

26 October 2018

**Blue Sky Alternatives Access Fund Limited (ASX: BAF) ('BAF' or 'Company')
Proposal received from potential new manager of BAF**

BAF notes its announcement of 24 October 2018 that it had received a proposal from Wilson Asset Management (**WAM**) for WAM to be appointed as BAF's new manager. The non-executive directors of BAF requested that WAM provide further detail regarding its proposal for their consideration.

BAF's non-executive directors have now received a draft Investment Management Agreement from Wilson Asset Management (International) Pty Ltd, which will be assessed in due course.

WAM has authorised BAF to release their proposal letter to the market. It is attached for the information of shareholders.

BAF will continue to update shareholders in relation to developments in discussions with WAM.

For more information, please contact:

Leyya Taylor
Company Secretary
Blue Sky Alternatives Access Fund Limited

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Email: ltaylor@blueskyfunds.com.au
Website: blueskyfunds.com.au



23 October 2018

Mr Paul Masi
Blue Sky Alternatives Access Fund Limited
Suite 22.02
Level 22 Australia Square
264-278 George Street
SYDNEY, NSW 2000

Attn: Independent Directors

Dear Mr Masi,

Proposal for new manager & new investment mandate

Wilson Asset Management is pleased to provide our Proposal to reposition Blue Sky Alternatives Access Fund Limited (BAF) as a multi-manager diversified alternatives fund, to be managed by Wilson Asset Management.

This Proposal follows the announcement of a proposal by BAF in conjunction with Blue Sky Alternative Investments Limited (BLA) and Pinnacle Investment Management Group Limited (Pinnacle) and subsequent discussions with yourself and your fellow Independent Directors.

This Proposal would provide BAF shareholders with access to a proven investment manager, which is a listed investment company (LIC) specialist, under more favourable conditions than Pinnacle's proposal. We believe this Proposal is superior to the one put forward by Pinnacle. We look forward to the Independent Directors and the appointed independent expert reviewing the merits of both proposals and making their recommendations to shareholders.

Proposal summary

The Proposal offers substantial benefits for BAF shareholders. These are summarised as follows:

- Wilson Asset Management is a specialist LIC manager with the majority of the LICs that it manages trading at a share price premium to their underlying net tangible asset backing (NTA), with its largest LIC in WAM

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Capital Limited trading at a share price premium in excess of 20%¹ to its 30 September 2018 NTA backing.

- The three LICs managed by Pinnacle are all currently trading at share price discounts to NTA².
- Wilson Asset Management has a strong track record of engaging with shareholders and marketing the LICs for which it is the investment manager. Wilson Asset Management was recently awarded the winner of the listed investment company fund manager category for the fifth consecutive year at the 2018 Professional Planner Zenith Fund Awards.
- Under the new investment mandate for a diversified alternatives multi-manager approach, Wilson Asset Management will select market-leading investment managers (Underlying Managers) in a particular asset class under the guidance of an experienced investment committee with access to a wide range of investment professionals.
- No performance fee will be charged by Wilson Asset Management.
- Wilson Asset Management would be entitled to be paid a monthly Management Fee equal to approximately 0.083333% per month or 1.0% per annum (plus GST) of the Value of the Portfolio (calculated on the last business day of each month and paid at the end of each month in arrears) with an initial fee-free period on existing BLA managed investments until 1 July 2019.
- The investment management agreement (IMA) with Wilson Asset Management is to be for an initial term of five years. Shareholders will have the ability to vote on the continuation of the company and the IMA or to wind the company up if its share price has not traded at a premium to NTA for a period of three months or more.
- Replace the existing Executive Directors of BAF with representatives from Wilson Asset Management.
- The new Board of Directors of BAF will be committed to effective capital management initiatives to ensure the share price of the company reflects the underlying asset value of the portfolio.
- BLA to cease its role as the investment manager of BAF at a mutually agreed date. We suggest 31 December 2018, subject to further discussions.
- A new agreement with BLA is to be entered in relation to existing BLA managed portfolio positions.
- BAF to be renamed to WAM Alternative Asset Fund Limited and remain a unique product offering to investors in the form of a diversified portfolio of alternative assets.

