

Blue Capital Alternative Income Fund Limited

Global Experts in Catastrophe Reinsurance



Ticker: LSE: BCAI/BCAI.LN BSX: BCAI_BH

Overview

The investment objective of Blue Capital Alternative Income Fund Limited (the "Fund") is to generate attractive returns from a sustainable dividend yield and longer term capital growth by investing substantially all of its assets in a segregated account of Blue Water Master Fund Ltd. This segregated account invests in a diversified portfolio of collateralised reinsurance-linked contracts and other investments whose value is based on insured catastrophe event risks, which are largely uncorrelated to traditional asset classes. Blue Capital Management Ltd. ("Blue Capital"), the Fund's investment manager, is wholly owned by Sompo International, a recognised leader in property catastrophe reinsurance.

Directionally Uncorrelated Diversified LIBOR Linked Returns

Target Return^{1,4}
8% + LIBOR
per annum

Target Dividend^{2,4}
6% + LIBOR
per annum
(paid Quarterly)

Diversified Portfolio
+ 1,500
Positions³

¹ Through active portfolio construction, we assemble a portfolio of catastrophic risk with net target returns of 8% per annum in excess of LIBOR over the long term. The portfolio is constructed to maximize the net return profile within pre-defined risk constraints.

² The Fund intends to distribute a 6% per annum dividend yield in excess of LIBOR in the form of cash and/or scrip.

³ Investors who invest in a single share of the Fund enjoy the benefit of investing in a share that is diversified by underlying investments of greater than 1,500 positions in catastrophe related reinsurance contracts, as at January 1, 2017.

⁴ These are targets only and not profit forecasts. There can be no assurance that these targets will be met or that the Fund will make any returns or distributions whatsoever or that investors will recover all or any of their investment. Prospective investors should decide for themselves whether or not the target returns and distributions are reasonable or achievable in deciding whether to invest in the Fund. The share price may not reflect the net asset value ("NAV") of the Fund's portfolio.

Key Statistics

Financial

Ordinary Share NAV [†]	\$1.1082
Redemption Share NAV [†]	\$1.118
Ordinary Share Price [‡]	\$1.00
Premium (Discount)	(9.8%)
Market Cap	\$178.6M
Net Assets	\$198.0M

[†] NAV per share as at 31 May 2017

[‡] Closing mid-price at 31 May 2017

* Based on projected forward annual dividends of \$0.066 and 31 May 2017 ending stock price of \$1.00.

Performance

Return Since Inception	46.2%
Best Monthly Return	3.2%
Worst Monthly Return	-1.8%
Current Dividend Yield*	6.6%
Percentage of Positive Months	94.3%
Annualised ST. Dev	2.01

Ordinary Share NAV Total Return (Inclusive of Dividends Paid)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Yr
2017	0.7%	0.2%	0.1%	0.2%	0.2%								1.3%
2016	0.4%	0.3%	0.3%	0.2%	-1.8%	0.5%	1.1%	2.5%	2.8%	-0.2%	1.0%	0.9%	8.3%
2015	0.3%	0.3%	0.3%	0.2%	0.2%	0.7%	0.7%	2.0%	2.0%	1.6%	0.5%	0.6%	9.6%
2014	0.2%	0.3%	0.0%	-0.1%	0.3%	0.4%	1.3%	1.9%	2.4%	1.1%	0.3%	0.5%	8.8%
2013	0.3%	0.4%	0.5%	0.7%	0.1%	0.8%	1.0%	2.4%	3.2%	1.9%	0.1%	0.0%	11.8%

Portfolio Overview as at 31 May 2017¹

Contract Type	Exposure (\$)	Exposure as % of Portfolio	Prior year Exposure (\$)	Prior year Exposure as % of Portfolio	Change from Prior Year (\$)	Change from Prior Year (%)
Traditional	162.6	82.1%	155.4	72.2%	7.2	4.6%
Quota Share	68.2	34.4%	63.4	29.4%	4.8	7.5%
Indemnity Reinsurance	63.6	32.1%	80.3	37.3%	-16.7	-20.7%
Indemnity Retrocession	30.8	15.5%	11.7	5.4%	19.1	162.5%
Non-Traditional	10.0	5.0%	41.6	19.3%	-31.6	-76.0%
Cat Bond	0	0.0%	2.0	0.9%	-2.0	-100.0%
Derivatives	0	0.0%	10.0	4.6%	-10.0	-100.0%
Industry Loss Warranties	10.0	5.0%	29.6	13.7%	-19.6	-66.2%
Retrocessional Hedging	1.1	0.5%	1.0	0.5%	0.0	0.0%
Cash	24.3	12.3%	17.1	79%	7.2	42.3%
Portfolio Total	198.0	100.0%	215.4	100.0%	-17.4	-8.1%

¹ The unaudited table provides a breakdown of the current portfolio's exposure by contract type, as at 31 May 2017. The portfolio exposure represents the fair value of the positions held by the Fund as at such date.

