

29 October 2019

Market valuation of the BAF investment portfolio

The Board of Blue Sky Alternatives Access Fund Limited (**BAF** or the **Company**) continues to be very concerned by the substantial disconnect that exists between the current share market valuation of the Company, and the underlying value of the BAF investment portfolio and cash balances.

Clearly, the ongoing connection of the Company to Blue Sky (the **Manager**) has weighed heavily on sentiment towards BAF over the past eighteen months. The Board provided an update to shareholders on 21 August 2019 regarding the steps that are underway to appoint a replacement investment manager. While substantial progress has been made since that announcement, negotiations with the necessary parties remain incomplete.

At this time however, the Board wishes to comment directly on the valuation of the Company's underlying investment portfolio, and its efforts to ensure that shareholders can ultimately benefit from this.

Composition of BAF's net tangible asset backing

On 14 October 2019, BAF announced that its pre-tax net tangible assets as at 30 September 2019 were \$224 million or \$1.1164 per share. This included cash balances of \$22.2 million, plus a further \$35.6 million of receivables related to the recent sale of the Atira student accommodation portfolio, which occurred at a 17% premium to carrying value. The Company has started to receive the proceeds from this sale with the majority of the proceeds due to be received by the end of the month. The Company's pro-forma cash backing is thus expected to rise to approximately \$57.8 million, or 29 cents per BAF share, in the near future.

In addition to cash and receivables, the Company has an investment portfolio and other balance sheet items valued at \$166 million, on a before tax basis. This includes a \$67.2 million¹ investment in the Argyle Water Fund, the value of which is independently reviewed every month.

Exhibit 1: BAF discount to pre-tax NTA (as at 14 October 2019)



Source: Company Reports, ASX.

¹ Including BAF's investment held via the Strategic Australian Agriculture Fund.

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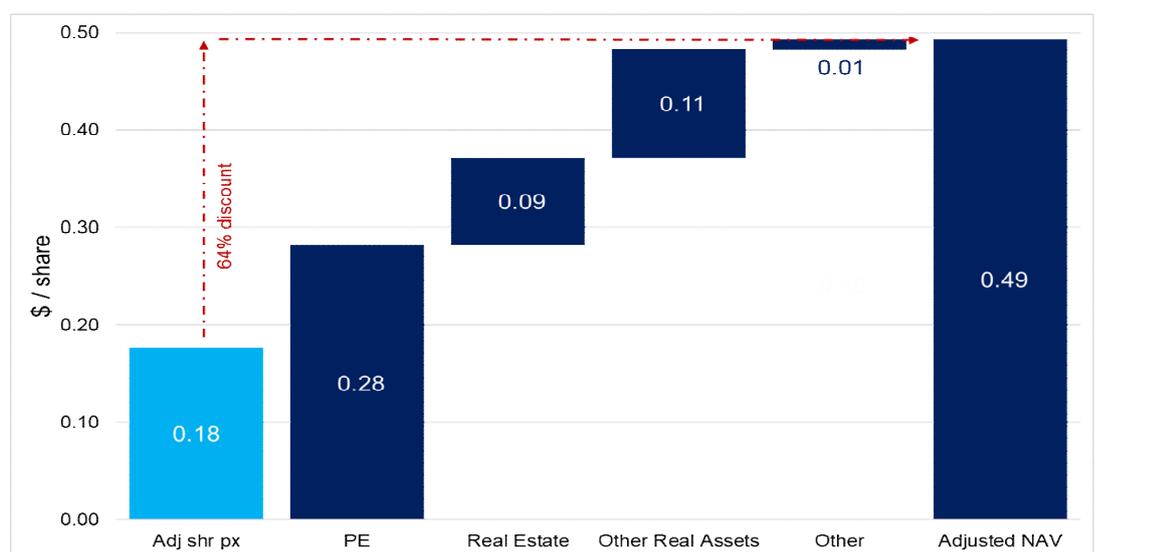
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BAF's market capitalisation at close on 14 October 2019 was \$160.5 million. This compares to the value of BAF's water assets, cash, and cash receivables from the student accommodation sale of \$125 million. Excluding these amounts from the Company's market capitalisation results in an implicit market capitalisation for BAF's remaining assets of just \$35.4 million. This compares to their assessed fair value of \$98.8 million, an effective discount of 64%.

Exhibit 2: BAF discount to pre-tax NTA, excluding cash balances, receivables and investments in the Argyle Water Fund



Source: Company Reports, ASX.

The Manager and its newly appointed valuers have recently undertaken an exhaustive process where virtually all funds into which BAF is invested were subject to either full independent valuation or independent valuation review. There were just five exceptions to this, with the reasons for this set out in our September NTA quarterly report - namely four funds were undergoing a sale or settlement process, and one fund was already written down to nil value.

These independent valuations and reviews were then further scrutinised by BAF's auditors, including the auditor's own valuation specialists. This process concluded on 30 August 2019, with the release of BAF's unqualified audited annual accounts. The Board has been diligent in ensuring that the carrying value of the Company's investments are appropriate and during the audit process and subsequently, the Board has booked a total of \$7.8 million in gross impairments.

While the valuation of a portfolio of unlisted or alternative investment assets necessarily requires some subjective assessment, the Board believes that the current implied market valuation of the Company's investment portfolio is disconnected from its actual value.

Shareholders have the right to realise the underlying value within their company

BAF was set up as an investment company designed to allow shareholders to participate in the benefits of investing into a unique and diversified portfolio of alternative assets. While the share market valuation of BAF remains at such a deep discount to the assessed fair value of the Company's net tangible assets, the key focus of the Board has been to set in place a robust course of action which will enable shareholders to realise the value within their company over an acceptable period.

The Directors continue to believe that the transfer of BAF's investment management arrangements to a new manager, one with strong LIC experience and a mandate to pursue a new multi-manager 'best of breed' approach, presents the most favourable option for shareholders.

The Board has devoted substantial energy to this option over the course of this year, seeking to bring a manager transition forward for shareholders to vote on. As shareholders are aware, this process has been frustrated by Blue Sky Alternative Investments Limited (**BLA**) being placed into receivership in May 2019. Despite the difficulties presented by BLA's receivership, the Board has actively pursued good faith negotiations with KordaMentha, the appointed receivers and managers of BLA, and Oaktree Capital Management (**Oaktree**).

While Directors believe shareholders would be best served by the appointment of a new investment manager, this will only occur if acceptable commercial terms can be agreed with KordaMentha and Oaktree.

The Board fully appreciates that the Company's association with the BLA group has been challenging, that for the last 18 months or more shareholders have endured substantial loss of value and frustration through that association, and that the process for the appointment of a replacement manager has taken far longer than would reasonably be expected. Given this, if the Company is unable reach a satisfactory agreement with the relevant parties in the near future, the Board will consider other options. These have been outlined to shareholders previously, and include:

- an orderly wind-down of BAF and return of capital to BAF shareholders;
- termination of the exclusive management services agreement (**MSA**) between BAF and its manager, BSAAF Management Pty Limited (**BSAAF**) for breach by BSAAF;
- other possible actions under the MSA; and
- additional capital management initiatives.

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