

Blue Sky Alternatives Access Fund Limited ABN 47 168 941 704

Appendix 4D Preliminary half-year report
For the half-year ended 31 December 2018

The following information sets out the requirements of Appendix 4D, with the stipulated information either provided below or cross-referenced to the Interim Financial Report for the half-year ended 31 December 2018, which is attached.

1. Details of the reporting period and the prior corresponding period

Current period: 1 July 2018 to 31 December 2018
Prior corresponding period: 1 July 2017 to 31 December 2017

2. Results for announcement to the market

Key information	6 months to 31 December 2018 \$'000	6 months to 31 December 2017 \$'000	Movement \$'000	Movement (%)
Revenue from ordinary activities	3,968	7,429	(3,461)	(46.59)
Profit from ordinary activities after tax attributable to members	1,898	5,114	(3,216)	(62.89)
Net profit for the period attributable to members	1,898	5,114	(3,216)	(62.89)

Details of dividend

On 26 February 2019, the Directors resolved to pay an interim dividend of 1.0 cent per share franked to 65% in relation to the half-year ended 31 December 2018. The record date for this dividend will be 8 March 2019 and the payment date will be 22 March 2019. The Company's Dividend Reinvestment Plan ('DRP') will be deferred in relation to this dividend. A complete copy of the DRP Rules can be found on the Company's website <http://blueskyfunds.com.au/alternatives-fund-shareholder/>.

	6 months to 31 December 2018 \$'000	6 months to 31 December 2017 \$'000
Final dividends paid during the periods	8,348	6,846
Cents per share	4.0	4.0

3. After-tax net tangible assets

Net tangible assets (NTA)	As at 31 December 2018	As at 31 December 2017
Net tangible asset backing per share ¹	\$1.0828	\$1.1138

¹ Under the Listing Rules NTA backing must be determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities (i.e. all liabilities, preference shares, outside equity interest etc).

4. Entities over which control has been gained or lost during the period

Not applicable

5. Details of Associates and Joint Venture entities

Not applicable

6. Accounting standards used by foreign entities

Not applicable

7. Status of audit

This report is based on the Interim Financial Report to which one of the following applies:

☐	The accounts have been audited. (refer attached interim financial report)	☒	The accounts have been subject to review. (refer attached Interim Financial Report)
☐	The accounts are in the process of being audited or subject to review.	☐	The accounts have not yet been audited or reviewed.

Signed:


.....
Michael Cottier
Independent Chairman

Date: 27 February 2019



Blue Sky Alternatives Access Fund Limited

ABN 47 168 941 704

Interim report for the half-year ended 31 December 2018

Suite 22.02, Level 22, Australia Square
264 - 278 George Street
Sydney NSW 2000

Blue Sky Alternatives Access Fund Limited
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Blue Sky Alternatives Access Fund Limited

Directors' report

For the half-year ended 31 December 2018

The Directors present their report for Blue Sky Alternatives Access Fund Limited (the 'Company' or the 'Alternatives Fund') for the half-year ended 31 December 2018.

Directors

The names of the Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Michael Cottier	Independent Chairman
John Baillie	Independent Director, Appointed: 29 November 2018
Kym Evans	Independent Director, Appointed: 29 November 2018
Andrew Champion	Executive Director, Retired: 29 November 2018
Paul Masi	Independent Director, Retired: 29 November 2018
Lazarus Siapantas	Executive Director, Resigned: 16 November 2018
Peter Wade	Independent Director, Retired: 29 October 2018

About the Company

The Alternatives Fund is a listed investment company that invests in a diverse range of alternative assets including:

- Private equity;
- Private real estate; and
- Real assets.

The Alternatives Fund is the only listed investment company on the ASX that allows investors to make a strategic allocation to a diverse portfolio of directly managed alternative assets.

The Alternatives Fund is listed on the ASX trading under the code BAF.

BSAAF Management Pty Limited ('Manager') is the manager of the Alternatives Fund and is a wholly owned subsidiary of Blue Sky Alternative Investments Limited ('Blue Sky' or 'BLA'). Blue Sky is listed on the ASX trading under the code BLA. All investments made by the Manager on behalf of the Alternatives Fund are directly managed by wholly owned subsidiaries of Blue Sky.

Objectives of the Company

The primary objectives of the Alternatives Fund are to:

- Deliver long term absolute returns to shareholders, through both growth in Net Tangible Assets ('NTA') and a dividend income (franked to either 100% or the maximum extent possible);
- Provide investors with access to a diverse range of alternative assets; and
- Provide investors with the ability to invest in alternative assets through an ASX listed structure that is more readily accessible and liquid than other alternative assets.

Operating and financial review

Proposed change of manager

As detailed in the Company's previous ASX announcements, the Directors have continued to closely monitor the ongoing developments concerning BLA and have met regularly to continue to act in the best interests of the Company's shareholders. As one of the Directors' several responses to the sustained adverse impact on the market for BAF shares, on 18 October 2018 the Company announced a proposal to reposition its mandate as a diversified alternatives multi-manager fund. Concurrently, the management of the Company's operations and investment portfolio was to be transitioned from Blue Sky to an entity majority owned by Pinnacle Investment Management Group Limited (ASX: PNI, 'Pinnacle') ('Pinnacle Proposal'). The parties entered into agreements which were to be effected by 31 December 2018 subject to a shareholder vote at an Extraordinary General Meeting ('EGM') scheduled for 13 December 2018.

