



Annual Report

For the year ended 30 June 2020

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Blue Sky Alternatives Access Fund Limited

Suite A, Level 10, Brisbane Club Tower
241 Adelaide Street
Brisbane QLD 4000

Directors' Report

The Directors present their report for Blue Sky Alternatives Access Fund Limited (the 'Company' or the 'Alternatives Fund') for the 2020 Financial Year ('FY20').

DIRECTORS

The names of the Company's Directors in office during the financial year and until the date of this report are set out below. Directors were in office for the entire financial year.

| | |
|-----------------|------------------------------------|
| Michael Cottier | Independent Non-Executive Chair |
| Kym Evans | Independent Non-Executive Director |
| John Baillie | Independent Non-Executive Director |
| Miles Staude | Non-Executive Director |

ABOUT THE COMPANY

The Alternatives Fund is a listed investment company that invests in a diverse range of alternative assets including:

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

The Alternatives Fund is one of the only listed investment companies on the 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 trading under the code BAF.

BSAAF Management Pty Limited (the 'Manager' or 'BSAAF'), a wholly owned subsidiary of Blue Sky Alternatives Investments Limited (Administrators appointed) (Receivers and Managers appointed) ('BLA' or 'Blue Sky') is the manager of the Alternatives Fund.

OBJECTIVES OF THE COMPANY

The primary objectives of the Alternatives Fund are to:

- Deliver long term absolute returns to shareholders, through both growth in Net Tangible Assets ('NTA') and a dividend yield (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 other private market alternative assets.

Directors' Report - continued

OPERATING AND FINANCIAL REVIEW

Deployment of capital and portfolio weighting

\$1.4 million (2019: \$9.0 million) of capital was deployed in FY20. This investment was additional previously committed capital contributed to the Strategic Australian Agriculture Fund; an existing Real Assets fund. The Company elected not to deploy any previously uncommitted capital having regard to the ongoing material share price discount to NTA under current management arrangements and until such time as the future management arrangements were considered to be more certain. The total number of investments in the portfolio at the end of FY20 was 32 (2019: 42). The Alternatives Fund's portfolio allocations at 30 June 2020 are as follows:

| Asset Class | Weighting at 30 June 2020 | Investments held at fair value |
|----------------------------|---------------------------|---|
| Private equity | 24.4% | \$37.4 million in 15 single asset growth capital funds \$14.7 million in 5 single asset venture capital funds and 1 multi-asset fund |
| Private real estate | 6.8% | \$0.2 million in 3 purpose-built student accommodation funds \$8.8 million in 2 New York commercial real estate projects \$5.4 million in 2 income-generating commercial properties |
| Real assets | 43.0% | \$55.2 million in the Argyle Water Fund \$7.5 million in 1 operating agribusiness asset and 1 renewables asset \$29.2 million in the Strategic Australian Agriculture Fund (including \$12.7m into the Argyle Water Fund) |
| Cash | 25.8% | \$55.0 million* |

* Includes capital to fund the remaining \$1.88 million of the \$25.0 million commitment to the Strategic Australian Agriculture Fund, which is subject to be called pursuant to the Trust Deed. The capital commitment was reduced to \$1.3 million in July 2020 following the receipt of the End of Investment Period notice from the investment manager of the Strategic Australian Agriculture Fund.

Results and investment performance

Profit from ordinary activities after income tax was \$5.13 million in FY20 (2019: \$6.71 million). Earnings per share ('EPS') for the period was 2.59 cents per share (2019: 3.27 cents per share).

The Company's portfolio delivered a pre-tax fund performance of 2.51% (2019: 4.75%) (including movement in NTA, dividends, franking credits and the impact of the share buy-back program) for FY20. Pre-tax NTA decreased by \$0.0345 from \$1.1199 per share at 30 June 2019 to \$1.0854 per share at 30 June 2020, after paying dividends of 4.0 cents per share (franked to 65%) in September 2019 and 1.0 cent per share (fully franked) in March 2020. The on-market share buy-back program had a positive impact of \$0.0097 on pre-tax NTA per share.

Investment performance was 6.24% on pre-tax NTA for the first seven months of the financial year. After February 2020, the impact of COVID-19 was felt across a range of investments which resulted in significant write downs on several assets from February through to June decreasing the full year pre-tax NTA return to 2.51%. The investment in the Argyle Water Fund represents a total exposure of 32.5% of the portfolio as at 30 June 2020. The Argyle Water Fund performed strongly for the first nine months of the financial year, achieving a year to date return of 15.6% before some negative returns for the last quarter of the financial year reduced the overall investment performance to 11.2% for the full year (2019: 23.9%). These movements were not considered as being COVID-19 related but part of normal cycles within the asset class.

The COVID-19 pandemic is continuing to have a significant impact on the Company and particularly in the Private Equity portfolio, which represents 24.4% of the investment portfolio at year-end. Measures are being taken by all investment management teams to suppress the impact on all of their investments. The immediate effects have been wide ranging from severe to neutral, and even positive in some instances. The Manager has advised the Board that the investment management teams have worked together with their portfolio company management teams and reacted quickly to stabilise their respective businesses, assess the new environment and plan for a range of future scenarios. Overall, the portfolio has benefited from low levels of leverage and the investment management teams advise that the portfolio companies are in a sound liquidity position. At this stage, no portfolio company has required emergency funding. Nonetheless, the investment management teams critically assessed the valuation implications for the portfolio companies making significant changes to forecast earnings which ultimately manifest themselves in the individual unit price of the Alternatives Fund's investment and the NTA of the Company. Consistent with a range of other funds management businesses, the Board made the decision to apply temporary provisions against a number of investments where a lack of certainty warranted it during the year.

A number of unhedged US dollar investments across the broader portfolio, in particular investments into the US (esVolta, US Real Estate), have remained volatile due to the significant swings in the Australian Dollar since peak negative sentiment in March 2020. The agricultural and water investments within the portfolio, which represent 43.0% of the Company's portfolio, have felt little to no impact other than some concerns about labour availability within regional Australia.

The Board has been proactive in obtaining investor updates from the investment management teams and reviewing valuation matters. For the avoidance of doubt, there is no benefit to the investment management teams as to the level of unrealised carrying values of the investments they manage. The investment funds, other than the Argyle Water Fund, are closed-ended in nature, with any performance related fees payable only upon exit.

The strong overall track record on exits continues, with total closed-end investment fund exits to date delivering the Alternatives Fund a weighted average internal rate of return ('IRR') on exits of 11% per annum since inception¹. Thirteen (2019: seven) closed-end funds were exited, or substantially exited with only residual amounts remaining during FY20. This was largely within the Private Real Estate portfolio with the most notable exit being the sale of Blue Sky's Student Accommodation portfolio to Scape on 6 September 2019 in which the Company had invested \$24.5 million and received \$38.1 million (inclusive of distributions, franking credits and fee rebates) for an overall Investment IRR of 8.9%. Partly offsetting these exit results were disappointing exit outcomes from three smaller Brisbane apartment investments (\$4.0 million invested capital) and one Real Assets investment (\$1.4 million invested capital) that did not progress as per the Manager's original business case.

Pleasingly, the Alternatives Fund's \$3.0 million investment into Sunfresh Salads which was deployed in June 2017, grew to \$4.8 million in value and was sold to Houston Farms. The investment generated \$3.1 million in cash proceeds which were received in FY20 and FY21, coupled with a residual \$1.7 million equity position in the combined new entity. The Board was pleased with the outcome and the co-operation from both parties in completing this transaction during the midst of the COVID-19 pandemic.

In addition to valuation movements brought to account there remained a heightened level of Company expenditure during the year continuing to be driven by the events impacting the wider Blue Sky group. These expenses included legal fees, audit fees and the resolution of outstanding matters pertaining to the termination of the management services agreement with BSAAF. These expenses are expected to reduce considerably in FY21, subject to shareholder approval being obtained for the manager transition at the EGM to be held on 8 September 2020.

Outlook

The Board continues to expect ongoing asset realisations with the portfolio now being relatively mature. The Board also anticipates distribution income to continue to be received albeit at a reduced rate, particularly where COVID-19 continues to warrant cash conservatism within portfolio companies. A summary of the portfolio can be found on page 53. At 30 June 2020, 19 of the Company's 31 closed-end investments were carried under the Alternative Fund's valuation policy at \$1 or less for each \$1 invested, with a further 5 carried between \$1.01 - \$1.20 and 7 investments held at values in excess of \$1.21.

CAPITAL MANAGEMENT PROGRAM

In FY20, the Company acquired 6,572,178 shares, representing 3.3% of securities on issue at the beginning of the period, through its continuing on-market share buy-back program. The shares were purchased at an average price of \$0.7927 for a total investment of \$5.2 million. The acquisition of these shares at a 19% to 46% discount to NTA had a positive impact of \$0.0097 per share to pre-tax NTA. The buy-back program was renewed for an additional 12 months on 18 May 2020.

From commencement of the on-market share buy-back program in May 2018 through to 30 June 2020, 20,111,443 shares have been purchased for a total investment of \$16.5 million. Given the outcomes of the buyback program in the more than two years it has been in place, including the continuing material share price discount to NTA, and given the upcoming proposed manager transition, the Directors intend to review the program again, and will promptly advise shareholders of the outcome of that review.

¹ The returns are equity-weighted composite IRRs from fully realised investments and redemptions, inclusive of franking credits, and before management and performance fees on the Company's portfolio as a whole. Past performance is not a reliable indicator of future performance.

Directors' Report - continued

DIVIDENDS

| Cash dividends to the equity holders | As at | |
|---|------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Dividends on ordinary shares declared and paid: | | |
| FY19 Final Dividend: 4.0 cents per share franked to 65% (FY18: 4.0 cents, franked to 65%) | 8,034 | 8,348 |
| FY20 Interim Dividend: 1.0 cent per share fully franked (FY19: 1.0 cent franked to 65%) | 1,970 | 2,032 |
| Total dividends on ordinary shares declared and paid | 10,004 | 10,380 |
| Dividends declared subsequent to balance date: | | |
| FY20 Final Dividend: 3.0 cents per share fully franked (2019: 4.0 cents franked to 65%) | 5,816 | 8,036 |

On 28 August 2020, the Directors resolved to pay a final dividend of 3.0 cents per share in relation to FY20, fully franked at a 27.5% corporate income tax rate. The record date for this dividend is 11 September 2020 and the payment date is 25 September 2020. A provision for this dividend has not been recognised in the FY20 Financial Report.

The Directors consider the reduction of the final dividend from the prior year as a prudent response to the prevailing market conditions impacting portions of the investment portfolio. The Directors expect the Company's capital management program to adapt as necessary whilst maintaining both interim and final dividends to shareholders where possible.

EARNINGS PER SHARE

| | 30 June 2020 Cents | 30 June 2019 Cents |
|--------------------------------------|-----------------------|-----------------------|
| Basic and diluted earnings per share | 2.59 | 3.27 |

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 20 May 2019, the parent company of the Manager, BLA, announced voluntary administrators and receivers and managers had been appointed to it by Oaktree Capital Partners, L.P. ('Oaktree'). This remained the case for FY20 as BLA continues to work through its restructure. In FY19 all investments held by the Company were directly managed by wholly owned subsidiaries of BLA. During the course of FY20, BLA progressively transitioned many of the investment management teams out of the group structure to stand alone asset management firms partly owned by Australian Alternative Asset Partners Pte. Ltd that continue to oversee the legacy investments of the Company.

The Board remained engaged in ongoing discussions and activities during this period, including receiving professional advice to ensure the interests of the Company were adequately protected.

Despite the finalisation of documented but non-binding key exit terms with BSAAF in late February 2020, COVID-19 and some interpretive differences of certain terms meant delays in finalising long form documentation that the Board felt comfortable taking to shareholders.

