28 February 2020

BAF successfully negotiates favourable exit from existing management arrangements

The Board of Blue Sky Alternatives Access Fund Limited (**BAF** or the **Company**) is pleased to announce that the Company has finalised all key commercial terms with all parties to effect a change of manager to Wilson Asset Management (International) Pty Ltd (**Wilson Asset Management**) from BSAAF Management Pty Ltd (**BSAAF**).

The key terms are set out in a non-binding term sheet and ancillary documents. The signatories to these documents are BAF, Wilson Asset Management, BSAAF, and Argyle Investment Management P/L, AAAP Securities Limited, January Capital GP P/L, BSPRE Investment Management P/L, Blue Sky Private Real Estate P/L, January Capital P/L, FIP Holdings P/L and Blue Sky Alternative Investments LLC, the managers of the underlying Blue Sky funds (**Fund Level Managers**) in which BAF has invested (**Blue Sky Investments**).

Under these documents, the existing Management Services Agreement (**MSA**) between BAF and BSAAF will terminate, subject to the finalisation of binding long-form legal documentation (based on the agreed commercial terms) and, most importantly, the approval of BAF shareholders to the change of manager proposal (the **Proposal**).

Details of the terms of the Proposal will be contained in the documentation accompanying the notice of meeting, including the following key commercial terms:

- **Fee Structure**. The fees that any existing Blue Sky Investment will be able to charge BAF is a 1.2% management fee and a performance fee, which is the lower of a 17.5% performance fee in excess of an 8% IRR hurdle and the performance fees set out in the relevant fund offer document.

- **Performance Fee Deficit**. The portfolio performance fee deficit as at 31 December 2018 has been agreed at $2.86m. This date was agreed as it was the date after which no deployments of new capital were made by BAF into Blue Sky Funds. This deficit has been allocated against 11 underperforming funds (**Allocated Funds**) on a fund by fund basis. These funds will not be entitled to charge any performance fees to BAF until the fund's share of the performance fee deficit has been recovered from performance fee rebates paid to BAF from that particular fund.

- **Rebates**. Under the MSA, BSAAF pays rebates to BAF to refund management and performance fees charged to BAF at the investment fund level as an when they are received. Accrued rebates in relation to paid and unpaid fees at the Fund Level owing to BAF will be paid by BSAAF in full as part of the Proposal as an offset against management fees and certain expenses owed by BAF to BSAAF. Going forward, Fund Level Managers will pay rebates on management fee and Allocated Fund performance fees when cash is received from the fund.

- **Management Fee Stepdown**. If an Allocated Fund held by BAF underperforms for a period of 2 consecutive years in the first 5 years following termination of the MSA, the management fee that the underlying fund is able to charge BAF will be halved, falling to 0.6%.

BLUE SKY ALTERNATIVES ACCESS FUND LIMITED

Post PO Box 15515, Brisbane QLD 4002
Phone +61 7 3505 6222
Email investorservices@blueskyalternativesfund.com.au

ADDRESS

Suite A, Level 10
241 Adelaide Street
Brisbane QLD 4000

ACN 168 941 704

blueskyfunds.com.au/alternativesfund

- **Voting Rights**. The voting rights attached to Blue Sky Investments are currently vested in BSAAF without restrictions. Following termination of the MSA, these voting rights will revert to BAF to be exercised by Wilson Asset Management. BAF has agreed to appoint the relevant fund manager (or its nominee) as its proxy in the event of any meeting called to consider the removal or replacement of that fund manager or the fund trustee. This obligation to appoint the relevant fund manager (or its nominee) as its proxy will not apply in the event of material breach, wilful default, negligence, insolvency or breach of fiduciary obligations by the relevant fund manager or fund trustee who is proposed to be removed or replaced.

- **Transitional Services.** BSAAF has agreed to provide 60 days transitional services after termination to assist Wilson Asset Management. This is intended to ensure that BAF is able to lodge its monthly NTA reports and meet its other disclosure and regulatory obligations during the manager transition from BSAAF to Wilson Asset Management.

The BAF Board has constantly strived to produce the best result for BAF shareholders – implementing necessary changes to narrow the persistent discount between BAF's share price and its NTA, ensuring that shareholders have the greatest opportunity to maximise their investment in BAF while at the same time ensuring liquidity. After a comprehensive selection process which involved BAF receiving and evaluating proposals from various manager candidates in Q4 2019, the BAF Board believes that a manager transition to Wilson Asset Management is the superior outcome for BAF shareholders.

Wilson Asset Management is a Sydney-based fund manager with specialist experience in managing listed investment companies for retail shareholders. Wilson Asset Management manages over $3 billion on behalf of more than 80,000 retail shareholders across six listed investment companies with a track record of delivering for shareholders. Wilson Asset Management has invested in highly experienced alternative asset professionals to expand its offering in this area. The BAF Board believes new management under Wilson Asset Management will provide BAF shareholders with the opportunity to continue to gain access to a portfolio of alternative assets within an attractive structure managed by an experienced and specialised investment manager.

In considering the Proposal, the Independent Directors have assessed 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 MSA and subsequent internalisation of the management function; and

  § broadening the investment mandate, but BSAAF remaining as the Company's investment manager.

A unilateral termination of the MSA for breach by BSAAF was considered, but was a least preferred option. This would have involved an expensive, prolonged and uncertain legal process for BAF shareholders, and could have left BAF without any management resources or access to investment fund managers, and without valuation evidence which ultimately could have led to BAF's delisting for failure to lodge semi-annual or annual audited accounts.

If the Proposal is not approved by shareholders at the proposed extraordinary general meeting of shareholders, or otherwise 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 of new capital to Blue Sky investments; and

§ the Company will continue operating under the existing management arrangements with BSAAF, but most likely on a wind-down basis with investments realised in the usual course by Fund Level Managers.

The Independent Directors maintain the view 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;

§ BAF, having been established in 2014 as a co-investment fund for retail investors to access Blue Sky'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 Blue Sky fund). The trustees of the underlying Blue Sky Investments have 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 with respect to the ongoing listed investment company operating costs. 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. Some of these expenses, including external audit and insurance, as well as other expenses such as legal fees, have increased significantly since 2018 as a result of the increased risk profile of BAF continuing to be associated with Blue Sky.

The BAF Board is targeting submitting documentation to the ASX for review by mid-March 2020 for an EGM targeted to be held in late April 2020.

The BAF Board would like to thank its shareholders for their patience during a frustrating period and would also like to thank BSAAF, the Fund Level Managers and Wilson Asset Management during the lengthy negotiations in achieving this outcome for BAF shareholders.

The BAF Board will keep shareholders advised of progress.

For more information, please contact:

Michael Cottier
Chairman
Blue Sky Alternatives Access Fund Limited

Email: investorservices@blueskyalternativesfund.com.au
Website: blueskyfunds.com.au/alternatives-fund-shareholder