The Pinnacle Proposal followed discussion between Blue Sky and the Directors as to the positioning of the Alternatives Fund, the costs and strategic alignment of the Alternatives Fund with Blue Sky's future business model and a strategic review undertaken by the Directors to seek to address the Company's ongoing trading discount to NTA.

The Pinnacle Proposal sought to preserve the nature of the Alternatives Fund as a unique vehicle for retail investors to gain access to sought-after private market investments typically only accessible by institutional and wholesale investors. The broader scope of the multi-manager strategy also included diversifying into alternative asset classes that Blue Sky does not offer.

Blue Sky Alternatives Access Fund Limited
Directors' report
For the half-year ended 31 December 2018

Operating and financial review (continued)

Shortly after the announcement of the above proposal, the Company received a proposal from Wilson Asset Management ('WAM') to be appointed as the Company's new manager ('WAM Proposal'). The Company referred the WAM Proposal to Blue Sky. Blue Sky and the Company confirmed to WAM that they were each not able to consider any other proposal until the existing agreements were no longer effective. Blue Sky subsequently informed WAM and the Company that it would not preclude the Company from engaging further with WAM subject to: (i) shareholders not approving the vote at the EGM; or (ii) the Company's Board advising it was in receipt of a superior proposal and seeking to discontinue the existing agreements; and (iii) WAM giving an irrevocable undertaking to Blue Sky to comply with certain restrictions with respect to its management of the existing BLA-managed components of the Alternatives Fund's portfolio. WAM provided the requisite undertaking however the Company's Independent Directors did not consider that the WAM Proposal was superior to the Pinnacle Proposal, including in light of the undertaking.

Subsequently, the former Executive Chairman Mr Andrew Champion announced his intention to not stand for re-election at the Annual General Meeting ('AGM') to be held on 29 November 2018 and those Directors who stood for re-election at the AGM did not receive sufficient votes supporting their re-election to the Board. As a result, there was a recomposition of the Board. On 29 November 2018 Pinnacle withdrew its proposal and the agreements lapsed on 31 December 2018. Since that time, the newly composed Board has sought to progress negotiations with both BLA and WAM with a view to finalising the terms of the WAM Proposal for shareholder consideration at an Extraordinary General Meeting as soon as possible.

In the six months to 31 December 2018 the Alternatives Fund incurred approximately \$268,000 of one-off costs relating to this process. These included legal fees, cost of the independent expert's report, preparation and distribution of materials relating to the cancelled EGM, venue hire and travel.

Deployment of capital and portfolio weighting

The Directors report that the Manager committed \$10 million as follow-on capital to an existing Real Assets fund (Strategic Australian Agriculture Fund) during the period, with \$8.5 million of this commitment deployed up-front. This additional amount was previously approved by the Manager for investment in the Strategic Australian Agriculture Fund subject to the Alternatives Fund's available cash position prior to the planned final close at 31 December 2018, 18 months after the initial fund close at 30 June 2017.

A total of 7 funds were exited in the half-year ended 31 December 2018, with the total number of funds in the portfolio now at 44. Accordingly, the Alternatives Fund continues to maintain a well-diversified portfolio, with allocations at 31 December 2018 as follows:

Asset Class	Weighting at 31 December 2018	Investments held at fair value
Private equity	26.8%	\$46.9m in 15 single asset growth capital funds \$12.3m in 6 single asset venture capital funds and 1 multi-asset fund
Private real estate	22.1%	\$29.1m in 7 purpose built student accommodation assets \$3.3m in 6 residential developments \$11.6m in New York commercial real estate projects in joint venture with Cove Property Group \$4.6m in two income-generating commercial properties
Real assets	36.6%	\$48.6m in the Blue Sky Water Fund \$9.1m in 2 operating agribusiness assets and 1 renewables asset \$23.2m in the Blue Sky Strategic Australian Agriculture Fund*
Cash	14.5%	\$32.0m*

*The figure presented in the table above represents the carrying value of capital called to date and excludes an uncalled commitment, which is currently held by the Company in cash. Due to adjustments to the Strategic Australian Agriculture Fund's total called capital as a result of the Company's investment at the final close date, the Company's total uncalled capital commitment to this fund is \$4.75 million.

Investment performance

The profit from ordinary activities after income tax amounted to \$1.9 million for the period ended 31 December 2018 (2017: \$5.1 million).

Over the 12 months to 31 December 2018 the Alternatives Fund delivered a pre-tax Fund Performance (including movement in NTA plus franked dividends paid) of 2.9% (1.7% for the half-year ended 31 December 2018), with pre-tax Fund Performance of 8.1% annualised since inception. This overall investment performance remains well below expectations. A strong contribution from the Real Assets portfolio was offset by a lack of expected growth in the holding value of a range of closed-ended funds, and the write-down of several Private Real Estate investments (as detailed in monthly NTA reports).