In FY20, the Company has continued to see its share price trade significantly below the NTA of the Company, albeit in a more stable range. In order to address this, the Company has implemented a range of decisions throughout the year including the manager transition and the continuation of the share buy-back program.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 16 July 2020 the Board announced that it had begun the process of appointing Wilson Asset Management (International) Pty Limited ('Wilson Asset Management') as the Company's new manager, having entered into a deed of termination with BSAAF, as well as a transitional services agreement with the outgoing and incoming manager to ensure a smooth transition. The termination of this agreement and the transition to Wilson Asset Management are subject to several conditions including BAF shareholder approval. On 7 August 2020 the Board announced the details of the upcoming extraordinary general meeting to be held on 8 September 2020 to vote on the proposal to transition the management of the Company to Wilson Asset Management.

On 28 August 2020, the Directors resolved to pay a final dividend of 3.0 cents per share in relation to FY20. Fully franked at a 27.5% corporate income tax rate, the record date for this dividend is 11 September 2020 and the payment date is 25 September 2020. A provision for this dividend has not been recognised in the FY20 Financial Report.

The Directors consider the reduction of the final dividend from the prior year as a prudent response to the prevailing market conditions impacting portions of the investment portfolio. The Directors expect the Company's capital management program to adapt as necessary whilst maintaining both interim and final dividends to shareholders where possible.

The Company's Dividend Reinvestment Plan ('DRP') will continue to be deferred, including in relation to the FY20 final dividend given that the Company's share price is trading at a significant discount to NTA.

Other than the above matters, there were no other subsequent events.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Board remains committed to delivering optimal outcomes for shareholders and looks forward to a brighter future ahead for shareholders with the expected transition to Wilson Asset Management, pending shareholder approval.

ENVIRONMENTAL REGULATION

The Company is not affected by any significant environmental regulation in respect of its operations.

INFORMATION ON DIRECTORS

Michael Cottier Independent Non-Executive Chair

Michael is currently an independent non-executive director of three other non-listed entities, two of which are in financial services. Between 2009 and 2014 Michael served as Chief Financial Officer ('CFO') of QSuper Group, where he was responsible for group-wide finance and governance functions.

Prior to joining QSuper, Michael spent seven years as CFO of QIC Limited. In that role Michael was responsible for group-wide finance and governance functions together with corporate advisory and human resources services.

Prior to this, Michael was Head of Finance and Tax at Suncorp Metway Ltd.

Michael holds a Bachelor of Business from the Queensland University of Technology and a Masters of Taxation from the University of Queensland. He is a Fellow of the Australian Institute of Company Directors, Chartered Accountants Australia and New Zealand and CPA Australia.

| | |
|--|------|
| Other current Directorships of listed entities: | None |
| Former Directorships of listed entities (in the last 3 years): | None |
| Interests in shares: | None |

Directors' Report - continued

Kym Evans Independent Non-Executive Director

Kym has over 30 years' experience in legal risk and general management roles.

Kym was a private practice lawyer for 10 years including 7 years with Allens. He had a further 10 years' experience as in-house counsel with HBOS Australia, Nortel Networks, Arnott's Biscuits and Flexirent Capital. Kym also performed management roles at BankWest (Head of Customer Projects Commercial and Business Division), Nortel Networks Australia (General Manager-Business Operations) and Flexirent Capital (General Manager Corporate Services). More recently he held a role as a senior consultant at Control Risk looking after account management and business development for Control Risks' three practice areas of political risk consulting, integrity risk consulting and security risk consulting.

Kym holds a Bachelor of Law, Bachelor of Economics and Masters of Cyber Security Operations. He has also completed the New York Bar Exam and the Harvard Business School General Management Program.

| | |
|--|---------------|
| Other current Directorships of listed entities: | None |
| Former Directorships of listed entities (in the last 3 years): | None |
| Interests in shares: | 37,983 shares |

John Baillie Independent Non-Executive Director

John has over 25 years' experience in financial services, including wealth management, corporate advisory, investor relations and private equity capital raisings.

John was a Senior Investment Advisor with Shaw and Partners (formerly Shaw Stockbroking) for 22 years, with an emphasis on portfolio management, trading and private equity capital raisings. In 2015 John established JB & Partners Corporate Advisory that specialises in strategic advice and succession planning for private companies; particularly family businesses. John has advised in a diverse range of industries, including financial services (particularly AFSL issues), FMCG companies, eCommerce and the funeral industry.

John is currently Chair of Seneca Financial Solutions and non-executive director of a number of private companies. He is a Graduate Member of the Australian Institute of Company Directors and holds a Graduate Diploma (Securities) from the Securities Institute of Australia.

| | |
|--|--|
| Other current Directorships of listed entities: | DXN Ltd (ASX:DXN) - Non-Executive Director |
| Former Directorships of listed entities (in the last 3 years): | None |
| Interests in shares: | 15,000 shares |

Miles Staude Non-Executive Director

Miles has over 18 years' experience working in capital markets across a range of senior roles.

Under the regulatory licences of Mirabella Financial Services LLP, Miles acts as the portfolio manager of Global Value Fund Limited (ASX:GVF) ('GVF') which is a substantial shareholder in the Company.

In his role as portfolio manager of GVF, Miles has overall responsibility for the GVF portfolio management team's trading and investment activities. Miles also serves as a director on the GVF board.

Miles spent ten years as a portfolio manager and investment analyst at Metage Capital, a London based investment management firm. Before joining Metage he spent five years as a sell-side equity analyst at RBC Capital Markets, based in both Sydney and London.

| | |
|--|--|
| Other current Directorships of listed entities: | Global Value Fund Limited (ASX: GVF) - Non-Executive Director |
| Former Directorships of listed entities (in the last 3 years): | None |
| Interests in shares: | 10,868,143 shares - shares are held by GVF, of which Mr Miles Staude is a Director and portfolio manager under the regulatory licences of Mirabella Financial Services LP. |

COMPANY SECRETARY

Jane Prior

Jane holds a Bachelor of Arts and a Bachelor of Laws from the University of Queensland and is admitted as a solicitor of the Supreme Courts of QLD and NSW. Jane has worked in law firms in Brisbane and London, where she advised on fund establishments and investments as well as a range of joint venture, private equity and M&A transactions.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board and of each Board committee held for the year ended 30 June 2019 and the number of meetings attended by each Director were:

| | Meetings of committees | | | | | |
|-----------------|----------------------------|----|----------------|---|-----------------------------|---|
| | Full meetings of Directors | | Audit and Risk | | Remuneration and Nomination | |
| | A | B | A | B | A | B |
| Michael Cottier | 16 | 16 | 4 | 4 | 2 | 2 |
| Kym Evans | 16 | 16 | 4 | 4 | 2 | 2 |
| John Baillie | 16 | 16 | 4 | 4 | 2 | 2 |
| Miles Staude | 15 | 16 | 4 | 4 | 2 | 2 |

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the period

INSURANCE AND INDEMNIFICATION OF OFFICERS

The Company maintains Directors and Officers insurance and has entered into a Deed of Access, Insurance and Indemnity with each Director. During FY20, the Company paid premiums in respect of Directors and Officers liability and for professional indemnity insurance contracts, for all Directors of the Company named in this report, as well as other Officers of the Company.

This policy insures persons who are Directors or Officers of the Company against certain liabilities incurred as such by a Director or Officer, while acting in that capacity, except where the liability arises out of conduct involving lack of good faith. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors and Officers liability insurance contract, as such disclosure is prohibited under the terms of the contract.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

NON-AUDIT SERVICES

Details of amounts paid to the Alternatives Fund's previous auditor, Ernst & Young, for non-audit services provided during the financial year are outlined in Note 21.

The Company received ASIC's consent for the resignation of Ernst & Young as auditor of the Company on 27 May 2020. On 28 May 2020, Ernst & Young resigned as auditor of the Company by mutual agreement with the Company.

On 29 May 2020, the Directors appointed Pitcher Partners Sydney (ABN 17 795 780 962) as the Company's auditor. Details of the amounts paid or payable to the auditor, Pitcher Partners, for non-audit services provided during the financial year are outlined in Note 21.

Directors' Report - continued

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth) (the 'Act').

The Directors are of the opinion that the services as disclosed in Note 21 to the Financial Report do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Pitcher Partners, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount) and which have not arisen from the auditor's negligence or wrongful acts or omissions. No payment has been made to indemnify Pitcher Partners during or since the end of FY20.

OFFICERS OF THE COMPANY WHO ARE FORMER AUDIT PARTNERS OF PITCHER PARTNERS

There are no Officers of the Company who are former audit partners of Pitcher Partners.

ROUNDING

The amounts contained in this report and in the Financial Report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in the Financial/Directors' Report) Instrument 2016/191. The Company is an entity to which Instrument 2016/191 applies.

AUDITOR INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Act is set out on page 14.

Remuneration Report (Audited)

The remuneration report details the nature and amount of remuneration for each Director of the Company in accordance with the *Corporations Act 2001 (Cth)*.

REMUNERATION POLICY AND FRAMEWORK

Each Independent Director (other than Mr Miles Staude) receives \$40,000 per annum and Mr Michael Cottier receives an additional \$5,000 per annum for his services as Chair. These amounts are exclusive of compulsory superannuation, when applicable. Mr Miles Staude has offered to perform the services of Director for nil remuneration.

Under the ASX Listing Rules, the maximum fees payable to Directors may not be increased without approval from the Company at a general meeting. Directors will seek approval from time to time as appropriate. Entitled Directors receive a superannuation guarantee contribution as required by law, which is currently 9.5%, and do not receive any retirement benefits or annual and long service leave. All remuneration paid to Directors is valued at the cost to the Company and expensed where appropriate. There are no employee share or option arrangements for the Directors. As the Company does not pay performance based fees to the Directors, nor provide share or option schemes to Directors, remuneration is not explicitly linked to the Company's performance.

Notwithstanding this, the Board members are subject to ongoing performance monitoring and regular performance reviews.

DETAILS OF REMUNERATION

The Directors' remuneration, inclusive of GST and compulsory superannuation where applicable, incurred during the current and prior period, is as follows:

| Director | Position | Salary \$ | Superannuation \$ | Total \$ |
|------------------------------------|--|--------------|----------------------|-------------|
| Michael Cottier² | | | | |
| 2020 | Independent Non-Executive Chair | 45,000 | 4,275 | 49,275 |
| 2019 | | 49,111 | 4,666 | 53,777 |
| Kym Evans² | | | | |
| 2020 | Independent Non-Executive Director | 40,000 | 3,800 | 43,800 |
| 2019 | | 23,333 | 2,217 | 25,550 |
| John Baillie² | | | | |
| 2020 | Independent Non-Executive Director | 40,000 | 3,800 | 43,800 |
| 2019 | | 23,333 | 2,217 | 25,550 |
| Miles Staude³ | | | | |
| 2020 | Non-Executive Director | - | - | - |
| 2019 | | - | - | - |
| Paul Masi² | | | | |
| 2020 | Independent Non-Executive Chair/Retired | - | - | - |
| 2019 | | 20,833 | 1,979 | 22,812 |
| Peter Wade⁴ | | | | |
| 2020 | Independent Non-Executive Director/Retired | - | - | - |
| 2019 | | 7,930 | 753 | 8,683 |
| Total | | | | |
| 2020 | | 125,000 | 11,875 | 136,875 |
| 2019 | | 124,540 | 11,832 | 136,372 |

The Company has a Board, but no employees. All operational and administrative duties are performed by the Manager. Mr Miles Staude has continued to perform the services of Director for nil consideration. Refer to Note 6 of the Financial Report for further information regarding fees charged by the Manager to the Company.

² On 29 November 2018, Mr Kym Evans and Mr John Baillie were appointed as Independent Non-Executive Directors of the Company; Mr Andrew Champion retired as an Executive Director of the Company; Mr Paul Masi retired as Independent Non-Executive Chair of the Company. Mr Michael Cottier replaced Mr Paul Masi as Non-Executive Chair of the Company.

³ On 28 June 2019, Mr Miles Staude was appointed as a Non-Executive Director of the Company.

⁴ On 4 October 2018, Mr Peter Wade was appointed as an Independent Non-Executive Director of Company; On 29 November 2018, Mr Peter Wade retired as an Independent Non-Executive Director of the Company.