Regulatory News

On 25 May 2017 the Fund announced a share repurchase programme and during May the Fund repurchased 50,000 shares at US \$1.02 each. Through 14 June 2017, 550,000 shares have been repurchased under this programme at an average price of \$1.023. All repurchased shares are being retained in treasury.

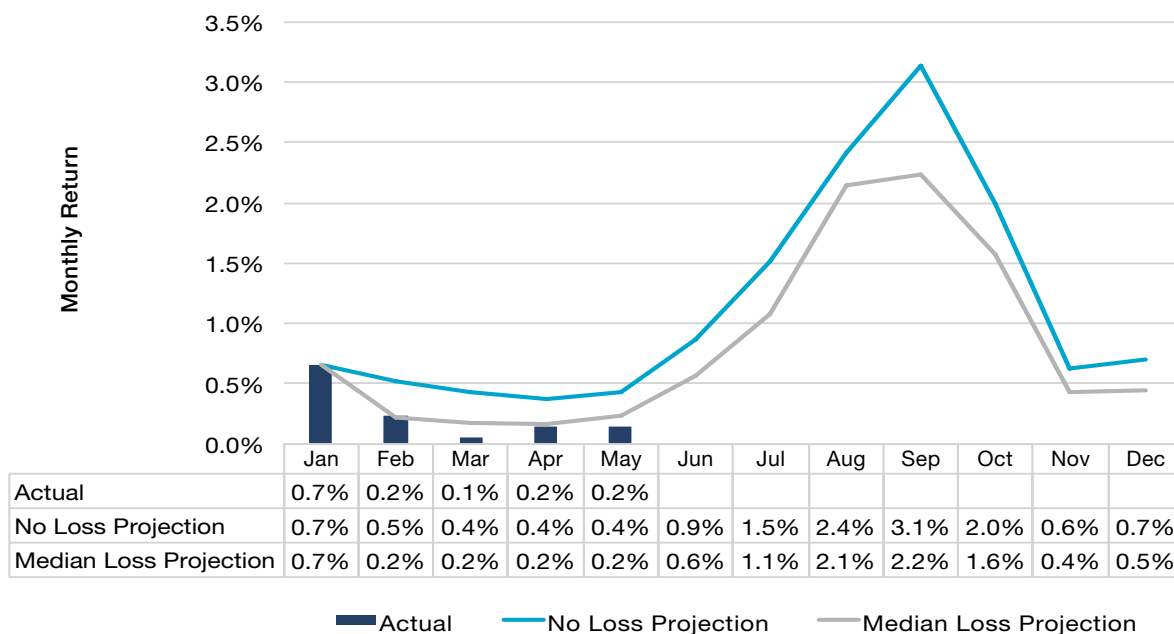
Portfolio Overview

Mike McGuire, CEO of Blue Capital Management Ltd. ("Blue Capital"), commented: "We are pleased to report strong portfolio execution during the June renewal period. Overall market price reductions were larger than initially anticipated, with the Florida market being 5% - 7.5% down year on year. However, due to the strength of our established long term relationships, the high quality of our underwriting and portfolio management teams and our strategic alignment with Sampo International, we were able to construct an attractive portfolio with risk adjusted pricing down 3%."

The Fund's total investments after the June 2017 renewals decreased by US\$17.3 million year on year, resulting in a total investment at fair value of US\$173.8 million in Blue Capital Global Reinsurance SA-1' (the "Master Fund"). Fair value is represented as collateral plus net earned premium less losses paid and reserved. The decrease in fair value is primarily attributable to the non-renewal of certain agreements with less favorable terms. The Fund intends to reinvest such assets in the latter half of the year.

The Master Fund has invested substantially all of its assets in: (i) preferred shares of Blue Water Re Ltd. and (ii) Industry loss warranty ("ILW") derivatives. The combined investments represent collateral deployment of US\$167.2 million across 98 different positions and 40 different clients generating US\$41.1 million of net reinsurance premium written and fixed ILW payments which is an increase of US\$0.7 million from the previous year.