Blue Sky Alternatives Access Fund Limited
Directors' report
For the half-year ended 31 December 2018

Operating and financial review (continued)

Over the last six months, the Alternatives Fund received exit proceeds from 7 closed-end fund investments. Returns on these funds have been attractive, and contribute further to the Company's realised track record which stands at a weighted average internal rate of return of 16.2% per annum since inception.¹

Share buyback

Over the six months to 31 December 2018 the Company acquired 7,056,375 shares, representing 3.3% of securities on issue at the beginning of the period, through its continuing on-market share buyback program. The shares were purchased at a weighted-average price of \$0.8642 for a total investment of \$6.1 million (before costs). The acquisition of these shares at a 15% to 35% discount to NTA had a positive impact of 0.84 cents per share to post-tax NTA.

From commencement of the on-market share buyback program in May 2018 through to 31 December 2018, 10,582,446 shares have been purchased for a total investment of \$8.9 million. The program will remain in place whilst the Company's shares trade at a material discount to NTA. Under the ASX Listing Rules and Corporations Act 2001 (Cth), a maximum of 6.5 million additional shares may be bought back prior to 15 May 2019, with any further buyback beyond this amount and/or period subject to review by the Directors and shareholder approval, as required.

Dividends

On 24 September 2018, the Alternatives Fund paid a final dividend of 4.0 cents per share franked to 65% in relation to the 2018 financial year, bringing the total dividends paid in relation to the 2018 financial year to 5.0 cents (75% franked in aggregate, assuming a 27.5% corporate tax rate).

On 26 February 2019, the Directors resolved to pay an interim dividend of 1.0 cent per share, franked to 65% at the 27.5% corporate tax rate, in relation to the half-year ended 31 December 2018. The record date for this dividend will be 8 March 2019 and the payment date will be 22 March 2019. The Company's Dividend Reinvestment Plan ('DRP') remains deferred due to the ongoing share price discount to NTA and will not apply to this dividend.

	Half-year ended	
	31 December 2018	31 December 2017
Earnings per share		
Basic and diluted earnings per share (cents per share)	0.91	2.82

Significant changes in the state of affairs

At the Company's AGM in November 2018, a majority of votes were cast against the re-election of Independent Directors Mr Paul Masi and Mr Peter Wade. This, alongside former Executive Chairman Mr Andrew Champion not standing for re-election, led to an immediate restructure of the Board. Current Independent Directors Mr Kym Evans and Mr John Baillie were appointed, and Mr Michael Cottier was appointed to the role of Independent Chair. These events, and the earlier resignation of other Executive Directors, mean that the Company's Board and sub-committees are now entirely comprised of Independent Directors.

Shareholders also voted against the Company's FY18 remuneration report and a proposed increase to the total annual non-executive directors' fee pool. With a third independent non-executive director now on the Board (versus two for the majority of time since listing), Director remuneration has been decreased so that the Company will not breach the current shareholder-approved limit of \$140,000 per annum.

As detailed above, the Directors continue to use their best endeavours to progress discussions with WAM and BLA, with a view to holding an EGM for shareholders to vote on the WAM Proposal as soon as possible. Whilst the change to the Company's manager arrangements is being resolved, the Board's clearly communicated intent to BLA is to maintain a moratorium on commitments or deployments into new investments under the current mandate. Consequently, in the short term the Company will hold a larger than optimal cash balance. However, should a resolution not be forthcoming, the Directors will consider and implement alternative capital management initiatives, as appropriate.

Rounding

The amounts contained in this report and the interim financial statements have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the Instrument 2016/191 applies.

¹ The returns are equity weighted composite IRRs from fully realised investments and redemptions, inclusive of franking credits, and before management and performance fees on the Company's portfolio as a whole. Past performance is not a reliable indicator of future performance.

Blue Sky Alternatives Access Fund Limited
Directors' report
For the half-year ended 31 December 2018

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001 (Cth)* is set out on the page 5.

Signed in accordance with a resolution of the Directors.



Michael Cottier
Independent Chairman

Brisbane
27 February 2019

Auditor's independence declaration to the directors of Blue Sky Alternatives Access Fund Limited

As lead auditor for the review of the half-year financial report of Blue Sky Alternatives Access Fund Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.



Ernst & Young



Mike Reid
Partner
27 February 2019

Blue Sky Alternatives Access Fund Limited
Interim Financial Report
For the half-year ended 31 December 2018

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Interim Financial Report

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Blue Sky Alternatives Access Fund Limited
Interim Statement of Comprehensive Income
For the half-year ended 31 December 2018

		Half-year ended	
		31 December 2018	31 December 2017
	Notes	\$'000	\$'000
Net gain on financial assets held at fair value through profit or loss	7	1,418	3,265
Dividend and trust distribution income		2,251	2,143
Rebates net of management fees	3	141	1,664
Interest income		158	357
Directors fees		(68)	(57)
Other expenses		(1,133)	(330)
Profit before income tax		2,767	7,042
Income tax expense	6	(869)	(1,928)
Profit after income tax		1,898	5,114
Other comprehensive income		-	-
Total comprehensive income		1,898	5,114
		Cents	Cents
Earnings per share			
Basic and diluted earnings per share (profit per share)		0.91	2.82

The above interim statement of comprehensive income should be read in conjunction with the accompanying notes.