Remuneration Report (Audited) - continued

1. PERFORMANCE AND EXECUTIVE REMUNERATION OUTCOMES IN FY20

Overview of company performance

The following table reflects the Company's performance and Directors' remuneration over five years:

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---------|---------|---------|---------|---------|
| NPAT (\$'000) | 5,134 | 6,713 | 5,035 | 13,027 | 13,496 |
| Post-tax NTA (\$ per share) | 1.0857 | 1.1004 | 1.1084 | 1.1210 | 1.0940 |
| Total Directors' remuneration (\$) | 136,875 | 136,372 | 114,975 | 167,312 | 153,800 |
| Share price at year end (\$) | 0.720 | 0.760 | 0.800 | 1.159 | 1.178 |
| Basic EPS (cents) | 2.59 | 3.27 | 2.55 | 8.44 | 12.17 |
| Total dividends declared and paid (cents per share) | 5.0 | 5.0 | 5.0 | 6.0 | 3.0 |

Directors' fees are not directly linked to the Company's performance.

Shareholdings of Directors

As at 30 June 2020, shares issued by the Company and held by the Directors and their related entities are set out below:

| Director | Opening balance ⁵ (number of shares) | Net number of shares acquired | Net number of shares disposed | Closing balance ⁵ (number of shares) |
|---------------------------|--|----------------------------------|----------------------------------|--|
| Michael Cottier | - | - | - | - |
| Kym Evans | - | 37,983 | - | 37,983 |
| John Baillie | 15,000 | - | - | 15,000 |
| Miles Staude ⁶ | 10,868,143 | - | - | 10,868,143 |

As at 30 June 2019, shares issued by the Company and held by the Directors and their related entities are set out below:

| Director | Opening balance ⁵ (number of shares) | Net number of shares acquired | Net number of shares disposed | Closing balance ⁵ (number of shares) |
|---------------------------|--|----------------------------------|----------------------------------|--|
| Michael Cottier | - | - | - | - |
| Kym Evans | - | - | - | - |
| John Baillie | 15,000 | - | - | 15,000 |
| Miles Staude ⁶ | 10,868,143 | - | - | 10,868,143 |
| Andrew Champion | 437,500 | - | - | 437,500 |
| Paul Masi | 600,001 | - | - | 600,001 |
| Peter Wade | - | - | - | - |
| Lazarus Siapantas | 50,000 | - | - | 50,000 |

⁵ Opening balances are as at 1 July of the financial year or date of appointment. Closing balances are as at 30 June of the financial year or date of resignation or retirement. Mr Andrew Champion, Mr Paul Masi, Mr Peter Wade and Mr Lazarus Siapantas all ceased to be Directors by December 2018.

⁶ Shares are held by GVF, of which Mr Miles Staude is a Director and portfolio manager under the regulatory licences of Mirabella Financial Services LP.

Directors' Report - continued

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Act.

On behalf of the Directors:



Michael Cottier
Independent Non-Executive Chair
28 August 2020

Brisbane

Independent Auditor's Declaration



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Sydney NSW 2000

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e. sydneypartners@pitcher.com.au

**Auditor's Independence Declaration
To the Directors of Blue Sky Alternatives Access Fund Limited
ABN 47 168 941 704**

In relation to the independent audit of Blue Sky Alternatives Access Fund Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor's independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

A handwritten signature in black ink, appearing to read "S M Whiddett".

S M Whiddett
Partner

Pitcher Partners
Sydney

28 August 2020

Adelaide Brisbane Melbourne Newcastle Perth Sydney

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Corporate Governance Statement

The Company's Corporate Governance Statement is available on its website at:
<http://blueskyfunds.com.au/alternatives-fund-shareholder/>

Financial Report

FOR THE YEAR ENDED 30 JUNE 2020

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GENERAL INFORMATION

The Financial Report covers Blue Sky Alternatives Access Fund Limited (the 'Company' or the 'Alternatives Fund'). The Company was registered on 4 April 2014 and began trading on the Australian Securities Exchange on 16 June 2014.

The Financial Report consists of the financial statements, notes to the financial statements and the Directors' Declaration.

The Company is a publicly listed investment company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite A, Level 10, Brisbane Club Tower
241 Adelaide Street
Brisbane QLD 4000

The Financial Report was authorised for issue, in accordance with a resolution of Directors, on the date that the Directors' Declaration was signed. The Directors have the power to amend and reissue the Financial Report

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | Year ended | |
|--|-------|---------------------------|---------------------------|
| | | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Net gain on financial assets held at fair value through profit or loss | 4 | 4,859 | 6,403 |
| Dividend and trust distribution income | 4 | 3,343 | 4,318 |
| Rebates net of management fees | 5 | (157) | 77 |
| Interest income | | 379 | 373 |
| Directors fees | 14 | (137) | (136) |
| Other expenses | 16 | (1,822) | (2,667) |
| Profit before income tax | | 6,465 | 8,368 |
| Income tax expense | 9 | (1,331) | (1,655) |
| Profit after income tax | | 5,134 | 6,713 |
| Other comprehensive income | | - | - |
| Total comprehensive income | | 5,134 | 6,713 |
| | | Cents | Cents |
| Earnings per share | | | |
| Basic and diluted earnings per share (profit per share) | 7 | 2.59 | 3.27 |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

FOR THE YEAR ENDED 30 JUNE 2020

| | | As at | |
|--|-------|---------------------------|---------------------------|
| | Notes | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Assets | | | |
| Cash and cash equivalents | 19 | 54,952 | 29,690 |
| Trade and other receivables | 15 | 2,324 | 1,683 |
| Current tax receivables | 9 | 1,011 | - |
| Financial assets held at fair value through profit or loss | 11 | 158,875 | 199,956 |
| Other assets | 17 | 276 | 136 |
| Total assets | | 217,438 | 231,465 |
| Liabilities | | | |
| Trade and other payables | 18 | 5,341 | 5,357 |
| Income tax payable | 9 | - | 906 |
| Deferred rebates | 5 | 30 | 970 |
| Deferred tax liabilities | 9 | 957 | 3,032 |
| Total liabilities | | 6,328 | 10,265 |
| Net assets | | 211,110 | 221,200 |
| Equity | | | |
| Issued capital | 13 | 204,867 | 210,087 |
| Profits reserve | | 10,602 | - |
| (Accumulated losses)/retained earnings | | (4,359) | 11,113 |
| Total shareholders' equity | | 211,110 | 221,200 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | Share capital \$'000 | Retained profits \$'000 | Total shareholders' equity \$'000 |
|---|-------|-------------------------|----------------------------|---|
| Balance as at 1 July 2018 | | 218,560 | 15,363 | 233,923 |
| Adoption of new accounting standards | | - | (583) | (583) |
| As at 1 July 2018 (restated) | | 218,560 | 14,780 | 233,340 |
| Total comprehensive income for the year | | - | 6,713 | 6,713 |
| Subtotal | | 218,560 | 21,493 | 240,053 |
| Transactions with equity holders in their capacity as equity holders: | | | | |
| Share buy-back | 13 | (8,473) | - | (8,473) |
| Dividends paid | 12 | - | (10,380) | (10,380) |
| Subtotal | | (8,473) | (10,380) | (18,853) |
| Balance as at 30 June 2019 | | 210,087 | 11,113 | 221,200 |

| | Notes | Share capital \$'000 | Retained profits \$'000 | Profits reserve \$'000 | Total shareholders' equity \$'000 |
|--|-------|-------------------------|----------------------------|---------------------------|--|
| Balance at 1 July 2019 | | 210,087 | 11,113 | - | 221,200 |
| As at 1 July 2019 | | 210,087 | 11,113 | - | 221,200 |
| Total comprehensive income for the year | | - | 5,134 | - | 5,134 |
| Transfer to profits reserve | | - | (10,602) | 10,602 | - |
| Subtotal | | 210,087 | 5,645 | 10,602 | 226,334 |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Share buy-back | 13 | (5,220) | - | - | (5,220) |
| Dividends paid | 12 | - | (10,004) | - | (10,004) |
| Subtotal | | (5,220) | (10,004) | - | (15,224) |
| Balance as at 30 June 2020 | | 204,867 | (4,359) | 10,602 | 211,110 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | Year ended | |
|---|-------|---------------------------|---------------------------|
| | | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Operating activities | | | |
| Rebates of transaction costs and fees (inclusive of GST) | | 3,896 | 3,713 |
| Dividend and trust distributions received | | 3,524 | 4,370 |
| Payments to suppliers (inclusive of GST) | | (2,865) | (4,727) |
| Interest received | | 379 | 434 |
| Income tax paid | | (5,323) | (2,008) |
| Net cash flows (used in)/from operating activities | 19 | (389) | 1,782 |
| Investing activities | | | |
| Payments for financial assets held at fair value through profit and loss | | (1,375) | (9,000) |
| Proceeds from disposal of financial assets held at fair value through profit and loss | | 42,250 | 24,172 |
| Net cash flows from investing activities | | 40,875 | 15,172 |
| Financing activities | | | |
| Share buy-back | | (5,220) | (8,473) |
| Dividends paid | | (10,004) | (10,380) |
| Net cash flows used in financing activities | | (15,224) | (18,853) |
| Net increase/(decrease) in cash and cash equivalents | | 25,262 | (1,899) |
| Cash and cash equivalents at the beginning of the financial period | | 29,690 | 31,589 |
| Cash and cash equivalents at the end of the financial year | 19 | 54,952 | 29,690 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

Section 1: About this Report

NOTE 1. BASIS OF PREPARATION

The Company invests in a diverse range of alternative assets, deriving revenue such as dividend and trust distribution income, and investment income from realised and unrealised gains and losses on investments held at fair value.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001 (Cth). The Company is a for-profit entity for the purpose of preparing the financial statements.

The Financial Report is presented in Australian dollars, which is the Company's functional and presentation currency.

The financial statements were authorised for issue by the Directors on 28 August 2020.

Compliance with International Financial Reporting Standards

The Financial Report of the Company also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

This Financial Report has been prepared on a going concern basis and under the historical cost convention except for assets and liabilities which are measured at fair value.

Comparatives

Where necessary, comparative information has been restated to align to changes in presentation in the current year.

Rounding

The amounts contained in the Financial Report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in the Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which Instrument 2016/191 applies.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 2. NEW AND AMENDED ACCOUNTING STANDARDS

a) Adoption of new accounting standards and interpretations

(i) AASB 16 Leases

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).

The Company does not hold any leases at 30 June 2020 and therefore there was no impact to the Company following the adoption of AASB 16.

(ii) IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 Income Taxes. It does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Company considered whether it has any uncertain tax positions and determined there was no impact to the Company following the adoption of IFRIC Interpretation 23.

b) Accounting standards issued but not yet effective

There were no new standards or interpretations applicable that would have a material impact for the Company in current or future reporting periods.

NOTE 3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are the determination of the fair value of investments and income tax, which are disclosed in Note 11 and Note 9 of the Financial Statements, respectively.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

Section 2: Results for the Year

NOTE 4. INVESTMENT INCOME

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Net gain on financial assets held at fair value through profit or loss | 4,859 | 6,403 |
| Dividend and trust distribution income | 3,343 | 4,318 |
| Total investment income | 8,202 | 10,721 |

ACCOUNTING POLICY

Net gains on financial assets held at fair value through profit and loss

Profits and losses realised from the sale of investments, unrealised gains and losses on investments held at fair value and performance fee rebates held at fair value are included in the Statement of Comprehensive Income in the year in which they arise in accordance with the policies described in Note 11.

Dividend and trust distribution income

Dividend and trust distribution income is included in the Statement of Comprehensive Income in the year in which it is received or when the right to receive payment is established.

NOTE 5. REBATES NET OF MANAGEMENT FEES

5.1 Rebate income

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Rebate income | | |
| Rebates of transaction costs and management fees | 2,568 | 2,906 |
| Management fee expenses | (2,725) | (2,829) |
| Total rebate income | (157) | 77 |

The Company derives rebate income in accordance with the management services agreement with the Manager. The management services agreement states the following in relation to fees charged by Blue Sky Entities⁷:

- (i) The Manager must ensure the trustee, responsible entity or controlling entity (as applicable) of each Blue Sky Fund in which an Authorised Investment is made does not charge the Company any fees (whether management fees, performance fees or otherwise) in respect of the Authorised Investment. If any such fees are charged and paid by the Company the Manager must rebate such fees to the Company as soon as is practicable; and
- (ii) The Company will be required to fund its pro-rata share of any transaction costs and establishment fees charged by a Blue Sky Entity to investors (excluding any capital raising and marketing fees) in a Blue Sky Fund Entity in which an Authorised Investment is made by the Manager on behalf of the Company.

