to section 157(1) of the Corporations Act) and requires the approval of at least 75% of the votes cast by Shareholders entitled to vote in person or by proxy. Resolution 2 will be conducted by poll.

Resolution 2 is conditional on Resolution 1 being approved and Resolution 2 will only be put to the meeting if Resolution 1 is approved. Resolution 1 is not conditional on Resolution 2 being approved and if Resolution 1 is approved, the termination of BSAAF as manager and appointment of Alterum as new manager will take place irrespective whether Resolution 2 is passed.

If Resolution 2 is approved by the requisite majority, the name change will take effect from the Effective Time at the same time the termination and appointment of manager takes effect.

6.3 RECOMMENDATION OF INDEPENDENT DIRECTORS

In the interests of good governance, the Independent Directors appointed the Independent Expert to prepare an independent assessment of the arrangements contemplated by the Proposal in the Independent Expert's Report.

Having had regard to the Independent Expert's conclusion in the Independent Expert's Report and other factors, and subject to the Company not receiving a superior proposal to the Alterum proposal from a third party supported by an agreement between the third party and BLA allowing the proposal to be implemented, the Independent Directors unanimously recommend that you vote in favour of all the Resolutions to enable the Proposal to be implemented. Refer to section 5.4 for more detail regarding the factors the Independent Directors' have considered when making this recommendation.

Glossary

AEST means Australian Eastern Standard Time.

AGM means annual general meeting.

Alterum means Alterum Investment Management Pty Ltd ACN 629 418 079.

Alterum Management Agreement means the management services agreement between BAF and Alterum Investment Management dated 18 October 2018 and varied by deed of variation dated 5 November 2018.

ASX means ASX Limited ACN 008 624 691 or the securities exchange operated by it (as the case requires).

AUM means assets under management.

Blue Sky or BLA means Blue Sky Alternative Investments Limited ACN 136 866 236.

Blue Sky Alternatives Access Fund Limited or BAF or the Company means Blue Sky Alternatives Access Fund Limited ACN 168 941 704.

Blue Sky Implementation Deed means the implementation deed between BAF, BLA and BSAAF dated 18 October 2018.

Blue Sky Management Agreement means the management services agreement between BAF and BSAAF dated 6 May 2014.

Board or Directors means the board of directors of Blue Sky Alternatives Access Fund Limited.

BSAAF means BSAAF Management Pty Ltd ACN 168 923 279 (wholly owned subsidiary of BLA).

Chairman or Chair means the chairman of the Meeting.

Constitution means the constitution of the Company as amended from time to time.

Corporations Act means Corporations Act 2001 (Cth).

Effective Time means 11.59pm AEST on 31 December 2018.

EGM, Extraordinary General Meeting or Meeting means the extraordinary general meeting of Blue Sky Alternatives Access Fund Limited to be held on 13 December 2018 pursuant to the Notice.

Explanatory Memorandum means the explanatory memorandum to this Notice.

FUM means funds under management.

Independent Directors mean Paul Masi, Michael Cottier and Peter Wade.

Independent Expert means BDO Corporate Finance (QLD) Ltd ACN 010 185 725.

Independent Expert's Report or IER means the independent expert's report prepared by the Independent Expert and included in Annexure A.

LIC means listed investment company.

LIT means listed investment trust.

Metrics means Metrics Credit Partners.

NTA means net tangible asset.

Palisade means Palisade Investment Partners.

Notice means this notice of meeting including the Explanatory Memorandum and the Proxy Form.

Pinnacle or PNI means Pinnacle Investment Management Group Limited ACN 100 325 184 (ASX: PNI).

Proposal means the proposal to terminate the Blue Sky Management Agreement, entry into the Alterum Management Agreement and change of company name.

Proxy Form means the proxy form attached to the Notice of Meeting.

Resolution means a resolution for the consideration of Shareholders at the Meeting.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a registered holder of a Share.

WAM means Wilson Asset Management (International) Pty Limited ACN 081 047 118 (AFSL 247333).

Words importing the singular include the plural and vice versa.

Appendix A - Independent Expert's Report



BLUE SKY ALTERNATIVES ACCESS FUND LIMITED

Independent Expert's Report and Financial Services Guide

9 November 2018

FINANCIAL SERVICES GUIDE

Dated: 9 November 2018

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 ('BDOCF' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDOCF holds an Australian Financial Services Licence to provide the following services:

- a) Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investment schemes, superannuation, and government debentures, stocks and bonds; and
- b) Arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

General Financial Product Advice

This Report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently, any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDOCF has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDOCF has been engaged to provide an independent expert's report to the shareholders ('the Shareholders') of Blue Sky Alternatives Access Fund Limited ('BAF' or 'the Company') in relation to a proposal to change the manager of BAF from BSAAF Management Pty Ltd to Alterum Investment Management Pty Ltd ('the Proposed Transaction').

Further details of the Proposed Transaction are set out in Section 2.0. The scope of this Report is set out in detail in Section 5.3. This Report provides an opinion on:

- ▶ Whether the advantages to the Shareholders of the Proposed Transaction outweigh the disadvantages; and
- ▶ Whether the new management services agreement with Alterum Investment Management Pty Ltd is on arm's length terms.

This Report has been prepared to provide information to the Shareholders to assist them to make an informed decision on whether to vote in favour of or against the Proposed Transaction. Other important information relating to this Report is set out in more detail in Section 5.0.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote in favour of or against the Proposed Transaction is likely to be influenced by their particular circumstances, for example, their taxation considerations and risk profile. Each Shareholder should obtain their own professional advice in relation to their own circumstances.

Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate the fee for the preparation of this Report will be approximately \$100,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of the Proposed Transaction.

Except for the fees referred to above, neither BDOCF, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDOCF may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDOCF. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDOCF) are entitled to receive a salary. Where a director of BDOCF is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

Associations and relationships

From time to time BDOCF or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDOCF has not provided any professional services to BAF in the last two years.

The signatories to this Report do not hold any shares in BAF and no such shares have ever been held by the signatories.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which are publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

Complaints

We are members of the Australian Financial Complaints Authority. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Australian Financial Complaints Authority. They can be contacted on 1800 931 678. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with Chartered Accountants Australia and New Zealand, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission ('ASIC') also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

Compensation Arrangements

BDOCF and its related entities hold Professional Indemnity insurance for the purpose of compensating retail clients for loss or damage suffered because of breaches of relevant obligations by BDOCF or its representatives under Chapter 7 of the Corporations Act 2001. These arrangements and the level of cover held by BDOCF satisfy the requirements of section 912B of the Corporations Act 2001.

Contact Details

BDO Corporate Finance (QLD) Ltd

Location Address:	Postal Address:
Level 10 12 Creek Street BRISBANE QLD 4000	GPO Box 457 BRISBANE QLD 4001
Phone: (07) 3237 5999	Email: cf.brisbane@bdo.com.au
Fax: (07) 3221 9227	

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GLOSSARY

Reference	Definition
A\$ or \$	Australian dollars
AGM	Annual general meeting
Alterum	Alterum Investment Management Pty Ltd
Approved Valuer	Approved qualified independent valuer
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
Authorised Investments	As defined in BAF's Prospectus, the portfolio of BLA-managed alternative assets in which BSAAF, as the current manager of BAF, is authorised to invest
BAF	Blue Sky Alternatives Access Fund Limited
BAF's Prospectus	The replacement prospectus for the initial public offering of BAF dated 13 May 2014
BDO Persons	BDOCF, BDO (QLD) or any of its partners, directors, agents or associates
BDOCF	BDO Corporate Finance (QLD) Ltd
BLA	Blue Sky Alternative Investments Limited
BSAAF	BSAAF Management Pty Ltd
CAGR	Compound annual growth rate
CBA	The Commonwealth Bank of Australia
Company, the	Blue Sky Alternatives Access Fund Limited
Corporations Act, the	The Corporations Act 2001
DRP	Dividend reinvestment plan
Existing MSA	The existing management services agreement between BAF and BSAAF
FEAUM	Fee earning assets under management
FSG	Financial Services Guide
FY	The financial year or 12-month period ending 30 June
GT	Grant Thornton Corporate Finance Pty Ltd
GT's Report	Independent expert's report prepared by Grant Thornton Corporate Finance Pty Ltd dated 16 October 2018
HWM	High-water mark

Reference	Definition
Implementation Deed, the	The implementation deed between BAF and BLA in relation to the mutual cessation of the Existing MSA if the Proposed Transaction is implemented
Independent Directors, the	The current non-executive directors of BAF with the exception of Andrew Champion and Laz Siapantas
IRR	Internal rate of return
LIC	Listed investment company
Meeting, the	The Shareholders' meeting proposed to be held on 13 December 2018
NAV	Net asset value
New MSA, the	BAF's proposed new management service agreement with Alterum
New Valuation Policy, the	The new valuation policy to be adopted by BAF if the Proposed Transaction is implemented
Notice of Meeting, the	The notice of meeting and explanatory memorandum prepared by BAF in relation to the Proposed Transaction dated on or about 9 November 2018
NTA	Net tangible assets
Oaktree	Oaktree Capital Management L.P.
Palisade	Palisade Investment Partners Limited
Pinnacle	Pinnacle Investment Management Group Limited
Portfolio NAV	BAF's portfolio net asset value
Proposed Transaction, the	Proposal to change the manager of BAF from BSAAF to Alterum
Regulations, the	The Corporation Regulations 2001
Report, this	This independent expert's report prepared by BDOCF and dated 9 November 2018
RG 111	Regulatory Guide 111: Content of Expert Report, issued by ASIC
RGs	Regulatory guides published by ASIC
Royal Commission, the	Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
Services Agreement, the	The services agreement between BAF and Pinnacle relating to services to be provided by Pinnacle to BAF if the Proposed Transaction is implemented
Shareholders, the	The holders of fully paid ordinary shares in BAF
Underlying Managers	Third party managers may manage investments made by Alterum on behalf of BAF if the Proposed Transaction is implemented
VWAP	Volume weighted average price

Reference	Definition
WAM	Wilson Asset Management
We, us, our	BDO Corporate Finance (QLD) Ltd

PART I: ASSESSMENT OF THE PROPOSED TRANSACTION

The Shareholders
C/- The Directors
Blue Sky Alternatives Access Fund Limited
Suite 22.02, Level 22 Australia Square,
264-278 George Street,
Sydney, NSW, 2000

9 November 2018

Dear Shareholders,

1.0 Introduction

BDO Corporate Finance (QLD) Ltd ('BDOCF', 'we', 'us' or 'our') has been engaged to provide an independent expert's report ('this Report') to the shareholders ('the Shareholders') of Blue Sky Alternatives Access Fund Limited ('BAF' or 'the Company') in relation to a proposal ('the Proposed Transaction') to change the manager of BAF from BSAAF Management Pty Ltd ('BSAAF') to Alterum Investment Management Pty Ltd ('Alterum').

Alterum is an entity majority owned by Pinnacle Investment Management Group Limited ('Pinnacle') (through its subsidiary Pinnacle Investment Management Limited), with minority interests to be held by Andrew Champion (executive director of BAF) and Adam Sharplin (BAF's portfolio analyst). BAF is currently managed by BSAAF with a mandate to invest solely in 'Blue Sky Fund Entities', as defined in BAF's replacement prospectus dated on 13 May 2014 ('BAF's Prospectus') and Section 3.2.1 of this Report, or co-investment vehicles related to BLA.

A more detailed description of the Proposed Transaction is set out in Section 2.0 of this Report.

We have been requested by the independent directors of BAF ('the Independent Directors'), being the current non-executive directors with the exception of executive directors Andrew Champion and Laz Siapantas, to provide an opinion on:

- ▶ Whether the advantages to the Shareholders of the Proposed Transaction outweigh the disadvantages; and
- ▶ Whether the new management services agreement with Alterum ('the New MSA') is on arm's length terms.

The scope and purpose of this Report are detailed in Sections 5.3 and 5.4 respectively.

The Shareholders are requested by the Independent Directors to vote in favour of or against the Proposed Transaction at the Shareholders' meeting proposed to be held on 13 December 2018 ('the Meeting').

This Report, including Part I, Part II and the appendix, should be read in full along with all other documentation provided to the Shareholders including the notice of meeting and explanatory memorandum prepared by BAF and expected to be dated on or about 9 November 2018 ('the Notice of Meeting').

2.0 Overview of the Proposed Transaction

This section sets out an overview of the Proposed Transaction and is structured as follows:

- ▶ Section 2.1 provides a brief description of the Proposed Transaction;
- ▶ Section 2.2 describes the key parties involved in the Proposed Transaction;
- ▶ Section 2.3 describes the key documents relevant to the Proposed Transaction;
- ▶ Section 2.4 summarises Alterum's intentions regarding BLA managed investments if the Proposed Transaction is implemented;
- ▶ Section 2.5 sets out recent developments impacting BLA and BAF; and
- ▶ Section 2.6 details the strategic rationale for the Proposed Transaction.

This section is a summary only and should not be treated as a complete description of the Proposed Transaction. The Shareholders should refer to the Notice of Meeting for detailed and additional information relating to the Proposed Transaction and the key parties and documents involved.

2.1 Summary of the Proposed Transaction

On 18 October 2018, BAF announced a proposal to change its investment manager from BSAAF, a wholly owned subsidiary of Blue Sky Alternative Investments Limited ('BLA'), to Alterum.

The New MSA will be effective from 1 January 2019, subject to Shareholder approval at the Meeting. A new investment mandate will be implemented under the New MSA with Alterum's intention to develop a diversified 'best-of breed' multi-manager fund.

We understand the Proposed Transaction follows a strategic review process to address BAF's recent trading discount to its net tangible asset ('NTA') backing and seeks to preserve the nature of BAF as an investment to access private market opportunities typically only accessible by institutional and wholesale investors, while broadening its scope to a multi-manager strategy. It provides an opportunity to deploy capital into a multi-manager platform and broadens the scope of its investment opportunities, including into asset classes that are not currently available to it under the existing management mandate managed by BSAAF.

If the Proposed Transaction is implemented, BAF proposes to change its name to Alternative Markets Access Fund Limited, effective from 1 January 2019.

The Shareholders should refer to the Notice of Meeting for more detailed information in relation to the Proposed Transaction.

2.2 Description of the Key Parties Involved in the Proposed Transaction

2.2.1 BAF, BLA and Pinnacle

Detailed descriptions of BAF, BLA and Pinnacle are set out in Sections 6, 7 and 8 of this Report, respectively.

2.2.2 Alterum

Alterum is a newly established entity which is majority owned by Pinnacle. Andrew Champion (currently an executive director of BAF) and Adam Sharplin (currently BAF's portfolio analyst) will join Alterum as employees and hold minority equity positions (collectively holding 30% of Alterum).

Alterum's directors will be Andrew Champion (as executive shareholder representative) and Chris Meyer and Andrew Chambers (as Pinnacle's representatives).

2.2.3 Andrew Champion

Andrew Champion is currently an executive director of BAF. Mr Champion is employed by BLA as the lead portfolio manager for BAF and the leader of BLA's Sydney office. Mr Champion is also a member of BAF's audit and risk, and nomination and remuneration committees.

Mr Champion was previously the chair of BAF (until 26 October 2018), when the chair role was transitioned to Paul Masi as independent non-executive chair. In consultation with the BAF board, Mr Champion has agreed that he will not stand for re-election at BAF's upcoming annual general meeting ('AGM').

Mr Champion will cease employment with BLA and commence employment with Alterum pursuant to a new executive services agreement if the Proposed Transaction is implemented.

Further information in relation to Mr Champion is set out in Section 6.3 of this Report.

2.2.4 Adam Sharplin

Adam Sharplin is currently employed by BLA as portfolio analyst for BAF and is responsible for managing all aspects of BAF's daily operations. Mr Sharplin joined BLA in 2014.

Mr Sharplin will cease employment with BLA and commence employment with Alterum pursuant to a new executive services agreement if the Proposed Transaction is implemented.

Further information in relation to Mr Sharplin is set out in Section 6.3 of this Report.

2.3 Summary of Key Documents Relevant to the Proposed Transaction

2.3.1 Existing Management Services Agreement

On 6 May 2014, BAF entered into a management services agreement with BSAAF prior to the issue of a prospectus in conjunction with BAF's initial public offering ('the Existing MSA'). Under the terms of the Existing MSA, BSAAF was appointed as investment manager of BAF's portfolio for an initial term of 10 years. The key terms of the Existing MSA are set out in the Notice of Meeting and BAF's Prospectus.

A more concise summary of the key terms of the Existing MSA is set out in Table 2.1 below.

Table 2.1: Summary of Key Terms of the Existing MSA

Item	Description
Term	Initial term of 10 years commencing on 13 June 2014 (expiring 12 June 2024), and automatically extended for 5 years, unless terminated earlier in accordance with the agreement.
Termination during subsequent term	After the initial term, the agreement may be terminated by BSAAF on 3 months' notice, or 3 months after a Shareholder resolution at a general meeting to remove BSAAF as the manager. No termination fee is applicable.
Management fee	1.2% per annum (excluding GST) of the portfolio net asset value of BAF excluding accruals for fees ('Portfolio NAV') calculated and paid monthly in arrears within 14 days of the Portfolio NAV being calculated.
Performance fee	17.5% performance fee after investors have received a return 8.0% on a per annum basis, determined based on the movement in Portfolio NAV and distributions/capital returns for the period. Any positive performance fees will be paid annually in arrears after the end of each respective financial year ending 30 June ('FY'). Any negative performance fee amounts from previous financial years are carried forward and offset against any future performance fees payable.
Expense recoveries	BSAAF is entitled to recover BAF's pro-rata share of any transaction costs and establishment fees in relation to investments made by BSAAF on behalf of BAF.
Investment parameters	BSAAF may only invest in Blue Sky Fund Entities (as defined in BAF's Prospectus) or co-investment vehicles which fall within the defined alternative asset classes that display different risk and return characteristics to traditional asset classes such as listed equities and bonds, including: ▶ Real assets; ▶ Private equity; ▶ Private real estate; and ▶ Hedge funds. The scope of investment classes may only be varied by the BAF board after consultation with BSAAF and with approval of the Shareholders. Aggregate investments in any single asset class are limited to 40% of total portfolio value at the time of the relevant investment. BSAAF, on behalf of BAF, has first right to invest in up to 50% of any Blue Sky Fund Entity. BSAAF must not invest in an authorised investment if the investment would result in BAF holding an interest of more than 50% of any single Blue Sky Fund Entity.
Investment committee	Established at the discretion of BSAAF. We note that, since the commencement of the Existing MSA, the BAF investment committee has typically comprised Andrew Champion and two other BLA executives (being Kim Morrison and Tim Wilson as at the date of this Report).
Valuation	BSAAF must arrange for calculation of BAF's portfolio value and the NTA backing per share in accordance with its valuation policy and the ASX Listing Rules at least monthly and provide such calculations to BAF. BSAAF must, at the cost of BSAAF or its associates, ensure that the carrying value of each investment is reviewed by a suitably qualified independent valuer ('Approved Valuer') at least once every twelve months. At its own cost, BAF may request at any time that the value of an investment be determined by an Approved Valuer.

Source: Existing MSA, BAF's Prospectus

The Shareholders should refer to the Notice of Meeting for more detailed information in relation to the Existing MSA.

2.3.2 Implementation Deed

BAF has entered into an implementation deed with BLA and BSAAF in relation to the mutual cessation of the Existing MSA if the Proposed Transaction is implemented ('the Implementation Deed'). Shareholder approval of the Proposed Transaction is a condition precedent to the Implementation Deed coming into effect.

A summary of the key terms of the Implementation Deed is set out in Table 2.2 below.

Table 2.2: Summary of Key Terms of the Implementation Deed

Item	Description
Effective date	If the Proposed Transaction is implemented, the Implementation Deed will become effective and the Existing MSA will be terminated at 11:59pm AEST on 31 December 2018.
BLA managed assets	From 1 January 2019, existing BLA managed assets in BAF's portfolio will be subject to new management and performance fee arrangements on a fund by fund (not a portfolio) basis, as set out below.
Management fee	A management fee of 1.2% per annum (consistent with the fee rate under the Existing MSA will be payable to BLA on a fund by fund (not a portfolio) basis, monthly in arrears from 1 January 2019 and: ▶ For closed-ended funds, based on the carrying value at 31 December 2018; and ▶ For the Blue Sky Water Fund based on the net asset value ('NAV') of BAF's interest in the Blue Sky Water Fund calculated: • In respect of the month commencing on 1 January 2019, at 31 December 2018; and • In respect of each other period, on the basis of the prevailing unit price for units in the Blue Sky Water Fund as at the calculation date.
Performance fee	A performance fee of 17.5% in excess of an 8.0% internal rate of return ('IRR') hurdle (consistent with the fee rate under the Existing MSA¹), will be calculated from 1 January 2019 and payable on a fund by fund (not a portfolio) basis on the same terms as the underlying fund and: ▶ For closed-ended funds, payable only on final exit with the investment cost base for units in each fund reset to the higher of \$1 per unit or the carrying value at 31 December 2018; and ▶ For Blue Sky Water Fund, payable annually subject to a 'high water mark' with the investment cost base for units in the Blue Sky Water Fund reset to the higher of \$1 per unit or the carrying value at 31 December 2018. Any underperformance to the 8.0% hurdle rate in the Existing MSA through to 31 December 2018 must be caught up prior to future performance fees being paid.
Transitional arrangements	BSAAF and BLA will provide certain transitional services after the Implementation Deed becomes effective for no consideration, including (but not limited to) NTA calculations, preparation of statutory financial statements for the period to 31 December 2018 and transition of back office administration support functions to Alterum or Pinnacle.

Source: Implementation Deed

¹ Under the Existing MSA, the fees are paid to BLA on a portfolio basis, and no fees are payable to the respective underlying managers of funds on a fund by fund basis.

The Shareholders should refer to the Notice of Meeting for more detailed information in relation to the Implementation Deed.

2.3.3 New MSA

BAF has entered into the New MSA with Alterum for the provision of investment management services¹. Key conditions precedent to the New MSA coming into effect include:

- ▶ Shareholder approval of the Proposed Transaction; and
- ▶ Termination of the Existing MSA.

A summary of the key terms of the New MSA is set out in Table 2.3 below.

Table 2.3: Summary of Key Terms of the New MSA

Item	Description
Term	Initial term of five years commencing 1 January 2019, and automatically extended for a further five years, unless terminated earlier in accordance with the agreement.
Termination during subsequent term	The New MSA continues after the initial term but may be terminated on three months' notice following a Shareholder resolution to remove Alterum as the manager. Termination during the subsequent term will incur a termination fee equal to 12 months' management fee.

¹ A deed of variation to the New MSA was executed on 5 November 2018. For the purposes of this Report, any reference to the New MSA includes the variations implemented via this deed of variation.

Item	Description
Management fee	1.0% per annum (excluding GST) of the Portfolio NAV calculated and paid monthly in arrears within 14 days of the Portfolio NAV being calculated. For completeness, we note that this fee is in addition to the fees paid to managers of each of the underlying funds in which BAF has an investment (such as the underlying BLA investments).
Performance fee	Alterum will not be entitled to any performance fees.
Fee free period	During the period 1 January 2019 to 30 June 2019, the Portfolio NAV used to calculate the management fee will exclude any value attributable to BAF's interest in any existing BLA managed investment. From 1 July 2019 onwards, Alterum's management fee will be calculated based on the Portfolio NAV including value attributable to BLA managed investments.
Expense recoveries	Alterum is entitled to recover certain third party expenses properly and reasonably incurred in connection with the provision of services, investment and management of BAF's portfolio. These may include: ▶ identifying, investigating, negotiating, executing, managing and realising investments on behalf of BAF; ▶ Investor and shareholder communications; ▶ Capital management transactions and events such as capital raisings, dividends, buy-backs; and ▶ Liaising with share registry.
Investment parameters	Alterum may only invest in authorised investments in alternative asset classes that display different risk and return characteristics to traditional asset classes such as listed equities and bonds, including: ▶ Real assets; ▶ Private equity; ▶ Private real estate; ▶ Private debt; ▶ Infrastructure; and ▶ Any other similar asset class displaying similar risk and return characteristics identified by Alterum and approved by the BAF board from time to time. It is noted that hedge funds may be used to optimise returns where liquidity is required in the portfolio, such as for managing capital calls. Aggregate investments in any single asset class are limited to 35% of total portfolio value. Alterum's investment committee may establish and amend further prudential limits from time to time, including limits in relation to portfolio exposure to any single third party manager, geographic area and/or foreign currency.
Investment committee	Investment committee of at least three members, including one suitably qualified independent investment expert with private market experience. Under the committee's charter, a unanimous consensus is required from the investment committee for investment decisions.
Valuation	If the Proposed Transaction is implemented, BAF will adopt a new valuation policy ('the New Valuation Policy'). Under the New MSA's multi-manager mandate, Alterum proposes to make investments which will be managed directly by underlying third party managers ('Underlying Managers'). The terms of the New Valuation Policy require Alterum to use its best endeavours to procure the provision of the relevant asset and portfolio valuations from the Underlying Managers. Under the New Valuation Policy, Alterum must ensure that reliance on an Underlying Manager's valuations are prudent by ensuring their application of a number of factors, including (but not limited to) adherence to industry and market standards, annual policy reviews and annual independent external valuations. Additionally, Alterum must seek BAF's approval prior to committing to a new Underlying Manager where their valuation policy varies materially to the New Valuation Policy. At its own cost, BAF may request that the value of an investment be determined by a suitably qualified valuer independent of both BAF and Alterum ('Approved Valuer').