Blue Sky Alternatives Access Fund Limited
Interim Statement of Financial Position
As at 31 December 2018

		As at	
		31 December	30 June
		2018	2018
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents		32,003	31,589
Trade and other receivables	2	4,583	1,525
Current tax receivables		-	887
Financial assets held at fair value through profit or loss	7	195,184	205,126
Other assets	2	585	4,885
Total assets		232,355	244,012
Liabilities			
Trade and other payables		5,378	3,469
Income tax payable		1,794	-
Deferred rebates		1,059	1,194
Deferred tax liabilities		3,250	5,426
Total liabilities		11,481	10,089
Net assets		220,874	233,923
Equity			
Issued capital	9	212,544	218,560
Retained earnings		8,330	15,363
Total shareholders' equity		220,874	233,923

The above interim statement of financial position should be read in conjunction with the accompanying notes.

Blue Sky Alternatives Access Fund Limited
Interim Statement of Changes in Equity
For the half-year ended 31 December 2018

		Share capital \$'000	Retained profits \$'000	Total shareholders' equity \$'000
	Notes			
Balance as at 1 July 2017		172,539	19,318	191,857
Total comprehensive income for the year		-	5,114	5,114
Subtotal		172,539	24,432	196,971
Transactions with equity holders in their capacity as equity holders:				
Shares issued during the year	9	48,716	-	48,716
Dividends paid	8	-	(6,846)	(6,846)
Subtotal		48,716	(6,846)	41,870
Balance as at 31 December 2017		221,255	17,586	238,841

		Share capital \$'000	Retained profits \$'000	Total shareholders' equity \$'000
	Notes			
Balance as at 1 July 2018		218,560	15,363	233,923
Adoption of new accounting standards	2	-	(583)	(583)
As at 1 July 2018		218,560	14,780	233,340
Total comprehensive income for the year		-	1,898	1,898
Subtotal		218,560	16,678	235,238
Transactions with equity holders in their capacity as equity holders:				
Share buyback (including tax and net of costs)		(6,016)	-	(6,016)
Dividends paid	8	-	(8,348)	(8,348)
Subtotal		(6,016)	(8,348)	(14,364)
Balance as at 31 December 2018		212,544	8,330	220,874

The above interim statement of changes in equity should be read in conjunction with the accompanying notes.

Blue Sky Alternatives Access Fund Limited
Interim Statement of Cash Flows
For the half-year ended 31 December 2018

	Notes	Half-year ended	
		31 December 2018	31 December 2017
		\$'000	\$'000
Operating activities			
Rebates of transaction costs and fees (inclusive of GST)		1,164	2,460
Dividend and trust distributions received		710	1,148
Payments to suppliers (inclusive of GST)		(2,461)	(2,882)
Interest received		268	288
Income tax paid		(111)	(383)
Net cash flows (used in)/from operating activities		(430)	631
Investing activities			
Payments for financial assets held at fair value through profit and loss		(8,500)	(47,871)
Proceeds from disposal of investments held at fair value through profit and loss		23,959	3,960
Net cash flows from/(used in) investing activities		15,459	(43,911)
Financing activities			
Share buyback (inclusive of costs and GST)		(6,267)	-
Fundraising costs (inclusive of GST)		-	(928)
Dividends paid	8	(8,348)	(6,846)
Proceeds from issue of new shares		-	49,367
Net cash flows (used in)/from financing activities		(14,615)	41,593
Net increase/(decrease) in cash and cash equivalents		414	(1,687)
Cash and cash equivalents at the beginning of the financial period		31,589	22,492
Cash and cash equivalents at the end of the half-year		32,003	20,805

The above interim statement of cash flows should be read in conjunction with the accompanying notes.

Section 1: About this Report

1 General information

The Company invests in a diverse range of alternative assets, deriving revenue such as dividend and trust distribution income, and investment income from realised and unrealised gains and losses on investments held at fair value.

2 Significant accounting policies

These interim financial statements for the half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Australian Securities Exchange Listing Rules.

The accounting policies applied in these interim financial statements are the same as those applied in the Company's annual financial report for the financial year ended 30 June 2018 with the exception of the changes relating to the adoption of new accounting standards as detailed below. Of significance, the Company continues to be an investment entity in accordance with AASB 10 *Consolidated Financial Statements*.

(a) Adoption of new accounting standards

(i) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

AASB 15 *Revenue from Contracts with Customers* replaces current revenue recognition guidance in AASB 18 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. AASB 15 is a significant change from the current revenue requirements and will involve more judgement and estimates.

The Company adopted AASB 15 using the modified retrospective approach and applied the changes to contracts that were not completed as at 1 July 2018. The impact of the adoption of this standard is disclosed in Note 2(a)(iii).

(ii) AASB 9 Financial Instruments

AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. Under the new requirements the four current categories of financial assets will be replaced with two measurement categories: fair value and amortised cost, and financial assets will only be measured at amortised cost where very specific conditions are met.

The Company holds its investments at fair value and this does not change with the adoption of AASB 9.

For trade receivables, the Company applies the simplified recognition of the receivables whereby the loss allowance is measured at an amount equal to the lifetime expected credit losses.

With the adoption of this standard, the management fees expense is now offset against management fee rebates in the Interim Statement of Comprehensive Income. The breakdown between rebates and management fees is shown in Note 3.

The Company has reviewed the impact of the new standard across its remaining financial assets and liabilities and outlined the impact to the Company in the table on page 12. In adopting this standard the Company has elected to apply the modified retrospective approach. The impact of the adoption of this standard is disclosed in Note 2(a)(iii).