2017 Actual NAV Return YTD and Illustrative and Hypothetical Return Projections¹

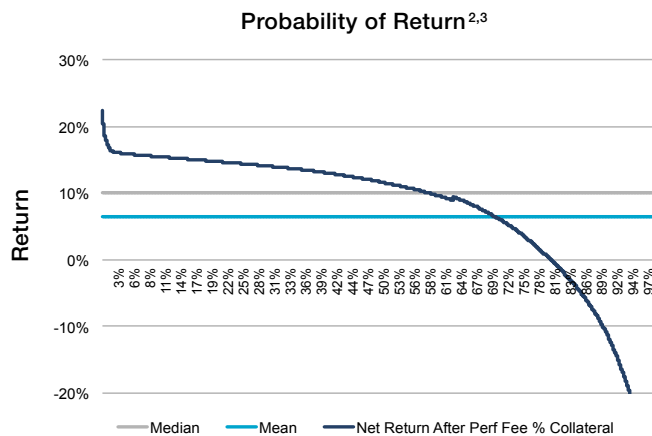


¹ The hypothetical 2017 projected net asset value ("NAV") growth and monthly return projections do not comprise a profit forecast and have been provided for illustrative and comparative purposes only and to demonstrate the impact of the accounting treatment of earning premiums. The projections are derived by reference to the collateral held and to the premiums payable under contracts written to date and take into account the modelled median catastrophe loss. As such, the projections set out above should not in any way be construed as forecasting the Fund's actual NAV growth or returns should the losses not occur. Absent loss events, NAV growth will vary from month to month depending on the underlying risk exposures and the associated premium earnings. For some risks (e.g. Earthquake), premiums are earned on a straight line basis throughout the contract term. For other risks (e.g. U.S. and European Windstorm), the level of risk – and therefore the rate at which premium is earned – varies throughout the year. Blue Capital anticipates that the majority of the Fund's capital will ultimately be exposed to U.S. wind events. Such premium is generally earned between July and November, with September representing the peak earnings month. Any losses will be recognized in the month in which they are incurred.

Aggregate Net Return on NAV

Modelled Return Probability²

Mean or Greater	71%
Breakeven or Greater	80%
Loss Greater than > (5%)	14%
Loss Greater than > (10%)	10%
Loss Greater than > (15%)	7%
Loss Greater than > (25%)	3%
Loss Greater than > (35%)	2%



² The in force portfolio return summary is provided for illustrative purposes only. The projections are derived by reference to the Fund's portfolio as at 31 January 2017 using AIR Worldwide ("AIR") Version 17.0 results extracted from CATM®, Endurance's proprietary technology, and do not take into account actual costs, expenses or other factors which are not attributable to the portfolio. As such, the in force portfolio return summary should not in any way be construed as forecasting the Company's actual returns should no losses occur or otherwise.

³ Net aggregate return distribution between a mean and median catastrophe year using AIR Version 17.0 results from CATM®.

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Fund Overview

Financial

Launch Date	6 December 2012
Domicile	Bermuda
Listings	London Stock Exchange (SFM) Bermuda Stock Exchange
Master Fund	Blue Water Master Fund Ltd.
Investment Manager	Blue Capital Management Ltd.
Broker	Stifel Nicolaus Europe Limited
Reporting NAV	Monthly NAV
Target Dividend Yield ¹	LIBOR +6% p.a.
Target Long-Term Total Return ¹	LIBOR +8% p.a.
Management Fee	1.5% p.a.(1.25% p.a. for NAV in excess of \$300 million)
Performance Fee	15% p.a. of returns in excess of high water mark and LIBOR+5% hurdle; subject to LIBOR+8% trigger

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DISCLAIMER:

Important Information: This fact sheet has been prepared by Blue Capital as investment manager of the Fund, solely to provide additional information to the shareholders of the Fund as a whole and should not be relied on by any other party or for any other purpose.

This fact sheet represents Blue Capital's current views and opinions, which are subject to change without notice. Blue Capital makes no representation or warranty and does not accept any responsibility in relation to such information or for opinion or conclusion which the reader may draw from the factsheet. This fact sheet was prepared using financial information contained in the Fund's books and records as of the reporting date. This information is believed to be accurate and is given in good faith but has not been audited by a third party. This fact sheet describes past performance, which may not be indicative of future results. The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations. You may not get back the amount you originally invested.

This fact sheet contains forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. Undue reliance should not be placed on any such statements because they speak only as at the date of this fact sheet and, by their very nature, are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and Blue Capital's actions to differ materially from those expressed or implied in the forward-looking statements.

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