Source: New MSA

The Shareholders should refer to the Notice of Meeting for more detailed information in relation to the New MSA.

2.3.4 Services Agreement

BAF has entered into a services agreement with Pinnacle to provide certain finance, tax, reporting, administration and company secretarial support services to BAF if the Proposed Transaction is implemented, as reasonably required by

BAF to conduct its business ('the Services Agreement'). These services were previously provided by BSAAF and BLA under the terms of the Existing MSA.

2.4 Intentions Regarding BLA Managed Investments

It is intended that BAF's investments in BLA-managed real assets (water and agricultural investments) will remain a cornerstone position of BAF's portfolio.

Other BLA-managed investments in BAF's portfolio will be progressively realised and recycled in accordance with the new multi-manager mandate over time coinciding with the exit timetable for those individual closed-end funds.

We note that the provisions of the New MSA allow for deployments into new BLA managed investment and into Pinnacle affiliates offerings where they meet the investment criteria under Alterum's investment mandate.

2.5 Recent Developments Impacting BLA and BAF

As set out in section 1.2 of the Notice of Meeting, BLA was impacted by a number of events during FY2018 that resulted in BLA experiencing significant market and operating disruptions. These events included BLA announcing a number of material balance sheet write downs, removal of earnings guidance, a review of their business, and changes to its board of directors and senior management. As a result of these events, the directors of BAF have undertaken a strategic review of BAF's existing arrangements with BLA.

These events had an impact on the market for BAF shares with BAF shares trading at a discount to its pre-tax NTA backing (generally at levels in excess of 20% since March 2018).

The directors of BAF have closely monitored developments in this respect and have to date taken the following action in response to the market events:

- ▶ In March 2018, BAF ceased deploying capital into new funds (other than already existing contractual commitments);
- ▶ The standing twelve month forward schedule of independent valuation reviews of holding values across the portfolio was accelerated such that 100% of the carrying values across the portfolio were externally reviewed by 30 June 2018;
- ▶ In April 2018, BAF announced and commenced an on-market share buyback program;
- ▶ Peter Wade was appointed to the BAF board on 4 October 2018 as an additional non-executive independent director to create a majority independent board of directors; and
- ▶ On 26 October 2018, the chair role was transitioned from Andrew Champion to Paul Masi as independent non-executive chair. This was originally contemplated to occur at the end of the upcoming AGM but was accelerated as a board governance measure as a result of the Proposed Transaction. In consultation with the BAF board, Mr Champion has agreed that he will not stand for re-election at BAF's upcoming AGM.

2.6 Strategic Rationale for the Proposed Transaction

As a result of the events set out in Section 2.5 of this Report, the BAF board has formed the view that a repositioning of BAF from a sole manager diversified alternatives fund to a diversified alternatives 'best of breed' multi-manager fund managed by a Pinnacle affiliate provides BAF with an opportunity to address its recent trading discount to NTA whilst preserving the nature of BAF as an investment to access private market opportunities typically only accessible by institutional and wholesale investors.

The Independent Directors have announced that they unanimously recommend that the Shareholders vote in favour of the Proposed Transaction, subject to BAF not receiving a superior proposal to the Proposed Transaction from a third party (supported by an agreement between the third party and BLA allowing the proposal to be implemented).

In forming this view the Independent Directors considered a number of factors and a number of additional alternatives to the Proposed Transaction, including the alternatives set out in Section 3.2.15 below.

3.0 Assessment of the Proposed Transaction's Advantages and Disadvantages

This section is set out as follows:

- ▶ Section 3.1 sets out the methodology for our assessment of the Proposed Transaction;
- ▶ Section 3.2 sets out a summary of key matters we have considered in assessing the Proposed Transaction's advantages and disadvantages;
- ▶ Section 3.3 sets out our view of the advantages of the Proposed Transaction;
- ▶ Section 3.4 sets out our view of the disadvantages of the Proposed Transaction; and
- ▶ Section 3.5 provides our assessment of whether the advantages of the Proposed Transaction outweigh the disadvantages.

3.1 Basis of Evaluation

There is no regulatory requirement that requires the preparation of this Report. Notwithstanding, the Independent Directors have requested us to provide our opinion on whether the advantages to BAF shareholders of the Proposed Transaction outweigh the disadvantages.

ASIC have issued Regulatory Guide 111 *Content of Expert Reports* ('RG 111'), which provides guidance in relation to independent expert's reports. RG 111 states that the independent expert's report should explain the particulars of how the transaction was examined and evaluated as well as the results of the examination and evaluation.

The guidance in RG 111 is predominately focused on control transactions that involve one or more of:

- ▶ a change in the underlying economic interests of security holders;
- ▶ a change of control; or
- ▶ selective treatment of different security holders.

We do not consider that the Proposed Transaction is a control transaction. On this basis, to the extent relevant, we have regard to the guidance set out in RG 111.35 to RG 111.40 in preparing this Report. While this guidance predominately relates to demergers and demutualisations, we consider it the most relevant guidance for the purposes of this Report as it discusses providing an opinion as to whether the advantages of a particular transaction outweigh the disadvantages.

To form our view on whether the advantages of the Proposed Transaction outweigh the disadvantages, we have first considered a number of matters which we consider relevant to the Shareholders. We have separately set out these matters to provide further context to our advantages and disadvantages section.

There is no specific legal definition of what constitutes an advantage or a disadvantage, nor is there a definitive legal or regulatory definition for the methodology to be adopted to weight each advantage and disadvantage relative to each other. The requirements involve judgement on the part of the expert as to the overall commercial effect of the proposal. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether the advantages of the proposal outweigh the disadvantages.

3.2 Key Matters Considered

In considering the advantages and disadvantages of the Proposed Transaction, we have considered a range of key matters including, but not limited to, the following which are set out in this section:

- ▶ BAF's investment mandate (refer to Section 3.2.1);
- ▶ The composition and operation of the investment committee (refer to Section 3.2.2);
- ▶ Manager risk (refer to Section 3.2.3);
- ▶ Track record and expertise (refer Section 3.2.4);
- ▶ Investment pipeline (refer Section 3.2.5)
- ▶ Share trading prices of BAF shares relative to its NTA backing (refer to Section 3.2.6);
- ▶ Liquidity of BAF shares (refer to Section 3.2.7);
- ▶ Fee arrangements (refer to Section 3.2.8);

- ▶ Non-management services (refer to Section 3.2.9);
- ▶ Valuation practices (refer to Section 3.2.10);
- ▶ Term of MSA and early termination (refer to Section 3.2.11)
- ▶ Dividend policies (refer to Section 3.2.12);
- ▶ Leverage (refer to Section 3.2.13);
- ▶ Taxation considerations (refer to Section 3.2.14); and
- ▶ The likely position of the Shareholders if the Proposed Transaction is not implemented (refer to Section 3.2.15).

3.2.1 *Investment Mandate*

The rationale for the establishment and ASX listing of BAF in 2014 included providing investors with access to a portfolio of Blue Sky managed alternative assets (termed 'Authorised Investments' in BAF's Prospectus at the time of listing). BAF's manager is only able to invest (on behalf of BAF) in Authorised Investments. Authorised Investments include:

- a) any security, right, title or interest of whatsoever nature in a Blue Sky Fund Entity or co-investment vehicle;
- b) the taking and/or giving of options to purchase any investment and the taking and/or giving of options to sell any investment which is an authorised investment outlined in paragraph (a) above; and
- c) any investment which ceases to be an authorised investment as a result of an exit event occurring in respect of the investment (for example the relevant Blue Sky Fund Entity is required to hold escrowed shares in an entity in which it has invested that has ceased to be a Blue Sky Fund Entity as the result of an initial public offering).

A Blue Sky Fund Entity is defined as any trust, company, partnership or joint venture which is owned (directly or indirectly, wholly or partially) or managed by a BLA related entity or in respect of which a BLA related entity is an associate, trustee or responsible entity, and which trust, company, partnership or joint venture is within an alternative asset class or holds or invests in assets which fall within one or more alternative asset classes.

If the Proposed Transaction is implemented, BAF's new investment mandate will include material changes relative to its current mandate managed by BSAAF.

Under BAF's proposed new investment mandate, it is intended that the core elements of its current mandate will be preserved, particularly its focus on investing in a diversified portfolio of private market alternative assets. Notwithstanding this, under the terms of the New MSA, as summarised in Section 2.3.3, Alterum intends to implement key changes to the current mandate, including the following:

- ▶ **Multi-manager mandate:** The mandate will be expanded to allocate funds to 'best of breed' investment managers in particular investment classes. This may include Pinnacle affiliate investment managers where they fit the investment mandate;
- ▶ **New asset classes:** Alterum intends to invest in new alternative asset classes in which BAF has historically held no position, such as private debt and unlisted infrastructure assets;
- ▶ **35% single investment class limit:** The current limit on investments in any single investment class of 40% of total portfolio value is proposed to be reduced to 35% under the new investment mandate, reflecting the addition of new private market asset classes into the mandate;
- ▶ **Increased investment opportunities:** The mandate will no longer include the obligation to invest only in assets managed by BLA. While Alterum may invest in Blue Sky Fund Entities and/or co-investment vehicles, the new investment mandate will focus on selecting 'best of breed' managers across various investment classes;
- ▶ **No first right to BLA investments:** Under the current mandate, BAF has first right to invest in up to 50% of any Blue Sky Fund Entity or co-investment vehicle. This right will not exist if the Proposed Transaction is implemented, meaning that there is no guarantee that BAF will be able to invest in any new Blue Sky Fund Entities or co-investment vehicles.

For completeness we note that BLA has announced their intention to reposition their strategy to focus primarily on institutional mandates and large multi-asset funds, in comparison to their historical scope which targeted wholesale investors through offering many single-asset funds.

3.2.2 *Investment Committee*

Under the Existing MSA, BSAAF has the exclusive power to invest on behalf of BAF, subject to any requirements of BAF's investment policy, regulations and any reasonable directions of BAF's directors. Since the commencement of the Existing MSA, the BSAAF investment committee has typically included Andrew Champion and two BLA executives. The committee is currently comprised of Andrew Champion, Kim Morison (managing director of BLA) and Tim Wilson (executive director of BLA). In response to the challenges faced by BLA during 2018, the BAF board directed the BSAAF investment committee to cease deployment of funds.

Under the current arrangements, BLA, through BSAAF as its wholly owned subsidiary, is incentivised to invest on behalf of BAF in its own funds.

If the Proposed Transaction is implemented, the terms of the New MSA require Alterum to establish an investment committee comprising at least three members, including one suitably qualified independent investment expert, which must operate in accordance with a charter developed and administered by the board of Alterum. In addition to the suitably qualified independent investment expert, the investment committee is expected to comprise Andrew Champion and a senior Pinnacle representative.

Under the investment committee's charter, it is proposed that any investment decisions will require unanimous consensus from the investment committee. It is the Independent Directors' view that this provides for a strong governance position across all investment decisions. In our view, the unanimous consensus required for the investment committee to make investment decisions may mitigate the risk of bias towards particular investments, such as those managed by BLA or Pinnacle.

3.2.3 *Manager Risk*

In our view, it is preferable for a listed investment company ('LIC'), such as BAF, to have a stable fund manager that is in a position to focus its attention on generating excess returns. We have set out a range of risks to BAF associated with the provision of management services by BSAAF and Alterum directly below.

BLA and BSAAF

As discussed in Section 2.5 of this Report, BLA was impacted by a number of events during FY2018 that resulted in BLA experiencing significant market and operating disruptions. In particular, in March 2018, BLA faced external challenges to its business model which resulted in a decline in its share price of approximately 87.6% in the following 6 months². In the period following March 2018, BLA (and BSAAF) has been hindered in its ability to raise and deploy investment funds as intended. The financial performance, reputation and market sentiment of BLA has been negatively impacted and ultimately BLA has been forced to seek additional financing. On 28 September 2018, BLA announced that it had entered into an agreement with Oaktree Capital Management L.P. ('Oaktree') to provide BLA with a \$50 million investment via a 7-year senior secured convertible note facility.

Grant Thornton Corporate Finance Pty Ltd ('GT') prepared an independent expert's report dated 16 October 2018 to the shareholders of BLA in relation to the issue of BLA shares resulting from a potential conversion of convertible loan notes under Oaktree's convertible note facility ('GT's Report'). GT's Report refers to the challenging market conditions faced by BLA, and a lack of trust from sophisticated investors following the release of a research report published by Glaucus Research Group California LLC on 28 March 2018. GT's Report states that these circumstances have resulted in BLA deferring nearly all new capital raises from sophisticated investors for its closed-ended funds and has caused uncertainty in relation to the ability of BLA to secure funding to ensure it is sufficiently capitalised to support its business, its funds' investments and working capital requirements. BLA noted its intention to utilise the proceeds of the facility provided by Oaktree to fund BLA's co-investments, working capital requirements and general corporate purposes of BLA and its subsidiaries. Notwithstanding this, as at the date of this Report, the Independent Directors are of the view that BLA will not be able to deliver the volume and diversity of investment opportunities over the short to medium term to deliver on BAF's investment mandate.

With reference to the fair market value concept (being between willing but not anxious parties), GT's Report describes BLA as an 'anxious' party. Further, it is noted in BLA's FY2018 annual report that within a few days of the publication of the aforementioned research report, three legal firms had commenced advertising for class action participants. While BLA has stated that it has received no communication from these firms and no claim has been served, there is a risk that class actions may eventuate.

² Calculated using BLA's monthly VWAPs of \$11.57 for March 2018 and \$1.61 for September 2018, as per Section 7.4.1.

BAF is currently rated by two fund rating agencies. Following BLA's challenges in March 2018, both agencies suspended BAF's ratings pending BLA's response to the market, and subsequently downgraded their ratings shortly thereafter.

During the 2018 financial year, BLA announced a number of material balance sheet write downs, removal of earnings guidance, a review of their business, changes to its board of directors and senior management. BLA's summarised statements of underlying profit or loss, as set out in Section 7.5.1 of this Report, display a deterioration of BLA's financial performance between FY2017 and FY2018. This includes a 56.4% decline in operating revenue, and a net loss before tax of \$77.0 million in FY2018, including \$31.5 million of provisions and impairments.

Alterum

Alterum has no track record of performance as it was formed specifically for the purposes of the Proposed Transaction. Notwithstanding this, if the Proposed Transaction is implemented, Pinnacle (through its subsidiary, Pinnacle Investment Management Limited) will be a 70% shareholder of Alterum. In our view, it is relevant to consider the financial performance and position of Pinnacle, and its ability to provide support to Alterum.

Pinnacle's summarised statements of profit or loss and other comprehensive income, as set out in Section 8.5.1 of this Report, display significant growth between FY2015 and FY2018. Pinnacle's revenue and net profit before tax have grown at compound annual growth rates ('CAGR') of 29.3% and 76.0%, respectively, across this period. As at 30 June 2018, Pinnacle's net current asset balance was approximately \$37.4 million³ and Pinnacle had no borrowings. As set out in Section 8.4.1 of this Report, over the period from 30 October 2017 to 2 November 2018, Pinnacle's share price has increased from a daily value weighted average price ('VWAP') low of \$3.30 on 31 October 2017 to a period high of \$8.40 on 2 October 2018, before declining to \$5.58 on 2 November 2018. Notwithstanding this recent decrease in share price, Pinnacle's shares experienced a net 69% increase across the period from 30 October 2017 to 2 November 2018.

Following the Proposed Transaction, the Independent Directors are of the view that an opportunity exists to improve BAF's rating with the fund rating agencies, particularly with reference to:

- ▶ The New MSA's multi-manager mandate mitigating the risk associated with a single manager; and
- ▶ Pinnacle's support of Alterum under the Services Agreement, which provides access to Pinnacle's institutional-grade operating platform that has historically been looked favourably upon by ratings agencies.

Notwithstanding this, we note that there is no guarantee that the implementation of the Proposed Transaction will result in any favourable changes to BAF's ratings.

3.2.4 Track Record and Expertise of Manager

The track record of an investment manager can often provide useful information in relation to future performance. It is important to note however that historical returns and track records do not provide any guarantees in relation to potential or future returns and should be considered with an appropriate degree of caution.

BSAAF

With reference to Sections 2.2.3 and 2.2.4, we note that Andrew Champion and Adam Sharplin have been employees of BLA since BAF's inception in 2014 with key roles in the management of BAF's portfolio.

As set out in Section 6.6 of this Report, under the management of BSAAF, BAF's portfolio delivered a pre-tax fund performance of 5.05% in FY2018, which is lower than the performance of 10.3% in FY2017 and 8.53% per annum since inception in 2014. BAF's directors noted in BAF's FY2018 annual report that the FY2018 performance was disappointing and below expectations.

Since inception, BAF has delivered dividend yields ranging between 2.97% in FY2015 to 4.51% in FY2018, based on post-tax NTA.

BAF's shares have traded at a premium to pre-tax NTA consecutively for the period between 18 May 2016 to 13 March 2018, as set out in Section 6.6.1, prior to trading at a persistent discount to NTA thereafter.

Following the challenges faced by BLA in 2018, as discussed in Section 3.2.3, BLA (and BSAAF as a subsidiary of BLA) has experienced difficulties raising and deploying capital.

³ Calculated as current assets less current liabilities, as per Section 8.5.2

The historical performance of BSAAF, in its capacity as manager of BAF, should not be relied upon as an indication of future performance.

Alterum

Alterum is a newly established entity with equity to be held between Pinnacle, Andrew Champion and Adam Sharplin with a unique investment mandate. Alterum itself does not have an observable track record of investment performance.

If the Proposed Transaction is implemented, Andrew Champion and Adam Sharplin will cease employment with BLA and commence employment with Alterum pursuant to a new executive services agreement, and will continue in key roles in the management of BAF's portfolio. Given the continuing involvement of Andrew Champion and Adam Sharplin, there will be an opportunity for the continuation of expertise and corporate knowledge upon a change to Alterum. Refer to Section 6.3 of this Report for further detail regarding the experience of Mr Champion and Mr Sharplin.

The skillset of Andrew Champion and Adam Sharplin will be supplemented by Pinnacle. As outlined in Section 8.1, Pinnacle holds minority interests in investment affiliates specialising in a range of different asset classes, which collectively manage approximately \$38.0 billion in assets, including three LICs and one listed investment trust with aggregate assets under management of \$1.8 billion. Over the past six months⁴, the shares of LICs managed by Pinnacle's affiliates have traded at discounts to pre-tax NTA ranging from 0.38% to 13.03%, and the shares of the listed investment trust managed by Pinnacle's affiliate has traded at premiums to pre-tax NTA ranging from 2.50% to 3.50%.

We note that the historical performance of Pinnacle, Andrew Champion and/or Adam Sharplin, should not be relied upon as an indication of future performance of Alterum or any other entity.

3.2.5 Investment Pipeline

The potential returns that a manager is in a position to generate will depend, to at least some extent, on the investment mandate and the investment decisions which are able to be made by the fund.

BLA

Under BSAAF's management, BAF is only able to invest in the Authorised Investments. GT's Report states that BLA is deferring nearly all new capital raises from sophisticated investors for its closed-ended funds and that, as at the date of their Report, uncertainty exists in relation to the ability of BLA to secure funding to ensure it is sufficiently capitalised to support its business, its funds' investments and working capital requirements. Notwithstanding that BLA secured funding through Oaktree's facility, as discussed in Section 3.2.3, in our view the pipeline of available Authorised Investments that can be made at the current time is likely to be reduced relative to the period prior to March 2018.

As outlined in BAF's annual report for the year ended 30 June 2018, in March 2018 BAF ceased deploying capital into new funds (other than pre-existing contractual commitments) as developments in relation to BLA continue to be assessed. We understand that the directors of BAF do not have any immediate plans to recommence deploying capital.

Regarding developments in relation to BLA, BLA's FY2018 annual report sets out a range of areas of improvement it intends to address to restore its loss of stakeholder confidence, including, but not limited to, refining its strategy, reducing focus on its fee earning assets under management (as defined in Section 7.1 of this Report), improving governance and increasing focus on risk and compliance management. Notwithstanding that many of these areas of improvement are in progress and/or due for completion in the near future, there is no guarantee that these changes will restore stakeholder confidence sufficiently to materially improve BLA's investment pipeline (and accordingly, the Authorised Investments available to BAF).

Alterum

As set out in Section 3.2.1, Alterum will have an expanded investment focus including the following key changes:

- ▶ The mandate will be expanded to allocate funds to 'best of breed' investment managers in particular asset classes. This may include Pinnacle affiliate investment managers where they fit the investment mandate; and

⁴ Based on information for the period between April and September 2018, as set out in Section 8.1 of this Report

- ▶ Alterum intends to invest in new alternative asset classes in which BAF has historically held no position, such as private debt and private/unlisted infrastructure assets.

The investment pipeline available to Alterum encompasses a wider range of investments and is not dependent on the stability of a single underlying manager (such as the current dependence of BAF on BLA).

If the Proposed Transaction is implemented, we understand that Alterum intends to identify opportunities to raise new capital to deepen and diversify BAF's portfolio in due course (as and when appropriate).

3.2.6 *BAF Shares Trading at a Discount to NTA*

The share trading prices of LICs are often referenced to the NTA backing per share. In the period July 2014 to February 2018, the BAF share price typically traded in a +/- 10% range to pre-tax NTA. As set out in Section 6.6.1 of this Report, BAF's shares have traded at a premium to pre-tax NTA consecutively for the period between 18 May 2016 to 13 March 2018. Notwithstanding this, from late March 2018 BAF's shares have been trading at a discount to its NTA backing generally at levels in excess of a 20% discount.

The increased discount to NTA arose in the periods following the release of the Glaucus Report and persisted. The continued discount could be for a range of reasons, including the ongoing uncertainty in the BLA business.

To address the significant discount of BAF's share price to NTA, BAF's directors have taken the following actions to date:

- ▶ Ceased deploying capital from March 2018 (other than existing contractual commitments);
- ▶ The standing twelve month forward schedule of independent valuation reviews of holding values across the portfolio was accelerated such that 100% of the carrying values across the portfolio were externally reviewed by 30 June 2018;
- ▶ Announced and commenced an on-market share buyback program;
- ▶ Appointed an additional independent non-executive director (Peter Wade) on 4 October 2018 to create a majority independent board; and
- ▶ Undertaken a strategic review of BAF.

While the Independent Directors' view is that the Proposed Transaction provides an opportunity to address the discount of BAF's share trading price to its NTA backing, there is no guarantee that the current share price trading trends relative to the NTA backing per share will improve if the Proposed Transaction is implemented.

3.2.7 *Liquidity of BAF Shares*

As outlined in Section 6.5.2 of this Report, the rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. An equity instrument is generally considered liquid if a market for the equity investment exists such that it can be bought and sold quickly with minimal impact on the price of the instrument.

As set out in Section 6.5.2 of this Report, between October 2017 and March 2018, a monthly average of approximately 1.87% of BAF shares on issue were traded. Between April 2018 and July 2018, this monthly average increased to 6.12% of BAF shares on issue after the challenges to BLA's business model described in Section 3.2.3 above. While the liquidity increased between April and July 2018, it was accompanied by a decline in BAF's share price during this period, as set out in Section 6.5.1 of this Report, indicating a lack of support from investors looking to acquire shares being sold. Liquidity in the periods from August 2018 to October 2018 has reverted to levels more consistent with the October 2017 to March 2018 period.