(iii) Reassessment of accounting policy for disclosure of management fee expense and rebates of transaction costs and management fees

In light of new and more detailed guidance available within AASB 15 and AASB 9, the Company has reviewed its management fee expense and transaction costs and management fees rebate agreements and the associated disclosures in the financial report. Based on this review, the Company now presents the management fee expense and transaction costs and management fee rebates in the financial report on a net basis in the statement of comprehensive income. Previously these amounts were presented on a gross basis. Refer to Note 3 in the financial report for the disclosure of these amounts. The impact of the change in accounting policy had no impact on net assets as at 1 July 2018 or on previously reported profit and loss results. The comparatives have been amended to reflect the revised accounting policy.

(b) New and revised accounting policies

(i) Rebates

Rebates of transaction costs and management fees are recognised through the profit and loss as rebates. Performance fee rebates are now recognised as financial assets held at fair value through profit and loss, the net impact of this on opening retained earnings as at 1 July 2018 was \$583,000 in Note 2 on page 12.

Blue Sky Alternatives Access Fund Limited
Notes to the Interim Financial Statements (continued)
For the half-year ended 31 December 2018

2 Significant accounting policies (continued)

	Balance at 30 June 2018 \$'000	Impact \$'000	Restated balance at 1 July 2018 \$'000
Assets			
Cash and cash equivalents	31,589	-	31,589
Trade and other receivables	1,525	-	1,525
Current tax receivables	887	-	887
Financial assets held at fair value through profit or loss	205,126	3,667	208,793
Other assets	4,885	(4,350)	535
Total assets	244,012	(683)	243,329
Liabilities			
Trade and other payables	3,469	-	3,469
Income tax payable	-	-	-
Deferred rebates	1,194	-	1,194
Deferred tax liabilities	5,426	(100)	5,326
Total liabilities	10,089	(100)	9,989
Net assets	233,923	(583)	233,340
Equity			
Issued capital	218,560	-	218,560
Retained earnings	15,363	(583)	14,780
Total shareholder's equity	233,923	(583)	233,340

Section 2: Results for the Year

3 Rebates

	Half-year ended 31 December 2018	31 December 2017
	\$'000	\$'000
Rebate income		
Rebates of transaction costs and management fees	1,584	1,965
Rebates of performance fees	-	993
Management fee expense	(1,443)	(1,294)
Total rebates	141	1,664

The Company derives rebate income in accordance with the management services agreement with the Manager. The management services agreement states the following in relation to fees charged by Blue Sky Entities:

- (i) The Manager must ensure the trustee, responsible entity or controlling entity (as applicable) of each Blue Sky Fund in which an Authorised Investment is made does not charge the Company any fees (whether management fees, performance fees or otherwise) in respect of the Authorised Investment. If any such fees are charged and paid by the Company the Manager must rebate such fees to the Company as soon as is practicable; and
- (ii) The Company will be required to fund its pro-rata share of any transaction costs and establishment fees charged by a Blue Sky Entity to investors (excluding any capital raising and marketing fees) in a Blue Sky Fund Entity in which an Authorised Investment is made by the Manager on behalf of the Company.

To the extent any fees are paid by the Company (either directly or indirectly) over and above the non-rebateable transaction costs and establishment fees, they will be rebated to the Company. For the half-year ended 31 December 2018 \$1,584,314 (2017: \$2,957,936) (excluding GST) of fees have been rebated to the Company.

Blue Sky Alternatives Access Fund Limited
Notes to the Interim Financial Statements (continued)
For the half-year ended 31 December 2018

4 Management and performance fees

The Company has outsourced its investment management function to the Manager. The Manager is a wholly owned subsidiary of Blue Sky, a related party of the Company. A summary of the fees charged by the Manager is set out below:

a) Management fees

The Manager is entitled to be paid a management fee equal to 1.20% (excluding GST) of the Portfolio Net Asset Value per annum. The management fee is calculated and paid monthly within 14 days of the Portfolio Net Asset Value of the Company being calculated.

During the period, the Company incurred \$1,442,993 (2017: \$1,293,926) of management fees, inclusive of the net impact of GST.

b) Performance Fees

At the end of each financial year, the Manager is entitled to receive a performance fee from the Company, the terms of which are outlined below:

- (i) The fee is calculated and accrued monthly using the following formula:

$$P = 17.5\% \times (A - B) \times C$$

Where:

P is the Performance Fee for the relevant month;

A is the Investment Return of the Portfolio for the relevant month;

B is the Hurdle Return for the relevant month; and

C is the Portfolio Net Asset Value at the end of the last day of the relevant month.

- (ii) The Performance Fee for each month in a Financial Year will be aggregated (including any negative amounts carried forward) and paid annually in arrears if the aggregate performance fee for the Financial Year is a positive amount provided that:

(A) if the aggregate Performance Fee for a Financial Year is a negative amount, no Performance Fee shall be payable to the Manager in respect of that Financial Year, and the negative amount shall be carried forward to the following Financial Year; and

(B) any negative aggregate Performance Fee amounts from previous Financial Years that are not recouped in a Financial Year shall be carried forward to the following Financial Year.