To the extent any fees are paid by the Company (either directly or indirectly) over and above the non-rebateable transaction costs and establishment fees, they will be rebated to the Company. For the 2020 Financial Year \$2,567,898 (2019: \$2,906,144) (excluding GST) of fees have been rebated to the Company.

⁷ Capitalised terms refer to definitions provided in the Company's prospectus which is available on the Company's website and the ASX.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

5.2 Deferred rebates

| | As at | |
|-------------------------------|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Deferred rebates ⁸ | 30 | 970 |
| Total deferred rebates | 30 | 970 |

⁸ Deferred rebates to be realised within 12 months are \$29,682 (2019: \$954,870) and nil for greater than 12 months (2019: \$15,219).

ACCOUNTING POLICY

Rebate income

Rebate income is recognised when it is received or when the right to receive payment is established in accordance with the management services agreement.

Deferred rebates

Rebates are deferred and recorded as a liability where the rebate is invoiced in advance of the provision of the related investment services upon which the rebate is paid.

NOTE 6. MANAGEMENT AND PERFORMANCE FEES

The Company has outsourced its investment management function to the Manager. The Manager is a wholly owned subsidiary of Blue Sky Alternative Investments Limited (Administrators appointed) (Receivers and Managers appointed) (ASX:BLA), a related party of the Company. A summary of the fees charged by the Manager is set out below.

6.1 Management fees

The Manager is entitled to be paid a management fee equal to 1.20% (excluding GST) of the Portfolio Net Asset Value per annum. The management fee is accrued monthly and paid within 14 days of the monthly Portfolio Net Asset Value of the Company being disclosed on the ASX.

During the 2020 Financial Year, the Company incurred \$2,724,600 (2019: \$2,829,390) of management fees, inclusive of the net impact of GST.

6.2 Performance fees

At the end of each financial year, the Manager is entitled to receive a performance fee from the Company, the terms of which are outlined below.

- (i) The fee is calculated and accrued monthly using the following formula:

$$P = 17.5\% \times (A - B) \times C$$

Where:

P is the Performance Fee for the relevant month;

A is the Investment Return of the Portfolio for the relevant month;

B is the Hurdle Return for the relevant month; and

C is the Portfolio Net Asset Value at the end of the last day of the relevant month.

- (ii) The Performance Fee for each month in a Financial Year will be aggregated (including any negative amounts carried forward) and paid annually in arrears if the aggregate performance fee for the Financial Year is a positive amount provided that:
- (A) if the aggregate Performance Fee for a Financial Year is a negative amount, no Performance Fee shall be payable to the Manager in respect of that Financial Year, and the negative amount shall be carried forward to the following Financial Year; and
- (B) any negative aggregate Performance Fee amounts from previous Financial Years that are not recouped in a Financial Year shall be carried forward to the following Financial Year.
- (iii) "Investment Return" means the percentage by which the Portfolio Net Asset Value at the end of the last day of the relevant month exceeds or is less than the Portfolio Net Asset Value at the end of the last day of the month immediately prior to the relevant month, excluding any additions to or reductions in equity in the Company during the relevant month including dividend reinvestments, new equity issues, the exercise of share options, share buy-backs, payment of dividends and the payment of tax.
- (iv) "Hurdle Return" means, in respect of the relevant month, 8.0% on a per annum basis.
- (v) "Portfolio Net Asset Value" means the Portfolio Market Value reduced by any accrued but unpaid expenses of the Company, but not provisions for tax payable, and after subtracting any borrowings drawn down and adding back any borrowings repaid.
- (vi) "Portfolio Market Value" means the fair value of investment assets of the Portfolio (including cash).
- (vii) "Financial Year" means the period beginning 1 July and ending 30 June for the relevant year.

For the 2020 Financial Year, the Company did not incur a performance fee (2019: nil).

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 7. EARNINGS PER SHARE

| | Year ended | |
|---|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Profit after income tax | 5,134 | 6,713 |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic and diluted earnings per share | 198,485,498 | 205,088,202 |
| | Cents | Cents |
| Basic and diluted earnings per share | 2.59 | 3.27 |

ACCOUNTING POLICY

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares and potential ordinary shares (options) outstanding for the same financial year.

As the Company did not have any outstanding options during the year, basic and diluted earnings per share are the same.

NOTE 8. OPERATING SEGMENTS

Although the Company invests across a number of alternative asset classes, the Company's financial statements are prepared on the basis that there is only one operating segment: Alternative Asset Investment. In assessing performance and determining the allocation of resources, the Directors (who are identified as the Chief Operating Decision Makers ('CODM')) use internal reports which consider the revenue from distributions, interest and other returns from the Company's investment portfolio as a whole.

ACCOUNTING POLICY

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the CODM. The CODM is responsible for the allocation of resources to the segment and assessing its performance.

NOTE 9. TAXATION

9.1 Reconciliation of income tax expense

| | Year ended | |
|---|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Profit from ordinary activities before income tax | 6,465 | 8,368 |
| Tax at the Australian tax rate of 27.5% (2019: 27.5%) | 1,778 | 2,301 |
| Effect of change in tax rate | 61 | (633) |
| Adjustments in respect to income tax of previous year | (111) | (140) |
| Tax effect amounts which are not taxable in calculating taxable income: | | |
| Non-assessable income | (3) | - |
| Income subject to foreign income tax offsets | - | (44) |
| Tax exempt income and losses | 31 | 112 |
| Franked distributions received and expected | (425) | 59 |
| Income tax expense | 1,331 | 1,655 |
| <i>Represented by:</i> | | |
| Current tax | 3,403 | 3,795 |
| Deferred tax | (2,072) | (2,140) |
| Aggregate income tax expense | 1,331 | 1,655 |

The applicable tax rate for the year was 27.5% (2019: 27.5%). The 27.5% rate applies to the Company for the year ended 30 June 2020, on the basis its aggregated turnover was less than \$25 million for the year.

9.2 Breakdown of deferred tax balances

| | Deferred tax asset 30 June 2020 \$'000 | Deferred tax liability 30 June 2020 \$'000 | Deferred tax asset 30 June 2019 \$'000 | Deferred tax liability 30 June 2019 \$'000 |
|---|--|--|--|--|
| Net unrealised losses/(gains) on investments | 3,698 | (4,844) | 3,846 | (6,383) |
| Equity raising costs | 151 | - | 253 | - |
| Other temporary differences | 170 | - | 166 | - |
| Accrued rebates | - | (132) | - | (914) |
| Total | 4,019 | (4,976) | 4,265 | (7,297) |
| Set-off against deferred tax liabilities pursuant to set-off provisions | (4,019) | 4,019 | (4,265) | 4,265 |
| Net deferred tax balances | - | (957) | - | (3,032) |

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

9.3 Movements in deferred tax balances

| | Opening balance \$'000 | Adoption of new accounting standards \$'000 | Credited/ (Charged) to profit or loss \$'000 | Credited/ (Charged) to equity \$'000 | Tax losses \$'000 | Closing balance \$'000 |
|--------------------------|------------------------------|--|---|---|----------------------|------------------------------|
| 2020 | | | | | | |
| Deferred tax assets | 4,264 | - | (249) | 4 | - | 4,019 |
| Deferred tax liabilities | (7,296) | - | 2,320 | - | - | (4,976) |
| 2019 | | | | | | |
| Deferred tax assets | 2,838 | - | 1,420 | 7 | - | 4,265 |
| Deferred tax liabilities | (8,264) | 247 | 720 | - | - | (7,297) |

9.4 Current tax receivable

| | As at | |
|-------------------------------------|------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Current tax receivable/(payable) | 1,011 | (906) |
| Total current tax receivable | 1,011 | (906) |

ACCOUNTING POLICY

Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting financial year. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting financial year and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Goods and Services Tax (GST)

Revenues and expenses are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis.

Section 3: Capital and Financial Risk Management

NOTE 10. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including market risk (e.g. currency risk, price risk and interest rate risk), credit risk and liquidity risk.

The Board of Directors have implemented a risk management framework to mitigate these risks. The Board considers a number of matters in overall risk management including specific areas, such as interest rate risk, credit risk, foreign exchange risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity.

The Company uses different methods to measure the different types of risk to which it is exposed. These methods are explained below and on the following pages.

10.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Currency risk

The Company is invested in ten (2019: eleven) funds which own underlying assets denominated in USD. The Company has a foreign currency exposure totalling \$26,458,137 (2019: \$31,237,848). A 10% increase/(decrease) in the foreign currency exchange rate would result in an increase/(decrease) in the financial assets of \$2,645,814 (2019: \$3,123,785).

These investments represent 16.7% (2019: 15.9%) of the Company's investment portfolio and 12.5% (2019: 14.1%) of net assets, based on Australian dollar carrying values translated using the prevailing spot rate on 30 June 2020. As these assets are non-monetary assets, the foreign exchange risk is a component of price risk.

(ii) Price risk

The Company is exposed to equity securities price risk. This arises from investments held by the Company and classified in the Statement of Financial Position as financial assets held at fair value through profit and loss.

The Company seeks to manage and constrain price risk by diversification of the investment portfolio across multiple investments and industry sectors. The portfolio is maintained by the Manager within a range of parameters governing the levels of acceptable exposure to investments and asset classes. At 30 June 2020 all investments in the portfolio are managed by wholly owned subsidiaries of Blue Sky Alternative Investments Limited (Administrators appointed) (Receivers and Managers appointed), Australian Alternative Partners Pte. Ltd and appointed US investment managers. Blue Sky Alternative Investments Limited (Administrators appointed) (Receivers and Managers appointed) entered into administration on 20 May 2019. The Company's price risk sensitivities are disclosed in Note 11.

The Company's asset class allocation as at 30 June 2020, and for the prior period, is below:

| | 2020 % | 2019 % |
|------------------------------------|--------------|--------------|
| Unlisted private equity funds | 24.4 | 25.6 |
| Unlisted private real estate funds | 6.8 | 22.0 |
| Unlisted real assets funds | 43.0 | 39.3 |
| Cash and cash equivalents | 25.8 | 13.1 |
| | 100.0 | 100.0 |

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

Investments representing over 5% of the portfolio at 30 June 2020, and for the prior period, is below:

| | 2020 % | 2019 % |
|---------------------------------------|-------------|-------------|
| Argyle Water Fund | 25.9 | 22.9 |
| Strategic Australian Agriculture Fund | 13.7 | 12.4 |
| | 39.6 | 35.3 |

(iii) Cash flow and fair value interest risk

The Company is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Company to fair value interest rate risk. As at 30 June 2020, the cash at bank balance was \$54,952,257 (2019: \$29,689,943).

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Company does not have direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may be indirectly affected by the impact of interest rate changes on the earnings of certain funds in which the Company invests and by the impact on the valuation of certain assets that use interest rates as an input in their valuations. The Company's sensitivity to interest rate changes is not material.

10.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk at balance date, excluding the value of any collateral or other security, is the carrying amount of assets and trade receivables net of any provisions for impairment. The Company's maximum exposure to credit risk from trade receivables is \$1,868,357 (2019: \$1,514,327). The Company's trade receivables at 30 June 2020 relate to balances owing from subsidiaries of Blue Sky Alternative Investments Limited (Administrators appointed) (Receivers and Managers appointed), Australian Alternative Partners Pte. Ltd and appointed US investment managers.

Customers with balances past due but without provision for expected credit losses on trade receivables amount to \$1,748,805 as at 30 June 2020 (2019: \$959,546). The Company has recorded an impairment on trade receivables of \$303,044 in the 2020 Financial Year (2019: nil) in relation to certain management fee rebates which the Company does not expect to recover from the underlying fund through the investment manager. All of the Company's customers are operating and solvent, including the subsidiaries of Blue Sky Alternative Investments Limited (Administrators appointed) (Receivers and Managers appointed). The Company expects to collect approximately 90% of the trade debtors upon the successful transition of the Manager to Wilson Asset Management (International) Pty Ltd (Wilson Asset Management), subject to shareholder approval.