As a listed vehicle, BAF is likely to provide more liquidity than a direct investment in unlisted alternative assets. This is likely to remain unchanged if the Proposed Transaction is implemented.

In our view, it may be that Alterum will need to establish a track record of performance before there is any material and sustainable changes to the liquidity of BAF's shares. Notwithstanding this, we note that there is no guarantee that the liquidity of BAF's shares will change or improve if the Proposed Transaction is implemented.

3.2.8 *Fee Arrangements*

Under the terms of the Existing MSA, BAF is not required to pay any management or performance fees to Blue Sky Fund Entities, other than BSAAF, for any services provided by these entities in their capacity as the underlying managers of each of BAF's investments. To the extent that BAF pays such fees, they are rebated by the relevant Blue Sky Fund Entity or co-investment vehicle. BAF is, however, required to pay its pro-rata share of transaction costs and

establishment fees relating to its investments in Blue Sky Fund Entities and co-investment vehicles. As set out in Section 6.7.1 of this Report, BAF incurred non-rebateable transaction costs and establishment fees totalling approximately \$1.0 million in FY2018 and \$2.9 million in FY2017. In our view, these upfront expenses represent a material portion of total fees paid to BSAAF (and related BLA-managed investment entities) by BAF when compared with management fees totalling \$2.8 million in FY2018⁵, and performance and management fees totalling \$3.3 million in FY2017.

As set out in the joint ASX announcement between BAF and BLA on 18 October 2018, BLA is of the view that the current fee arrangements do not sufficiently compensate BLA for the costs of managing BAF, and that BLA's estimated annual savings in relation to these discounted fees will be greater than \$1.0 million if the Proposed Transaction is implemented.

Under the terms of the Implementation Deed and the Existing MSA, during the period from 1 July 2018 to 31 December 2018, BAF is required to continue to pay BSAAF a monthly management fee and a performance fee after the end of the period. We note that it is the present expectation of the Independent Directors that the calculated performance fee will be a negative amount based on BAF's year to date performance deficit to the 8.0% hurdle as at the date of this Report. Accordingly, the Independent Directors expect that no performance fee will be payable to BSAAF in relation to this period. Notwithstanding this, if a performance fee is payable in relation to this period, a cash outflow shortly after 31 December 2018 will be required.

This performance fee, if payable, would represent a cash outflow approximately 6 months earlier relative to the requirements of the Existing MSA (in the absence of the Implementation Deed), which requires BAF to pay performance fees annually shortly after 30 June each year.

Under the New MSA, as set out in Section 2.3.3, the Fee Free Period will apply between 1 January 2019 and 1 July 2019, during which any management fees payable to Alterum will be calculated on the basis of Portfolio NAV, excluding any value attributable to BAF's interest in any existing investments in Blue Sky Fund Entities and co-investment vehicles.

Notwithstanding this, as set out in Section 2.3.2, under the terms of the Implementation Deed, from 1 January 2019 onwards (including the Fee Free Period), BAF will be required to pay management and performance fees to BLA in relation to existing investments in Blue Sky Fund Entities and co-investment vehicles on a fund by fund basis (as opposed to a portfolio basis).

Fees for any new investments by BAF in BLA managed funds after 1 January 2019 will be negotiated on a fund by fund basis. There is no certainty in relation to whether new investments will be made with BLA or in relation to the terms of the associated fees if they are made.

As set out in Section 2.3.3, from 1 January 2019 onwards (excluding fees to which the Fee Free Period applies), fees payable to Alterum include a management fee only. Under the terms of the New MSA, Alterum will not be entitled to any performance fees.

Additionally, under the New MSA, BAF will not be required to contribute to certain transaction costs and establishment fees, which is a requirement of the Existing MSA when investing in an Authorised Investment. Notwithstanding this, pursuant to the terms of the New MSA, BAF will be required to contribute to various costs properly and reasonably incurred by Alterum in connection with the provision of its services, which may include costs relating to third party advisors, due diligence and shareholder communications.

We note that there is a degree of uncertainty associated with these costs, as they will vary depending on the investments made by Alterum if the Proposed Transaction is implemented.

A summary of the fees and expenses payable under the Existing MSA compared with those payable if the Proposed Transaction is implemented is summarised in Table 3.1 below. Refer to Section 2.3 of this Report and the Notice of Meeting for further details in relation to fees.

⁵ BAF incurred no performance fees in FY2018 following its failure to meet its performance hurdle rate of 8.0% per annum.

Table 3.1: Summary of Fees and Expenses Payable

Fee/expense type	Existing MSA	Arrangements if the Proposed Transaction is Implemented
Management fee to manager	▶ 1.2% per annum of Portfolio NAV (plus GST)	▶ 1.0% per annum of Portfolio NAV (plus GST) ▶ Fee Free Period on existing BLA-managed investments until 1 July 2019
Performance fee to manager	▶ 17.5% after achieving 8.0% per annum performance hurdle	▶ No performance fees payable
Fees to underlying managers	▶ No fees payable (any fees paid are rebated)	▶ Fees payable to BLA for existing BLA-managed investments on fund by fund basis, including 1.2% per annum management fee and 17.5% performance fee over 8.0% hurdle ▶ Fees payable to Underlying Managers, to be negotiated on a fund by fund basis
Transaction and reasonable other costs	▶ Payable in the form of BAF's portion of transaction costs and establishment fees	▶ Payable to Alterum as properly and reasonably incurred expenses under New MSA ▶ Certain costs payable to Pinnacle under Services Agreement
Transition arrangements	▶ n/a	▶ Fee Free Period on existing BLA-managed investments until 1 July 2019 ▶ Performance fee may be payable to BSAAF as at 31 December 2018 (payable as at 30 June under Existing MSA in absence of Proposed Transaction)

Source: BDOCF analysis

3.2.9 Non-management services

BSAAF currently provides BAF with a range of secondary services in addition to managing its portfolio, including certain finance, tax, reporting, administration and company secretarial support services. BSAAF is compensated for the provision of these services by the payment of the management fee of 1.2% as described in Section 2.3.1 above.

If the Proposed Transaction is implemented, from 1 January 2019, the majority of these services will be provided under the New MSA. Certain services, however, will be provided by Pinnacle separately to the terms of the New MSA, under the Services Agreement, as summarised in Section 2.3.4. The fee for these services under the Services Agreement is equal to \$100,000 per annum, excluding GST, and indexed at 3.0% per annum.

This represents a fee that is additional to the proposed management fee of 1.0% payable under the New MSA. We note that it is impracticable to compare fees for non-management services on a like for like basis due to the differences in fee structures and the proposed material changes to BAF's investment mandate if the Proposed Transaction is implemented.

As set out in Section 2.3.2, under the Implementation Deed, if the Proposed Transaction is implemented, BSAAF and BLA will provide certain transitional services to BAF for services including (but not limited to) NTA calculations, preparation of statutory financial statements for the period 31 December 2018 and transition of back office administration support functions. These services will be provided to Alterum or Pinnacle for no consideration to assist with the transition of management and support services.

3.2.10 Valuation Practices

Valuation is the driver for a LIC's reported monthly NTA backing, and is typically provided by underlying fund managers. The valuation policies under the terms of the Existing MSA and the New MSA are broadly consistent. Notwithstanding this, at the current time the valuations for all investments held by BAF are performed by BLA and its related entities. In our opinion, it is not unreasonable to suggest that BLA may have lost some credibility in relation to valuation issues following the challenges to its business model in March 2018 and recent material balance sheet write downs.

If the Proposed Transaction is implemented, the New Valuation Policy will become effective, under which each Underlying Manager will be required to determine the value of each of its investments before being reviewed for

consistency with BAF's valuation policy by Alterum. Alterum must seek BAF's approval prior to committing to a new Underlying Manager where that Underlying Manager's valuation policy varies materially to the New Valuation Policy. This will provide BAF with a valuation of NTA constructed from a more diversified set of sources, and may assist to mitigate some of the valuation risk and may assist to restore investor confidence to the valuation process.

3.2.11 *Term of MSA and early termination*

As set out in Section 2.3.3, the initial term of the Existing MSA expires on 12 June 2024, and will be automatically renewed for an additional five year term. If the Existing MSA is terminated after its initial term, no termination fee is payable⁶. Additionally, if the Existing MSA is terminated after its initial term (in the absence of the Proposed Transaction), BAF will be required to pay each Blue Sky Fund Entity in which it has invested all fees (whether management fees, performance fees or otherwise) payable by other investors in those entities on the same basis from the date of termination.

As set out in Section 2.3.4, the initial term of the New MSA will be five years (expiring on or around 31 December 2023), and will be automatically renewed for an additional five year term. If the New MSA is terminated after its initial term by ordinary resolution of the Shareholders, a termination payment is payable to Alterum, equal to the sum of all management fees paid or accrued relating to the 12 month period ending on the termination date.

We note that the remaining term (including subsequent term) of the Existing MSA is less than six months shorter than the proposed term (including subsequent term) of the New MSA. In our view, this does not represent a material change to the term of the management arrangements.

If the Proposed Transaction is implemented, as set out in the Implementation Deed, no early termination fee will be payable by BAF on the termination of the Existing MSA.

3.2.12 *Dividend Policy*

Dividend policies are typically an important consideration for investors in funds, as they provide shareholders with a source of short term returns for what is typically a longer term investment.

As set out in the Notice of Meeting, if the Proposed Transaction is implemented, Alterum intends to target a dividend yield of 4.0%, franked to the maximum extent possible. Notwithstanding this, we note that meeting the targeted yield and maximising franking will be contingent upon BAF's future financial performance and taxation position.

BAF's current dividend policy is that all dividends paid to Shareholders will be franked to 100% or the maximum extent possible. As discussed in Section 6.6.2, on 25 May 2016, BAF announced its commitment to a target dividend yield of at least 4.0%, based on post-tax NTA.

As set out in Section 6.6.2, we note that BAF's actual dividend yields between FY2015 and FY2018 have ranged from approximately 2.97% to 4.66%, based on post-tax NTA. During this period, franking rates for interim and final dividends have ranged from 65% to 100%.

It is the BAF board's intention that BAF's dividend reinvestment plan will continue if the Proposed Transaction is implemented, and will not be offered where BAF's shares are trading at a significant discount to NTA.

In our view, the proposed dividend policy after the Proposed Transaction is relatively consistent with BAF's existing dividend policy.

3.2.13 *Leverage*

Under BAF's current investment mandate, leverage is not used by BAF in the ordinary course of operations. Notwithstanding this, leverage is used in some of the underlying funds and investments managed by BLA. At the current time, BAF may in certain circumstances use bridging finance to fund investment opportunities that arise at a time when BAF is waiting for returns on asset realisations to be distributed.

Under the New MSA, BAF is unable to use leverage in any circumstances, other than to:

- ▶ Fund Alterum's ordinary working capital requirements;
- ▶ Enter into hedging arrangements where Alterum considers it necessary or prudent to do so;

⁶ We note that a termination fee was payable under the Existing MSA if ASX did not grant a waiver of ASX Listing Rule 15.16 to give effect to a 10 year initial term. This waiver was granted, and the termination fee is, accordingly, no longer applicable.

- ▶ Secure bridging finance (with a term no longer than six months); or
- ▶ Invest in credit as an alternative asset class.

In our view, the proposed treatment of leverage under the New MSA does not represent a material change to the terms of the Existing MSA.

3.2.14 Taxation Considerations

Where a company qualifies as a LIC, certain types of shareholders may qualify for income tax deductions in respect of dividends paid out of certain profits which represent capital gains on the disposal of a permitted investment that BAF has held for over 12 months (referred to as a 'LIC capital gain').

Specifically, where the capital profit would have qualified as a discounted capital gain if the underlying asset had been held directly by a shareholder, the benefit of the discounted capital gain flows through to the shareholder such that the dividends paid out of those profits are effectively taxed in the hands of the shareholder at the same rate as a discounted capital gain.

On the basis of BAF's current investment strategy, BAF's directors expect that BAF will generally not generate LIC capital gains as a consequence of the current investment mandate. As such, Shareholders will generally not be able to obtain taxation benefits under the LIC regime. BAF's directors do not expect any material changes to this if the Proposed Transaction is implemented.

3.2.15 Position of the Shareholders if the Proposed Transaction is not Implemented

Table 3.2 below outlines the possible position of the Shareholders in the event that the Proposed Transaction is not implemented. We note that the Proposed Transaction may not proceed for a number of reasons including, but not limited to, the conditions precedent to the New MSA coming into effect not being satisfied (refer to Section 2.3.3 of this Report).

Table 3.2: Position of Shareholders if the Proposed Transaction Is Not Implemented

Position of Shareholders	Explanation
Continue operating under the existing management arrangements on a wind-down basis	It is likely that BAF will continue operating under the existing management arrangements with BLA and, for so long as a material share price discount to NTA persists, we are instructed that the Board will likely maintain its directive for no deployments or commitments to new BLA-managed funds and will operate on a wind-down basis with investments in BAF's portfolio realised in the usual course by BLA and capital returned to Shareholders.
Implications of operating on a wind-down basis	The implications of operating on a wind-down basis are likely to include: ► Timing: The timing of a wind-down may take an extended period of time and will depend on: • The timeframe for the individual investment to execute and exit. The BAF directors have instructed us that the majority of the closed-ended private market funds that BAF is invested in are engaged in investment strategies which may take up to a further two to seven years to execute and exit;⁷ or alternatively • The ability of BAF's manager to identify and execute secondary sales of BAF's units in the underlying investments. ► Ability to return existing NTA to Shareholders: While BAF is trading at a discount to NTA as at the date of this Report, it may not be possible for the underlying NTA to be fully realised as part of a wind-down. By way of example, we note: • In a wind-down scenario BAF will be a declared seller. This may lead to material discounts when negotiating a sale of units on the secondary market; • The return on investments held until an exit event occurs is not certain and will ultimately depend on the prevailing market conditions; and • The ongoing listed investment company operating costs is likely to erode unrealised gains in the portfolio. As set out in the Notice of Meeting, BAF's total overheads in FY2018 were approximately \$3.7 million, composed of management fees of \$2.8 million and operating expenses of \$0.9 million. Although management fees are calculated according to Portfolio NAV, a large proportion of BAF's operating expenses are fixed in nature. These include audit fees, board fees, board and company insurance, ASX listing fees, share registry costs, AGM costs, and other shareholder communications costs. In particular, BAF's directors' and officers' insurance premium has increased materially since March 2018. In the BAF directors' view, the current premium is extraordinarily high and is likely to remain so unless there is a change in BAF's manager. ► Share Price: With BAF's portfolio in a wind-down scenario and no investment-grade rating, the share price is likely to reflect the market's view of a risk-weighted return in a wind-down scenario as opposed to the underlying NTA on a going concern basis and assuming re-investment. We would expect the NTA in a wind-down scenario to be less than the NTA on a going concern basis (for reasons including those set out directly above) and the difference may be material. We also note that the Independent Directors are of the view that a wind-down scenario would likely lead to sub-optimal outcomes for Shareholders.
Pursuit of other management proposals	If the Proposed Transaction is not implemented, the BAF board may receive other proposals to provide new management services to BAF. We note that BAF has received a proposal from Wilson Asset Management ('WAM') to provide management services to BAF. For reasons set out in section 1.6 of the Notice of Meeting, the Independent Directors are of the view that WAM's proposal is not currently able to be put to Shareholders. However, if the Proposed Transaction is not implemented, WAM's proposal may be considered by the BAF board as an alternative (along with any other proposals received). For completeness, we note that any alternative management proposal would be subject to negotiation with BSAF and BLA on the terms that they would be willing to agree to termination of their existing mandate.

Source: BDOCF analysis

⁷ BAF, having been established in 2014 as a co-investment fund for retail investors to access BLA's predominately wholesale and institutional investment strategies, does not have control over the timing of exits / realisations from underlying investments. In many cases, BAF's capital is significantly less than the capital contributed by other investors in the relevant underlying fund (and BAF cannot hold more than 50% of an underlying BLA fund). BLA (through its subsidiaries), as investment manager of those underlying funds, has a fiduciary duty to act in the best interests of each fund's investors as a whole, which may not facilitate BAF's desire to accelerate the realisation of its portfolio in a wind-down scenario.

For completeness, we note that the Independent Directors considered and ultimately dismissed several other options including:

- ▶ A mutually-agreed cessation of the Existing MSA and subsequent internalisation of the management function. This option was dismissed on the basis that this structure may not effectively facilitate the BAF's directors' targeted strategy and would likely be less cost efficient than other alternatives; and
- ▶ Broadening the investment mandate, but BSAAF remaining as BAF's investment manager. This option was dismissed on the basis that the underlying manager risk (which the Independent Directors consider unacceptable) would not be resolved.

3.3 Advantages of the Proposed Transaction

Table 3.3 below summarises our view of the key advantages of the Proposed Transaction to Shareholders.

Table 3.3: Summary of Key Advantages of the Proposed Transaction

Advantage	Description
Diversification of underlying investment managers	If the Proposed Transaction is implemented, BAF's new investment mandate will provide Shareholders with a higher level of management diversification through the transition from a mandate involving the investments of a single entity (i.e. BLA) to a multi-manager mandate. Allowing the use of a more diverse group of Underlying Managers may assist to diversify and/or reduce the operational risk associated with any one manager. By way of example, valuation risk associated with the underlying investments may be lower if the valuations are sourced from a diverse group of managers (refer Section 3.2.10 above for additional discussion).
Retain exposure to private market alternative assets	At inception, BAF enabled retail investors to gain exposure to private market alternative assets that in many cases were only able to be invested in by wholesale or sophisticated investors. The Proposed Transaction will enable retail investors to maintain exposure to alternative assets that may otherwise only be available to wholesale or sophisticated investors. As set out in Section 3.2.15, if the Proposed Transaction is not implemented, BAF is likely to continue operating under the existing management arrangements on a wind-down basis (while a material discount to NTA exists) which will mean that the Shareholders' exposure to alternative assets through BAF will diminish over time.
Increased diversification in asset classes of portfolio	Under the New MSA the current limit of investments in a single asset class of 40% of total portfolio net asset value will be reduced to 35% under the terms of the New MSA. This may also assist to increase the diversification of BAF's portfolio.
Exposure to new classes of alternative assets	BAF will be in a position to pursue a broader investment strategy under the proposed investment mandate with Alterum relative to current arrangements. Specifically, Alterum intends to allocate funds to alternative asset classes to which BAF has historically had no exposure, including private debt and private/unlisted infrastructure. Alterum has indicated that this broader strategy will be implemented in a way that enhances portfolio diversification, both by allocations to multiple investment managers they consider 'best of breed' and across a greater number of private markets alternative asset classes.
Investment committee independence	The existing investment committee comprises both the managing director and an executive director of BLA in addition to Andrew Champion, who himself is BLA's eleventh largest shareholder. Given that BAF is currently only able to invest in BLA-managed investments, there is a risk that misalignment of interests (or a perception of misalignment) exists between the investment committee and the Shareholders (for completeness, we note that the BAF board has oversight over the investment committee which includes supervision to mitigate any misalignment). The investment committee proposed for Alterum will include Andrew Champion, a Pinnacle representative and an independent representative to assist to minimise the risk of Alterum having a misalignment of interest (or a perception of misalignment) with any one underlying fund.
Reduced manager risk	In our view, it is preferable for a LIC to have a stable fund manager that is in a position to focus its attention on generating excess returns. As set out in Section 3.2.3, BLA was impacted by a number of events during FY2018 that resulted in significant market and operating disruptions. Ultimately, BAF's board made the decision to cease deploying funds into BLA investments. While Alterum has no track record of performance, as it was formed specifically for the purposes of the Proposed Transaction, Pinnacle is a majority shareholder. Pinnacle has pre-existing experience in the funds management business and its affiliates collectively managed approximately \$38.0 billion in assets as at 30 June 2018. In our view, the manager risk associated with Alterum is reduced relative to the existing risk associated with BSAAF.
Continuation of knowledge of portfolio	As set out in Section 3.2.4 above, given the continuing involvement of Andrew Champion and Adam Sharplin, if the Proposed Transaction is implemented there will be an opportunity for the

Advantage	Description
	continuation of expertise and also corporate and portfolio knowledge upon a change to Alterum as manager. The Independent Directors consider that the Alterum management team maintains a deep working knowledge of BAF's current investment portfolio which includes a diverse and illiquid range of investments managed by BLA. The Independent Directors are of the view that, if the Proposed Transaction is implemented, Alterum's knowledge of BAF's current portfolio and working relationship with BLA as an underlying investment manager will assist it to explore potential opportunities to realise and recycle existing BLA-managed investments into the new mandate over time.
Expected improvement to investment pipeline	The potential returns that a manager is in a position to generate will depend, to at least some extent, on the investment mandate and the investment decisions which are able to be made by the fund. As set out in Section 3.2.5, the pipeline of Authorised Investments that can be made by BSAAF at the current time is reduced relative to the period prior to March 2018. In any event, BAF has ceased deploying funds into BLA investments and we understand that the directors of BAF do not have any plans to recommence redeploying capital under existing arrangements. The investment pipeline available to Alterum encompasses a wider range of investments and is not dependent on the stability of a single underlying entity (such as the current dependence of BAF on BLA).
Arrangement with Alterum is at arm's length	The Independent Directors are of the view that the arrangements negotiated with Alterum under the New MSA (including fee structure) are at an arm's length. We have set out further information on this matter in Section 4 of this Report.
No performance fee payable	Under the terms of the New MSA, no performance fee will be payable to Alterum as BAF's portfolio manager, which may be favourable to the Shareholders when compared with the terms of the Existing MSA, which includes a performance fee payable to BSAAF. Notwithstanding this, we note that, if the Proposed Transaction is implemented, performance fees will be payable to the Underlying Managers, including BLA.
Fee holiday for period 1 January 2019 to 30 June 2019.	The Proposed Transaction includes a fee-free period on existing BLA-managed investments until 1 July 2019 whilst the portfolio strategy of BAF is repositioned. We understand that during this time, Alterum will also focus on addressing fund ratings, and its marketing and communications with Shareholders and capital markets.
Increased transparency between BAF and the manager	Under the current operations of the Existing MSA, in our view, complexities exist relating to certain expenses payable to BSAAF, which includes (but is not limited to) transactions regarding the payment and receipt of upfront establishment fees and transaction costs, and rebates of fees and expenses. If the Proposed Transaction is implemented, it is our view that there is likely to be increased transparency on fees paid to Alterum and each of the Underlying Managers relative to what is currently the case with BLA related entities.

Source: BDOCF analysis

3.4 Disadvantages of the Proposed Transaction

Table 3.4 below summarises our view of the key disadvantages of the Proposed Transaction to Shareholders.

Table 3.4: Summary of Key Disadvantages of the Proposed Transaction

Disadvantage	Description
Investment mandate expanded beyond the Authorised Investments and additional manager exposure	Shareholders who invested in BAF to gain exposure to a portfolio of only BLA related assets (i.e. the Authorised Investments) may be exposed to risks and returns under the New MSA and associated investment mandate that they did not initially expect or intend to be exposed to. By way of example, if the Proposed Transaction is implemented, BAF's new investment mandate will expose Shareholders to additional risks associated with different fund managers (under the multi-manager mandate) and investments in new classes of assets, such as private debt and infrastructure.
Fees payable to underlying funds and discontinuation of fee discounting	Under the New MSA, BAF will be required to pay Underlying Managers fees, which will be negotiated on a fund by fund basis. This includes fees payable to BLA on a fund by fund basis from 1 January 2019 under the terms of the Implementation Deed. Under the terms of the Existing MSA, BAF is not required to pay any management fees or performance fees to underlying managers, being Blue Sky Fund Entities or co-investment vehicles (notwithstanding that BAF is still required to pay its share of establishment fees and transaction costs for any new investments). If the Proposed Transaction is implemented, the fees payable to Underlying Managers will represent additional fees payable by BAF than those currently payable under the Existing MSA.

