

12 January 2018

Dear Shareholder

**Blue Sky Alternatives Access Fund Limited (ASX:BAF) (the 'Alternatives Fund') – Net Tangible Assets ('NTA') per share for December 2017**

The Alternatives Fund recorded an increase in pre-tax NTA of 1.0% in December, to \$1.1390 per share. This was the net result of a number of movements during the month, including an independent review of a range of close-ended funds across Private Equity, Private Real Estate and Real Assets in accordance with the Alternatives Fund's Investment Valuation Policy, the accrual of a range of distributions receivable in relation to the 31 December 2017 period, and the deployment of capital into a range of new investments, the costs of which were deducted from NTA.

The Alternatives Fund deployed \$24.5 million into seven funds in December. These allocations were made across:

- three new Private Equity investments;
- two further retirement living projects;
- one new Blue Sky Private Real Estate fund investing in an income-generating commercial asset; and
- a further allocation to the Blue Sky Water Fund.

We look forward to bringing you our next investor update in relation to January 2018 and the Alternatives Fund's Interim financial report during February.

Yours faithfully



**Andrew Champion**  
Executive Chairman

**Important note**

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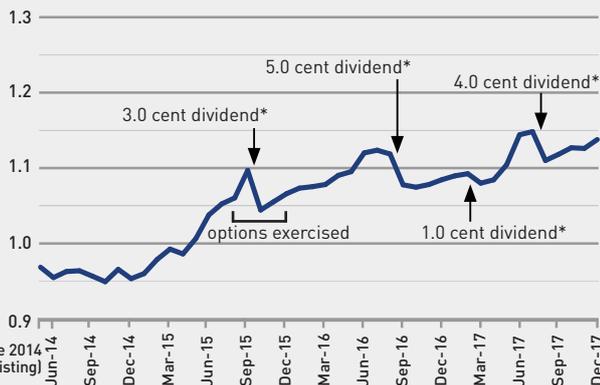
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### NET TANGIBLE ASSETS – AS AT 31 DECEMBER 2017<sup>1</sup>

Net Tangible Assets (NTA) per share (pre-tax)	\$ 1.1390
Net Tangible Assets (NTA) per share (post-tax)	\$ 1.1138

1. NTA figures in this report are unaudited.

### PRE-TAX NET TANGIBLE ASSETS – SINCE INCEPTION



\*Fully franked

### PORTFOLIO VALUATION<sup>2</sup>

	Current value (\$'m)	% of Portfolio
<b>PRIVATE EQUITY</b>		
Growth Capital	\$57.33	23.9%
Venture Capital	\$13.23	5.5%
<b>Subtotal</b>	<b>\$70.56</b>	<b>29.4%</b>
<b>REAL ASSETS</b>		
Water Fund	\$34.68	14.5%
Strategic Australian Agriculture Fund	\$9.66	4.0%
Other Real Assets	\$15.06	6.3%
<b>Subtotal</b>	<b>\$59.40</b>	<b>24.8%</b>
<b>PRIVATE REAL ESTATE</b>		
Residential Development	\$5.81	2.4%
Retirement Living	\$25.45	10.6%
Student Accommodation	\$41.38	17.3%
Cove and Other Real Estate	\$16.37	6.8%
<b>Subtotal</b>	<b>\$89.01</b>	<b>37.1%</b>
Cash <sup>3</sup>	\$20.80	8.7%
<b>GRAND TOTAL</b>	<b>\$239.77</b>	<b>100.0%</b>

<sup>2</sup> Figures in this report are unaudited. The current value for each investment in the table above is consistent with the Alternatives Fund's investment valuation policy, which may be found at [blueskyfunds.com.au/alternativesfund](http://blueskyfunds.com.au/alternativesfund). Note that the total value of the investment portfolio will not directly reconcile to the NTA due to the impact of interest revenue, management fees, accrued performance fees, etc.

<sup>3</sup> Includes capital to fund the remaining \$5.25 million of the \$15.0 million commitment to the Strategic Australian Agriculture Fund, which will be called progressively over a three year investment period which commenced in July 2017.