The Company's cash and cash equivalents are all held with a tier 1 regulated Australian Authorised Deposit-Taking Institution with a credit rating at the time of publication of AA- / Aa3.

There are no amounts of collateral held as security at 30 June 2020 (2019: nil).

10.3 Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Board and the Manager monitor the cash flow requirements in relation to the investing activities taking into account upcoming dividends, tax payments, investing activity and fund expenses.

The Company's inward cash flows depend upon the level of dividend, interest, rebates, asset realisations and distribution revenue received. Should these decrease by a material amount, the Company would amend its outward cash flows accordingly. As the Company's major cash outflows are normally the purchase of investments and dividends paid to shareholders, the level of both of these is managed by the Board.

The Board and the Manager have implemented a minimum cash requirement that is monitored on a monthly basis.

Refer to Note 18 for a summary of contractual maturities of the Company's financial liabilities.

10.4 Capital management

The Board and the Manager regularly ensure that the Company deploys its capital in an efficient manner into value creating investment strategies. The Company's primary objectives are to:

- Deliver long term absolute returns to shareholders, through both growth in Net Tangible Assets ('NTA') and a dividend yield (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 other alternative assets.

To achieve these objectives, the Board and the Manager monitor the monthly NTA results, investment performance, the Company's expenses and daily share price movements.

On 26 May 2016, the Directors provided shareholders with guidance stating that the Company is committed to paying annual dividends targeting at least 4% of closing post-tax NTA for each financial year, franked to the highest extent possible, provided there is sufficient profit and cash flow to do so.

For the purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the Company as disclosed in the Statement of Changes in Equity.

The Company's capital management program will adapt as necessary to prevailing market conditions, prudence and recommendations from the Manager.

On 16 May 2018, the Company entered into a share buy-back program for 12 months. The share buy-back program was renewed for an additional 12 month period on 16 May 2019 and 18 May 2020.

NOTE 11. FAIR VALUE MEASUREMENT

The table below presents the financial assets (by class) measured and recognised at fair value according to the fair value hierarchy. The different levels have been defined as follows:

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. They include quoted prices for similar assets or liabilities in active markets.

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As the Company invests in unlisted funds, market prices are not readily observable for all investments made by the Company. The calculation of the fair value for the various asset classes is discussed below.

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|------------------------------------|-------------------|-------------------|-------------------|-----------------|
| As at 30 June 2020 | | | | |
| Financial assets | | | | |
| Unlisted private equity funds | - | - | 52,073 | 52,073 |
| Unlisted private real estate funds | - | - | 14,401 | 14,401 |
| Unlisted real assets funds | - | - | 91,880 | 91,880 |
| Performance fee rebates | - | - | 521 | 521 |
| Total financial assets | - | - | 158,875 | 158,875 |

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|------------------------------------|-------------------|-------------------|-------------------|-----------------|
| As at 30 June 2019 | | | | |
| Financial assets | | | | |
| Unlisted private equity funds | - | - | 57,896 | 57,896 |
| Unlisted private real estate funds | - | - | 49,745 | 49,745 |
| Unlisted real assets funds | - | - | 88,784 | 88,784 |
| Performance fee rebates | - | - | 3,531 | 3,531 |
| Total financial assets | - | - | 199,956 | 199,956 |

(a) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the fair value of water entitlements traded by the Argyle Water Fund (Real Assets) is determined using quoted market prices or broker quotes for similar instruments;
- the fair value of unlisted equity investments in trading enterprises (such as growth capital and venture capital-style investments) is determined using a capitalisation of earnings/revenue or discounted cash flow methodology, having regard to observable comparable transactions or quoted prices for similar enterprises;
- the fair value of investments in private real estate assets or projects, or unlisted equity investments in water infrastructure assets, is calculated as the present value of estimated future cash flows (discounted cash flow approach); and
- the fair value of mature income-producing real assets is measured using market prices for comparable assets in a similar geographic location.

(b) Valuation process

Assets in the Company's investment portfolio are valued in accordance with the Company's published Investment Valuation Policy, a summary of which is provided below. This summary does not purport to be complete, and readers should refer to the full Investment Valuation Policy which is available on the Company's website.

The value of assets in the Company's investment portfolio which are investments in closed-ended funds (typically private equity, private real estate and real assets funds not including the Argyle Water Fund) are reviewed by the Manager (or a related party thereof) at the end of each month. These values are reviewed by a qualified independent expert at least annually (unless carried at nil or verified independently through a market transaction or event). In the event that the Manager believes there may have been a material change in the value of an asset in between the annual independent valuation reviews, an interim valuation is performed by the Manager. These valuations are used by the Manager to determine the relevant fund's net tangible assets and a unit price for each fund. For the period from investment until an asset is initially revalued, it is held at fair value of consideration paid less transactions costs.

While a review from a qualified independent expert is required at least annually, the Board may request that they be performed more regularly in relation to one or more closed-ended fund investments. For example, where there has been a material change in the value of an investment which is likely to have a material impact on the NTA of the Company, the Board may request an 'off-cycle' external review by a qualified independent expert to be performed and has done so historically.

The value of assets in the Company's investment portfolio which are investments in open-ended funds, such as the Argyle Water Fund, are subject to external valuation by a third party and unit prices are calculated by external fund administrators. These external valuations are conducted at a minimum at the end of each month and are used by the fund administrator to determine a unit price for each fund. The Company will adopt the valuation and unit price determined by the third party fund administrator at the end of each month, less any costs that would have been incurred by the Company on that date to exit any units it may hold (for example, a sell spread).

(c) Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 30 June 2020 and 30 June 2019 are as shown on the following pages.

For the purposes of this analysis, the Company's financial assets have been grouped into classes according to investment theme. This is designed to facilitate the assessment of the impact of other indirect, macro-economic factors common between certain assets which may influence the significant unobservable inputs detailed.

| Sector | Valuation technique | Significant unobservable inputs | Range (weighted average) ⁹ | Sensitivity of the input to fair value |
|---------------------------------------|---------------------------------------|---------------------------------|--|--|
| Healthcare, education and hospitality | Capitalisation of earnings or revenue | Operating earnings or revenue | 2020 ¹⁰ : \$6.0 million - \$8.0 million 2019 ¹⁰ : \$6.0 million - \$8.0 million | 10% (2019: 10%) increase / (decrease) in forecast revenue or operating earnings would result in an increase / (decrease) in fair value by \$2,076,000 (2019: \$3,712,000) |
| | | Capitalisation multiple | 2020 ¹¹ : 6.0x - 8.0x 2019 ¹¹ : 6.5x - 8.5x | 1.0x (2019: 1.0x) increase / (decrease) in capitalisation multiple applied would result in an increase / (decrease) in fair value by \$3,137,000 (2019: \$4,929,000) |
| | Discounted cash flow | Discount rate | 2020 ¹² : 11% - 17% 2019 ¹² : n/a | 1% (2019: n/a) increase / (decrease) in the discount rate would result in an increase / (decrease) in fair value by \$390,000 (2019: n/a) |
| E-commerce and digital disruption | Capitalisation of earnings or revenue | Operating earnings or revenue | 2020 ¹⁰ : \$124.0 million - \$130.0 million 2019 ¹⁰ : \$52.0 million - \$58.0 million | 10% (2019: 10%) increase / (decrease) in forecast revenue or operating earnings would result in an increase / (decrease) in fair value by \$1,405,000 (2019: \$942,000) |
| | | Capitalisation multiple | 2020 ¹¹ : 2.0x - 4.0x 2019 ¹¹ : 2.0x - 4.0x | 1.0x (2019: 1.0x) increase / (decrease) in capitalisation multiple applied would result in an increase / (decrease) in fair value by \$6,812,000 (2019: \$6,371,000) |
| | Discounted cash flow | Discount rate | 2020 ¹² : 14% - 17% 2019 ¹² : n/a | 1% (2019: n/a) increase / (decrease) in the discount rate would result in an increase / (decrease) in fair value by \$197,000 (2019: n/a) |
| Food and agriculture | Market approach* | Asset value | 2020: \$41.0 million - \$45.0 million 2019: \$38.0 million - \$42.0 million | 10% (2019: 10%) increase / (decrease) in the value of the assets would result in an increase / (decrease) of \$8,809,000 (2019: \$8,380,000) |

* Underlying assets held within the Argyle Water Fund are valued by an independent third party valuer based on observable market prices. These valuations are used by the fund administrator of the Argyle Water Fund to determine a unit price which is reviewed and approved by the Manager. The Argyle Water Fund does not have an observable market price (in contrast to assets held within these Funds) and as a result, these funds are recorded as Level 3 investments.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

| Segment | Valuation technique | Significant unobservable inputs | Range (weighted average) ⁹ | Sensitivity of the input to fair value |
|---------------------------------|---------------------------------------|---------------------------------|--|---|
| Apartment and retirement living | Market approach | Net asset value | 2020: n/a 2019: \$0.4 million - \$0.9 million | 10% (2019: 10%) increase / (decrease) in the value of the net asset would result in no change (2019 \$114,000) |
| | Discounted cash flow | Discount rate | 2020: n/a 2019: 13% - 17% | 1% (2019: 1%) increase / (decrease) in the range of discount rates used would result in no change (2019 \$20,000) |
| Student accommodation | Discounted cash flow | Discount rate | 2020: n/a 2019: 8% - 12% | 1% (2019: 1%) increase / (decrease) in the range of discount rates used would result in no change (2019 \$3,656,000) |
| Other | Market approach | Net asset value | 2020: \$1.5 million - \$3.5 million 2019: \$3.0 million - \$5.0 million | 10% (2019: 10%) increase / (decrease) in the net asset value would result in an increase / (decrease) of \$777,724 (2019: \$1,042,000) |
| | | Operating earnings or revenue | 2020 ¹⁰ : n/a 2019 ¹⁰ : \$3.0 million - \$5.0 million | 10% (2019: 10%) increase / (decrease) in forecast revenue or operating earnings would result in no change (2019: \$462,000) |
| | Capitalisation of earnings or revenue | Capitalisation multiple | 2020 ¹² : n/a 2019 ¹¹ : 3.0x - 6.0x | 1.0x (2019: 1.0x) increase / (decrease) in capitalisation multiple applied would result in no change (2019: \$770,000) |
| | Discounted cash flow | Discount rate | 2020 ¹² : 12% - 18% 2019 ¹² : 11% - 15% | 1% (2019: 1%) increase / (decrease) in the range of discount rates used would result in an increase / (decrease) in fair value by \$1,123,000 (2019: \$1,243,000) |

⁹ The range reflects the weighted average of both the high and low range of unobservable inputs and therefore the actual ranges of inputs for individual investments may be outside these ranges.

¹⁰ Weighted average revenue and EBITDA range.

¹¹ Weighted average revenue and EBITDA multiple range.

¹² Capitalisation of earnings or revenue valuation technique sensitised in FY19 and discounted cash flow valuation technique sensitised in FY20.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| | Unlisted private equity funds \$'000 | Unlisted private real estate funds \$'000 | Unlisted real assets funds \$'000 | Performance fee rebates \$'000 | Total \$'000 |
|--|--|---|---|--------------------------------------|-----------------|
| For the year ended 30 June 2020 | | | | | |
| Beginning balance | 57,896 | 49,745 | 88,784 | 3,531 | 199,956 |
| Disposal | (1,354) | (39,811) | (1,718) | (3,057) | (45,940) |
| Net unrealised gain/(loss) | (4,469) | 875 | 4,782 | (851) | 337 |
| Net realised gain/(loss) | - | 3,592 | 32 | 898 | 4,522 |
| Ending balance | 52,073 | 14,401 | 91,880 | 521 | 158,875 |

| | Unlisted private equity funds \$'000 | Unlisted private real estate funds \$'000 | Unlisted real assets funds \$'000 | Performance fee rebates \$'000 | Total \$'000 |
|---|--|---|---|--------------------------------------|-----------------|
| For the year ended 30 June 2019 | | | | | |
| Beginning balance | 61,155 | 68,841 | 75,130 | - | 205,126 |
| Adoption of new accounting standards | - | - | - | 3,963 | 3,963 |
| Purchase | - | - | 10,000 | - | 10,000 |
| Disposal | (938) | (16,977) | (6,257) | (1,364) | (25,536) |
| Net unrealised gain/(loss) | (2,503) | (4,516) | 8,019 | 1,522 | 2,522 |
| Net realised gain/(loss) | 182 | 2,397 | 1,892 | (590) | 3,881 |
| Ending balance | 57,896 | 49,745 | 88,784 | 3,531 | 199,956 |

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature.