Disadvantage	Description
Possible reduction of concentration of asset classes in portfolio	The current limit of investments in a single asset class of 40% of total portfolio value under the Existing MSA will be reduced to 35% under the New MSA if the Proposed Transaction is implemented. This may reduce the ability of BAF to benefit from certain investment opportunities that Alterum believes would suit an allocation between 35% and 40% of portfolio value.
Loss of first right to invest in BLA managed asset	Under the New MSA, BAF will no longer have the first right to invest in up to 50% of any asset managed by BLA. This right will not exist if the Proposed Transaction is implemented, meaning that there is no guarantee that BAF will be able to invest in any new BLA managed assets. Notwithstanding this, it is our view that the pipeline of available Authorised Investments that can be made at the current time is likely to be reduced relative to the period prior to March 2018, and there is no guarantee that a suitable pipeline of Authorised Investments will continue under the Existing MSA.
No performance incentives for Alterum	It is common for investment managers to receive a performance fee on investment performance in circumstances where the return generated exceeds a pre-agreed benchmark (e.g. refer to Section A.3 where we have set out the performance fees to be received by a number of funds). In the case of the Proposed Transaction, Alterum has agreed to amended terms and is no longer entitled to receive a performance fee. In our view, an appropriately structured performance fee may assist to align the interests of the manager and the underlying fund. By removing the performance fee, there is a risk that the alignment of interests is less than would otherwise have been the case.
Earlier performance fee may be payable to BSAAF on termination of the Existing MSA	If the Proposed Transaction is implemented, a performance fee may be payable to BSAAF shortly after 31 December 2018 upon termination of the Existing MSA, which is earlier than the timing of payment of performance fees under the normal course of the Existing MSA, being shortly after 30 June each year. Notwithstanding this, it is the view of BAF's directors that it is highly unlikely that any performance fee will be payable as at 31 December 2018 based on BAF's year to date performance.
Termination fee payable	A termination fee is payable by BAF under the terms of the New MSA if the agreement is terminated after its initial term of five years. This termination fee is equal to 12 months' management fee. Under the terms of the Existing MSA, no termination payment is applicable.

Source: BDOCF analysis

3.5 Conclusion on Whether the Advantages Outweigh the Disadvantages

In our opinion, after considering all of the issues set out in this Report, it is our view that, in the absence of any other information, **the advantages of the Proposed Transaction to the Shareholders outweigh the disadvantages.**

Before forming a view on whether to vote in favour of or against the Proposed Transaction, we strongly recommend that Shareholders:

- ▶ Have regard to the information set out in the balance of this Report, including the Important Information set out in Section 5.0, before deciding whether to vote in favour of or against the Proposed Transaction;
- ▶ Consult their own professional advisers; and
- ▶ Consider their specific circumstances.

While we consider that the advantages of the Proposed Transaction to the Shareholders outweigh the disadvantages, there can be no guarantee that either BSAAF or Alterum will achieve any particular investment return within BAF's portfolio or that the future performance of BAF's portfolio will match or exceed its past performance. No guarantee can be given concerning the future earnings of BAF or the earnings and capital appreciation of BAF's portfolio. Specifically, the manager (irrespective of whether it is associated with BLA or Pinnacle) may make poor investment decisions resulting in the returns being inadequate to pay an annual dividend to Shareholders or provide capital appreciation.

4.0 Arm's Length Assessment

This section sets out our view on whether the terms of the New MSA are at an arm's length and is set out as follows:

- ▶ Section 4.1 sets out the methodology for our assessment of whether the terms of the New MSA are at an arm's length;
- ▶ Section 4.2 sets out our discussion of the key considerations of the New MSA relevant to our arm's length assessment; and
- ▶ Section 4.3 provides our opinion as to whether the terms of the New MSA are at arm's length.

4.1 Assessment Methodology

As set out in the Notice of Meeting, Andrew Champion (executive director of BAF) and Adam Sharplin (BAF's portfolio analyst), will join Alterum in an executive capacity and will hold a collective 30% ownership interest in Alterum if the Proposed Transaction is implemented.

As a Director, Andrew Champion is a related party of BAF. As a director, shareholder and employee of Alterum, Andrew Champion has a material personal interest in the Proposed Transaction. Similarly, as a shareholder and employee of Alterum, Adam Sharplin has a material personal interest in the Proposed Transaction.

Pursuant to section 208 of the Corporations Act, the giving of a financial benefit to a related party does not require shareholder approval if it is given on reasonable arm's length terms.

While the Corporations Act does not define 'arm's length', ASIC RG 76 *Related Party Transactions* refers to case law which applies the phrase as it appears in taxation and other legislation. *ASIC vs Australian Investors Forum* indicates that, in determining the objective standards that would characterise arm's length terms, courts should consider the transaction terms that would result if:

- ▶ The parties to the transaction were unrelated in any way (for example, financially, or through ties of family, affection or dependence);
- ▶ The parties were free from any undue influence, control or pressure;
- ▶ Through its relevant decision-makers, each party was sufficiently knowledgeable about the circumstances of the transaction, sufficiently experienced in business and sufficiently well advised to be able to form a sound judgement as to what was in its interests; and
- ▶ Each party was concerned only to achieve the best available commercial result for itself in all the circumstances.

In forming our view as to whether the terms of the New MSA are at an arm's length, we have considered those matters stated above, had regard to broadly comparable fund management arrangements and considered other matters relevant to the proposed arrangement.

4.2 Discussion of Key Considerations

Table 4.1 summarises the factors which we considered when determining whether, in our opinion, the terms of the New MSA are at an arm's length.

Table 4.1: Summary of Key Considerations Relating to the New MSA

Consideration	Explanation
Negotiation of New MSA	We understand that the New MSA has been extensively negotiated and BAF and Pinnacle have each been independently advised on the terms of the New MSA by external advisors. While an initial management services agreement dated 18 October 2018 was entered between BAF and Alterum, on 26 October 2018 a rival proposal was put forward by WAM, as mentioned in Section 3.2.15. Following the receipt of this rival proposal, the terms of the New MSA were revised by Alterum to be materially consistent with the terms proposed by WAM. We note that the negotiated terms of the New MSA were reviewed and approved by the Independent Directors.

Consideration	Explanation
Management fee	As set out in Section 2.3.3 of this Report, if the Proposed Transaction is implemented, BAF will be required to pay Alterum a management fee of 1.0% (excluding GST) of BAF's Portfolio NAV (excluding accruals for fees) per annum and paid monthly in arrears (subject to the terms of the Fee Free Period). In determining whether the management fee is on arm's length terms, we have had regard to broadly comparable arrangements between funds (including 'fund of funds', LICs and private funds) and managers in Australia and overseas. With reference to our research on broadly comparable arrangements (set out in Appendix A of this Report), we note that management fees in broadly comparable arrangements range between 0.85% and 2.0% per annum based on varying underlying values, including (but not limited to) portfolio NAV, gross asset value and aggregate committed capital. We note that differences exist between the New MSA and the broadly comparable management arrangements set out in Appendix A, and that differences may be significant. The broadly comparable arrangements we have considered should be used as a broad guide only. For completeness we note that the rival proposal from WAM included a management fee of 1.0% of Portfolio NAV which is consistent with the management fee proposed under the New MSA. With reference to the above, in our view, the management fee payable by BAF under the New MSA is relatively consistent with the management fees included in broadly comparable management arrangements.
Performance fee	As set out in Section 2.3.3 of this Report, under the New MSA, Alterum will not be entitled to any performance fees. Notwithstanding that no performance fees will be payable under the New MSA if the Proposed Transaction is implemented, for completeness, we have considered performance fees in broadly comparable arrangements between funds and managers in Australia and overseas. With reference to our research on broadly comparable arrangements (set out in Appendix A of this Report), we note that performance fees in broadly comparable arrangements range between 2.0% to 20.0% (above defined and benchmarked performance) and based on varying benchmarks, which include (but are not limited to) measures such as IRRs, the Reserve Bank of Australia cash rate, 'high water marks' and the S&P/ASX Small Ordinaries Accumulation Index. We note that differences exist between the New MSA and the broadly comparable management arrangements set out in Appendix A, and that differences may be significant. These broadly comparable arrangements should be used as a broad guide only. For completeness we note that under the terms of WAM's rival proposal, no performance fees are payable to WAM which is consistent with the proposal for the New MSA. With reference to the above, in our view, the lack of performance fee in the New MSA represents terms which are no more favourable to Alterum than the terms of the broadly comparable management arrangements.
Related party protocols	The New MSA requires BAF's consent via ordinary board resolution to acquire assets from, or dispose of assets to, an associate of Alterum. The New MSA defines an associate in accordance with sections 11, 12 and 15 of the Corporations Act, which for the purposes of the Proposed Transaction may include, amongst other parties, the directors of Alterum, the directors of BAF, BAF and Pinnacle. In our view, this mechanism represents an additional step in the approval process required prior to Alterum investing in any parties related to Pinnacle, or any other similar dealings with other related parties. The mechanism may assist under the New MSA to mitigate additional risks inherent in related party transactions.

Source: BDOCF analysis

4.3 Assessment of Whether the Terms of the New MSA are at an Arm's Length

In our opinion, after considering the terms of the New MSA and other matters, it is our view that, in the absence of any other information, **the terms of the New MSA are at an arm's length.**

Before forming a view on whether to vote in favour of or against the Proposed Transaction, we strongly recommend that Shareholders:

- ▶ Have regard to the information set out in the balance of this Report, including the Important Information set out in Section 5.0, before deciding whether to vote in favour of or against the Proposed Transaction;
- ▶ Consult their own professional advisers; and
- ▶ Consider their specific circumstances.

5.0 Important Information

5.1 Read this Report, and other documentation, in full

This Report, including Part I, Part II and the appendices, should be read in full to obtain a comprehensive understanding of the purpose, scope, basis of evaluation, limitations, information relied upon, analysis, assumptions underpinning our work and our findings.

Other information provided to the Shareholders in conjunction with this Report should also be read in full, including the Notice of Meeting prepared by BAF and dated on or about 9 November 2018.

5.2 Shareholders' individual circumstances

Our analysis has been completed and our conclusions expressed at an aggregate level having regard to the Shareholders as a whole. BDOCF has not considered the impact of the Proposed Transaction on the particular circumstances of individual Shareholders. Individual Shareholders may place a different emphasis on certain elements of the Proposed Transaction relative to the emphasis placed in this Report. Accordingly, individual Shareholders may reach different conclusions as to whether or not the advantages of the Proposed Transaction to the Shareholders outweigh the disadvantages, and whether the terms of the New MSA are at an arm's length.

The decision of an individual Shareholder to vote in favour of or against the Proposed Transaction is likely to be influenced by their particular circumstances and accordingly, the Shareholders are advised to consider their own circumstances and seek their own independent advice.

Voting in favour of or against the Proposed Transaction is a matter for individual Shareholders based on their expectations as to the expected value and future prospects and market conditions together with their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. The Shareholders should carefully consider the Notice of Meeting. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their professional adviser.

With respect to taxation implications of the Proposed Transaction, it is strongly recommended that the Shareholders obtain their own taxation advice, tailored to their own particular circumstances.

5.3 Scope

In this Report we provide our opinion on:

- ▶ Whether the advantages to the Shareholders of the Proposed Transaction outweigh the disadvantages; and
- ▶ Whether the New MSA is on arm's length terms.

This Report has been prepared at the request of the Independent Directors for the sole benefit of the Shareholders entitled to vote, to assist them in their decision to vote in favour of or against the Proposed Transaction. This Report is to accompany the Notice of Meeting to be sent to the Shareholders to consider the Proposed Transaction and was not prepared for any other purpose. Accordingly, this Report and the information contained herein may not be relied upon by anyone other than the Independent Directors and the Shareholders without our written consent. We accept no responsibility to any person other than the Independent Directors and the Shareholders in relation to this Report.

This Report should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of this Report with the Notice of Meeting. Apart from this Report, we are not responsible for the contents of the Notice of Meeting or any other document associated with the Proposed Transaction. We acknowledge that this Report may be lodged with regulatory authorities to obtain the relevant approvals prior to it being made available to the Shareholders.

The scope of procedures we have undertaken has been limited to those procedures required in order to form our opinion. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards. In preparing this Report we considered a range of matters, including the necessary legal requirements and guidance of the Corporations Act, ASIC regulatory guides and commercial practice.

In forming our opinion, we have made certain assumptions and outline these in this Report including:

- ▶ We have performed our analysis on the basis that the conditions precedent to the documents relevant to the Proposed Transaction are satisfied;
- ▶ That matters such as title to all relevant assets, compliance with laws and regulations and contracts in place are in good standing, and will remain so, and that there are no material legal proceedings, other than as publicly disclosed;
- ▶ All information which is material to the Shareholders' decision on the Proposed Transaction has been provided and is complete, accurate and fairly presented in all material respects;
- ▶ ASX announcements and other publicly available information relied on by us are accurate, complete and not misleading;
- ▶ If the Proposed Transaction is implemented, that it will be in accordance with the stated terms;
- ▶ The legal mechanism to implement the Proposed Transaction is correct and effective;
- ▶ There are no undue changes to the terms and conditions of the Proposed Transaction or complex issues unknown to us; and
- ▶ Other assumptions, as outlined in this Report.

In this Report we have not provided any taxation, legal or other advice of a similar nature in relation to the Proposed Transaction. Other advisers have provided advice in relation to those matters to BAF in relation to the Proposed Transaction.

BAF has acknowledged that BAF's engagement of BDOCF is as an independent contractor and not in any other capacity including a fiduciary capacity.

The statements and opinions contained in this Report are given in good faith and are based upon our consideration and assessment of information provided by BAF's board, executives and management of all the entities.

5.4 Purpose of this Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Corporations Act 2001 ('the Corporations Act'), the Corporation Regulations 2001 ('the Regulations'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC') and in some cases the listing requirements of the relevant exchanges. These requirements have been set out in Sections 5.4.1 and 5.4.2 below.

5.4.1 Requirements of the Corporations Acts

As at the date of this Report, we understand that neither the Corporations Act nor the Corporations Regulations specifically require that an independent expert's report be provided to the Shareholders in relation to the Proposed Transaction. While this Report is not required to be provided for the purpose of complying with any specific provisions of the Corporations Act or the Corporations Regulations, we have been requested by the Independent Directors to prepare this Report to accompany the Notice of Meeting.

5.4.2 Listing Requirements

We have been instructed that BAF will not be using this Report or our opinions for the purpose of complying with the listing requirements of the ASX or any other stock exchange.

5.5 Current Market Conditions

Our opinions and the analysis set out in this Report is based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time and may have a material impact on the results presented in this Report and result in any valuation or other opinion becoming quickly outdated and in need of revision.

In circumstances where we become aware of and believe that a change in these conditions, prior to the Meeting, results in a material statement in this Report becoming misleading, deceptive or resulting in a material change in valuation, we will provide supplementary disclosure to BAF. BDOCF is not responsible for updating this Report following the Meeting or in the event that a change in prevailing circumstance does not meet the above conditions.

5.6 Reliance on Information

BAF recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDOCF, BDO (QLD) Pty Ltd or any of the partners, directors, agents or associates (together 'BDO Persons'), will be

using and relying on publicly available information and on data, material and other information furnished to BDO Persons by BAF, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

Unless the information we are provided suggests the contrary, we have assumed that the information provided was reliable, complete and not misleading, and material facts were not withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether or not the Proposed Transaction is fair and reasonable.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable and in the best interests is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.

Where we relied on the views and judgement of management the information was evaluated through analysis, inquiry and review to the extent practical. Where we have relied on publicly available information, we have considered the source of the information and completed our own analysis to assist us to determine the reliability of the information. However, in many cases, the information we have relied on is often not capable of external verification or validation and on that basis we provide no opinion or assurance on the information.

The Independent Directors represent and warrant to us, for the purpose of this Report, that all information and documents furnished by BAF (either by management directly or through advisors) in connection or for use in the preparation of this Report do not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements therein. We have received representations from the Independent Directors in relation to the completeness and accuracy of the information provided to us for the purpose of this Report.

Under the terms of our engagement, BAF has agreed to indemnify BDO Persons against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

5.7 Glossary

Capitalised terms used in this Report have the meanings set out in the glossary. A glossary of terms used throughout this Report is set out immediately following the Table of Contents at the start of this Report.

All dollar ('\$') references in this Report are in Australian dollars unless otherwise stated.

5.8 Sources of Information

This Report has been prepared using information obtained from sources including the following:

- ▶ BAF annual report for FY2015, FY2016, FY2017 and FY2018;
- ▶ BLA annual report for FY2015, FY2016, FY2017 and FY2018;
- ▶ PNI annual report for FY2015, FY2016, FY2017 and FY2018;
- ▶ BAF ASX announcements;
- ▶ Notice of Meeting dated on or about 9 November 2018;
- ▶ The New MSA;
- ▶ The Implementation Deed;
- ▶ The Existing MSA;
- ▶ The Services Agreement;
- ▶ Capital IQ;
- ▶ IBISWorld;
- ▶ Other transaction documents;
- ▶ Other research publications and publicly available data as sourced throughout this Report; and

- Discussions and correspondence with BAF's directors, management and their advisers.

5.9 Prospective Information

Any prospective financial information referred to in this Report has been prepared by BAF's management and adopted by BAF's directors in order to provide us with a guide to the future of BAF. There is a considerable degree of subjective judgement involved in preparing prospective information since it relates to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the prospective financial information since anticipated event(s) or transaction(s) frequently do not occur as expected and the variations may be material.

BDOCF cannot and does not provide any assurance that any prospective information is representative of results or outcomes that will actually be achieved. While we have considered the prospective information to the extent we considered necessary to complete the analysis set out in this Report, we have not been engaged to provide any form of assurance conclusion on any prospective information set out in this Report. We disclaim any assumption of responsibility for any reliance on this Report, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of Management, that all material information concerning the prospects and proposed operations of BAF have been disclosed to use and that the information provided to use for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

5.10 Qualifications

BDOCF has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDOCF holds an Australian Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDOCF and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Mark Whittaker and Steven Sorbello have prepared this Report with the assistance of staff members. Mr Whittaker, BCom (Hons), CA, CFA, and Mr Sorbello, BCom/LLB, CA, are directors of BDOCF. Both Mr Whittaker and Mr Sorbello have extensive experience in corporate advice and the provision of valuation and professional services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations. Mr Whittaker and Mr Sorbello are considered to have the appropriate experience and professional qualifications to provide the advice offered within this Report.

BDO Corporate Finance (QLD) Ltd



Mark Whittaker
Director



Steven Sorbello
Director

PART II: INFORMATION SUPPORTING OUR OPINION ON THE PROPOSED TRANSACTION

6.0 Background of BAF

This section is set out as follows:

- ▶ Section 6.1 sets out an overview of BAF;
- ▶ Section 6.2 sets out an overview of the corporate structure of BAF;
- ▶ Section 6.3 sets out an overview of BAF's key personnel;
- ▶ Section 6.4 sets out the equity structure of BAF;
- ▶ Section 6.5 sets out a summary of BAF's share trading data available; and
- ▶ Section 6.6 sets out a summary of the historical financial information of BAF.

6.1 Overview of BAF⁸

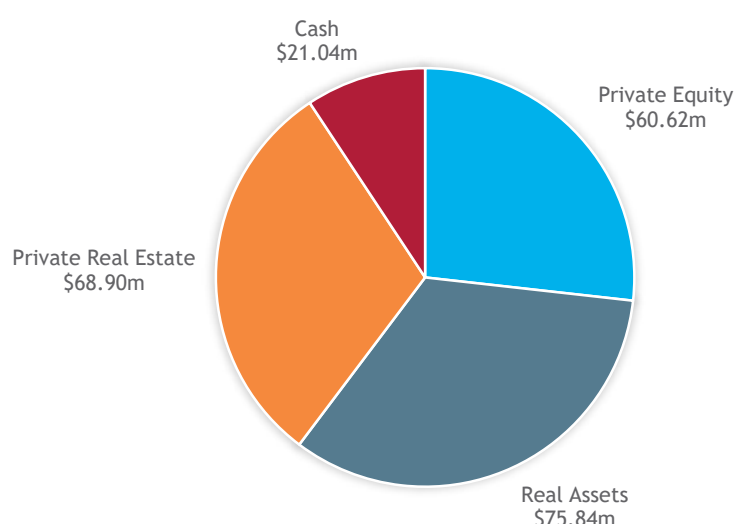
BAF was registered on 4 April 2014, and began trading on the ASX on 16 June 2014 under the code 'BAF'. BAF operates as a LIC and is managed by BSAAF, a wholly owned subsidiary of BLA. BAF is the only LIC on the ASX that allows investors to invest in a portfolio of directly managed assets diversified across numerous alternative asset classes managed by BLA including private equity, private real estate, real assets and cash (i.e. the Authorised Investments offered by BLA).

The primary objectives of BAF are to:

- ▶ Deliver long term absolute returns to shareholders through growth in NTA and a dividend yield; and
- ▶ Provide investors with access to a diverse range of alternative assets and allow them to take advantage of daily liquidity in a publicly listed company, rather than longer investment terms typical for direct investments alternative assets.

Figure 6.1 provides an overview of BAF's investment portfolio allocation as per the September 2018 monthly NTA backing update.

Figure 6.1: BAF's Investment Portfolio



Source: BAF September 2018 Monthly Update

Having regard to the information set out in Figure 6.1 above, we note:

- ▶ Private equity includes growth capital and venture capital;
- ▶ Real assets include investments in the Blue Sky Water Fund, operating agribusiness assets and the Blue Sky Strategic Australian Agriculture Funds;

⁸ Information in this section has been obtained from BAF's 30 June 2018 Annual Report.

- ▶ Private Real Estate includes investments in student accommodation, retirement living, residential developments, New York commercial real estate and income-generating commercial properties; and
- ▶ The portfolio includes a combination of closed and open-ended funds. Closed-ended funds are reviewed by the manager at the end of each month for valuation and these values are to be reviewed by a qualified independent expert at least annually. Open-ended funds, are subject to external valuation by a third party and unit price calculated by external fund administrators at least monthly.

6.2 Corporate Structure

BAF is a standalone company and is a related entity of BLA. BSAAF is the manager of BAF and is a wholly owned subsidiary of BLA. All investments made by the manager on behalf of BAF are directly managed by wholly owned subsidiaries of BLA (i.e. the Authorised Investments).

Under the Existing MSA, BAF pays BSAAF a management fee equal to 1.2% per annum (plus GST) of Portfolio NAV plus a performance fee equal to 17.5% (plus GST) of the investment portfolio outperformance above the hurdle rate of 8.0%.

6.3 Key Personnel

BAF's directors include Andrew Champion, Michael Cottier, Lazarus Siapantas, Peter Wade and Paul Masi (chair). Additional detail in relation to the two BAF key personnel who are parties related to the Proposed Transaction is provided in Table 6.1 below.

Table 6.1: BAF's Key Personnel

Key Personnel	Background
Andrew Champion (Executive Director)	▶ Appointed executive director in April 2014. Previously executive chairman of BAF from November 2016 to October 2018; ▶ Member of BAF's audit and risk committee and the nomination and remuneration committee; ▶ Lead portfolio manager for BAF and leader of BLA's Sydney office; ▶ Subject to Shareholder approval, will join the proposed new manager of BAF, Alterum; ▶ Over 20 years' experience in corporate advice and finance with a focus on private market alternatives; ▶ Extensive experience leading mergers and acquisitions as well as debt and equity funding for small to medium enterprises in Australia; and ▶ Bachelor of Commerce/Laws and Chartered Accountant since 1994.
Adam Sharplin (Portfolio Manager)	▶ Joined BLA in 2014; ▶ Currently BAF's portfolio analyst, responsible for all aspects of the fund's daily operations; ▶ Subject to Shareholder approval, will join the proposed new manager of BAF, Alterum; ▶ Previously worked as a manager in Deloitte's Financial Advisory Services Division; and ▶ Bachelor of Commerce/Laws (Honours), Graduate Member of the Australian Institute of Company Directors and Chartered Accountant.

Source: BAF's 2018 Annual Report and BAF management

6.4 Equity Structure of BAF

As at 6 November 2018, BAF had 207,774,186 ordinary shares on issue. The top 10 shareholders are set out in Table 6.2.

Table 6.2: Top 10 Shareholders

Shareholder	Number of Shares	Percentage of total shares (%)
Hsbc Custody Nominees (Australia) Limited	24,592,276	11.84%
Bnp Paribas Nominees Pty Ltd	13,020,029	6.27%
Cs Third Nominees Pty Limited	9,077,161	4.37%
Wilson Asset Management (International) Pty Limited	2,361,374	1.14%
National Nominees Limited	2,057,654	0.99%
Netwealth Investments Limited - Super Services	1,900,383	0.91%
Netwealth Investments Limited - Wrap Services	1,655,601	0.8%
Navigator Australia Ltd	1,627,574	0.78%
Citicorp Nominees Pty Limited	1,596,205	0.77%
King Nominees (Vic) Pty Ltd	1,388,889	0.67%
Other Shareholders	147,163,706	70.83%
Total Shares on Issue	207,774,186	100%

Source: *Miraql*, 25 October 2018

1 Note: As at 6 November 2018, 2,445,223 shares were held by BAF in relation to its on-market share buy-back, which will be cancelled.