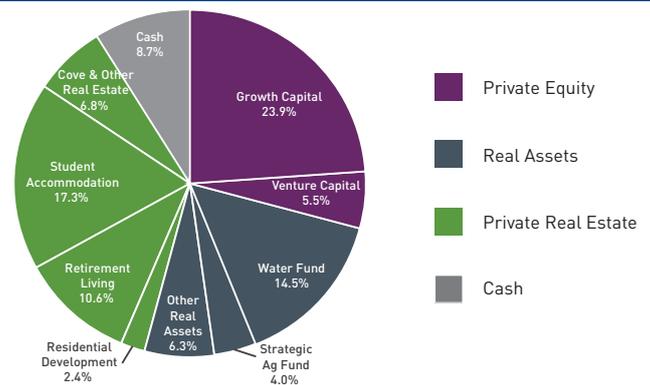
**Important Notice:** BSAAF Management Pty Ltd ACN 168 923 279 ('Manager') has prepared the information in this announcement. This announcement has been prepared for the purposes of providing general information only and does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any securities in the Alternatives Fund nor does it constitute financial product or investment advice nor take into account your investment objectives, taxation situation, financial situation or needs. An investor must not act on the basis of any matter contained in this announcement in making an investment decision but must make its own assessment of the Alternatives Fund and conduct its own investigations and analysis. Past performance is not a reliable indicator of future performance. Further, forward looking statements, including projections, guidance on future earnings, opinions and estimates in this announcement ('Forward Looking Statements') are based on assumptions and contingencies which are subject to change, as are statements about market and industry trends, which are based on interpretations of current market conditions. These statements are also subject to known and unknown risks and uncertainties many of which are outside the control of the Manager or the Alternatives Fund. Forward Looking Statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance.

### FUND PERFORMANCE<sup>4</sup>

Period	Pre-Tax	Post-Tax
1 month	1.03%	0.81%
3 months	1.73%	2.08%
6 months	4.57%	4.58%
12 months	11.66%	11.17%
Since inception (per annum)	9.65%	8.91%
Since inception (total)	38.61%	35.33%

4. Includes NTA growth, dividends and franking credits.

### SECTOR WEIGHTINGS



### ABOUT THE ALTERNATIVES FUND

Blue Sky Alternatives Access Fund Limited ('Alternatives Fund') is a listed investment company that invests in a diverse range of alternative assets including:

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

The Alternatives Fund is the only listed investment company on the Australian Securities Exchange ('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 under the code BAF.

### OBJECTIVES OF THE ALTERNATIVES FUND

The primary objectives of the Alternatives Fund are to:

- Deliver long term absolute returns to shareholders, driven by an increase in the Alternatives Fund's NTA over time and 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 is typical for many alternative assets.

### MANAGER OF THE ALTERNATIVES FUND

BSAAF Management Pty Limited ('Manager') is the manager of the Alternatives Fund. All investments made by the Manager on behalf of the Alternatives Fund are directly managed by wholly owned subsidiaries of Blue Sky Alternative Investments Limited (ASX:BLA) ('Blue Sky').

Blue Sky has \$3.4 billion in fee-earning assets under management and a ten year track record of generating overall returns to investors in its funds of 15.9% p.a. (net of fees compounding since inception).<sup>5</sup>

<sup>5</sup> Assets under management as at 30 September 2017. Overall returns to investors in Blue Sky managed funds are equity weighted to 30 June 2017. For more details, please refer to BLA's regular ASX announcements on the investment performance of its funds. Please also note that past performance is not a reliable indicator of future performance.

### FURTHER INFORMATION

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The Alternatives Fund recorded an increase in pre-tax NTA of 1.0% in December, to \$1.1390 per share. This gain reflects an uplift in value of a range of investments following independent valuation reviews in December in compliance with the Alternatives Fund's Investment Valuation Policy.

The Alternatives Fund also received a final profit distribution from the Regina Street Greenslopes Trust during the month, a special dividend from the Blue Sky Private Equity Tourism Fund and accrued several periodic distributions which were declared at month-end.

The Alternatives Fund made a number of new investments in December, including:

- \$12.0 million across three new Private Equity funds;
- \$8.0 million across two new retirement living projects;
- \$2.5 million into a new Blue Sky Private Real Estate fund investing in an income-generating commercial asset; and
- a \$2.0 million allocation to the Blue Sky Water Fund (as part of a \$7.0 million allocation to be completed in Q1 2018).

### REALISED INVESTMENTS

- **Regina Street Greenslopes Trust**

The Alternatives Fund received a final profit distribution from the Regina Street Greenslopes Trust during December, bringing total returns from this residential development project to 1.74x invested capital (pre-tax, including fee rebates), representing an IRR of 24% per annum.