During the year, the Company made a one-off adjustment in relation to accrued performance fee rebates. The adjustment is in relation to the proposed termination of the Management Services Agreement between the Company and the Manager and expected to transition to Wilson Asset Management (International) Pty Limited ('Wilson Asset Management'), subject to shareholder approval. The adjustment reduced the carrying value of accrued performance fee rebates by \$1.7 million to reflect the fair value of accrued performance fee rebates under the new Investment Management Agreement proposed by Wilson Asset Management.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

Financial assets held at fair value through profit and loss

The information below reflects expected realisation timeframes for financial assets held at fair value through profit and loss. However, unforeseen circumstances could result in timeframes changing.

| | As at | |
|--|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Within 12 months of the reporting period | | |
| Unlisted private equity funds | - | 16,508 |
| Unlisted private real estate funds | 2,354 | 33,960 |
| Unlisted real assets funds | - | 119 |
| Performance fee rebates | 337 | 2,647 |
| | 2,691 | 53,234 |
| More than 12 months of the reporting period | | |
| Unlisted private equity funds | 52,073 | 41,388 |
| Unlisted private real estate funds | 12,047 | 15,785 |
| Unlisted real assets funds | 91,880 | 88,665 |
| Performance fee rebates | 184 | 884 |
| | 156,184 | 146,722 |
| Total financial assets held at fair value through profit and loss | 158,875 | 199,956 |

ACCOUNTING POLICY

AASB 10 Consolidated Financial Statements requires that the Company consolidate any investees that it is considered to control during the financial year from the date that control was obtained. However, as the Company meets the definition of an investment entity under AASB 10 and displays the typical characteristics of an investment entity specified in the Standard, the investments in any controlled investees have been accounted for in accordance with AASB 9 Financial Instruments.

Further, AASB 128 Investments in Associates and Joint Ventures requires that the Company account for any investments over which it is considered to have significant influence using the equity method, applied from the date that significant influence was obtained. However, as a result of the guidance provided in AASB 10 Consolidated Financial Statements, the Company has applied the Venture Capital Organisation exemption in AASB 128. As the Company satisfies the criteria required to be considered a Venture Capital Organisation, the investments in any such investees have been accounted for in accordance with AASB 9 Financial Instruments at fair value through profit or loss.

Classification

Financial instruments at fair value through profit or loss upon initial recognition

These include financial assets that are held to achieve the collection of contractual cash flows and which may be sold or realised. These financial assets mainly comprise of investments in unlisted unit trusts and performance fee rebates.

Financial assets designated at fair value through profit or loss at inception, are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

Recognition and de-recognition

The Company recognises financial assets on the date it becomes party to the contractual agreement (trade date). Changes in the fair value of the financial assets or financial liabilities are recognised from this date.

Investments are de-recognised when the right to receive cash flows from the investments has expired or the Company has transferred substantially all risks and rewards of ownership.

Measurement – Financial assets held at fair value through profit or loss

At initial recognition, the Company measures a financial asset at its fair value.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value are presented in the Statement of Comprehensive Income within 'Net gains/ (losses) on financial assets held at fair value through profit and loss' in the period in which they arise.

The fair value of each investment is calculated as the amount which could be expected to be received from the disposal of an asset in an orderly market.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 12. DIVIDENDS

| | As at | |
|--|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Cash dividends to the equity holders | | |
| Dividends on ordinary shares declared and paid: | | |
| FY19 Final Dividend: 4.0 cents per share franked to 65% (FY18: 4.0 cents, franked to 65%) | 8,034 | 8,348 |
| FY20 Interim Dividend: 1.0 cent per share fully franked (FY19: 1.0 cent franked to 65%) | 1,970 | 2,032 |
| Total dividends on ordinary shares declared and paid | 10,004 | 10,380 |
| Proposed dividends on ordinary shares: | | |
| FY20 Final Dividend: 3.0 cents per share fully franked (2019: 4.0 cents franked to 65%) | 5,816 | 8,036 |

Proposed dividends declared subsequent to year end are not recognised as a liability at 30 June 2020.

Franking account

| | As at | |
|---|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Balance as at the end of the financial year | 3,717 | 371 |
| Franking credits that will arise from the payment/(refund) of income tax based on a tax rate of 27.5% (2019: 27.5%) | (1,011) | 906 |
| Franking credits available for subsequent financial years | 2,706 | 1,277 |
| Franking credits that will be used from the payment of dividends declared subsequent to the reporting date at 27.5% (2019: 27.5%) | (2,206) | (1,981) |
| Balance as at the end of the financial year | 500 | (704) |

NOTE 13. SHARE CAPITAL

Movements in share capital during the financial year are set out below:

| | Number of shares | \$'000 |
|---|--------------------|----------------|
| Opening balance as at 1 July 2019 | 201,025,225 | 210,087 |
| Shares cancelled: Share buy-back | (6,572,178) | (5,220) |
| Closing balance as at 30 June 2020 | 194,453,047 | 204,867 |

Movements in share capital during the prior period are set out below:

| | Number of shares | \$'000 |
|---|--------------------|----------------|
| Opening balance as at 1 July 2018 | 211,038,419 | 218,560 |
| Shares cancelled: Share buy-back | (10,013,194) | (8,473) |
| Closing balance as at 30 June 2019 | 201,025,225 | 210,087 |

ACCOUNTING POLICY

Ordinary shares are classified as equity.

Incremental costs attributable to the issue of new shares or buy back of shares are recognised as a deduction from equity, net of any tax effects.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

Section 4: Other

NOTE 14. RELATED PARTY TRANSACTIONS

All transactions with related parties are conducted on normal commercial terms and conditions, and include:

- The compensation arrangements with the Directors (refer to Directors' remuneration on this page);
- The interests in the Company held directly or indirectly by the Directors (refer to Shareholdings of Directors on the following page);
- The Management Services Agreement between the Company and the Manager (refer to Note 5 and 6); and
- Investments in unlisted funds (refer to Note 11) managed by subsidiaries of subsidiaries of Blue Sky Alternative Investments Limited (Administrators appointed) (Receivers and Managers appointed), Australian Alternative Partners Pte. Ltd, appointed US investment managers or Centennial Industrial & Logistics.

Directors' remuneration

The Directors' remuneration, inclusive of GST and compulsory superannuation where applicable, incurred during the current and prior period, is as set out on this page:

| Director | Position | Salary \$'000 | Superannuation \$'000 | Total \$'000 |
|-------------------------------------|--|------------------|--------------------------|-----------------|
| Michael Cottier¹³ | Independent Non-Executive Chair | | | |
| 2020 | | 45,000 | 4,275 | 49,275 |
| 2019 | | 49,111 | 4,666 | 53,777 |
| Kym Evans¹³ | Independent Non-Executive Director | | | |
| 2020 | | 40,000 | 3,800 | 43,800 |
| 2019 | | 23,333 | 2,217 | 25,550 |
| John Baillie¹³ | Independent Non-Executive Director | | | |
| 2020 | | 40,000 | 3,800 | 43,800 |
| 2019 | | 23,333 | 2,217 | 25,550 |
| Miles Staude¹⁴ | Non-Executive Director | | | |
| 2020 | | - | - | - |
| 2019 | | - | - | - |
| Paul Masi¹³ | Independent Non-Executive Chair/Retired | | | |
| 2020 | | - | - | - |
| 2019 | | 20,833 | 1,979 | 22,812 |
| Peter Wade¹⁵ | Independent Non-Executive Director/Retired | | | |
| 2020 | | - | - | - |
| 2019 | | 7,930 | 753 | 8,683 |
| Total | | | | |
| 2020 | | 125,000 | 11,875 | 136,875 |
| 2019 | | 124,540 | 11,832 | 136,372 |

¹³ On 29 November 2018, Mr Kym Evans and Mr John Baillie were appointed as Independent Non-Executive Directors of the Company; Mr Andrew Champion retired as an Executive Director of the Company; Mr Paul Masi retired as Independent Non-Executive Chair of the Company; Mr Michael Cottier replaced Mr Paul Masi as Independent Non-Executive Chair of the Company.

¹⁴ On 28 June 2019, Mr Miles Staude was appointed as a Non-Executive Director of the Company.

¹⁵ On 4 October 2018, Mr Peter Wade was appointed as an Independent Non-Executive Directors of the Company; On 29 November 2018, Mr Peter Wade retired as an Independent Non-Executive Director of the Company.

Shareholdings of Directors

As at 30 June 2020, shares issued by the Company and held by the Directors and their related entities are set out below:

| Director | Opening balance ¹⁶ (Number of shares) | Net number of shares acquired | Net number of shares disposed | Closing balance ¹⁶ (number of shares) |
|----------------------------|---|----------------------------------|----------------------------------|---|
| Michael Cottier | - | - | - | - |
| Kym Evans | - | 37,983 | - | 37,983 |
| John Baillie | 15,000 | - | - | 15,000 |
| Miles Staude ¹⁷ | 10,868,143 | - | - | 10,868,143 |

As at 30 June 2019, shares issued by the Company and held by the Directors and their related entities are set out below:

| Director | Opening balance ¹⁶ (Number of shares) | Net number of shares acquired | Net number of shares disposed | Closing balance ¹⁶ (number of shares) |
|----------------------------|---|----------------------------------|----------------------------------|---|
| Michael Cottier | - | - | - | - |
| Kym Evans | - | - | - | - |
| John Baillie | 15,000 | - | - | 15,000 |
| Miles Staude ¹⁷ | 10,868,143 | - | - | 10,868,143 |
| Andrew Champion | 437,500 | - | - | 437,500 |
| Paul Masi | 600,001 | - | - | 600,001 |
| Peter Wade | - | - | - | - |
| Lazarus Siapantas | 50,000 | - | - | 50,000 |

NOTE 15. TRADE AND OTHER RECEIVABLES

| | As at | |
|---|------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Trade receivables | 2,171 | 1,514 |
| Provision for impairment of receivables | (303) | - |
| Distribution Receivables | - | 148 |
| Other receivables | 456 | 21 |
| | 2,324 | 1,683 |

¹⁶ Opening balances are as at 1 July of the financial year or at date of appointment. Closing balances are as at 30 June of the financial year or at date of resignation or retirement. Mr Andrew Champion, Mr Paul Masi, Mr Peter Wade and Mr Lazarus Siapantas all ceased to be Directors by December 2018.

¹⁷ Shares are held by GVF, of which Mr Miles Staude is a Director and portfolio manager under the regulatory licences of Mirabella Financial Services LP.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

As at 30 June, the ageing analysis of trade receivables is as follows:

| | Total \$'000 | Neither past due nor impaired \$'000 | Past due but not impaired | | | | |
|------|-----------------|--|---------------------------|----------------------|----------------------|-----------------------|----------------------|
| | | | < 30 days \$'000 | 30-60 days \$'000 | 61-90 days \$'000 | 91-120 days \$'000 | > 120 days \$'000 |
| 2020 | 1,868 | 120 | 134 | 215 | 38 | 27 | 1,334 |
| 2019 | 1,514 | 656 | - | 93 | - | - | 765 |

Impairment

An impairment analysis is performed at each reporting date where the expected recovery value is less than the initially carrying value, the non-collectability of the receivable is provided for and a provision for doubtful debts is raised.

The company has recognised a loss of \$303,044 (2019: nil) in respect of impairment of trade receivables for the year ended 30 June 2020.

ACCOUNTING POLICY

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables relate to fee rebates raised to the Manager.