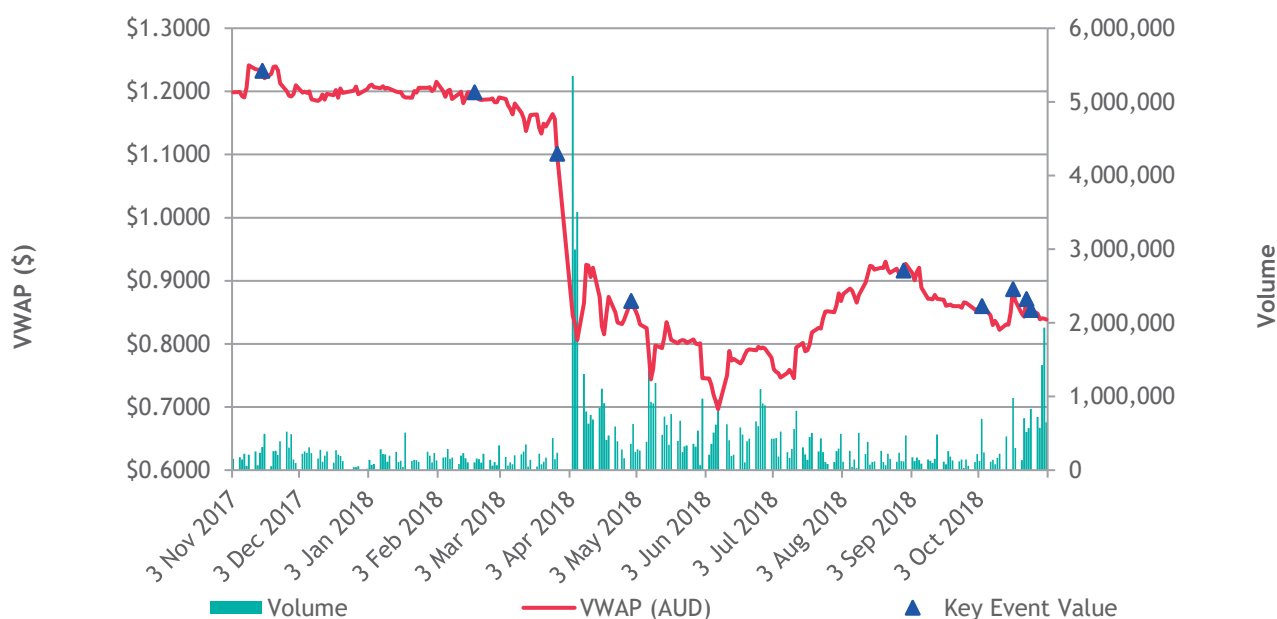
Having regard to the information set out in Table 6.2 above, we note the top 10 shareholders collectively hold an interest of approximately 28.53% in BAF. We note that that BAF's executive director, Andrew Champion, who will join Alterum if the Proposed Transaction is implemented, owns 437,500 shares in BAF. Given the fund was targeted at retail investors, the low make-up of institutional investors is expected.

6.5 Share Performance of BAF

6.5.1 Share Price Performance

Figure 6.2 displays the daily volume weighted average price ('VWAP') and daily volume of BAF shares traded on the ASX over the period 30 October 2017 to 2 November 2018.

Figure 6.2: Daily VWAP and Volume of BAF Shares Traded from 30 October 2017 to 2 November 2018



Source: *Capital IQ* as at 2 November 2018

Over the period graphed in Figure 6.2 above, BAF's daily VWAP displays a period low of \$0.697 on 8 June 2018 and a period high of \$1.2413 on 10 November 2017. BAF is currently trading at a discount to its pre-tax NTA (refer Section 6.5.3 below for additional discussion).

In addition to the share price and volume data of BAF shown above, we have also provided additional information in Table 6.3 below to assist readers to understand the possible reasons for the movement in

BAF's share price over the period analysed. The selected ASX announcement references in Table 6.3 correspond to those displayed in Figure 6.2 above.

Table 6.3: Selected BAF ASX Announcements from 30 October 2017 to 2 November 2018

Date	Announcement
19/10/2017	BAF announced that it will raise up to \$48.9 million through a 1 for 4 non-renounceable entitlement offer of fully paid ordinary shares - at a 6.4% discount to the 30-day VWAP traded on the ASX over the 30 trading days up to and including 13 October 2017. BAF released audited consolidated financial reports for FY2017, reporting a 4.7% increase in revenue and a 3.5% decrease in net profit after tax.
16/11/2017	BAF released the 2017 AGM results, announced the adoption of the remuneration report and re-election of Michael Cottier as a director.
19/02/2018	BAF released reviewed results for the half year ended 31 December 2017, reporting a 97% increase in revenue and a 121% increase in net profit after tax on the same period in the prior year. BAF also announced a fully franked ordinary dividend distribution for FY2018, payable on March 27, 2018.
28/03/2018	BAF and BLA entered into a trading suspension so BLA could review and respond to a Glaucus Research report released regarding BLA's business.
03/04/2018	BLA released a response rebutting the Glaucus Research report. BAF and BLA announced that their voluntary trading suspension would be lifted on 4 April 2018.
30/04/2018	BAF announced the decision to transition its board to comprise a majority of independent directors, and the resignation of executive director, Lachlan McMurdo. BAF announced its intention to purchase up to 17 million shares through an on-market share buyback scheme and was expected to commence from 16 May 2018 for 12 months.
30/08/2018	BAF released audited consolidated results for FY2018, reporting a 46.7% decrease in revenue and a 61% decrease in net profit after tax. BAF also announced an ordinary dividend distribution franked at 65% and payable on September 24, 2018.
04/10/2018	BAF appointed Peter Wade as independent non-executive director.
18/10/2018	BAF & BLA announced a proposal to reposition BAF as a multi-managed fund to be managed by Alterum.
24/10/2018	BAF announces that it has received a proposal from WAM to be appointed as BAF's new manager.
26/10/2018	BAF announces Paul Masi has assumed the role of chairman and releases its FY2018 annual report.

Source: BAF ASX Announcements from 30 October 2017 to 2 November 2018

6.5.2 Share Liquidity

The rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 7.5 summarises the monthly liquidity of BAF shares from 1 October 2017 to 31 October 2018.

Liquidity has been summarised by considering the following:

- ▶ Volume of BAF share trades per month;
- ▶ Value of total trades in BAF shares per month;
- ▶ Number of BAF shares traded per month as a percentage of total BAF shares outstanding at the end of the month; and
- ▶ Volume weighted average price per month.

Table 6.5: Liquidity of BAF shares on the ASX

Month	Volume	Turnover (A\$)	Shares Outstanding	Volume / Shares Outstanding	Monthly VWAP (A\$)
October 2018	9,352,820	\$7,971,975	207,092,040	4.52%	\$0.85
September 2018	2,970,460	\$2,603,959	208,346,450	1.43%	\$0.88
August 2018	4,668,130	\$4,204,114	209,648,840	2.23%	\$0.90
July 2018	7,173,110	\$5,653,020	210,755,750	3.40%	\$0.79
June 2018	11,184,270	\$8,549,152	212,895,720	5.25%	\$0.76
May 2018	12,357,460	\$9,899,234	214,171,780	5.77%	\$0.80
April 2018	21,546,520	\$18,264,116	214,530,000	10.04%	\$0.85
March 2018	3,490,560	\$4,042,668	214,440,310	1.63%	\$1.16
February 2018	3,145,490	\$3,755,753	214,440,310	1.47%	\$1.19
January 2018	3,450,860	\$4,145,497	214,440,310	1.61%	\$1.20
December 2017	3,378,390	\$4,039,610	214,440,310	1.58%	\$1.20
November 2017	5,295,250	\$6,424,351	191,788,310	2.76%	\$1.21
October 2017	3,734,460	\$4,452,279	171,551,520	2.18%	\$1.19
Total	84,978,660	\$78,218,333	207,267,020	41.00%	\$0.92

Source: Capital IQ as at 31 October 2018

Assuming a weighted average number of 207,267,020 BAF shares on issue over the period, approximately 41.0% of the total shares on issue were traded over the period 1 October 2017 to 31 October 2018. In our view, this indicates that BAF shares display a relatively low to moderate level of liquidity.

We note that the number of shares outstanding has been decreasing as a result of a share buy-back program that BAF is currently implementing.

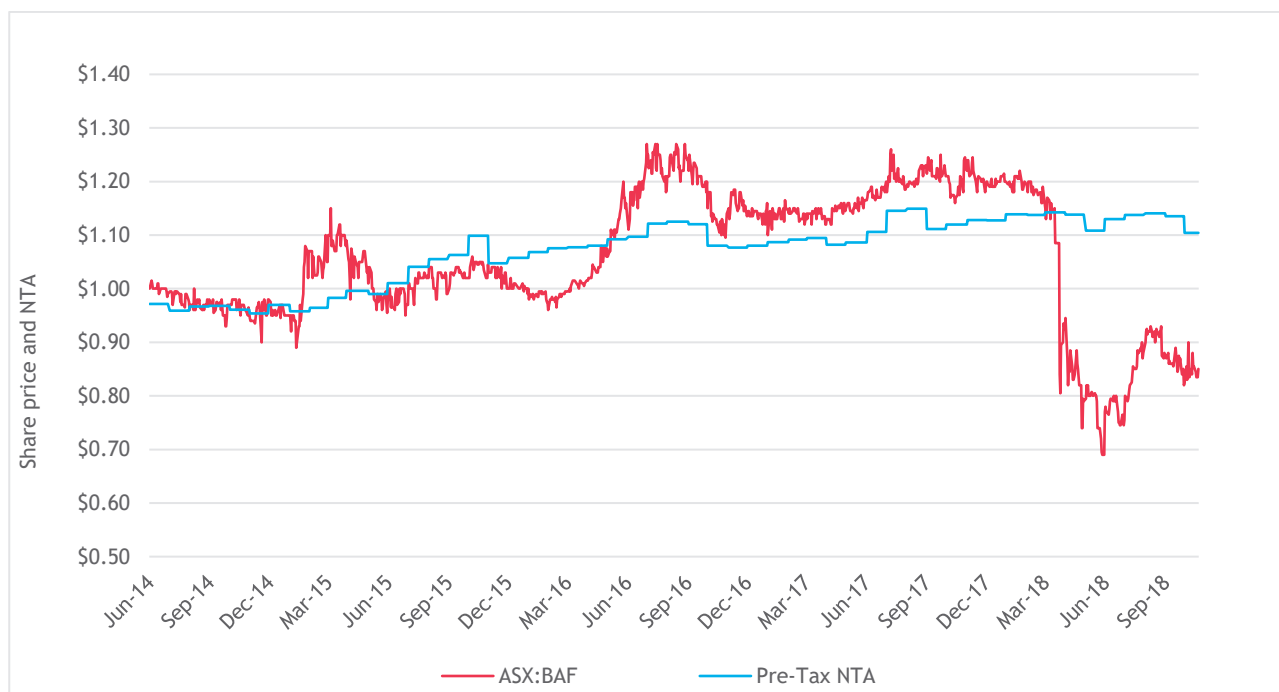
6.6 BAF Performance Metrics

6.6.1 Share Price Relative to NTA

BAF's portfolio delivered a pre-tax fund performance of 5.05% (2017: 10.3%, since inception 8.53% p.a.) (including growth in NTA, dividends and franking credits) for FY2018. Pre-tax NTA declined from \$1.1452 per share at 30 June 2017 to \$1.1299 per share at 30 June 2018, after paying fully franked dividends of 4.0 cents per share in September 2017 and 1.0 cent per share in March 2018. According to BAF's FY2018 annual report, the investment performance for the year was disappointing and below expectations, however BAF's directors believe that the majority of investments maintain an opportunity to contribute to NTA growth in future periods.

Figure 6.4 provides a graphical representation of BAF's share price relative to its pre-tax NTA over the period 13 June 2014 to 2 November 2018.

Figure 6.4: BAF Share Price Relative to Pre-Tax NTA



Source: Capital IQ as at 2 November 2018, BAF monthly NTA reports

Despite trading at premiums historically (including consecutively for the period between 18 May 2016 to 13 March 2018), BAF has recently been trading at a discount (21.25% discount as at 2 November 2018). Additionally, across the period 28 March 2018 to 2 November 2018, BAF shares have traded at an average discount of 24.72% to their NTA backing. In BAF's FY2018 annual report, BAF's directors highlighted a number of factors which have impacted BAF's share price, including:

- ▶ Material balance sheet write downs by BLA;
- ▶ BLA's removal of its earnings guidance; and
- ▶ A review of BLA's business and changes to its board of directors and senior management.

In response to the significant share price discount to NTA, BAF has already made a number of responses to date including:

- ▶ No new capital deployed since March 2018;
- ▶ Independent valuation reviews of all carrying values undertaken by the manager;
- ▶ Announced and commenced share buyback program;
- ▶ Appointment of additional independent non-executive director (Peter Wade) on 4 October 2018 to create a majority of independents on the board; and
- ▶ Undertaken a strategic review by BAF directors, resulting in the proposal for a new manager of the fund.

6.6.2 Dividend Yield

A primary objective of BAF is to deliver long term absolute returns to shareholders through dividend disbursements. Table 6.6 details both interim and final dividends paid to Shareholders relating to FY2015, FY2016, FY2017 and FY2018.

Table 6.6: Historical BAF Dividend Yield

	FY2015	FY2016	FY2017	FY2018
Interim dividend per share	-	-	\$0.01	\$0.01
Franked amount	-	-	100%	100%
Final Dividend per share	\$0.03	\$0.05	\$0.04	\$0.04
Franked amount	100%	100%	100%	65%
Total dividend per share	\$0.03	\$0.05	\$0.05	\$0.05
Post-tax NTA as at 30 June	\$1.009	\$1.074	\$1.092	\$1.108
Dividend yield (%)	2.97%	4.66%	4.58%	4.51%

Source: BAF's FY2016, FY2017, FY2018 Annual Reports, BDO analysis

Having regard to the information set out in Table 6.6 above, we note:

- ▶ On 25 May 2016, BAF stated it is committed to paying annual dividends targeting at least 4.0% of closing post-tax NTA for each financial year, franked to the highest extent possible, provided BAF has sufficient profit and cash flow to do so; and
- ▶ BAF's dividend reinvestment plan ('DRP') was deferred in relation to the final FY2018 dividend, given the significant discount of BAF's share price to NTA at the date of announcement. Under the DRP, Shareholders are entitled to reinvest all or part of any dividend paid in additional shares. The shares are to be allocated at a market price calculated from the daily volume weighted average price of shares in BAF sold on the ASX during the 5 trading days commencing on the second business day after the record date. Alternatively, at the discretion of BAF's directors, the shares may be allocated at a discount to the market price. In accordance with BAF's DRP, BAF's directors may amend, suspend, recommence or terminate the DRP at any time at their absolute discretion. It is noted that BAF does not stipulate an expiry date of the current DRP.

6.7 Historical Financial Information of BAF

This section sets out the historical financial information of BAF. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in BAF's annual reports, including the full statements of profit or loss and other comprehensive income, statements of financial position and statements of cash flows.

BAF's financial statements have been audited by Ernst & Young. BDOCF has not performed any audit or review of any type on the historical financial information of BAF and we make no statement as to the accuracy of the information provided. However, we have no reason to believe that any of the information provided is false or misleading.

6.7.1 Statements of Comprehensive Income

Table 6.7 summarises the consolidated statement comprehensive income of BAF for FY2015, FY2016, FY2017 and FY2018.

Table 6.7: Summarised BAF Statements of Comprehensive Income

	12 Months Ended 30-Jun-15 Audited (\$'000)	12 Months Ended 30-Jun-16 Audited (\$'000)	12 Months Ended 30-Jun-17 Audited (\$'000)	12 Months Ended 30-Jun-18 Audited (\$'000)
Net gain on financial assets held at fair value through profit or loss	3,354	12,109	11,872	3,383
Dividend and trust distribution income	756	3,020	3,597	3,513
Rebates	3,264	5,637	5,932	3,771
Interest Income	208	90	431	974
Management Fees	(812)	(1,494)	(2,126)	(2,778)
Performance Fees	-	(1,285)	(1,162)	-
Directors Fees	(149)	(154)	(167)	(115)
Other Expenses	(392)	(514)	(649)	(790)
Profit before income tax	6,229	17,409	17,728	7,958
Income tax expense	(1,559)	(3,913)	(4,701)	(2,923)
Profit after income tax	4,670	13,496	13,027	5,035

Source: BAF FY2016, FY2017, FY2018 Annual Reports

With reference to Table 6.7, we note the following:

- ▶ Net gain on financial assets held at fair value through profit or loss was relatively consistent between FY2016 and FY2017 at \$12.1 million and \$11.9 million, respectively. The net gain realised in FY2018 was significantly lower at \$3.4 million. This is the result of net unrealised losses resulting from a write down of unlisted private real estate funds;
- ▶ Rebate income decreased by 33.10% between FY2016 and FY2018. Rebates are paid by BLA to reimburse BAF for management and performance fees paid to Blue Sky Fund Entities and co-investment vehicles. This overall decrease can be primarily attributed to the lack of performance fees payable by BAF in FY2018 following a failure to meet its performance hurdle rate of 8.0% per annum;
- ▶ BAF incurred non-rebatable transaction costs and establishment fees of \$1.0 million in FY2018, which represents a decrease from \$2.9 million in FY2017. Non-rebatable transaction costs and establishment fees are accounted for by a reduction in the value of the financial asset held by BAF, which is recognised as fair value loss through profit or loss on initial recognition;
- ▶ Management fees paid to BLA increased overall between FY2015 to FY2018, which was driven by an increase in BAF's net asset value across the period. BAF's net asset value increased through upwards fair value movements of its assets and additional capital raised and invested;
- ▶ Performance fees decreased overall between FY2016 to FY2018, with no performance fees payable in FY2018. This indicates that investment performance did not reach the hurdle rate of 8.0% p.a. This negative aggregate performance will be carried forward to FY2019 under the terms of the Existing MSA; and
- ▶ Directors fees increased from FY2016 to FY2017 following the appointment of Michael Cottier as director. They subsequently decreased in FY2018 as a result of John Kain and Philip Hennessy's resignation in FY2017.

6.7.2 Statements of Financial Position

Table 6.8 summarises BAF's statements of financial position as at 30 June 2015, 2016, 2017 and 2018.

Table 6.8: Summarised BAF Consolidated Statements of Financial Position

	As At 30-Jun-15 Audited (\$'000)	As At 30-Jun-16 Audited (\$'000)	As At 30-Jun-17 Audited (\$'000)	As At 30-Jun-18 Audited (\$'000)
Assets				
Cash and cash equivalents	2,018	6,717	22,492	31,589
Trade & other receivables	42	1,776	2,919	1,525
Current tax receivables	-	-	260	887
Financial assets held at fair value through profit or loss	83,073	133,990	187,787	205,126
Other assets	1,568	3,549	4,289	4,885
Total Assets	86,701	146,032	217,747	244,012
Liabilities				
Trade & other payables	2,419	1,626	19,855	3,469
Current tax payables	-	2,209	-	-
Deferred rebates	443	927	1,642	1,194
Deferred tax liabilities	677	1315	4,393	5,426
Total Liabilities	3,539	6,077	25,890	10,089
Net Assets	83,162	139,955	191,857	233,923
Equity				
Share capital	78,987	125,558	172,539	218,560
Retained earnings	4,175	14,397	19,318	15,363
Total Equity	83,162	139,955	191,857	233,923

Source: BAF FY2015, FY2016, FY2017, FY2018 Annual Reports

With reference to Table 6.8, we note the following:

- ▶ Cash and cash equivalents increased between FY2016 and FY2018 primarily due to net capital raising activity, including the issue of shares and exercising of options, exceeding the net capital invested across the period;
- ▶ Financial assets held at fair value through profit or loss have steadily increased from FY2016 to FY2018, attributable primarily to additional investments made during the period;
- ▶ Other assets increased between FY2016 and FY2018. Whilst BAF experienced a decrease in prepayments across the period, this was more than offset by the increase in accrued performance fee rebates owed by BLA;
- ▶ Trade and other payables increased by \$18.3 million between FY2016 and FY2017 as a result of capital commitments uncalled at year end. In FY2017, BAF committed \$15.0 million into the Blue Sky Strategic Australian Agriculture Fund and \$3.3 million into other investments. As this capital was called in FY2018, trade and other payables decreased; and
- ▶ Deferred rebates are recorded when a rebate is invoiced in advance of the provision of the related investment services upon which the rebate is paid.

6.7.3 Statements of Cash Flows

Table 6.9 summarises BAF's statement of cash flows for FY2015, FY2016, FY2017 and FY2018.

Table 6.9: Summarised BAF's Consolidated Statements of Cash Flows

	12 Months Ended 30-Jun-15 Audited (\$'000)	12 Months Ended 30-Jun-16 Audited (\$'000)	12 Months Ended 30-Jun-17 Audited (\$'000)	12 Months Ended 30-Jun-18 Audited (\$'000)
Cash Flows From Operating Activities				
Rebates of transaction costs and fees (inclusive of GST)	3,049	4,082	4,894	4,021
Dividends & trust distributions received	737	2,026	3,501	3,542
Payments to suppliers (inclusive of GST)	(1,979)	(2,920)	(4,176)	(4,432)
Interest received	208	90	397	859
Income tax paid	-	(1,066)	(3,838)	(2,225)
Net Cash Flows From / (Used In) Operating Activities	2,015	2,212	778	1,765
Cash Flows From Investing Activities				
Payments for financial assets held at fair value through profit & loss	(43,500)	(53,335)	(56,252)	(57,542)
Proceeds from disposal of financial assets held at fair value through profit & loss	2,950	12,527	32,627	28,135
Net Cash Flows From / (Used In) Investing Activities	(40,550)	(40,808)	(23,625)	(29,407)
Cash Flows From Financing Activities				
Share buyback	-	-	-	(2,800)
Fundraising costs (inclusive of GST)	(419)	-	(1,383)	(977)
Dividends paid	-	(3,274)	(7,568)	(8,377)
Proceeds from issue of new shares	20,132	196	47,573	48,893
Proceeds from exercise of options	25	46,373	-	-
Net Cash Flows From / (Used In) Financing Activities	19,738	43,295	38,622	36,739
Net Increase / (Decrease) in Cash and Cash Equivalents	(18,797)	4,699	15,775	9,097
Cash and Cash Equivalents at Beginning of Period	20,815	2,018	6,717	22,492
Closing Cash Balance	2,018	6,717	22,492	31,589

Source: BAF FY2016, FY2017, FY2018 Annual Reports

With reference to Table 6.9 above, we note the following:

- ▶ Over the periods shown above, payments for financial assets in each year have primarily been funded by proceeds from the issue of new shares or proceeds from the exercise of options;
- ▶ Net cash flows used in investing activities decreased between FY2016 and FY2018 due to an increase in the proceeds from the disposal of financial assets. Recent realisations include Water Utilities Australia Fund II, 37 Regent Street Woolloongabba Trust, Management Rights Income Fund 4, Alice Street Kedron Trust, HPS and Software Services Fund II;
- ▶ Capital raising activities included the issue of approximately 43.4 million and 43.2 million new shares in FY2018 and FY2017, respectively, and the exercise of approximately 47 million options in FY2016;
- ▶ Dividends paid increased by 156% from FY2016 to FY2018. As dividends per share remained relatively consistent over the period, this increase was driven by an increase in the number of BAF shares on issue; and
- ▶ BAF engaged in a share buyback scheme in FY2018 with an objective of maximising shareholder return over the following 12 months while BAF's shares traded at a discount to NTA. During FY2018, BAF purchased approximately 3.5 million shares for consideration of \$2.8 million.

7.0 Background of BLA

This section is set out as follows:

- ▶ Section 7.1 sets out an overview of BLA;
- ▶ Section 7.2 sets out an overview of the corporate structure of BLA;
- ▶ Section 7.3 sets out the equity structure of BLA;
- ▶ Section 7.4 sets out a summary of BLA's share trading data available; and
- ▶ Section 7.5 sets out a summary of the historical financial information of BLA.