- (iii) "Investment Return" means the percentage by which the Portfolio Net Asset Value at the end of the last day of the relevant month exceeds or is less than the Portfolio Net Asset Value at the end of the last day of the month immediately prior to the relevant month, excluding any additions to or reductions in equity in the Company during the relevant month including dividend reinvestments, new equity issues, the exercise of share options, share buy-backs, payment of dividends and the payment of tax.

- (iv) "Hurdle Return" means, in respect of the relevant month, 8.0% on a per annum basis.

- (v) "Portfolio Net Asset Value" means the Portfolio Market Value reduced by any accrued but unpaid expenses of the Company, but not provisions for tax payable, and after subtracting any borrowings drawn down and adding back any borrowings repaid.

- (vi) "Portfolio Market Value" means the market value of all the assets of the Portfolio (including cash).

5 Segment information

Although the Company invests across a number of alternative asset classes, the Company's interim financial statements are prepared on the basis that there is only one operating segment: Alternative Asset Investment. In assessing performance and determining the allocation of resources, the Directors (who are identified as the Chief Operating Decision Makers ('CODM')) use internal reports which consider the revenue from distributions, interest and other returns from the Company's investment portfolio as a whole.

The Company invests in different types of securities, as detailed in Note 7, recorded as financial assets held at fair value through profit and loss.

Blue Sky Alternatives Access Fund Limited
Notes to the Interim Financial Statements (continued)
For the half-year ended 31 December 2018

6 Income tax

The major components of income tax expense are detailed below:

	Half-year ended	
	31 December 2018	31 December 2017
	\$'000	\$'000
Profit from ordinary activities before income tax	2,767	7,042
Tax at the Australian tax rate of 27.5% (2017: 27.5%)	761	1,936
Effect of change in tax rate	34	36
Prior period adjustments	(140)	-
Income subject to foreign income tax offsets	(20)	(83)
Tax exempt income and losses	48	(22)
Franked distributions received and expected	186	61
Income tax expense	869	1,928
Current tax	2,793	563
Deferred tax	(1,924)	1,365
Aggregate income tax expense	869	1,928

Section 3: Capital and Financial Risk Management

7 Fair value measurement

The table below presents the financial assets (by class) measured and recognised at fair value according to the fair value hierarchy. The different levels have been defined as follows:

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. They include quoted prices for similar assets or liabilities in active markets.

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As the Company invests in unlisted funds, market prices are not readily observable for all investments made by the Company. The calculation of the fair value for the various asset classes is discussed below.

		Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000
As at 31 December 2018					
	Notes				
Financial assets					
Unlisted private equity funds		-	-	59,157	59,157
Unlisted private real estate funds		-	-	48,694	48,694
Unlisted real assets funds		-	-	84,597	84,597
Performance fee rebates	2	-	-	2,736	2,736
Total financial assets		-	-	195,184	195,184
As at 30 June 2018					
Financial assets					
Unlisted private equity funds		-	-	61,155	61,155
Unlisted private real estate funds		-	-	68,841	68,841
Unlisted real assets funds		-	-	75,130	75,130
Total financial assets		-	-	205,126	205,126

Blue Sky Alternatives Access Fund Limited
Notes to the Interim Financial Statements (continued)
For the half-year ended 31 December 2018

7 Fair value measurement (continued)

(i) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the fair value of water entitlements traded by the Blue Sky Water Fund is determined using quoted market prices or broker quotes for similar instruments;
- the fair value of unlisted equity investments in going concern enterprises (such as growth capital and venture capital-style investments) is determined using a capitalisation of earnings or revenue methodology, having regard to observable comparable transactions or quoted prices for similar enterprises;
- the fair value of investments in private real estate assets or projects is calculated as the present value of estimated future cash flows (discounted cash flow approach);
- the fair value of mature income-producing real assets is measured using market prices for comparable assets in a similar geographic location;
- the fair value of performance fee rebates are calculated as the present value of estimated future cash flows (discounted cash flow approach).

(ii) Valuation process

Assets in the Company's investment portfolio are valued in accordance with the Company's published Investment Valuation Policy, a summary of which is provided below. This summary does not purport to be complete, and readers should refer to the full Investment Valuation Policy which is available on the Company's website

<http://blueskyfunds.com.au/alternatives-fund-shareholder/>.

The value of assets in the Company's investment portfolio which are investments in closed-ended funds (typically private equity, private real estate and real assets funds not including the Blue Sky Water Fund) are reviewed by the Manager (or a related party thereof) at the end of each month. These values are reviewed by a qualified independent expert at least annually. In the event that the Manager believes there may have been a material change in the value of an asset in between the annual independent valuation reviews, an interim valuation is performed by the Manager. These valuations are used by the Manager to determine the relevant fund's net tangible assets and a unit price for each fund. For the period from investment until an asset is initially revalued, its fair value is deemed to equal consideration paid, less transaction costs.

While a review from a qualified independent expert is required at least annually, the Board may request that they be performed more regularly in relation to one or more closed-ended fund investments. For example, where there has been a material change in the value of an investment which is likely to have a material impact on the net tangible assets of the Company, the Board may request an 'off-cycle' external review by a qualified independent expert to be performed.

The value of assets in the Company's investment portfolio which are investments in open-ended funds, such as the Blue Sky Water Fund, are subject to external valuation by a third party and unit price calculated by external fund administrators. These external valuations are conducted at a minimum at the end of each month and are used by the fund administrator to determine a unit price for each fund. The Company will adopt the valuation and unit price determined by the third party fund administrator at the end of each month, less any costs that would have been incurred by the Company on that date to exit any units it may hold (for example, a sell spread).

