BlueSky
Alternatives
Access Fund

27 August 2020

Dear Shareholder

On 8 September 2020, Blue Sky Alternatives Access Fund Limited ('BAF' or the 'Company') will hold an Extraordinary General Meeting ('EGM'). At this meeting, shareholders have the opportunity to vote on a set of proposals which, if approved, your Board believe will open an exciting new chapter for the Company. To reach this critical milestone, the Board resolutely pursued a series of complicated and lengthy negotiations with ten distinct counterparties, each integral to presenting a final solution for shareholders to vote on. While this process has taken longer than hoped, the Board believes that the proposals being presented to shareholders represent a compelling final outcome, given the prevailing circumstances.

Significantly, the Board has secured a number of important achievements for shareholders. These include discounted management fees remaining in place, a substantial performance fee deficit being retained, new further management fee reductions, and a new and unique Premium Target with the selected new investment manager, Wilson Asset Management (International) Pty Ltd ('WAMI').

Termination of existing management arrangements

The ongoing connection of the Company to Blue Sky Alternative Investments Limited ('BLA'), the owner of its investment manager, has weighed heavily on sentiment towards BAF over the past two years. This impact was greatly exacerbated in May 2019 when BLA went into receivership. The Board was very conscious of mitigating any risks to BAF associated with the BLA receivership, and it took decisive action. As the Board announced in May 2019, the BAF Directors secured control of BAF's bank account holding (at that time) in excess of $29 million by placing a stop on the account and replacing all manager account signatories with the three independent non-executive BAF Directors.

From the outset, the challenge that the Company has faced in terms of appointing a replacement investment manager - and rejuvenating the BAF investment proposition - has been the fact that contractually there still remained a significant term on the Company's existing Management Services Agreement ('MSA'). Today, the face value of the remaining term on this contract equates to approximately $9.5 million in management fees[1], a substantial figure for the Company. Additionally, under the existing MSA, BAF was entitled to a number of valuable provisions, including, among others:

- **Discounted fees.** BAF was entitled to reduced management fee arrangements on its investments into funds managed by Blue Sky.
- **Performance fee deficit.** BAF was entitled to offset any historical portfolio underperformance from Blue Sky funds against future performance fees payable to the investment manager.

A simple termination of the MSA would have ended these benefits to the significant detriment of BAF shareholders; in the Board's view, particularly in relation to issues such as the accrued performance fee deficit, this was an unacceptable outcome.

The process of extricating the Company from its existing management arrangements, whilst at the same time holding onto many of the original benefits within the existing MSA, has required dogged negotiations with a changing and expanding number of parties and underlying stakeholders and,

[1] Based on the July unaudited Net Asset Value of the Company and the remaining term of the existing MSA.

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unfortunately, the substantial passage of time. In the Board's view however, the final result that has been achieved represents a significant outcome for shareholders. At the pending EGM, shareholders have the opportunity to vote to terminate the current MSA, without the Company incurring any financial penalty to do so. Furthermore, if the EGM resolutions are approved, many of the existing benefits under the original MSA will remain in place, while further additional benefits have now been secured, notably:

- **Discounted fees remain in place**. Despite the termination of the MSA, BAF will retain the discounted management fee arrangements it had in place for its investments into funds previously managed by Blue Sky.
- **Substantial performance fee deficit retained**. Regardless of the termination of the existing MSA, a portfolio performance fee deficit of $2.9 million will be carried forward and allocated across eleven funds which have historically underperformed ('Allocated Funds').
- **Further fee reductions.** If an Allocated Fund now underperforms for two consecutive years during the next five-year period, the management fee payable to that fund will be halved going forward. This step down in management fees for underperformance is a new feature that was not included in the original MSA.

To reach the final outcome which shareholders are being asked to vote on has required the Board to make difficult trade-offs. Most often, these have seen the Directors needing to balance a desire to consummate a deal swiftly, with the determination of the Board to secure good overall value for its shareholders.

New management agreements

In addition to negotiating an exit from its existing management agreement, a comprehensive selection process was undertaken to secure a new investment manager for the Company. In running the selection process, the Board had three important attributes foremost in its mind. Firstly, the new manager would need to have the resources necessary for it to successfully manage the Company's alternative investment portfolio. Secondly, the manager needed to have a proven track record of engaging with, and understanding the needs of, a predominantly retail shareholder base. Finally, the Board strongly believed that the chosen manager would need to be able to deliver on a clear and important objective - reducing and ultimately removing the discount to asset backing at which the Company's shares have traded since early 2018.