7.1 Overview of BLA

BLA was founded in 2006 and listed on the ASX in January 2012 under the code 'BLA'. Whilst the company began as a private equity investor, it expanded into the asset classes of private real estate and real assets in 2007, and upon listing in 2012 became Australia's first listed diversified alternative asset manager. BLA listed BAF, its primary investment offering for retail investors, on the ASX in 2014.

BLA's current activities include the management and ownership of funds and investments in real assets, private real estate, private equity, US joint ventures and hedge funds. Further information on BLA's five asset classes and their respective makeup of BLA's \$2.8 billion FUM and \$3.4 billion fee earning assets under management ('FEAUM') as of 30 June 2018 is set out in Table 7.1 below.

Table 7.1: BLA's Five Asset Classes

Asset Class	% of FEAUM	% of FUM	Description
Real Assets	29.04%	35.49%	Blue Sky's Real Assets team is focused on investing in a portfolio of water entitlements and providing growth capital for opportunities in agriculture.
Private Real Estate	38.48%	24.82%	Blue Sky's Private Real Estate team is focused on investing in student accommodation and retirement living in Australia and New Zealand.
Private Equity	15.92%	19.45%	Blue Sky's Private Equity team provides growth capital and late-stage venture capital to rapidly growing businesses. They partner with companies and provide them with expertise, capital and resources to help them grow. The team secured a 15 year, \$50 million mandate from the South Australian Government in 2017.
US Joint Ventures	13.83%	16.90%	Blue Sky's US team has focused on growing the US business around highly specialised teams seeking to build out scaled real asset platforms. Activity in FY18 includes: ▶ BLA, along with its joint venture partner, Cove Property Group, completing construction and commencing leasing on the 101 Greenwich project and progressing construction at Hudson Commons; ▶ Student Quarters, BLA's joint venture partner in student accommodation, adding key senior hires and completing several transactions; and ▶ Private Equity investments in the energy storage and craft brewing industries through esVolta and Lord Hobo Brewery.
Hedge Funds	1.89%	2.31%	Blue Sky's approach to hedge fund management is based on developing products that can improve the risk-return profile of investors' portfolios. BLA's flagship fund is the Dynamic Macro fund. However, the decision was made to close the Alliance Fund (the domestic vehicle for the Dynamic Macro fund) in FY2018. The Dynamic Macro strategy continues to trade and manage mandates for US and European investors.

Source: BLA's FY2018 Annual Report and FY18 Results Presentation

In addition to the five asset classes above, approximately 1.03% of BLA's FUM and 0.84% of FEAUM relates to uncommitted funds to BAF.

We note that, in addition to FUM, BLA reports its FEAUM, which refers to the FUM on which BLA earns management fees, or other investment related fees, including any fee earning capital commitments that the relevant BLA-managed investment vehicles have the right to call from investors.

7.2 Corporate Structure

According to BLA's FY2018 annual report, BLA has 31 material subsidiaries consisting of 2 Australian Financial Services Licence holders, 16 investment management entities (including BSAF) and 13 other material entities (including trusts and funds).

7.3 Equity Structure of BLA

As at 25 October 2018, BLA had 70,590,448 ordinary shares on issue. The top 10 shareholders are set out in Table 7.2.

Table 7.2: Top 10 Shareholders

Shareholder	Number of Shares	Percentage of total shares (%)
JP Morgan Nominees Australia Ltd	8,230,305	11.66%
HSBC Custody Nominees (Australia) Ltd	7,951,800	11.26%
Blue Dog Group Pty Ltd	4,400,000	6.23%
National Nominees Ltd	2,471,303	3.50%
BNP Paribas Nominees Pty Ltd	2,044,749	2.90%
Phenomenon Holdings Pty Ltd	1,555,480	2.20%
Citicorp Nominees Pty Ltd	1,129,777	1.60%
Geomar Superannuation Pty Ltd	1,090,000	1.54%
Emerald Hill Holdings Pty Ltd	1,016,583	1.44%
Mr Kim Scott Morison	859,376	1.22%
Other Shareholders	39,841,115	56.44%
Total Shareholders	70,590,488	100.00%

Source: *Miraqle, 25 October 2018*

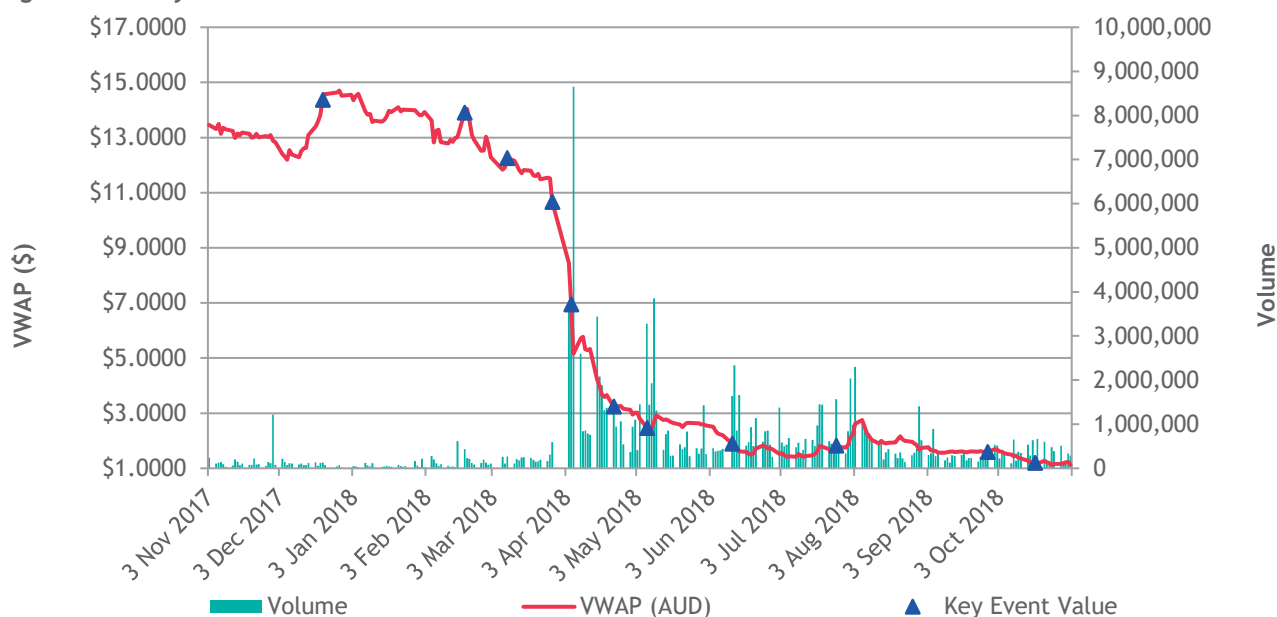
We note that Andrew Champion (a related party to the Proposed Transaction) is the eleventh largest shareholder in BLA. Additionally, John Kain (of Emerald Hill Holdings Pty Ltd), Tim Wilson (of Phenomenon Holdings Pty Ltd) and Kim Morison are directors of BLA.

7.4 Share Performance of BLA

7.4.1 Share Price Performance

Figure 7.1 displays the daily VWAP and daily volume of BLA shares traded on the ASX over the period 30 October 2017 to 2 November 2018.

Figure 7.1: Daily VWAP and Volume of BLA Shares Traded from 30 October 2017 to 2 November 2018



Source: Capital IQ as at 2 November 2018

Over the period graphed in Figure 7.1 above, BLA's daily VWAP displays a period low of \$1.12 on 25 October 2018 and a period high of \$14.70 on 28 December 2017.

In addition to the share price and volume data of BLA shown above, we have also provided additional information in Table 7.3 below to assist readers to understand the possible reasons for the movement in BLA's share price over the period analysed. The selected ASX announcement references in Table 7.3 correspond to those displayed in Figure 7.1 above.

Table 7.3: Selected BLA ASX Announcements from 30 October 2017 to 2 November 2018

Date	Announcement
21/12/2017	BLA entered into a strategic agreement with Canadian pension fund PSP Investments.
19/02/2018	BLA announced its results for the half year ended 31 December 2017, reporting continued growth in net profit after tax and FEAUM.
09/03/2018	BLA announced that FEAUM exceeded \$4.0 billion.
28/03/2018	Glaucus Research, a short seller, published a report on BLA. BLA provided an initial response to the report and entered into a trading halt.
03/04/2018	BLA releases a more detailed response to Glaucus' report.
05/04/2018	Glaucus issues a rebuttal to BLA's detailed response from the 3 April. Following the rebuttal, BLA issued an additional response to the market and noted the opinion raises no new allegations or information that had not been previously disclosed.
23/04/2018	BLA announced management and board changes.
07/05/2018	BLA announced it was withdrawing underlying net profit after tax guidance for FY2018 and FEAUM guidance for FY2018 and FY2019.
12/06/2018	BLA announces that a comprehensive review of its business and balance sheet is substantially completed. The market update notes FEAUM of \$3.4 billion as at 31 May 2018. It also notes the decision to terminate three retirement living projects and one student accommodation project, which primarily result in the estimated \$59.4 million negative impact on FY2018 net profit after tax. Additionally, the update notes that \$3.8 million in cost reduction initiatives have been implemented.
26/07/2018	BLA noted media reports that it is in discussion with Oaktree in relation to a possible investment by Oaktree in BLA.
30/08/2018	Release of BLA's preliminary annual report and FY2018 results presentation.
28/09/2018	BLA announces long-term capital investment by Oaktree Capital Management L.P. Oaktree agreed to make a subscription agreement with BLA, with \$50 million made available to BLA for general working capital requirements and co-investments.

Date	Announcement
18/10/2018	The boards of BLA and BAF confirmed a proposal to reposition BAF as a diversified alternatives multi-manager fund, to be managed by an entity that is majority owned by Pinnacle.
18/10/2018	Release of FY2018 annual report.
18/10/2018	Release of notice of AGM, including an IER relating to the Oaktree transaction stating that it is not fair but reasonable to the shareholders of BLA.

Source: BLA ASX Announcements from 30 October 2017 to 2 November 2018

7.4.2 Share Liquidity

The rate at which equity instruments are traded is generally referred to as the ‘liquidity’ of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 7.4 summarises the monthly liquidity of BLA shares from 1 October 2017 to 2 November 2018. Liquidity has been summarised by considering the following:

- ▶ Volume of BLA share trades per month;
- ▶ Value of total trades in BLA shares per month;
- ▶ Number of BLA shares traded per month as a percentage of total BLA shares outstanding at the end of the month; and
- ▶ Volume weighted average price per month.

Table 7.4: Liquidity of BLA shares on the ASX

Month	Volume	Turnover	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
October 2018	8,584,940	\$11,534,176	77,711,530	11.05%	\$1.34
September 2018	6,038,550	\$9,754,672	77,530,940	7.79%	\$1.62
August 2018	16,156,580	\$34,965,888	77,527,970	20.84%	\$2.16
July 2018	16,127,760	\$26,377,984	77,527,970	20.80%	\$1.64
June 2018	15,678,060	\$28,225,694	77,527,970	20.22%	\$1.80
May 2018	23,557,620	\$62,617,087	77,508,410	30.39%	\$2.66
April 2018	36,254,710	\$187,273,054	77,477,970	46.79%	\$5.17
March 2018	3,824,190	\$44,518,921	76,028,700	5.03%	\$11.64
February 2018	3,287,330	\$43,713,904	68,782,320	4.78%	\$13.30
January 2018	1,153,720	\$16,080,655	68,778,040	1.68%	\$13.94
December 2017	1,820,600	\$23,774,137	68,777,320	2.65%	\$13.06
November 2017	3,829,060	\$50,562,704	68,774,760	5.57%	\$13.20
October 2017	2,646,880	\$33,730,619	68,694,280	3.85%	\$12.74
Total	138,648,270	\$572,754,737	74,047,460	181.24%	\$4.13

Source: Capital IQ as at 29 October 2018

Assuming a weighted average number of 74,047,460 BLA shares on issue over the period, approximately 181% of the total shares on issue were traded over the period 1 October 2017 to 31 October 2018. Prima facie, this indicates that BLA shares display a high level of liquidity. We note however that the liquidity increased significantly in the period following the Glaucus Research report released on 28 March 2018 and at least 20% of the total shares on issue were traded each month from April 2018 to August 2018.

7.5 Historical Financial Information of BLA

This section sets out the historical financial information of BLA. In order to provide shareholders with additional information in relation to the financial condition and performance of BLA, the underlying financial results of BLA are presented in this section. These underlying values, in contrast to the statutory consolidated financial statements, are the results that would be produced if BLA reported all of its investments in funds that it manages at fair value through profit or loss.

Given the underlying results of this Report contain summarised non-IFRS financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in BLA’s annual reports, including the full statements of profit or loss and other comprehensive income, statements of financial position and statements of cash flows.

BLA’s financial statements have been audited by Ernst & Young and the underlying financial statements have been reviewed by Ernst & Young. BDOCF has not performed any audit or review of any type on the historical financial information of BAF and we make no statement as to the accuracy of the information provided. However, we have no reason to believe that any of the information provided is false or misleading.

7.5.1 Statement of Underlying Profit or Loss

Table 7.5 summarises the statement of underlying profit or loss of BLA for FY2015, FY2016, FY2017 and FY2018.

Table 7.5: Summarised BLA Statement of Underlying Profit or Loss

	12 Months Ended 30-Jun-15 Reviewed (\$m)	12 Months Ended 30-Jun-16 Reviewed (\$m)	12 Months Ended 30-Jun-17 Reviewed (\$m)	12 Months Ended 30-Jun-18 Reviewed (\$m)
Management fees	24.8	31.5	21.9	13.6
Transaction fees	-	-	15.7	4.1
Performance fees	8.8	18.7	22.3	2.8
Investment income	5.5	6.9	7.6	(19.8)
Share of loss of associates and joint ventures	-	1.1	9.4	(5.1)
Other income	4.5	4.6	8.1	4.4
Total Income	43.6	62.8	85.0	-
Employee benefits expense	(12.4)	(19.2)	(24.8)	(33.5)
External service providers	(3.0)	(4.2)	(2.7)	(7.5)
Provisions and impairments	-	-	-	(31.5)
Other expenses	(13.5)	(16.2)	(20.0)	(27.8)
Total Expenses	(28.9)	(39.6)	(47.5)	(100.3)
Profit/(Loss) before Income Tax	14.7	23.2	37.5	(100.3)
Income tax benefit/(expense)	(4.3)	(6.9)	(12.0)	14.7
Profit/(Loss) after Income Tax	10.4	16.3	25.5	(85.6)

Source: BLA FY2015, FY2016, FY2017, and FY2018 Annual Reports

With reference to Table 7.5 above, we note the following:

- ▶ Total income decreased by 100% between FY2017 and FY2018, primarily due to:
 - A \$8.3 million reduction in management fees due to a deferral of student accommodation projects and the exit of retirement living businesses;
 - A \$11.6 million reduction in transaction fees following the decision to defer new fund raising. With BLA traditionally raising a large proportion of its investment capital in the last quarter of the financial year, the decision to defer nearly all new sophisticated investment fund capital raises has resulted in BLA earning considerably less revenue than anticipated from new fund transaction fees for FY2018;
 - A \$19.5 million reduction in performance fees following significant reversals;
 - \$19.8 million investment loss was primarily driven following an asset-by-asset review conducted in the fourth quarter of FY2018, the decision was made to terminate or defer three student accommodation projects and three retirement living projects; and
 - With BLA traditionally raising a large proportion of its investment capital in the last quarter of the financial year, the decision to defer nearly all new sophisticated investment fund capital raises has resulted in BLA earning considerably less revenue than anticipated from new fund transaction and management fees for FY2018;
- ▶ The decision was made to make provisions for, or impair, approximately \$31.5 million worth of trade and other receivables, goodwill and other assets. This amount primarily comprised provisions for unpaid fees owing from BLA managed funds, loans to BLA managed funds and staff loans for co-investing in BLA managed funds;
- ▶ Significant increases in annual employee benefits expenses primarily relate to salary increases. It is noted that a significant portion of employee benefits expenses for the period relate to termination and redundancy expenses;
- ▶ The \$4.8 million increase in payments made to external service providers in FY2018 reflects increased costs of independent valuation reviews, audits, external legal advice and due diligence advisory services. Additionally, a 213% increase in consultancy costs relate to increased corporate advisory, corporate legal services and corporate communications cost borne in FY2018; and
- ▶ It is noted that BLA considers FY2018 operating costs abnormally inflated as a result of expenses made to provisions and impairments, termination and redundancy, and external consultancy costs.

7.5.2 Statements of Underlying Financial Position

The statements of underlying financial position of BLA as at 30 June 2015, 2016, 2017 and 2018 are summarised in Table 7.6 below.

Table 7.6: Summarised BLA Statement of Underlying Financial Position

	As At 30-Jun-15 Reviewed (\$m)	As At 30-Jun-16 Reviewed (\$m)	As At 30-Jun-17 Reviewed (\$m)	As At 30-Jun-18 Reviewed (\$m)
Assets				
Cash and cash equivalents	21.1	62.9	70.6	40.0
Other Current Assets	17.2	58.5	42.6	53.4
Total Current Assets	38.3	121.4	113.2	93.4
Financial assets held at fair value through profit or loss	32.8	51.5	63.4	41.1
Investments in associates and joint ventures	-	-	11.5	19.7
Trade & other receivables	13.6	21.1	52.8	41.7
Other Non-Current Assets	9.3	11.1	8.8	7.9
Total Non-Current Assets	55.7	83.7	136.5	110.4
Liabilities				
Trade & other payables	(6.1)	(19.8)	(36.6)	(17.7)
Borrowings	(7.1)	(7.9)	(8.4)	(0.7)
Other Current Liabilities	(9.1)	(10.3)	(14.0)	(13.3)
Total Current Liabilities	(22.3)	(38.0)	(59.0)	(31.7)
Deferred tax liabilities	(3.5)	(9.9)	(16.2)	(1.1)
Other Non-Current Liabilities	(5.6)	(17.8)	(18.3)	(13.7)
Total Non-Current Liabilities	(9.1)	(27.7)	(34.5)	(14.8)
Total Liabilities	(31.4)	(65.7)	(93.5)	(46.5)
Net Assets	62.6	139.4	156.2	157.3

Source: BLA FY2015, FY2016, FY2017, and FY2018 Annual Reports

With reference to Table 7.6, we note the following:

- ▶ Current assets increased substantially between FY2015 and FY2016 primarily due to revenues boosting the cash position of BLA. However, it was adversely affected in FY2018 by significant abnormal cash flows including bridging loans made as a result of BLA's decision to defer capital raising;
- ▶ \$22.3 million movement in financial assets held at fair value through profit and loss primarily attributable to write-downs of the student accommodation and retirement businesses;
- ▶ \$8.2 million increase in investments in associates and joint ventures reflect investments made in Cove and Student Quarters;
- ▶ \$7.7 million reduction in current borrowings reflective of significant repayments made in financing activities during the FY2018 period;
- ▶ Decrease in trade and other payables in FY2018 the result of a reduction in uncalled capital in relation to investments in BLA managed funds and fee rebates; and
- ▶ \$19.7 million movement in non-current liabilities in FY2018 primarily due to deferred tax liabilities being offset by a significant deferred tax asset during the period.

7.5.3 Statements of Underlying Cash Flows

The underlying cash flow statements of BLA for FY2015, FY2016, FY2017 and FY2018 are summarised in Table 7.7 below.

Table 7.7: Summarised BLA Underlying Cash Flow Statement

	12 Months Ended 30-Jun-15 Reviewed (\$m)	12 Months Ended 30-Jun-16 Reviewed (\$m)	12 Months Ended 30-Jun-17 Reviewed (\$m)	12 Months Ended 30-Jun-18 Reviewed (\$m)
Cash Flows From Operating Activities				
Receipts from customers (inclusive of GST)	32.5	52.1	71.6	36.4
Payments to suppliers and employees (inclusive of GST)	(25.4)	(38.2)	(49.8)	(69.2)
Interest received	-	1.2	2.4	0.6
Interest and other finance costs paid	-	(0.7)	(0.9)	(1.1)
Income tax paid	(1.0)	(2.9)	(3.8)	(5.1)
Net Cash Flows From / (Used In) Operating Activities	6.1	11.5	19.5	(38.4)
Cash Flows From Investing Activities				
Payments for equity investments	(2.4)	(14.3)	(12.1)	(32.5)
Proceeds from disposal of equity investments (including distributions)	9.5	7.1	17.7	6.8
Payments for property, plant and equipment	(0.5)	(0.8)	(0.1)	(0.2)
Payments for intangible assets (net of proceeds on disposal)	(0.2)	(0.1)	(0.2)	(0.4)
Loans (to)/from related parties	(2.0)	(21.4)	-	-
Bridging finance and loans to funds (net)	-	-	(7.5)	(41.4)
Net Cash Flows From / (Used In) Investing Activities	4.4	(29.5)	(2.2)	(67.7)
Cash Flows From Financing Activities				
Proceeds from issue of shares	0.1	67.5	1.0	101.8
Share issue transaction costs	-	(2.4)	(0.2)	(3.5)
Proceeds from borrowings	3.8	7.6	33.4	35.4
Repayment of borrowings	(4.2)	(6.7)	(33.0)	(43.3)
Dividends paid	(3.9)	(6.2)	(10.8)	(15.7)
Net Cash Flows From / (Used In) Financing Activities	(4.2)	59.8	(9.6)	74.7
Net Increase / (Decrease) in Cash and Cash Equivalents	6.3	41.8	7.7	(31.4)
Effects of exchange rate changes on cash and cash equivalents at the end of period	-	-	-	0.8
Cash and Cash Equivalents at Beginning of the financial year	14.8	21.1	62.9	70.6
Closing Cash Balance	21.1	62.9	70.6	40.0

Source: BLA FY2015, FY2016, FY2017 and FY2018 Annual Reports

With reference to Table 7.7 above, we note the following:

- ▶ Operating cash flows in FY2018 were negatively impacted by abnormal cash flows as a result of repayments of management and transaction fees to fund holders. Additionally, operating cash flows were affected by the significant reduction in performance fees during the FY2018 year, which saw receipts from customers decrease by \$35.4 million relative to FY2017 receipts;
- ▶ Significant cash flows were used in investing activities in FY2018 mainly due to increased equity investments and bridging finance and loans to BLA managed funds. These loans were made to support underlying fund investments going through challenging periods with the rationale that supporting those investments provide investors with the best opportunity to achieve optimal fund returns at eventual exit; and
- ▶ Large inflows from financing activities in FY2016 and FY2018 are largely attributable to significant capital raisings during the year, with proceeds from the issue of shares totalling \$68 million and \$102 million in FY2016 and FY2018 respectively.

8.0 Background of Pinnacle

This section is set out as follows:

- ▶ Section 8.1 sets out an overview of Pinnacle;
- ▶ Section 8.2 sets out an overview of the corporate structure of Pinnacle;
- ▶ Section 8.3 sets out the equity structure of Pinnacle;
- ▶ Section 8.4 sets out a summary of Pinnacle's share trading data available; and
- ▶ Section 8.5 sets out a summary of the historical financial information of Pinnacle.

8.1 Overview of Pinnacle

Pinnacle was listed on the ASX in 2007 as Wilson HTM Investment Group Ltd. Pinnacle is an investment management firm with multiple investment management affiliates. Pinnacle receives a share of net profit from its jointly controlled investment management affiliates. As at 30 June 2018, Pinnacle's affiliates collectively managed approximately \$38.0 billion in assets. Pinnacle provides its affiliates with:

- ▶ Equity, seed capital and working capital; and
- ▶ Distribution services, business support and responsible entity services.

Pinnacle's affiliates are independent in that they have separate management reporting structures and boards of directors. Pinnacle's investment affiliates are summarised in the table below.

Table 8.1: Pinnacle's Investment Management Affiliates

Affiliate	Ownership (%)	FUM	Description
Antipodes Partners	23.57%	\$7.6 billion	Global equities manager offering a value approach across long-only and long-short strategies.
Firetrail Investments	24.35%	\$74 million	Investment management boutique founded in 2018. The two key investment strategies are: concentrated portfolio of Australian equities and market-neutral fundamental equities strategy.
Hyperion Asset Management	49.99%	\$6.5 billion	Manager of Australian and global equities following a concentrated growth style.
Palisade Investment Partners	38.34%	\$1.8 billion	Manager of unlisted infrastructure assets.
Plato Investment Management	46.64%	\$4.9 billion	Manager of Australian and global equities following a systematic quantitative style, with a focus on after tax investment for pension phase and accumulation phase superannuation.
Resolution Capital	41.50%	\$8.0 billion	Global listed property securities investment manager.
Solaris Investment Management	40.00%	\$8.3 billion	Manager of listed Australian equities following a neutral style.
Spheria Asset Management	40.00%	\$702 million	Fundamental-based investment manager specialising in small and microcap companies.
Two Trees Investment Management	43.96%	\$71 million	Systematic global macro investment firm.
Metrics Credit Partners	35.00%	\$2.5 billion	Alternatives asset manager specialising in private debt, fixed income and capital markets.
Omega Global Investment	40.00%	\$4.2 billion	Offers smart beta, factor investing and client solutions capability, multi-asset investment and implementation capabilities as well as government and corporate bonds, cash, foreign exchange and Australian & global equities.