Recoverability of trade receivables is reviewed on an ongoing basis. The Company categorises recoverability of debt into low, medium and high risk categories. Debtors classified as low risk are considered recoverable and no impairment allowance is provided. An impairment allowance is considered for debtors classified as medium risk and high risk. For medium risk debtors, an impairment allowance is considered between the difference of the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. A full impairment allowance is considered for debtors categorised as high risk. The Company may also apply discretionary judgement on recoverability of debtors. A provision for impairment of receivables is raised where an impairment allowance is identified and material.

Other receivables are recognised at amortised cost, less any provision for impairment of receivables.

NOTE 16. OTHER EXPENSES

| | As at | |
|-----------------------------|------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Accounting and audit fees | 424 | 849 |
| Insurance | 794 | 779 |
| Legal expenses | 451 | 643 |
| Other administration | 153 | 396 |
| Total other expenses | 1,822 | 2,667 |

ACCOUNTING POLICY

Other expenses

Other expenses are recorded in the Statement of Comprehensive Income on an accruals basis.

NOTE 17. OTHER ASSETS

| | As at | |
|---------------------------|------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Prepayments | 276 | 136 |
| Total other assets | 276 | 136 |

ACCOUNTING POLICY

Prepayments

The Company recognises costs incurred in advance for which a benefit is expected to be derived in the future as prepayments. The year over which the prepayment is expensed is determined by the year of benefit covered by the prepayment.

NOTE 18. TRADE AND OTHER PAYABLES

| | As at | |
|--|------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Trade payables | 2,846 | 676 |
| Uncalled capital commitments ¹⁸ | 1,875 | 3,850 |
| Other payables | 63 | 6 |
| Accrued expenses | 557 | 825 |
| Total trade and other payables | 5,341 | 5,357 |

Terms and conditions of the above financial liabilities:

For explanations on the Alternatives Fund's liquidity risk management processes, refer to Note 10.

Maturities of financial liabilities

The below tables analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on their contractual maturities at the end of the financial year.

The amounts disclosed in the table are contractual undiscounted cash flows. Balances due within 12 months are equal to their carrying balances as the impact of discounting is not significant.

| Contractual maturities of financial liabilities | At call \$'000 | 1 year or less \$'000 | Between | Between | Over 5 years \$'000 | Total contractual undiscounted cash flows \$'000 |
|--|-------------------|-----------------------------|----------------------------|----------------------------|---------------------------|---|
| | | | 1 and 2 years \$'000 | 2 and 5 years \$'000 | | |
| At 30 June 2020 | | | | | | |
| Uncalled capital commitments | 1,875 | - | - | - | - | 1,875 |
| Trade and other payables | - | 2,909 | - | - | - | 2,909 |
| Total | 1,875 | 2,909 | - | - | - | 4,784 |

¹⁸ Uncalled capital to fund the remaining \$1.88 million of the \$25.0 million commitment to the Strategic Australian Agriculture Fund, which is subject to be called pursuant to the Trust Deed. The capital commitment was reduced to \$1.3 million in July 2020 following the receipt of the End of Investment Period notice from the manager of the Strategic Australian Agriculture Fund.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

| Contractual maturities of financial liabilities | At call \$'000 | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Total contractual undiscounted cash flows \$'000 |
|--|---------------------------|--------------------------------------|---|---|------------------------------------|---|
| At 30 June 2019 | | | | | | |
| Uncalled capital commitments | 3,850 | - | - | - | - | 3,850 |
| Trade and other payables | - | 682 | - | - | - | 682 |
| Total | 3,850 | 682 | - | - | - | 4,532 |

ACCOUNTING POLICY

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Uncalled capital commitments represent contractual obligations on units issued for investments managed on a defined call structure.

NOTE 19. NOTES TO THE STATEMENT OF CASH FLOWS

19.1 Reconciliation of cash flows from operating activities

| | Year ended | |
|--|------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Profit after income tax expense for the year | 5,134 | 6,713 |
| <i>Non-cash adjustments to reconcile profit after tax to net cash flows from operations:</i> | | |
| Net gains on financial assets held at fair value through profit and loss | (4,859) | (6,403) |
| <i>Changes in assets and liabilities during the financial year:</i> | | |
| (Increase)/decrease in trade and other receivables | (641) | (159) |
| (Increase)/decrease in other operating assets | 2,950 | 1,567 |
| Increase/(decrease) in trade and other payables ¹⁹ | 1,959 | 889 |
| Increase/(decrease) in income tax provision | (1,917) | 1,793 |
| Increase/(decrease) in deferred taxes | (2,075) | (2,394) |
| Increase/(decrease) in deferred rebates | (940) | (224) |
| Net cash flows (used in)/from operating activities | (389) | 1,782 |

19.2 Cash and cash equivalents

| | As at | |
|--|------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Cash at bank | 54,952 | 29,690 |
| Total Cash and cash equivalents | 54,952 | 29,690 |

ACCOUNTING POLICY

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

NOTE 20. COMMITMENTS AND CONTINGENCIES

Contingent liabilities

The Company is not aware of any contingent liabilities outstanding at 30 June 2020 (2019: nil).

¹⁹ Excludes movements in uncalled capital commitments as these do not relate to cash flows from operating activities.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 21. REMUNERATION OF AUDITORS

On 29 May 2020, the Directors appointed Pitcher Partners as auditor for the Company. The following fees were paid or payable for services provided by the auditor, Pitcher Partners, of the Company and its related practice.

This appointment follows the outcome of an audit tender process undertaken by the Directors. The Directors believe that the appointment of Pitcher Partners is in the best interest of the Company and its shareholders. The change will result in the alignment of auditors with the new manager of the Company, Wilsons Asset Management (International) Pty Limited.

| | Year ended | |
|--|------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Audit and other assurance services | | |
| Audit and review of financial report | 66,000 | - |
| Total remuneration for audit and other assurance services | 66,000 | - |

The Company received ASIC's consent for the resignation of Ernst & Young as auditor of the Company on 27 May 2020. On 28 May 2020, Ernst & Young resigned as auditor of the Company by mutual agreement with the Company. The following fees were paid for services provided by Ernst & Young and its related practice up to the date of their resignation.

| | Year ended | |
|--|------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Audit and other assurance services | | |
| Audit and review of financial report | 312,888 | 819,739 |
| Total remuneration for audit and other assurance services | 312,888 | 819,739 |
| Total remuneration of Ernst & Young | 312,888 | 819,739 |

NOTE 22. EVENTS SUBSEQUENT TO REPORTING DATE

On 16 July 2020 the Board announced that it had begun the process of appointing Wilson Asset Management (International) Pty Limited ('Wilson Asset Management') as the Company's new manager, having entered into a deed of termination with BSAAF, as well as a transitional services agreement with the outgoing and incoming manager to ensure a smooth transition. The termination of this agreement and the transition to Wilson Asset Management are subject to several conditions including BAF shareholder approval. On 7 August 2020 the Board announced the details of the upcoming extraordinary general meeting to be held on 8 September 2020 to vote on the proposal to transition the management of the Company to Wilson Asset Management.

On 28 August 2020 the Directors resolved to pay a final dividend of 3.0 cents per share in relation to the 2020 financial year. Fully franked at a 27.5% corporate income tax rate, the record date for this dividend will be 11 September 2020 and the payment date will be 25 September 2020. The Company's Dividend Reinvestment Plan ('DRP') will be deferred in relation to this dividend given BAF's share price is trading at a significant discount to NTA.

The Directors consider the reduction of the final dividend from the prior year as a prudent response to the prevailing market conditions impacting portions of the investment portfolio. The Directors expect the Company's capital management program to adapt as necessary whilst maintaining both interim and final dividends to shareholders where possible.

There were no other subsequent events.

Directors' Declaration

In accordance with a resolution of the Directors of the Company, the Directors declare that:

1. the financial statements and notes, as set out on pages 16 to 46, are in accordance with the *Corporation Act 2001(Cth)* and:
 - (a) comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
 - (b) give a true and fair view of the entity's financial position as at 30 June 2020 and of the performance for the year ended on that date of the Company;
2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. This declaration has been made after receiving the declarations required to be made to the Directors by the Chief Financial Officer of the Manager in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2020.

On behalf of the Directors



Michael Cottier
Independent Non-Executive Chair
28 August 2020

Brisbane

²⁴ Excludes movements in uncalled capital commitments as these do not relate to cash flows from operating activities.

Independent Auditor's Report



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**Independent Auditor's Report
To the Members of Blue Sky Alternatives Access Fund Limited
ABN 47 168 941 704**

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Blue Sky Alternatives Access Fund Limited ("the Company"), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Blue Sky Alternatives Access Fund Limited is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Company, would be on the same terms if given to the Directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Adelaide Brisbane Melbourne Newcastle Perth Sydney

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Independent Auditor's Report - continued



**Independent Auditor's Report
To the Members of Blue Sky Alternatives Access Fund Limited
ABN 47 168 941 704**

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the matter |
|--|---|
| <p>Existence and Valuation of Financial Assets Refer to Note 11: Financial Assets</p> | |
| <p>We focused our audit effort on the existence and valuation of the Company's Level 3 financial assets, as they represent the most significant driver of the Company's Net Tangible Assets and Profit.</p> <p>The Company's investments are considered to be complex in nature as their valuation process involves significant judgement with limited to no observable market inputs. Consequently, these investments are classified under Australian Accounting Standards as "Level 3" where investments are recorded at fair value using various valuation techniques including the market, income and asset approaches.</p> <p>Management uses significant judgement and makes assumptions in determining the fair value of each investment with reference to external valuation reports that provide a range of estimated values.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▪ Obtaining an understanding of and evaluating the investment management processes and controls; ▪ Obtaining unit certificates of investment holdings directly from the Investment Manager and confirming holdings with the relevant registry providers; ▪ Assessing the qualifications, competencies and objectivity of external valuation experts; ▪ Obtaining an understanding of valuation techniques used, the basis of assumptions and judgements applied; ▪ Selecting a sample of investments to review in detail, engaging with our internal valuation specialists to assess the valuation techniques and assumptions used in the valuations including forecast earnings, revenues, cash flows, discount rates, capitalisation rates and valuation multiples; ▪ Assessing management's assumptions and significant judgements used in determining the fair value of each investment; ▪ Evaluating the accounting treatment of revaluations of financial assets for current/deferred tax and unrealised gains or losses; and ▪ Assessing the adequacy of disclosures in the financial statements. |

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Independent Auditor's Report - continued

Independent Auditor's Report
To the Members of Blue Sky Alternatives Access Fund Limited
ABN 47 168 941 704



| <i>Key audit matter</i> | <i>How our audit addressed the matter</i> |
|--|--|
| Accuracy and Existence of Management and Performance Fees Refer to Note 6: Management and Performance Fees | |
| <p>We focused our audit effort on the accuracy and existence of management and performance fees as they are significant expenses of the Company and their calculation requires adjustments and key inputs. Adjustments include company dividends, tax payments, capital raisings, capital reductions and other relevant expenses. Key inputs include the value of the portfolio and application of the correct fee percentage in accordance with the Investment Management Agreement between the Company and the Investment Manager.</p> <p>In addition, to their quantum, as these transactions are made with related parties, there are additional inherent risks associated with these transactions, including the potential for these transactions to be made on terms and conditions more favourable than if they had been with an independent third-party.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▪ Obtaining an understanding of and evaluating the processes and controls for calculating the management and performance fees; ▪ Making enquiries with the Investment Manager and those charged with governance with respect to any significant events during the period and associated adjustments made as a result, in addition to reviewing ASX announcements and Board meeting minutes; ▪ Testing of key inputs including the value of the portfolio and application of the correct fee percentage in accordance with our understanding of the Investment Management Agreement; and ▪ Assessing the adequacy of disclosures made in the financial statements. |

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report - continued



**Independent Auditor's Report
To the Members of Blue Sky Alternatives Access Fund Limited
ABN 47 168 941 704**

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report - continued

**Independent Auditor's Report
To the Members of Blue Sky Alternatives Access Fund Limited
ABN 47 168 941 704**



Auditor's Responsibilities for the Audit of the Financial Report (Continued)

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 12 of the Directors' Report for the year ended 30 June 2020. In our opinion, the Remuneration Report of Blue Sky Alternatives Access Fund Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink, appearing to read "S M Whiddett".