¹ Based on the 22 October 2018 share price of \$2.49 per share.

² Based on the 22 October 2018 closing share prices of the LICs managed by Pinnacle.



- Extraordinary General Meeting (EGM) for shareholder approval to be held at a time suitable to BAF and its Directors, pending further discussions in relation to this Proposal.

As noted in our previous discussions, the current Chairman of BAF (Andrew Champion) is conflicted in considering this Proposal, given he is to be employed by the manager being put forward under the Pinnacle proposal.

We believe it would be prudent for the independent expert that has been appointed to consider the Pinnacle proposal to consider whether the advantages to BAF's shareholders of our Proposal outweigh the disadvantages, whether the arrangements with Wilson Asset Management are at arm's length and whether the Proposal is superior to the one put forward by Pinnacle.

Proposed new manager

Wilson Asset Management is a boutique fund manager established in 1997 and based in Sydney. Wilson Asset Management holds an Australian Financial Services Licence (AFSL) 247 333. Wilson Asset Management is owned by Geoff Wilson AO.

Wilson Asset Management employs 30 staff and is led by the Company's Chairman, Geoff Wilson and Chief Executive Officer, Kate Thorley. Wilson Asset Management is responsible for over \$3.0 billion in shareholder capital on behalf of almost 80,000 retail and wholesale investors across seven LICs and one wholesale unit trust. See Annexure A for further information in relation to the entities managed by Wilson Asset Management.

Wilson Asset Management employs 11 highly experienced investment professionals with combined experience of more than 140 years.

Wilson Asset Management is a specialist LIC manager with a strong track record of engaging with shareholders and marketing the LICs for which it is the investment manager. Wilson Asset Management was recently awarded the winner of the listed investment company fund manager category for the fifth consecutive year at the 2018 Professional Planner Zenith Fund Awards.

Wilson Asset Management's two oldest LICs, WAM Capital and WAM Research, are the only LICs to receive Zenith Investment Partners' highest rating – Highly Recommended. Both LICs are trading at share price premiums in excess of 20% to their 30 September 2018 NTA backing.



Wilson Asset Management will utilise an investment committee and its access to highly experienced investment professionals to assist in the deployment of the multi-manager mandate for the company and will provide shareholder engagement, marketing, finance and administration services to the company.

Proposed new investment mandate

The proposed new investment mandate under our Proposal is in line with that offered by Pinnacle, namely to:

- preserve core elements of current unique product attributes across the portfolio;
- expand the mandate to allocate the portfolio across a select list of alternative asset managers that represent the best of each associated industry/asset category; and
- where applicable, introduce private market investment classes, including debt and infrastructure.

The new Board of Directors will be committed to effective capital management initiatives to ensure the share price of the company reflects the underlying asset value of the portfolio.

Transition arrangements with BLA

Subject to discussions with BAF and BLA, we would look to transition the existing arrangements with BLA in line with the terms offered by Pinnacle, namely:

- mutually agreed cessation of BLA mandate to manage the BAF portfolio, effective 31 December 2018;
- new investment mandate to be implemented with BLA with respect to the ongoing management of the current portfolio of BLA investments from 1 January 2018;
- a 1.2% management fee payable to BLA on a fund-by-fund only basis, monthly in arrears;
- a 17.5% performance fee in excess of an 8.0% internal rate of return (IIR) payable to BLA, calculated from 1 January 2019 (payable on exit for closed-ended funds) with the investment cost base reset to be applied at the higher of \$1.00 per unit or the carrying value of the investment per unit as at 31 December 2018; and
- any period of underperformance from the 8.0% per annum IIR hurdle in the existing mandate through to 31 December 2018 to be caught up prior to future performance fees being paid.



Key dates & shareholder approval

We look forward to working with you on this superior Proposal and to you recommending it to shareholders for their approval. We will instruct our lawyers to work with your team to finalise any outstanding documentation.