(iii) Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2018 and 30 June 2018 are as shown on the following pages.

For the purposes of this analysis, the Company's financial assets have been grouped into classes according to investment theme. This is designed to facilitate the assessment of the impact of other indirect, macro-economic factors common between certain assets which may influence the significant unobservable inputs detailed.

Blue Sky Alternatives Access Fund Limited
Notes to the Interim Financial Statements (continued)
For the half-year ended 31 December 2018

7 Fair value measurement (continued)

(iii) Description of significant unobservable inputs to valuation (continued)

Sector	Valuation technique	Significant unobservable inputs	Range (weighted average) ¹	Sensitivity of the input to fair value
Healthcare, education and hospitality	Capitalisation of earnings or revenue	Operating earnings or revenue	31 December 2018: \$6.0 million - \$8.0 million 30 June 2018: \$6.0 million - \$8.0 million	10% (30 June 2018: 10%) increase / (decrease) in forecast revenue or operating earnings would result in an increase / (decrease) in fair value by \$3,813,000 (30 June 2018: \$3,657,000)
		Capitalisation multiple	31 December 2018: 6.0x - 8.0x 30 June 2018: 6.0x - 8.0x	1.0x (30 June 2018: 1.0x) increase / (decrease) in capitalisation multiple applied would result in an increase / (decrease) in fair value by \$5,242,000 (30 June 2018: \$5,100,000)
	Capitalisation of earnings or revenue	Operating earnings or revenue	31 December 2018: \$34.0 million - \$38.0 million 30 June 2018: \$34.0 million - \$38.0 million	10% (30 June 2018: 10%) increase / (decrease) in forecast revenue or operating earnings would result in an increase / (decrease) in fair value by \$2,098,000 (30 June 2018: \$1,945,000)
		Capitalisation multiple	31 December 2018: 2.0x - 4.0x 30 June 2018: 2.0x - 4.0x	1.0x (30 June 2018: 1.0x) increase / (decrease) in capitalisation multiple applied would result in an increase / (decrease) in fair value by \$7,690,000 (30 June 2018: \$7,911,000)
Food & agriculture	Market approach*	Asset value	31 December 2018: \$34.0 million - \$38.0 million 30 June 2018: \$30.0 million - \$34.0 million	10% (30 June 2018: 10%) increase / (decrease) in the value of the assets would result in an increase / (decrease) of \$7,675,000 (30 June 2018: \$6,903,000)
Apartment & retirement living	Market approach	Net asset value	31 December 2018: \$0.5 million - \$1.0 million 30 June 2018: \$0.5 million - \$1.0 million	10% (30 June 2018: 10%) increase / (decrease) in the value of the net asset would result in an increase / (decrease) of \$124,000 (30 June 2018: \$179,000)
	Discounted cash flow	Discount rate for project risk	31 December 2018: 12% - 16% 30 June 2018: 15% - 20%	1% (30 June 2018: 1%) increase / (decrease) in the range of discount rates used would result in an increase / (decrease) of \$24,000 (30 June 2018: \$380,000)

* Underlying assets held within the Blue Sky Water Fund are valued by an independent third party fund administrator based on observable market prices. This valuation is used by the fund administrators of the Blue Sky Water Fund to determine a unit price which is reviewed and approved by the Manager. The Blue Sky Water Fund does not have observable market prices (in contrast to assets held within these Funds) and as a result, these are funds are recorded as Level 3 investments.

Blue Sky Alternatives Access Fund Limited
Notes to the Interim Financial Statements (continued)
For the half-year ended 31 December 2018

7 Fair value measurement (continued)

(iii) Description of significant unobservable inputs to valuation (continued)

Segment	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Student Accommodation	Discounted cash flow	Discount rate	31 December 2018: 7% - 10% 30 June 2018: 9% - 12%	1% (30 June 2018: 1%) increase / (decrease) in the range of discount rates used would result in an increase / (decrease) of \$2,097,000 (30 June 2018: \$2,732,000)
Other	Market approach	Net asset value	31 December 2018: \$3.0 million - \$5.0 million 30 June 2018: \$3.0 million - \$5.0 million	10% (30 June 2018: 10%) increase / (decrease) in the net asset value would result in an increase / (decrease) of \$1,029,000 (30 June 2018: \$1,007,000)
	Capitalisation of earnings or revenue	Operating earnings or revenue	31 December 2018 ² : \$20.0 million - \$25.0 million 30 June 2018 ² : \$20.0 million - \$25.0 million	10% (30 June 2018: 10%) increase / (decrease) in forecast revenue or operating earnings would result in an increase / (decrease) in fair value by \$682,000 (30 June 2018: \$693,000)
		Capitalisation multiple	31 December 2018 ³ : 2.0x - 5.0x 30 June 2018 ³ : 2.0x - 5.0x	1.0x (30 June 2018: 1.0x) increase / (decrease) in capitalisation multiple applied would result in an increase / (decrease) in fair value by \$6,547,000 (30 June 2018: \$6,842,000)
	Discounted cash flow	Discount rate	31 December 2018: 14% - 17% 30 June 2018: 12% - 15%	1% (30 June 2018: 1%) increase / (decrease) in the range of discount rates used would result in an increase / (decrease) in fair value by \$1,184,000 (30 June 2018: \$938,000)

¹The ranges presented reflect a range in which the weighted average of unobservable inputs falls. Accordingly, the actual unobservable input for each asset or investment in the category may fall outside these ranges.