### INVESTMENT PERFORMANCE

- **Blue Sky Water Fund**

The Water Fund's performance was marginally positive for December, recording a 0.3%<sup>6</sup> uplift. The positive gain was driven by an increase in most Water Entitlements values as irrigators continue to secure supply for the irrigation season. In particular, Low Security Entitlements increased by an average of 4% for the December month. Temporary Water Allocation prices remained flat over the Christmas period but are expected to increase after the new year as Summer irrigation demand continues.

The Water Fund declared a 3.7% interim distribution as at 31 December 2017. This distribution is scheduled to be paid in January.

- **Other closed ended funds**

In accordance with the Alternatives Fund's Investment Valuation Policy, independent reviews of the following funds were completed in the month of December and led to an overall uplift in NTA:

- Blue Sky Private Equity Sunfresh Fund;
- Blue Sky SMG Funds I & II;
- Blue Sky Private Equity Aquila Fund;
- Blue Sky Private Equity Better Medical Fund;
- Blue Sky Private Equity Vinomofu Fund;
- Blue Sky VC2014 Fund LP (independent reviews of the Fund's underlying investments in Vinomofu, THRIVE, Lexer and Eloquii were completed);
- Blue Sky Premium Beef Development Fund;
- Wellington Road East Brisbane Trusts 1 and 2;
- Blue Sky Student Accommodation Funds I, III, 7 and 8; and
- Blue Sky Retirement Living Middle Ridge Fund.

In addition, after meeting key project milestones during the month, an internal valuation was performed on the Blue Sky Retirement Living Lutwyche Fund which also resulted in an uplift to carrying value.

6. The monthly return reported by the Alternatives Fund is on a post-tax basis and will differ to that separately reported by the Blue Sky Water Fund which is on a pre-tax basis.

### UPDATE ON EXISTING INVESTMENTS

- **Residential development projects**

The Alternatives Fund has invested in 11 residential development projects since inception. Five of these projects have fully exited, generating an equity weighted return of 1.76x invested capital (inclusive of franking credits and fee rebates).

The Alternatives Fund has ongoing investments in six residential development projects (currently less than 3% of NTA).

Construction is completed at Logan Road, Greenslopes and Duke Street, Kangaroo Point. The investment team is focused on selling the remaining few apartments at Duke Street, Kangaroo Point and the commercial lots across both sites. These projects are expected to generate a total return of approximately 1.35x and 1.45x invested capital respectively (inclusive of franking credits and fee rebates). The final distributions to investors in these funds is expected in the first half of 2018.

Sales are progressing at Railway Terrace, Milton and Flora Street, Greenslopes with approximately 30% of apartments sold to date across the two sites. Construction is expected to commence at both of these sites in the first half of 2018, with the final distributions to investors in these funds expected in the second half of 2019.

The marketing campaign for Wellington Road, East Brisbane (Trusts I and II) has been finalised with a national sales group and the market launch of this project is currently expected to occur in Q1 2018. Construction for Wellington Road East Brisbane Trust I and II is expected to commence in the second half of 2018, with the final distributions to investors in these funds expected in the second half of 2019.

### DISTRIBUTIONS

During December, investors in the Blue Sky Private Equity Tourism Fund, including the Alternatives Fund, received a 10.5% special dividend. This fund holds a Private Equity investment in a New Zealand-based tourism business Active Adventures. Strong growth in bookings placed the business in a position to distribute surplus cash to investors.

The Alternatives Fund also accrued the following distributions which had been declared during the month:

- **Blue Sky Water Fund** ~ 3.7% interim distribution;<sup>7</sup>
- **Blue Sky Strategic Australian Agriculture Fund** ~ 0.5% periodic distribution;
- **Blue Sky Hotel Fund** ~ a 2.5% regular quarterly distribution;
- **Blue Sky Private Equity Better Medical Fund** ~ a 1.0% periodic distribution;
- **Blue Sky Private Equity QFS Fund** ~ a 0.9% periodic distribution;
- **Blue Sky Student Accommodation Fund** ~ a 3.0% quarterly distribution;
- **Blue Sky Student Accommodation Fund II** ~ a 2.5% quarterly distribution; and
- **Blue Sky Darra Industrial Income Fund** ~ a 2.5% quarterly distribution.