We want to pursue discussions with BAF in relation to the Proposal in a compelling and constructive manner to bring this offer to BAF shareholders. We believe it is in the best interest of BAF shareholders that our superior Proposal be put to them as soon as possible.

Subject to further discussions with yourself and the Independent Directors of BAF, we aim to set a mutually agreeable and beneficial timetable in relation to the Proposal and obtaining shareholder approval.

Confidentiality

Wilson Asset Management has taken appropriate steps to maintain the confidentiality of this letter and has confined knowledge of this initiative and the Proposal to a very small circle of persons on a need-to-know basis. However, we acknowledge that the Board may wish to announce the submission of our Proposal to the ASX and we consent to that announcement.

Conclusion

Wilson Asset Management believes that the Proposal is a compelling proposition for BAF and its shareholders.

If you would like further information with respect to the above, have any questions or queries, please contact me on 02 9247 6755 and 0412 242 712 or Chief Financial Officer, Jesse Hamilton on 02 9258 4953 and 0401 944 807. We look forward to your timely response.

Yours sincerely,

Geoff Wilson AO
Chairman
Wilson Asset Management



Annexure A

Wilson Asset Management Information

This section provides information on Wilson Asset Management. If the Proposal is implemented, Wilson Asset Management will be responsible for managing BAF's diversified portfolio of alternative assets.

Overview

Wilson Asset Management is an independently owned boutique investment manager established in 1997 by Geoff Wilson. Wilson Asset Management consists of two management companies, Wilson Asset Management (International) Pty Limited and MAM Pty Limited.

Wilson Asset Management (International) Pty Limited was incorporated in 1997 and MAM Pty Limited was incorporated in 2002 to undertake the active management of listed investment companies and unlisted funds. Wilson Asset Management provides investment portfolio management services to the following entities:

WAM Capital Limited (ASX: WAM)

WAM Capital was listed on the ASX in 1999 and is a LIC primarily investing in small to mid-cap Australian equities. As at 30 September 2018, the total value of the WAM Capital portfolio of investments was \$1,405.4 million.

WAM Leaders Limited (ASX: WLE)

WAM Leaders is a LIC that listed on the ASX in 2016 primarily investing in large-cap Australian equities. As at 30 September 2018, the total value of the WAM Leaders portfolio of investments was \$864.7 million.

WAM Global Limited (ASX: WGB)

WAM Global was listed on the ASX in 2018 and is a LIC primarily investing in small to mid-cap international companies. As at 30 September 2018, the total value of the WAM Global portfolio of investments was \$467.0 million.

WAM Microcap Limited (ASX: WMI)

WAM Microcap is a LIC that listed on the ASX in 2017 primarily investing in micro-cap Australian equities. As at 30 September 2018, the total value of the WAM Microcap portfolio of investments was \$202.2 million.



WAM Research Limited (ASX: WAX)

WAM Research is a LIC that listed on the ASX in 2003 as Wilson Investment Fund Limited. In July 2010 the company changed its name and investment strategy. WAM Research primarily invests in small to mid-cap Australian equities. As at 30 September 2018, the total value of the WAM Research portfolio of investments was \$253.4 million.

WAM Active Limited (ASX: WAA)

WAM Active is a LIC that listed on the ASX in 2008 primarily investing in market mispricing in the Australian equity market. As at 30 September 2018, the total value of the WAM Active portfolio of investments was \$51.7 million.

Wilson Asset Management Equity Fund (WAMEF)

The Wilson Asset Management Equity Fund is a wholesale unit trust established in December 1997. WAMEF units are not listed on the ASX. As at 30 September 2018, the total value of the Fund's portfolio of investments was \$64.2 million.

Century Australia Investments Limited (ASX: CYA)

Wilson Asset Management was appointed the investment manager for Century Australia on 18 April 2017. As at 30 September 2018, the total value of the Century Australia portfolio of investments was \$96.9 million.