²Weighted average revenue and earnings before interest, tax, depreciation and amortisation ('EBITDA') range.

³Weighted average revenue and EBITDA multiple range.

Blue Sky Alternatives Access Fund Limited
Notes to the Interim Financial Statements (continued)
For the half-year ended 31 December 2018

7 Fair value measurement (continued)

	Notes	Unlisted private equity funds \$'000	Unlisted private real estate funds \$'000	Unlisted real assets funds \$'000	Performance fee rebates \$'000	Total \$'000
Half-year ended 31 December 2018						
Beginning balance		61,155	68,841	75,130	-	205,126
Adoption of new accounting standards	2	-	-	-	3,961	3,961
Purchase		-	-	10,000	-	10,000
Disposal		(938)	(16,764)	(6,256)	(1,363)	(25,321)
Net unrealised gain/(loss)		(1,242)	(5,567)	3,831	728	(2,250)
Net realised gain/(loss)		182	2,184	1,892	(590)	3,668
Ending balance		59,157	48,694	84,597	2,736	195,184
Year ended 30 June 2018						
Beginning balance		50,951	77,612	59,224	-	187,787
Purchase		18,838	14,018	9,235	-	42,091
Disposal		(7,903)	(19,902)	(330)	-	(28,135)
Net unrealised gain/(loss)		(802)	(3,369)	7,001	-	2,830
Net realised gain/(loss)		71	482	-	-	553
Ending balance		61,155	68,841	75,130	-	205,126

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature.

Financial assets held at fair value through profit and loss

The information below reflects expected realisation timeframes for financial assets held at fair value through profit and loss. However, unforeseen circumstances could result in timeframes changing.

	As at 31 December 2018	30 June 2018
	\$'000	\$'000
Within 12 months of the reporting period		
Unlisted private equity funds	7,700	9,094
Unlisted private real estate funds	2,712	19,131
Unlisted real assets funds	119	6,554
Performance fee rebates	1,432	-
	11,963	34,779
More than 12 months of the reporting period		
Unlisted private equity funds	51,458	52,061
Unlisted private real estate funds	45,982	49,710
Unlisted real assets funds	84,477	68,576
Performance fee rebates	1,304	-
	183,221	170,347
	195,184	205,126

Blue Sky Alternatives Access Fund Limited
Notes to the Interim Financial Statements (continued)
For the half-year ended 31 December 2018

8 Dividends

	Half-year ended	
	31 December 2018	31 December 2017
	\$'000	\$'000
Dividends on ordinary shares declared and paid:		
FY18 Final Dividend: 4.0 cents per share franked to 65% (FY17: 4.0 cents, fully franked)	8,348	6,846
	8,348	6,846

Proposed dividends on ordinary shares:

FY19 Interim Dividend: 1.0 cent per share franked to 65% (FY18: 1.0 cent, fully franked)	1,017	2,144
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Proposed dividends declared subsequent to half-year end are not recognised as a liability as at 31 December 2018.

9 Issued capital and reserves

	Number of shares	\$'000
Opening balance as at 1 July 2017 (net of fundraising costs)	171,146,681	172,539
Shares Issued: Dividend Reinvestment Plan	404,834	470
Shares Issued: Entitlement Offer	42,888,799	48,246
Closing balance at 31 December 2017	214,440,314	221,255
Opening balance as at 1 July 2018 (net of fundraising costs)	211,038,419	218,560
Shares cancelled: Share buyback (including tax and net of costs)	(7,056,375)	(6,016)
Closing balance at 31 December 2018	203,982,044	212,544

Section 4: Other

10 Events after the reporting period

On 26 February 2019, the Directors resolved to pay an interim dividend of 1.0 cent per share, franked to 65% at the 27.5% corporate tax rate, in relation to the half-year ended 31 December 2018. The record date for this dividend is 8 March 2019 and the payment date is 22 March 2019. The Company's Dividend Reinvestment Plan ('DRP') remains deferred due to the ongoing share price discount to NTA and will not apply to this dividend.

Other than this matter, there are no other subsequent events.

Blue Sky Alternatives Access Fund Limited
Directors' declaration
For the half-year ended 31 December 2018

In accordance with a resolution of the Directors of Blue Sky Alternatives Access Fund Limited, the Directors declare that:

1. the interim financial statements and notes, as set out on pages 7 to 19:
 - (a) comply with *Corporations Act 2001 (Cth)*, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (b) give a true and fair view of the entity's financial position as at 31 December 2018 and of the performance for the half-year ended on that date.
2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Directors



Michael Cottier
Independent Chairman

Brisbane
27 February 2019

Independent auditor's review report to the members of Blue Sky Alternatives Access Fund Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Blue Sky Alternatives Access Fund Limited (the Company), which comprises the interim statement of financial position as at 31 December 2018, the interim statement of comprehensive income, interim statement of changes in equity and interim statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Company is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



Mike Reid
Partner
Brisbane
27 February 2019