After running a competitive process, the Board is pleased to have engaged WAMI as the chosen investment manager for the Company. WAMI runs one of the most successful Listed Investment Company ('LIC') operations in Australia and brings with it a proven track record of meaningful shareholder engagement and highly effective LIC marketing. Further, WAMI has invested heavily into building the resources necessary for it to manage the Company's new multi-manager investment approach, both in terms of its investment team and shareholder engagement and marketing capabilities.

Manager Premium Target

In addition to selecting WAMI as the chosen investment manager for the Company, the Board has secured on behalf of shareholders the inclusion of a 'Premium Target' objective within the new management arrangements. The principle of the Premium Target is simple: the Company's share price needs to trade at a premium to its pre-tax net asset value for a period of one month for it to be achieved. If this does not occur at least three times during the next five years, shareholders will automatically have the right to vote to terminate the arrangements with WAMI, and to liquidate the Company[2].

Based on the current discount to pre-tax NTA that BAF shares trade, a successful achievement of the 'Premium Target' represents a 28%[3] uplift to the current share price.

The Board believes that the inclusion of a premium target like this is a first in the Australian LIC market. It is a testament to the WAMI team's conviction for their future plans for the Company, that they are willing to align their interests with shareholders in such an admirable fashion.

Value proposition remains

Finally, the Board continues to believe that the substantial disconnect between the share price of the Company and its underlying asset value remains unwarranted.

In March 2018, Glaucus Research published a high-profile short-sellers report against BLA, the parent company of BAF's investment manager. This report made a number of allegations, including an assertion that many of the assets that the Blue Sky group managed were materially misvalued. These allegations were sensationalised in the press and, in the Board's view, served to create a narrative in the market that material write-downs to the carrying values of Blue Sky managed funds were imminent. For more than two years, the spectre of these allegations has hung over the Company, while BAF, which has spent much of this time seeking to change investment manager, has not had the adequate shareholder communications resources necessary to successfully refute these claims.

In fact, since the publication of the Glaucus report, the underlying BAF investment portfolio has performed adequately for the Company. The most notable developments in the investment portfolio during this time have not been material impairments, but rather, impressive total returns from the Argyle Water Fund – by far BAF's largest investment – and a substantial *uplift* that occurred from the successful sale of the student accommodation portfolio. This exit took place in October 2019 at a 17% premium to carrying value.

Since March 2018, the BAF investment portfolio has generated total net investment returns of 7.6%. While this return is clearly below the targets which were set for the current manager, an important mitigating factor is that these returns have been achieved while the investment portfolio has been substantially underinvested. Since March 2018, the average cash weighting of the Company's investment portfolio has been 17%, while today it sits at 26%[4]. This high cash weighting has been a function of the Board halting all new investments in light of the substantial share price discount to NTA that has persisted for more than two years under current investment management arrangements, and while it worked to install a new investment manager.

While the cash holdings of the Company have been a drag on investment performance in recent years, it is worth highlighting that the current COVID-19 environment should present much cheaper investment entry levels than in recent times. Thus, for the new investment manager, having substantial 'dry powder' today could prove a valuable asset.

Excluding the cash holding of the Company, the current BAF share price implies a valuation of $110 million, or $0.57 per share, for the Company's diversified portfolio of agricultural and private equity

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2 Details of how the Premium Target works are set out in the EGM notice of meeting.

3 Based on the reported July pre-tax NTA per share and the Company's closing share price on 26 August 2020.

4 As disclosed in the July 2020 monthly shareholder report.

assets, a 29% discount to their carrying values. Moreover, the Company has a $68 million investment in the Argyle Water Fund, the value of which is independently reviewed each month with reference to observable market prices. Further excluding the water fund investments from the Company's current market capitalisation results in an implicit market value of $41 million for BAF's remaining investment portfolio. This compares to their assessed fair value of $87 million, an effective discount of 53%.

The valuation of any portfolio of alternative and unlisted assets necessarily requires some subjective assessment. However, the Board believes that the current implied market valuation of the Company's investment portfolio remains substantially disconnected from its realisable value.

EGM Vote

Through trying circumstances, the Board has endeavoured to bring to shareholders an opportunity for them to decide if they wish to take the Company in a new direction. The Directors believe that the proposals to be voted on at the pending EGM offer shareholders a compelling opportunity for a much brighter future for the Company. The Directors encourage all shareholders to vote in favour of the EGM resolutions and look forward to a rejuvenation of the BAF investment proposition.

Yours sincerely

Michael Cottier
Chairman
Blue Sky Alternatives Access Fund Limited