### NEW INVESTMENTS

- **Blue Sky Private Equity IT Consulting Fund<sup>8</sup>**

The Alternatives Fund invested \$4.0 million into the Blue Sky Private Equity IT Consulting Fund in December. The capital raised by this fund will acquire equity in an outcome-focused, high-growth IT services and consulting business based in Sydney.

The business supports blue chip enterprises (ASX 100) and government clients in developing, sourcing and delivering transformational IT solutions across large, complex technology projects and functions.

With the business intending to use Blue Sky's growth capital to take advantage of strong organic growth prospects in existing markets and value-accretive acquisition opportunities, the Alternatives Fund is targeting an IRR on this investment in excess of 20% over a three to five year period.

7. As the accrual of this distribution has the corresponding effect of reducing the Water Fund's unit price, it has no net impact on NTA.
8. Confidentiality restrictions in force at the time of this report prohibit release of certain transaction details, including the name of the business invested in or precise location of the project or property. Further information will be provided in future reports.

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- **Private Equity fund – primary healthcare<sup>9</sup>**

The Alternatives Fund deployed \$4.0 million into a Blue Sky Private Equity fund which will provide growth capital to a leading primary healthcare business operating an established group of medical centres across Australia.

The business has a track record of successfully improving the operational performance of the medical centres they acquire by refurbishing the centres and implementing their proprietary technology solution. The business is executing on a 'buy and build' strategy and is well positioned to continue to aggregate small to medium size private billing medical clinics and realising synergies upon integration.

The Alternatives Fund is targeting an IRR on this investment in excess of 20% over a three to five year hold.

- **Private Equity fund - food manufacturing<sup>9</sup>**

The Alternatives Fund invested \$4.0 million into a Blue Sky Private Equity fund which will acquire a strategic stake in a Sydney-based manufacturer of premium food products. The company has a diversified customer base with its product range being distributed throughout Australia into various sectors including retail, food service, restaurants and health and aged care.

The Alternatives Fund is targeting an IRR on this investment in excess of 20% over a four year hold period, with a component of the return being generated through a cash yield once the asset matures.

- **Retirement living projects – Brisbane<sup>9</sup>**

The Alternatives Fund deployed \$4.0 million into each of two new purpose-built retirement living projects at prime locations within inner Brisbane, Queensland.

These projects will be located at two leading Brisbane leisure and recreation facilities with the villages to be accompanied by community centres.

The projects will be developed and operated together with Blue Sky's joint venture partner Aura Australia.

The first project is expected to complete in late 2020 and accordingly, the Alternatives Fund anticipates an investment horizon of approximately three years and is targeting an IRR on this investment in excess of 20% over this period.

The second project is expected to complete in late 2021 and has an investment period of approximately four years with a similar return profile, targeting an IRR on this investment in excess of 20%.

- **Private Real Estate fund – income-generating commercial asset<sup>9</sup>**

The Alternatives Fund has deployed \$2.5 million into a Blue Sky Private Real Estate fund which will acquire the freehold title to a c. 3,250m<sup>2</sup> industrial manufacturing, distribution and office facility sited on a c. 6,350m<sup>2</sup> land holding in Sydney's rapidly-growing western suburbs. Located in close proximity to key transport infrastructure and supported by a long-term lease to a single quality tenant, this investment is expected to provide the Alternatives Fund with a combination of capital growth and strong, stable cash yield over a hold period of approximately five years.

- **Blue Sky Water Fund**

To maintain its cornerstone allocation to Australian agricultural water entitlements following the recent Entitlement Offer, the Alternatives Fund has allocated \$7.0 million to the Blue Sky Water Fund. \$2.0 million of this allocation was deployed in December, with the remaining \$5.0 million scheduled to be deployed progressively over Q1 2018.

## TAX UPDATE

On 19 May 2017, the Federal Government enacted legislation reducing the corporate tax rate to 27.5% for certain companies. Based on Management's calculations, it is expected that the Alternatives Fund will be eligible for a reduction in its corporate tax rate for FY18. The reduced corporate tax rate has been applied in December, and did not have a material impact on the December post-tax NTA.

9. Confidentiality restrictions in force at the time of this report prohibit release of certain transaction details, including the name of the business invested in or precise location of the project or property. Further information will be provided in future reports.