S M Whiddett
Partner

28 August 2020

A handwritten signature in black ink, appearing to read "Pitcher Partners".

Pitcher Partners
Sydney

Appendix A

FOR THE YEAR ENDED 30 JUNE 2020

Portfolio Summary

| Fund name | Amount invested | Date invested | % allocated capital | Last independent valuation review as at | Description |
|--|-------------------|---------------|---------------------|---|--|
| Private Equity - Growth Capital | | | | | |
| Wild Breads Fund | 2,000,000 | Jun-14 | 1.4% | Jun-20 | Holds equity in Wild Breads Pty Ltd, a business in the artisan and specialty bread category. |
| Origo Education Fund | 1,500,000 | Jun-15 | 1.1% | Jun-20 | Holds equity in Origo Education, an Australian business providing digital and print education instructional materials in the United States, Australia, Canada and New Zealand. |
| Hotels Fund | 6,000,000 | Jun-15 | 4.2% | Jun-20 | Holds equity in the GM Hotels, a portfolio of freehold and leasehold hotels in South Australia. |
| Aquila Fund | 4,000,000 | Dec-15 | 2.8% | Jun-20 | Holds equity in Aquila, an Australian retail business focusing on the men's footwear and smart casual fashion segment. |
| Digital Outdoor Advertising Fund | 2,110,595 | Feb-16 | 1.5% | Jun-19 | Holds equity in a US-based business which constructs, owns and operates a network of digital billboards in a US metropolitan market. |
| QFS Fund | 6,000,000 | Dec-16 | 4.2% | Jun-20 | Holds equity in Quality Food Services, a Queensland-based food and beverage wholesale and distribution business. |
| SMG Fund | 2,500,000 | Dec-16 | 1.8% | Jun-20 | Holds equity in Shopper Media Group Pty Ltd, an out-of-home advertising business. |
| Wild Breads RCPS Fund | 767,888 | Apr-17 | 0.5% | Jun-20 | A fund providing follow-on expansion capital into Wild Breads Pty Ltd. |
| Tourism Fund | 3,000,000 | May-17 | 2.1% | Jun-20 | Holds equity in Active Adventures, a multi-national adventure tourism business based in Queenstown, New Zealand. |
| Better Medical Fund | 3,000,000 | May-17 | 2.1% | Jun-20 | Holds equity in Better Medical, a group of general practice medical clinics. |
| Sunfresh Fund | 3,000,000 | Jun-17 | 2.1% | Dec-19 | Holds equity in Sunfresh Salads, a food manufacturing business based in Adelaide. Review scheduled for Sep/Oct 2019. |
| SMG Fund II | 699,386 | Oct-17 | 0.5% | Jun-20 | A fund providing follow-on expansion capital into Shopper Media Group. |
| Energy Storage Fund | 5,000,000 | Nov-17 | 3.5% | Jun-20 | Holds equity in esVolta, a battery storage developer based in the United States. |
| IT Consulting Fund | 4,000,000 | Dec-17 | 2.8% | Jun-20 | Holds equity in Digital Lifecycle Group, an IT services and consulting company that supports enterprise and government clients in Australia. |
| Birch & Waite Fund | 4,000,000 | Dec-17 | 2.8% | Feb-20 | Holds equity in Birch & Waite, a Sydney-based manufacturer of premium condiments, desserts and beverages. |
| Total Growth Capital | 47,577,869 | | 33.4% | | |

Appendix A - continued

FOR THE YEAR ENDED 30 JUNE 2020

| Fund name | Amount invested | Date invested | % allocated capital | Last independent valuation review as at | Description |
|--|-------------------------|---------------|---------------------|---|---|
| Venture Capital | | | | | |
| VC2014 Fund | 4,000,000 | Jun-14 | 2.8% | Jun-20 ^{1,2} | A fund invested in a diversified portfolio of 9 venture capital co-investments. |
| Shoes of Prey | 1,000,000 | Oct-15 | 0.7% | Jun-18 ¹ | Holds equity in Shoes of Prey, a fashion footwear company that has developed a unique platform enabling customised women's footwear to be manufactured and sold 'on demand'. Shoes of Prey went into liquidation in 2019. |
| Vinomofo Fund | 3,000,000 | Dec-15 | 2.1% | Jun-19 | Holds equity in Vinomofo, an Australian online wine retailer. |
| aCommerce Fund | 1,305,664 | Jul-16 | 0.9% | Jun-19 | Has an interest in aCommerce, a provider of outsourced e-commerce solutions in South East Asia. |
| aCommerce Fund 2 | 2,500,000 | Nov-16 | 1.8% | Jun-19 | A fund providing follow-on capital into aCommerce. |
| aCommerce Fund 3 | 1,144,501 | Nov-17 | 0.8% | Jun-19 | A fund providing follow-on capital into aCommerce. |
| Total Venture Capital | 12,950,165 | | 9.1% | | |
| Total Private Equity | 60,528,034 | | 42.5% | | |
| Real Assets - Water Rights | | | | | |
| Water Fund | 34,076,692 | Jun-14 | 23.9% | Dec-20 | A fund to invest in a regionally diversified portfolio of Australian Water Entitlements. The fund is valued monthly. |
| Total Water Rights | 34,076,692 | | 23.9% | | |
| Other Real Assets | | | | | |
| Agriculture Fund II | 4,000,000 | Oct-15 | 2.8% | Jun-20 | Holds the freehold property and business assets comprising Hillston Citrus, an irrigated citrus orchard near Hillston in NSW. |
| Strategic Australian Agricultural Fund | 25,000,000 ³ | Jun-17 | 17.6% | Jun-20 | A fund to acquire and manage a diversified portfolio of Australian agricultural assets and Water Entitlements. |
| Solar Fund | 2,234,761 | Sep-17 | 1.6% | Jun-20 | A fund that has developed and is operating a solar farm located in western Queensland. |
| Total Other Real Assets | 31,234,761 | | 22.0% | | |
| Total Real Assets | 65,311,453 | | 45.9% | | |

1 The investment in the Digital Outdoor Advertising Fund has not been independently reviewed since June 2019. Subsequent to this independent valuation review, these funds' investments into the Digital Outdoor Advertising Fund were written down to nil and have been held at nil since. The investment in Shoes of Prey has not been independently reviewed since June 2018. Subsequent to this independent valuation review, these funds' investments into Shoes of Prey were written down to nil and have been held at nil since.

2 An independent valuation review was conducted at June 2020 for all of the fund's material investments.

3 Includes \$8,291,704 deployed into Water Entitlements, bringing BAF's total deployment into Water Entitlements to \$42,368,396 via the Water Fund and Strategic Australian Agricultural Fund.

Appendix A - continued

FOR THE YEAR ENDED 30 JUNE 2020

| Fund name | Amount invested | Date invested | % allocated capital | Last independent valuation review as at | Description |
|--|--------------------|---------------|---------------------|---|---|
| Private Real Estate | | | | | |
| Industrial | | | | | |
| Darra Industrial Income Fund | 2,000,000 | Dec-14 | 1.4% | Jun-20 | Holds the freehold title to a single-tenant industrial manufacturing, distribution and office facility in the Brisbane suburb of Darra. The asset is leased to Wild Breads Pty Ltd. |
| Revesby Industrial Income Fund | 2,500,000 | Dec-17 | 1.8% | Jan-20 | Holds the freehold title to an industrial facility in Revesby, NSW. The asset is leased to Birch & Waite Foods Pty Ltd. |
| International | | | | | |
| Cove Property Group 2 Rector Street Trust | 6,974,473 | Feb-16 | 4.9% | Jun-20 | A trust to acquire, reposition and lease a 26-story building at 2 Rector Street in the Financial District, Manhattan, New York. |
| Cove Property Group 441 Ninth Avenue Trust | 5,000,000 | Nov-16 | 3.5% | Dec-19 | A trust to acquire and redevelop an existing eight story building at 441 Ninth Avenue, Manhattan, New York. |
| Total Private Real Estate | 16,474,473 | | 11.6% | | |
| Total Capital Deployed | 142,313,960 | | 100.0% | | |

Supplementary Information

The following information is current as at 30 September 2020:

a. Distribution of Shareholders

| Holding | Ordinary Shares |
|-------------------|--------------------|
| 1 - 1,000 | 80,123 |
| 1,001 - 5,000 | 1,262,191 |
| 5,001 - 10,000 | 3,751,827 |
| 10,001 - 50,000 | 44,688,181 |
| 50,001 to 100,000 | 31,802,705 |
| 100,001 and over | 112,244,697 |
| | 193,829,724 |

b. There are 150 holders of less than a marketable parcel of ordinary shares.

c. The names of the substantial shareholders listed in the Company's register are:

| Name | Number of Ordinary Fully Paid Shares | % of Issued Ordinary Capital Held |
|---|--------------------------------------|-----------------------------------|
| JP MORGAN NOMINEES AUSTRALIA PTY LIMITED | 17,608,715 | 9.08% |
| CS THIRD NOMINEES PTY LIMITED | 10,868,143 | 5.61% |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP | 9,762,973 | 5.04% |

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Supplementary Information - continued

e. 20 Largest Shareholders – Ordinary Shares

| Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|-----------------------------------|
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 17,608,715 | 9.08 |
| CS THIRD NOMINEES PTY LIMITED | 10,868,143 | 5.61 |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD | 9,762,973 | 5.04 |
| WILSON ASSET MANAGEMENT (INTERNATIONAL) PTY LIMITED | 6,391,129 | 3.30 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 4,591,085 | 2.37 |
| MR MICHAEL GREGORY PETERSON & MS SAMANTHA ANNE WAKE | 2,716,000 | 1.40 |
| NATIONAL NOMINEES LIMITED | 2,648,031 | 1.37 |
| NETWEALTH INVESTMENTS LIMITED | 2,457,741 | 1.27 |
| DEMETA PTY LTD | 2,015,000 | 1.04 |
| BNP PARIBAS NOMINEES PTY LTD | 1,939,765 | 1.00 |
| CITICORP NOMINEES PTY LIMITED | 1,734,852 | 0.90 |
| NETWEALTH INVESTMENTS LIMITED | 1,494,445 | 0.77 |
| KING NOMINEES (VIC) PTY LTD | 1,388,889 | 0.72 |
| CHARANDA NOMINEE COMPANY PTY LTD | 1,357,000 | 0.70 |
| BAHRAIN INVESTMENTS PTY LTD | 1,333,334 | 0.69 |
| CHARMSEAT PTY LTD | 875,000 | 0.45 |
| MALCOLM HOLDINGS PTY LIMITED | 875,000 | 0.45 |
| PERPETUAL CORPORATE TRUST LTD | 785,774 | 0.41 |
| GORFAM SUPERANNUATION PTY LTD | 666,666 | 0.34 |
| BNP PARIBAS NOMINEES PTY LTD | 665,757 | 0.34 |
| MR DONALD GORDON MACKENZIE | 504,694 | 0.26 |

f. Use of Cash

For the period 1 July 2019 to 30 June 2020, the Company and its controlled entities used its cash in a manner consistent with its business objectives.

g. Current on-market buy-back

There is currently an on-market share buy-back program in place with the relevant Appendix 3C lodged on 1 May 2020.

Corporate Directory

The following information is current as at 30 September 2020:

DIRECTORS

Michael Cottier
Kym Evans
John Baillie
Miles Staude
Geoff Wilson AO
Adrian Siew

SECRETARY

Jane Prior

REGISTERED OFFICE

Suite A, Level 10
241 Adelaide Street
Brisbane QLD 4000

SHARE REGISTRY

Link Market Services Limited
Level 21, 10 Eagle Street
Brisbane QLD 4000

AUDITOR

Pitcher Partners
Level 16, Tower 2 Darling Point
201 Sussex Street
Sydney NSW 2000

STOCK EXCHANGE LISTINGS

Blue Sky Alternatives Access Fund Limited shares are listed on the Australian Securities Exchange.

WEBSITE

www.blueskyfunds.com.au/alternativesfund





Blue Sky Alternatives Access Fund Limited

www.blueskyfunds.com.au/alternativesfund