Source: Pinnacle FY2018 Annual Report and Pinnacle Group - Funds Under Management History FY2018

It is noted that the FUM of Pinnacle's recent additions of two new affiliates in July 2018, Metrics Credit Partners and Omega Global Investors, has not been included in the calculation of Pinnacle's FY2018 FUM.

After the release of Pinnacle's FY2018 annual report, it was announced:

- ▶ On 27 September 2018 that Pinnacle was establishing a new multi-asset and Australian equities investment management affiliate to be named Longwave Capital Partners. Pinnacle is expected to have a 40% shareholding in Longwave Capital Partners; and
- ▶ On 18 October 2018 that Pinnacle was establishing a new affiliate, Alterum to manage the portfolio of the BAF. Pinnacle is expected to be the majority shareholder of Alterum Investment Management.

We note that, from April to September 2018 (being the last six months of information available as at the date of this Report), all three LICs managed by Pinnacle's affiliates (Antipodes Partners, Spheria Asset Management and Plato Investment Management) have traded at share price discounts to pre-tax NTA ranging from 0.38% to 13.03%. The listed investment trust managed by Pinnacle's affiliate, Metrics Credit Partners, has traded at a share price premium to pre-tax NTA ranging from 2.50% to 3.50% over the same period.

8.2 Corporate Structure of Pinnacle

According to Pinnacle's 2018 annual report, Pinnacle has 10 subsidiaries, one of which is Pinnacle Investment Management Limited, which holds all ownership interests in Pinnacle's affiliates. All affiliates have been incorporated in Australia, except for Pinnacle Investment Management (UK) Ltd which was incorporated in the UK in 2018. Additionally, Pinnacle has retained interests in 9 entities under joint control.

8.3 Equity Structure of Pinnacle

As at 24 August 2018, Pinnacle had 121,412,509 ordinary shares on issue. The top 10 shareholders are set out in Table 8.2.

Table 8.2: Top 10 Shareholders

Shareholder	Number of Shares	Percentage of total shares (%)
Macoun Generation Z Pty Ltd	20,785,759	11.89%
JP Morgan Nominees Australia Limited	16,938,000	9.69%
HSBC Custody Nominees (Australia) Limited	13,907,096	7.95%
Warragai Investments Pty Ltd	8,250,000	4.72%
National Nominees Ltd	7,372,549	4.22%
BNP Paribas Noms Pty Ltd	6,413,331	3.67%
Macoun Superannuation Pty Ltd	5,784,968	3.31%
Kinauld Pty Ltd	4,750,000	2.72%
Andrew Chambers & Fleur Chambers	4,725,414	2.70%
Mr Alexander William Macdonald Grant	4,670,090	2.67%
Other shareholders	81,236,391	46.46%
Total shares on issue	174,833,598	100.00%

Source: Pinnacle Annual Report FY2018

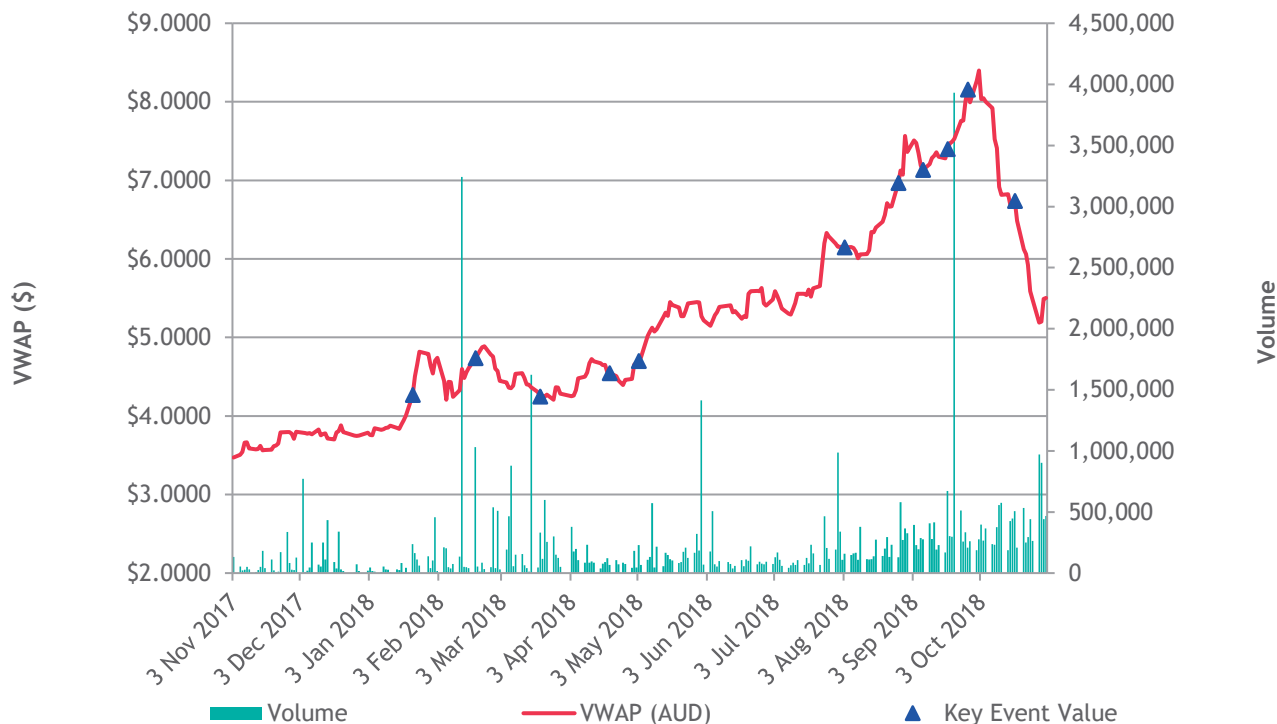
With reference to Table 8.2 above, we note that Pinnacle's top 10 shareholders include a number of Pinnacle's directors and key personnel, including Pinnacle's largest single shareholder, which is a related party of Pinnacle's managing director (Ian Macoun).

8.4 Share Performance of Pinnacle

8.4.1 Share Price Performance

Figure 8.1 displays the daily VWAP and daily volume of Pinnacle shares traded on the ASX over the period 30 October 2017 to 2 November 2018.

Figure 8.1: Daily VWAP and Volume of Pinnacle Shares Traded from 30 October 2017 to 2 November 2018



Source: Capital IQ as at 2 November 2018

Over the period graphed in Figure 8.1 above, Pinnacle's daily VWAP displays a period low of \$3.2969 on 31 October 2017 and a period high of \$8.3988 on 2 October 2018. Subsequent to this period high, the share price has declined to a daily VWAP of \$5.5840 on 2 November 2018.

In addition to the share price and volume data of Pinnacle shown above, we have also provided additional information in Table 8.3 below to assist readers to understand the possible reasons for the movement in Pinnacle's share price over the period analysed. The selected ASX announcement references in Table 8.3 correspond to those displayed in Figure 8.1 above.

Table 8.3: Selected Pinnacle ASX Announcements from 30 October 2017 to 2 November 2018

Date	Announcement
22/01/2018	Pinnacle provided a market update. FUM up 21.9% from 30 June 2017.
19/02/2018	Pinnacle held a FY2018 first half financial results teleconference.
20/03/2018	Pinnacle provided a dividend update.
20/04/2018	Pinnacle released an updated Pinnacle Corporate Governance Statement.
03/05/2018	Pinnacle announced the new issue and application for quotation of 708,192 new shares.
24/07/2018	Pinnacle releases FY2018 results and announced an equity raising.
03/08/2018	Pinnacle announced the completion of acquisition of 35% interest in Metrics Credit and 40% interest in Omega Global Investors.
27/08/2018	Pinnacle held a FY2018 financial results teleconference and announced the share purchase plan was oversubscribed.
07/09/2018	S&P Dow Jones Indices announces Pinnacle's inclusion to the S&P/ASX 300 Index.
18/09/2018	Pinnacle released the annual report to shareholders.
27/09/2018	Pinnacle announced launch of new affiliate - Longwave Capital Partners.
18/10/2018	Pinnacle provided a proposal to transition BAF to a new manager and new investment mandate.

Source: Pinnacle ASX Announcements from 30 October 2017 to 2 November 2018

8.4.2 Share Liquidity

The rate at which equity instruments are traded is generally referred to as the ‘liquidity’ of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 8.5 summarises the monthly liquidity of Pinnacle shares from 1 October 2017 to 31 October 2018. Liquidity has been summarised by considering the following:

- ▶ Volume of Pinnacle share trades per month;
- ▶ Value of total trades in Pinnacle shares per month;
- ▶ Number of Pinnacle shares traded per month as a percentage of total Pinnacle shares outstanding at the end of the month; and
- ▶ Volume weighted average price per month.

Table 8.5: Liquidity of Pinnacle shares on the ASX

Month	Volume	Turnover	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
October 2018	9,344,880	\$60,808,307	178,068,090	5.25%	\$6.51
September 2018	9,853,820	\$73,979,366	176,669,930	5.58%	\$7.51
August 2018	4,991,260	\$33,051,745	164,029,450	3.04%	\$6.62
July 2018	3,605,880	\$21,225,836	153,644,960	2.35%	\$5.89
June 2018	2,243,400	\$12,010,640	152,606,000	1.47%	\$5.35
May 2018	4,954,540	\$25,831,811	152,544,420	3.25%	\$5.21
April 2018	2,219,790	\$9,908,326	151,897,810	1.46%	\$4.46
March 2018	6,153,410	\$26,832,737	151,618,280	4.06%	\$4.36
February 2018	6,409,750	\$29,616,493	149,729,180	4.28%	\$4.62
January 2018	1,269,670	\$5,479,126	149,613,910	0.85%	\$4.32
December 2017	2,749,910	\$10,373,261	149,613,910	1.84%	\$3.77
November 2017	2,112,660	\$7,505,596	149,613,910	1.41%	\$3.55
October 2017	2,823,170	\$8,889,441	149,651,060	1.89%	\$3.15
Total	53,470,110	\$295,142,040	156,123,660	36.73%	\$5.52

Source: Capital IQ as at 31 October 2018

Assuming a weighted average number of 155,371,540 Pinnacle shares on issue over the period, approximately 34% of the total shares on issue were traded over the period 1 October 2017 to 31 October 2018. In our view, this indicates that Pinnacle shares display a low to moderate level of liquidity.

8.5 Historical Financial Information of Pinnacle

This section sets out the historical financial information of Pinnacle. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in Pinnacle's annual reports, including the full statements of profit or loss and other comprehensive income, statements of financial position and statements of cash flows.

Pinnacle's financial statements have been audited by PricewaterhouseCoopers. BDOCF has not performed any audit or review of any type on the historical financial information of Pinnacle and we make no statement as to the accuracy of the information provided. However, we have no reason to believe that any of the information provided is false or misleading.

8.5.1 Statements of Profit or Loss and Other Comprehensive Income

Table 8.6 summarises the consolidated statements of profit or loss and other comprehensive income of Pinnacle for FY2015, FY2016, FY2017 and FY2018.

Table 8.6: Summarised Pinnacle Consolidated Income Statement

	12 Months Ended 30-Jun-15 Audited (\$'000)	12 Months Ended 30-Jun-16 Audited (\$'000)	12 Months Ended 30-Jun-17 Audited (\$'000)	12 Months Ended 30-Jun-18 Audited (\$'000)
Revenue from continuing operations	7,647	8,384	10,976	16,542
Share of net profit of jointly controlled entities accounted for using the equity method	11,932	15,920	17,598	24,903
Total Income	19,579	24,304	28,574	41,445
Net Profit Before Tax	4,244	8,573	12,175	23,142
Income tax expense	(8,138)	(133)	-	-
Net Profit After Tax	(3,894)	8,440	12,175	23,142

Source: Pinnacle FY2015, FY2016, FY2017, and FY2018 Annual Reports

With reference to Table 8.6 above, we note the following:

- ▶ Pinnacle affiliates' total FUM (at 100%), which underpins the share of Pinnacle profits, increased by 43% from \$26.5 billion to \$38.0 billion in FY2018;
- ▶ Revenue from continuing operations increased by 50.71% from FY2017 to FY2018. This is primarily the result of significant purchases of shares in entities under joint control during the period, which resulted in services charged to entities under joint control increasing by \$6.2 million. Between FY2015 and FY2018, Pinnacle's revenue from continuing operations has grown at a compounded annual growth rate ('CAGR') of approximately 29.3%;
- ▶ The \$7.3m increase in share of net profit from jointly controlled entities between FY2017 and FY2018 is also mainly attributable to the increased number of Pinnacle affiliates. Growth over the FY2015 to FY2016 period was underpinned by a 34% increase in Pinnacle's share of net profits from the Pinnacle affiliates; and
- ▶ In FY2015, income tax expense of \$8.1 million related primarily to a deferred tax asset being no longer recognised on the basis that it was no longer probable that there will be suitable taxable profits against which to recover the losses.

8.5.2 Statements of Financial Position

The consolidated balance sheets of Pinnacle as at 30 June 2015, 2016, 2017 and 2018 are summarised in Table 8.7 below.

Table 8.7: Summarised Pinnacle Consolidated Balance Sheet

	As At 30-Jun-15 Audited (\$'000)	As At 30-Jun-16 Audited (\$'000)	As At 30-Jun-17 Audited (\$'000)	As At 30-Jun-18 Audited (\$'000)
Assets				
Financial assets at fair value through profit or loss	6,195	10,918	31,571	22,156
Assets Classified as held for sale	17,094	-	-	-
Other Current Assets	20,456	21,875	16,957	21,906
Total Current Assets	43,745	32,793	48,528	44,062
Investments accounted for using the equity method	19,408	24,528	32,627	55,601
Other Non-Current Assets	806	1,092	597	5,236
Total Non-Current Assets	20,214	25,620	33,224	60,837
Total Assets	63,959	58,413	81,752	104,899
Liabilities				
Total Current Liabilities	19,257	8,757	6,021	6,697
Total Non-Current Liabilities	232	73	71	105
Total Liabilities	19,489	8,830	6,092	6,802
Net Assets	44,470	49,583	75,660	98,097

Source: Pinnacle FY2015, FY2016, FY2017, and FY2018 Annual Reports

With reference to Table 8.7, we note the following:

- ▶ Financial assets at fair value through profit or loss was \$22.2 million in FY2018, a decrease of \$9.3 million on the prior period. This is primarily attributable to the realisation of investments over the period. The change in fair value was based upon the most recent transaction involving the securities of the company;
- ▶ Increase in other current assets between FY2017 and FY2018 primarily relates to the \$5.5 million increase in trade and income receivables account, which correlates to higher revenues in Pinnacle;
- ▶ Investments accounted for using the equity method reflects the carrying value of Pinnacle's investments in its affiliates. In FY2018, this increased by \$23.0 million during the period. This change is attributable to the commencement of two new affiliates, Firetrail Investments Pty Ltd and Two Trees Investment Management Pty Ltd, in addition to a \$5.5 million increase in the equity accounted carrying value of Hyperion Holdings Limited;
- ▶ FY2018 increase in other non-current assets is mainly attributable to loans to other related parties. This amount reflects a subsidiary of Pinnacle providing a loan to a number of executives of Palisade Investment Partners Limited ('Palisade'), an affiliate of Pinnacle, to facilitate the purchase of shares in Palisade from an exiting shareholder. The loans have terms of between five and seven years and are interest-bearing, secured by shares in Palisade;
- ▶ Reduction in assets classified as held for sale in FY2016, in addition to total current assets and total current liabilities, is primarily attributable to the sale of the Pinnacle's securities business. The net carrying value of the business was \$6.1 million (\$17.6 million assets, \$11.4 million liabilities), and the company lost approximately \$38,000 on disposal of the asset.

8.5.3 Statements of Cash Flows

The consolidated cash flow statements of Pinnacle for FY2015, FY2016, FY2017 and FY2018 are summarised in Table 8.8 below.

Table 8.8: Summarised Pinnacle Consolidated Cash Flow Statement

	12 Months Ended 30-Jun-15 Audited (\$'000)	12 Months Ended 30-Jun-16 Audited (\$'000)	12 Months Ended 30-Jun-17 Audited (\$'000)	12 Months Ended 30-Jun-18 Audited (\$'000)
Proceeds from sale of financial assets at fair value through profit or loss	5,592	1,117	10,652	18,003
Payments to purchase of financial assets at fair value through profit or loss	(6,399)	(5,407)	(31,307)	(9,704)
Other net operating cash flows	7,754	4,115	3,237	12,571
Net Cash Flows From / (Used In) Operating Activities	6,947	(175)	(17,418)	20,870
Net loan repayments/(advances) to/from shareholders and related parties	(940)	3,108	(2,106)	(5,471)
Net proceeds/(payments) relating to investments in subsidiaries and equity accounted investments	213	850	360	(6,069)
Other net investing cash flows	(112)	(133)	(55)	(43)
Net Cash Flows From / (Used In) Investing Activities	(839)	3,825	(1,801)	(11,583)
Dividends paid to shareholders	(11,907)	(4,033)	(11,907)	(13,694)
Net proceeds from issue of shares	28,527	357	28,527	2,794
Net Cash Flows From / (Used In) Financing Activities	(2,581)	(3,676)	16,620	(10,900)
Net Increase / (Decrease) in Cash and Cash Equivalents	3,527	(26)	(2,599)	(1,613)
Closing Cash Balance	13,570	13,544	10,945	9,332

Source: Pinnacle FY2015, FY2016, FY2017, and FY2018 Annual Reports

With reference to Table 8.8 above, we note the following:

- ▶ Cash from operating activities for FY2018 were \$20.9 million, which included net inflows of \$8.3 million relating to purchases and sales of financial assets during the year, including principal investments (investments made by Pinnacle on its own behalf and for its own benefit). Cash used in operating activities in FY2017 reflect significant payments made to purchase financial assets including the additions of \$12 million in Australian listed securities, \$7 million in unlisted unit trusts and \$1.2 million in derivative financial assets;
- ▶ Investing cash flows in FY2016 includes a \$3.5 million loan repayment from related parties and proceeds from the sale of investments in subsidiaries, being Pinnacle's securities business;
- ▶ Increase in cash outflow from investing activities in FY2018 primarily related to payments for investments accounted for using the equity method and loan advances to related parties; and
- ▶ Cash outflows in financing activities in FY2018 primarily relates to dividends paid to shareholders. Cash inflows in FY2017 are mainly attributable to capital raisings.

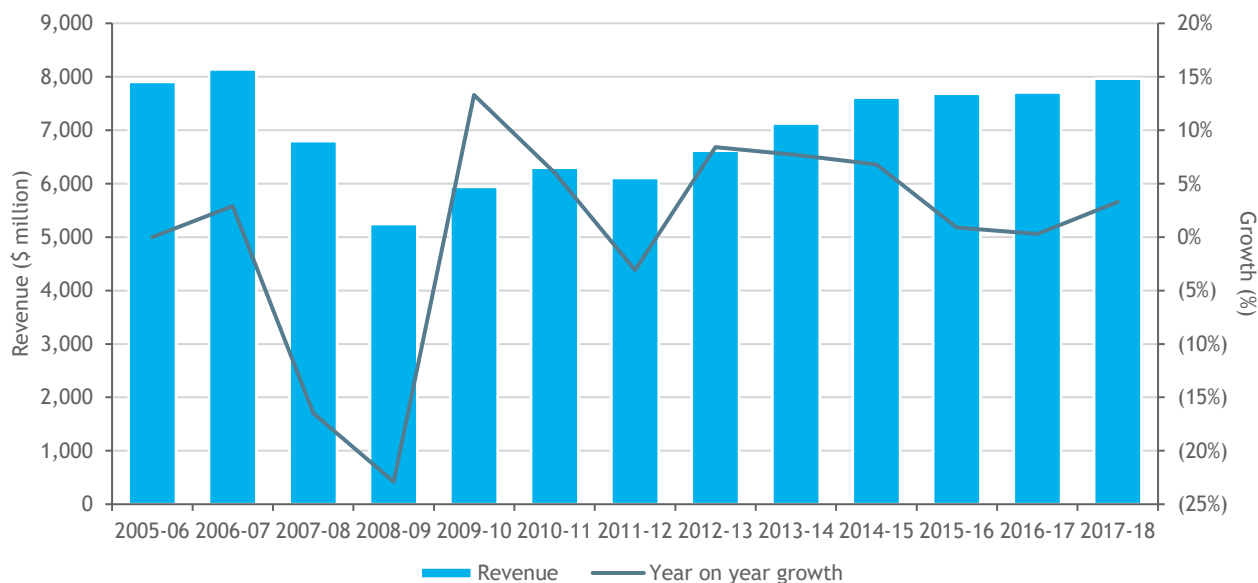
9.0 Industry Overview

9.1 Funds Management Services Industry⁹

The funds management services industry provides fund management services, including insurance funds management, public offer unit trusts, government funds and overseas funds. Revenue is primarily derived from management and performance fees based on the value of the FUM, and is accordingly significantly influenced by movements in FUM. Investors in funds range from retail to institutional and wholesale. As at June 2018, the Australian funds management services market is worth approximately \$8.0 billion in annual revenue, \$3.1 billion in annual profit, and comprises 312 businesses.

Figure 9.1 displays the industry revenue and growth figures from FY2006 to FY2018.

Figure 9.1: Revenue Growth in the Funds Management Services Industry



Source: IBISWorld, 2018

The industry comprises of both small boutique investment managers and large institutional fund managers, where size is dependent on FUM. Small fund managers typically have an FUM of between \$300 million to \$2 billion, and large managers, over \$200 billion. The four largest players within the industry are estimated to have accounted for over 60% of total industry revenue in FY2018.

The competitive landscape within the industry is characterised by high competition and medium concentration. Concentration is expected to increase over the next five years as the industry experiences an increase in mergers and acquisitions of managers. The major players in the industry are Macquarie Group Limited and Commonwealth Bank of Australia ('CBA'). However, following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry ('the Royal Commission'), CBA in addition to the other major banks, have exited or are looking to exit out of the wealth advisory industry.

With competition within the industry dependent on fees and performance, downward pressure is expected to be placed on fees. However, increased cost savings and efficiencies are expected to enable fund managers to retain their profit margins.

9.2 Products

Australian fund managers offer investment opportunities in a wide variety of asset classes, through a number of investment strategies. These strategies vary widely depending on the risk preferences of investors, the investment approach of fund managers and the composition of assets in the fund.

The two approaches towards funds management are active and passive. The passive approach involves the creation of a portfolio intended to track the returns of a particular market index or benchmark. The active approach involves managers trying to outperform the market through frequent buying and selling. Given the greater degree of management required in active funds management, these funds subsequently require higher management fees.

⁹ Information in this section has been obtained from IBISWorld Report 'Funds Management Services in Australia', June 2018.

Table 9.1 sets out the common asset classes available to Australian fund investors.

Table 9.1: Asset Allocation of Australian Managed Funds Institutions

Product	% of Total Funds	Description
Units in Trusts	26.9%	Trusts in which assets are held and administered by a trustee for the holders of units in the unit trust. Unit trusts pre-determine the unit-holders entitlements, which may be for income, capital or both.
Australian Equities	18.4%	Australian equities include shares traded on an organised stock exchange, shares in unlisted companies, and units issued by both listed and unlisted unit trusts. It is the largest asset class held by Australian fund managers.
International Assets	17.5%	International investments include both debt and equity securities. Increasing accessibility to overseas markets has seen the appeal to this asset class increase rapidly over the past eight years.
Land and Buildings	10.3%	Land and buildings comprise investments in commercial and industrial real estate. The asset class' proportion of total industry revenue has decreased over the past five years due to stronger share market performance.
Other Assets	9.8%	Other assets include derivatives, other financial assets, non-financial assets, and alternative investments, such as real assets (e.g. infrastructure, commodities and farmland), private equity, real estate and hedge funds.
Deposits	9.3%	Deposits include funds which are invested in the holding accounts of banks and other institutions in return for interest payments. Given the consistently low interest rate environment in Australia, deposits as a portion of total investments have remained relatively constant since 2009.
Debt Securities	7.8%	Debt securities include both short-term and long-term debt securities. This asset class primarily comprises longer term debt, given the declining number of short-term securities available in Australia following the global financial crisis. This asset class has declined as a portion of industry revenue over the last five years, given the stronger performance of Australian equities.

Source: IBISWorld, 2018 and ABS, 2018¹⁰

9.3 Fees

Whilst industry revenue is derived primarily from management and performance fees, various types of fees exist in the fund management services industry. Table 9.2 sets out the type of fees involved with investing in Australian funds.

Table 9.2: Asset Allocation of Australian Managed Funds

Type of Fee	Description
Management fees	The ongoing fees fund managers charge for managing client wealth, generally expressed as a fixed dollar amount or percentage of FUM. In Australia, management fees are on average around 1.2% of the total investment for equity funds and around 0.6% for fixed income funds.
Performance fees	Fees that are paid relative to a stated performance objective. These typically include high water marks that specify that a fund manager will only be paid a percentage of the profits if the net value of the fund exceeds the previous highest value achieved by the fund. Fees typically range between 10% to 25% of the outperformance.
Administration fees	Fees charged by fund managers relating to administrative costs, which may include maintenance of corporate records, preparation of financial statements and share registry liaison. Administration fees typically range between 1.5% to 2.0% of a client's total investment.
Upfront fees	Some managers charge management and other fees in advance, however this type of fee is not common in the current funds management industry.
Buy-sell spread	Fees relating to brokerage, government taxes and bank fees. Buy-sell spreads are typically up to 0.6% of the value of the trade.
Exit fees	Fees charged to investors when they redeem shares from a fund.

Source: Morningstar Next, 2018¹¹

¹⁰ Information in this section has been obtained from the Australian Bureau of Statistics '5655.0 - Managed Funds, Australia, June 2018.

¹¹ Information in this section has been obtained from Morningstar Next 'Fees for Managed Funds - the normal and the not so normal', June 2018.

9.4 Key External Drivers

Information on the key external drivers currently affecting the funds management services industry is discussed in Table 9.3.

Table 9.3: Key External Drivers in the Funds Management Services Industry

Driver	Description
All Ordinaries Index	Given equities comprise the majority of FUM in the industry, the performance of the Australian share market plays a large role in the performance of the funds management services industry.
Cash rate	Interest rates play a significant role in investment allocations, which can affect industry revenue and demand for industry services. As interest rates and the cost of borrowing increases, equity investments can become less profitable, and cash investments, such as deposits, become more attractive.
Demand from life insurance companies	Funds management services are provided to life insurance companies to invest premiums from life insurance policies. A decrease in the demand for services from insurance companies decreases the funds available to fund managers.
High income earners	Given their higher portion of disposable income, high income earners often employ fund managers to manage their wealth.
Technology, innovation and talent	Technology is continuing to innovate and re-shape all segments of the value chain. Technology advancements will be used to improve the efficiency and effectiveness of fund management services to clients.

Source: IBISWorld, 2018

9.5 Regulation and Policy

In recent years, international standard-setting bodies and national regulators have taken steps to enhance monitoring and regulation of the funds management services industry to address the financial stability risk it faces. The repeal of the Managed Investments Act (1998) in 2016 resulted in fundamental changes to the industry. Previously, indemnifiable liability was shared between trustees and fund managers, however, following the repeal, a single entity must now assume full liability.

Additionally, the introduction of the Future of Financial Advice (FoFa) reforms in 2015 represent fundamental changes to industry practices. In particular, managers are no longer able to pay commissions to financial advisors for advising investors to allocate their funds to specific fund managers.

Findings from the interim report of the Royal Commission also suggest that existing management models in the funds management industry will evolve as companies become more risk averse, incentive structures are changed and regulator effectiveness is improved. The issue of vertical integration in particular and subsequently conflicts of interest and duty have already resulted in several of the country's largest banks exiting their wealth management businesses.

Appendix A: Broadly Comparable Fund Management Arrangements

This section sets out information in relation to fund management arrangements we consider broadly comparable to the New MSA. This section is set out as follows:

- ▶ Section A.1 sets out an overview of our analysis;
- ▶ Section A.2 summarises ongoing management fees in fund management arrangements we consider broadly comparable to the New MSA;
- ▶ Section A.3 summarises performance fees in fund management arrangements we consider broadly comparable to the New MSA; and
- ▶ Section A.4 summarises descriptions of the managed funds mentioned in Section A.1 and A.2.

A.1 Overview

It is useful to analyse and compare the fees payable to Alterum under the terms of the New MSA with those charged to fund managers in broadly comparable fund management arrangements to assist to determine whether the terms of the New MSA are at arm's length. Generally speaking, broadly comparable fund management arrangements need to be treated with caution as not all fund management arrangements can be readily compared to the New MSA.

We have completed research into a range of fund management arrangements, including specifically, fund of fund entities and LICs with mandates focused on alternative assets based in Australia. We note that our research is limited to fund management agreements for which there is sufficient publicly available information. Although the arrangements set out in Sections A.2, A.3 and A.4 below have been selected as they are considered to be broadly comparable to the New MSA, differences exist between the New MSA and each of the broadly comparable management arrangements, and between BAF and the respective funds associated with the broadly comparable management arrangements. We specifically note that:

- ▶ The broadly comparable management arrangements are derived from detailed management services agreements and not all information may be available to us and/or included in our summary. The information summarised in this section may not include all relevant terms in each of the agreements;
- ▶ The legal structures of many of the funds associated with broadly comparable management arrangements differ;
- ▶ The investment mandate of each managing entity differs from that of Alterum;
- ▶ The types of funds included vary in portfolio size and weightings;
- ▶ The types of asset classes in which each fund invests differ;
- ▶ The commencement date of each management arrangement differ;
- ▶ The geographic regions in which each of the funds operate and invest are often different to those of BAF;
- ▶ The market capitalisation of each of the LICs associated with the broadly comparable management arrangements differ; and
- ▶ The valuation policies, fee benchmarks and fee calculation policies associated with each broadly comparable management arrangement may also differ significantly.

A.2 Management Fees

Table A.1 provides a summary of management fees charged by fund managers in broadly comparable fund management arrangements.

Table A.1: Management Fees in Broadly Comparable Management Arrangements

Fund Name	Fund Type	Management Fee (excluding GST)	Calculation Basis
Partners Group Global Value Fund	Fund of Funds	1.58%	Calculated and accrued on a monthly basis of the net asset value of the fund.
Firetrail Absolute Return Limited	Fund of Funds	1.50%	Calculated on the value of the portfolio on the last day of each month.
Vantage Private Equity 3	Fund of Funds	1.25%	Calculated as 1.25% of the adjusted aggregate committed capital less total management fees already deducted, less any acquisition costs realised or written off.
KKR & Co. Inc.	International Alternative Fund Manager (not a fund)	0.50% - 2.00%	Management fees earned from real assets and core strategy funds generally range from 0.5% to 2.0% and are generally based on the investment fund's average net asset value, capital commitments, or invested capital.
Cordish Dixon Private Equity Fund III	LIC	1.00% to 2.00%	Payable on all investments on all investments in underlying funds.
Cordish Dixon Private Equity Fund I	LIC	2.00%	Manager may charge management fee of up to 2.0% per annum Charged on the gross asset value of the fund.
Cordish Dixon Private Equity Fund III	LIC	1.38%	Charged on the net asset value of the fund.
VGI Partners Global Investments Limited	LIC	1.50%	Calculated on the value of the portfolio on the last business day of each month.
Absolute Equity Performance Fund Limited	LIC	1.50%	Calculated on the net asset value of the portfolio.
Antipodes Global Investment Company	LIC	1.10%	Calculated on the value of the portfolio on the last business day of each month.
Spheria Emerging Companies Limited	LIC	1.00%	Calculated daily on the value of the Company's investments
WAM Capital Limited	LIC	1.00%	Calculated on the gross assets per annum.
Barrack St Investments Limited	LIC	1.00%	Calculated on the net tangible assets of the company.
WAM Leaders Limited	LIC	1.00%	Calculated on the value of the portfolio.
WAM Microcap	LIC	1.00%	Calculated on the value of the portfolio.
Duxton Water Limited	LIC	0.85%	Calculated on the net asset value of the fund.
Plato Income Maximiser Limited	LIC	0.80%	Calculated daily on the value of the Company's investments
MCP Master Income Trust	LIT	0.24% to 0.27%	Calculated per annum on the trust's net asset value
Magellan Global Fund	Unlisted Global Fund	1.35%	Calculated on the net asset value of the fund.

Source: Respective fund prospectuses, product disclosure statements and annual reports

A.3 Comparable Fund Performance Fees

Table A.2 provides a summary of performance fees charged by fund managers in broadly comparable fund management arrangements.

Table A.2: Performance Fees in Broadly Comparable Management Arrangements

Fund Name	Fund Type	Performance Fee (Excluding GST)	Calculation Basis
Firetrail Absolute Return Limited	Fund of Fund	20%	Calculated on the portfolio's outperformance (after management fees) against the RBA cash rate over each six month period subject to recouping any past underperformance.
Vantage Private Equity 3	Fund of Fund	10%	Calculated on performance over 15% IRR.
Partners Global Value Fund	Fund of Fund	deal-by-deal basis	Performance fees are payable in the underlying fund on direct and secondary investments, on a deal-by-deal basis.
KKR & Co. Inc	International Alternative Fund Manager (not a fund)	20%	Calculated as the net profit earned by investors in excess of performance hurdles and subject to a provision to regain prior losses.
Absolute Equity Performance Fund Limited	LIC	20%	Calculated on Net Asset Value before all taxes.
Barrack St Investments Limited	LIC	20%	Payable on any outperformance over 8% per annum subject to a high watermark.
Spheria Emerging Companies Limited	LIC	20%	Calculated on the portfolio's outperformance (before fees and expenses) against the Benchmark over each 6-month period subject to a high water mark mechanism.
WAM Capital Limited	LIC	20%	Calculated on the amount of increase compared to the All Ords Accumulation Index. Where the All Ords has decreased, calculated on the amount of increase in the Value of the Portfolio in that period. No performance fee payable where the value of the portfolio has decreased.
WAM Leaders Limited	LIC	20%	Payable on the outperformance over the S&P/ASX 200 Accumulation Index subject to recoupment of prior underperformance.
WAM Microcap	LIC	20%	Payable on the outperformance over the S&P/ASX Small Ordinaries Accumulation Index.
Antipodes Global Investment Company	LIC	15%	Calculated on the Value of Portfolio outperformance relative to 6 month period subject to a recoupment of prior underperformance.
VGI Partners Global Investments Limited	LIC	15%	Calculated on performance over the high water mark ('HWM'). HWM is calculated as the value of portfolio on the last day of relevant period (excluding management fees) less the value of portfolio on last day of preceding period (excluding management fees & performance fees paid).
Cordish Dixon Private Equity Fund III	LIC	10%	10% of the return achieved above invested capital once a cumulative, non-compounded, pre-tax return of 8% per annum on all capital contributed is achieved.
Cordish Dixon Private Equity Fund I	LIC	Up to 2%	The investment manager is entitled to receive a performance fee equal to 2% p.a. of the aggregate capital commitments made by the partners of the fund.
Cordish Dixon Private Equity Fund III	LIC	Up to 2%	The investment manager is entitled to receive a performance fee equal to 2% p.a. of the aggregate capital commitments made by the partners of the fund.
Duxton Water Limited	LIC	5% - 10%	5% of the outperformance of the Investment Return of the Company above a hurdle return of 8% per annum up to 12% per annum, plus if the Investment Return is above 12% for the year then the Performance Fee will include 10% of the remaining outperformance of the Investment Return over the hurdle of 12% per annum.
Plato Income Maximiser Limited	LIC	N/A	There are no performance fees involved in the investment with the LIC.
MCP Master Income Trust	LIC	15%	Entitled to a performance fee equal to 15% of the difference between the return on each unit in the relevant fund and the Hurdle (where the difference is determined by subtracting the Hurdle from the return on each unit). For MCP Secured Private Debt Fund, the Hurdle is an amount equal to BBSW +400bps net of fees multiplied by the net unit value.
Magellan Financial Group	Unlisted Global Fund	10%	Calculated on the excess of the fund above the higher of the 'Index Relative Hurdle' (the MSCI World Net Total Return Index (AUD)) and the 'Absolute Return Hurdle' (the yield of 10-year Australian Government Bonds) over each calculation period ending 31 December

Fund Name	Fund Type	Performance Fee (Excluding GST)	Calculation Basis
			and 30 June in each year.. Subject to dual performances hurdles and the high water mark being met for the period.

Source: Fund prospectuses and annual reports

A.4 Fund Descriptions

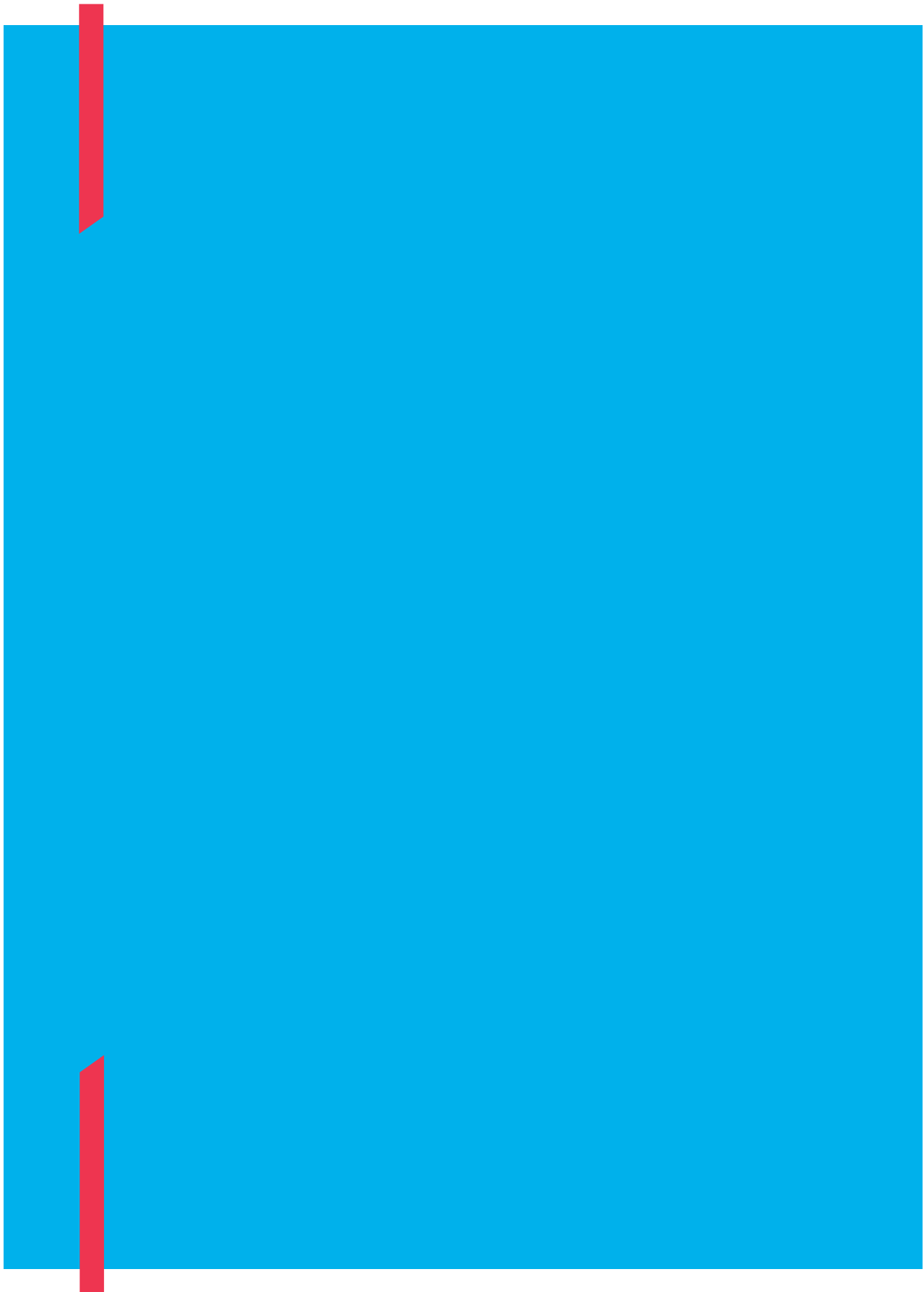
A description of each of the broadly comparable funds identified in the management and performance fees analysis set out in Table A.1 and A.2 above is set out in Table A.3 below.

Table A.3: Broadly Comparable Fund Descriptions

Date of Fee Arrangement / Document Release	Fund	Fund Description
23/11/2015	Absolute Equity Performance Fund Limited	Absolute Equity Performance Fund Limited is an equity mutual fund launched and managed by Bennelong Long Short Equity Management Pty Limited. It invests in the public equity markets of Australia. The fund employs fundamental analysis and uses fundamental research to select securities and generate return. It invests in stocks of companies operating across the diversified sectors. Absolute Equity Performance Fund Limited was founded in November, 2015 and is domiciled in Australia.
04/08/2016	Antipodes Global Investment Company	Antipodes Global Investment Company Limited is a listed investment company launched and managed by Antipodes Partners Limited. It invests in public equity markets across the globe. It benchmarks its performance against the MSCI All Country World Net Index. Antipodes Global Investment Company Limited was formed on October 11, 2016 and is domiciled in Australia.
01/11/2018	Barrack St Investments Limited	Barrack St Investments Limited operates as an investment company in Australia. It invests in Australian small and mid-cap growth companies. The company was founded in 2014 and is based in Sydney, Australia.
29/06/2012	Cordish Dixon Private Equity Fund I	US Select Private Opportunities Fund, LP is a co-sponsored fund of Cordish Private Ventures LLC and Dixon Advisory and Superannuation Services Pty Ltd., Investment Arm. It specializes in fund of fund investments in buyout funds focused on small to lower middle-markets in the United States.
20/06/2014	Cordish Dixon Private Equity Fund III	US Select Private Opportunities Fund II, L.P. is a co-sponsored fund of Cordish Private Ventures LLC and Dixon Advisory and Superannuation Services Pty Ltd., Investment Arm. It specializes in fund of fund investments. It targets investing in small-to-mid-market private investment funds and unlisted opportunities in United States.
11/08/2017	Cordish Dixon Private Equity Fund III	US Select Private Opportunities Fund III, L.P. specializes in investments in small and specialised private equity funds targeting lower middle-market operating businesses in the United States.
28/07/2016	Duxton Water Limited	Duxton Water Limited is a listed investment company that provides investors with the opportunity to invest in Australian Water Entitlements. The fund generates regular and predictable revenue streams via Water Entitlement leases with primary producers
26/07/2017	MCP Master Income Trust	MCP Master Income Trust seeks to provide investors with direct exposure to the Australian corporate loan market, a market dominated by regulated banks and is not easy to access for non-bank investors.
28/09/2017	Magellan Global Fund	Magellan Global Fund primarily invests in the securities of companies listed on stock exchanges around the world.
28/09/2017	Partners Group Global Value Fund	Partners Group Global Value Fund is an Australian unit trust with the objective of achieving capital growth over the medium and long-term by investing in private equity. The fund is a feeder fund that invests in Partners Group Global Value SICAV (underlying fund).
11/09/2018	Firetrail Absolute Return Limited	Firetrail Absolute Return Limited is a listed investment company that aims to deliver an alternate source of returns for investors, independent to movements in the underlying share market.
01/03/2017	Plato Income Maximiser Limited	Plato Income Maximiser Limited offers Australian investors the opportunity to invest in an actively managed, diversified portfolio of Australian shares with an income focus. It is the first Australian Listed Investment Company targeting to pay monthly dividends, which will appeal to investors who require a dependable income stream from their investment portfolio.
10/10/2017	Spheria Emerging Companies Limited	Spheria Emerging Companies Limited is a listed investment company that provides investors with access to an actively managed, Australian and New Zealand small and micro companies portfolio, designed for investors seeking capital growth and portfolio diversification.

Date of Fee Arrangement / Document Release	Fund	Fund Description
27/07/2017	Vantage Private Equity 3	Vantage Private Equity Growth 3 is a private equity fund of funds established to provide sophisticated investors with access to the returns generated by the top performing later expansion and buyout private equity funds in Australia.
28/09/2017	VGI Partners Global Investments Limited	VGI Partners Global Investments Limited provides investors with the opportunity to access the investment strategy of VGI Partners. Its investment portfolio comprises of global listed securities, holding a combination of long and short positions, and cash. The company was incorporated in 2017 and is based in Sydney, Australia.
26/05/1999	WAM Capital Limited	WAM Capital Limited is a close-ended equity mutual fund launched and managed by Wilson Asset Management (International) Pty Limited. The fund invests in public equity markets of Australia. It makes its investments in companies primarily engaged in the industrial sector. The fund invests in value and growth stocks of small to medium-cap companies. It seeks to invest in short-term arbitrage and mispricing opportunities. The fund has absolute returns focus. It employs fundamental and quantitative analysis with a focus on bottom-up approach to make its investments. WAM Capital Limited was formed on March 8, 1999 and is domiciled in Australia.
18/04/2016	WAM Leaders Limited	WAM Leaders Limited is a close-ended equity mutual fund launched and managed by Wilson Asset Management (International) Pty Limited. The fund is co-managed by MAM Pty Limited. It invests into public equity and fixed income markets in Australia. The fund seeks to invest in stocks of companies that operate across diversified sectors. It primarily invests in value stocks of large-cap companies on the S&P/ASX 200 Index. The fund employs fundamental analysis, with a focus on bottom-up research to create its portfolio. WAM Leaders Limited was formed on April 12, 2016 and is domiciled in Australia.
05/05/2017	WAM Microcap	WAM Microcap Limited is a closed-ended equity mutual fund launched and managed by MAM Pty Limited. The fund invests in public equity markets in Australia. It invests in stocks of companies operating across diversified sectors. The fund invests in value and growth stocks of micro-cap companies with a market capitalization of less than \$300 million. It employs fundamental and quantitative analysis with a bottom-up approach focusing on factors such as free cash flow, return on equity, quality of the potential investee company, management, earnings growth potential, valuation, and industry position to make its investments. WAM Microcap Limited was formed on May 15, 2017 and is domiciled in Australia.
15/07/2010	KKR & Co. Inc.	KKR & Co. Inc. is a global investment firm that manages multiple alternative asset classes, including private equity, energy, infrastructure, real estate, credit, and, through its strategic partners, hedge funds.

Source: Morningstar and fund prospectuses



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Blue Sky Alternatives Access Fund Limited

www.blueskyfunds.com.au/alternativesfund

LODGE YOUR VOTE



ONLINE

www.linkmarketservices.com.au



BY MAIL

Blue Sky Alternatives Access Fund Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia



BY FAX

02 9287 0309



BY HAND

Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138; or
Level 12, 680 George Street, Sydney NSW 2000



ALL ENQUIRIES TO

Telephone: 1300 554 474



X99999999999

PROXY FORM

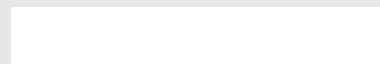
I/We being a member(s) of Blue Sky Alternatives Access Fund Limited and entitled to attend and vote hereby appoint:

APPOINT A PROXY



the Chairman of the
Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting
as your proxy, please write the name of the person or
body corporate you are appointing as your proxy



or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Extraordinary General Meeting of the Company to be held at **3:00pm (AEDT) on Thursday, 13 December 2018 at Dexus Place Conference Centre, Level 5, 1 Margaret Street, Sydney NSW 2000** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Resolutions

For Against Abstain*

- 1 Approval to terminate existing management agreement and entry into new management agreement

☐	☐	☐
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- 2 Approval to change Company name and Constitution

☐	☐	☐
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* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)



Joint Shareholder 2 (Individual)



Joint Shareholder 3 (Individual)



Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" must be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **3:00pm (AEDT) on Tuesday, 11 December 2018**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



BY MAIL

Blue Sky Alternatives Access Fund Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138
or
Level 12
680 George Street
Sydney NSW 2000

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE EXTRAORDINARY GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**