Blue Capital Alternative Income Fund Limited (LSE: BCAI)

Investor Update

October 2017

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Blue Capital Alternative Income Fund Overview

BCAI invests in catastrophe reinsurance linked securities that protect highly regulated insurance companies against infrequent natural catastrophe events

Target Return[1,4]	Target Dividend[2,4]	Diversified Portfolio
8%+ LIBOR per annum	6% + LIBOR per annum	+1,500 Positions[3]

- **Established track record:** Annual NAV return in excess of 8% four out of five years from 2013 to September 30, 2017
- **Attractive yield:** Quarterly dividend; current yield of 6.7%[5]
- **Diversified approach:** The manager assesses/models every individual risk to construct a diversified portfolio across geography, event type and by insurer
- **Non-correlated returns:** Catastrophe reinsurance is directionally uncorrelated to financial markets
- **Expert management and strong manager alignment:** Blue Capital Management Ltd. (the Manager) is a wholly owned subsidiary of Sompo International. Sompo International holds a 28% strategic investment in BCAI, provides infrastructure and underwriting support services and is a significant source of investment opportunities for BCAI.

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. BCAI 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 BCAI enjoy the benefit of investing in a share that is diversified by underlying investments of greater than 1,500 positions in catastrophe related insurance contracts, as at June 1, 2017. 4. These are targets only and not profit forecasts. There can be no assurance that these targets will be met or that BCAI 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 BCAI. The Share price may not reflect the NAV of BCAI's portfolio. 5. Based on forward annual dividends of $0.066 and December 30, 2016 ending stock price of $0.96.

Track Record Since Inception

- Annual NAV return in excess of 8% four out of five years from 2013 to September 30, 2017

- 93% of 57 months have generated a positive NAV

- September 2017 loss reflects 2 category 4 hurricanes striking the United States and the Caribbean and two earthquakes in Mexico
  - Actual losses were within modeled expectations given the magnitude of the events

Monthly NAV Total Returns Since Inception (Inclusive of Dividends Paid)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	0.7%	0.2%	0.1%	0.2%	0.2%	0.5%	0.9%	0.5%	(26.0)%				**(23.7)%**
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%**

How does the reinsurance market work?

Reinsurance – Insurance for insurers

Catastrophe Risk Distribution Chain

Attractive Business Typically Difficult to Access for Retail Investors

Households

Insurance Companies
- Low
- Medium
- High
- Excess

Reinsurers
- Traditional
- BLUE CAPITAL Management Ltd.

Retrocessionaires
- Traditional
- Collateralized

Households/businesses buy insurance from insurance companies

Insurance companies purchase catastrophe reinsurance to protect against infrequent large losses

Reinsurers opportunistically hedge against the risk of infrequent large losses

Reinsurance Products

- Traditional Reinsurance
- Collateralized Reinsurance

BCAI Business Focus

- Industry Loss Warranties (ILWs)
- Catastrophe Bonds
- Retrocession

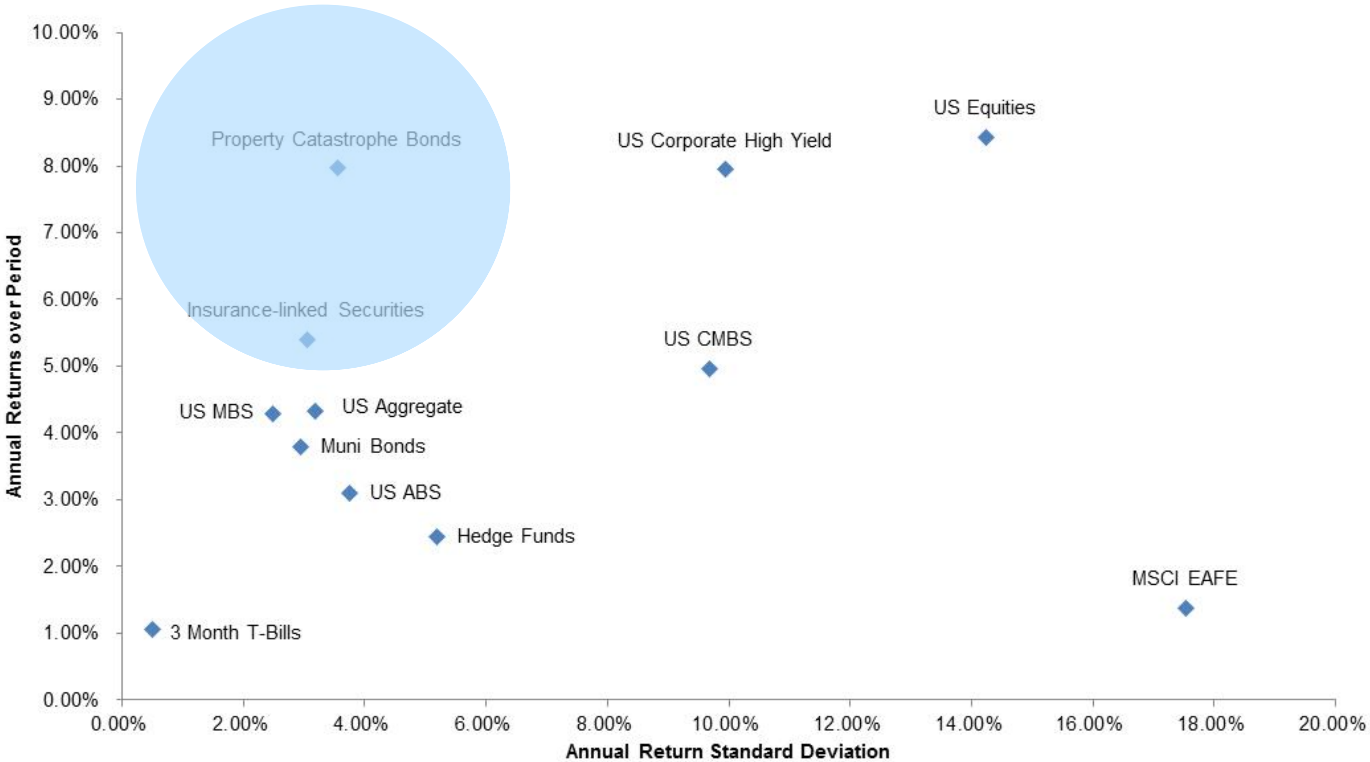
BCAI can invest in these products opportunistically, but they are not the key focus

Transparency of the underlying risk is key to optimal portfolio construction

Attractive Market With Appropriate Risk/Reward Dynamics

BLUE CAPITAL Management Ltd.

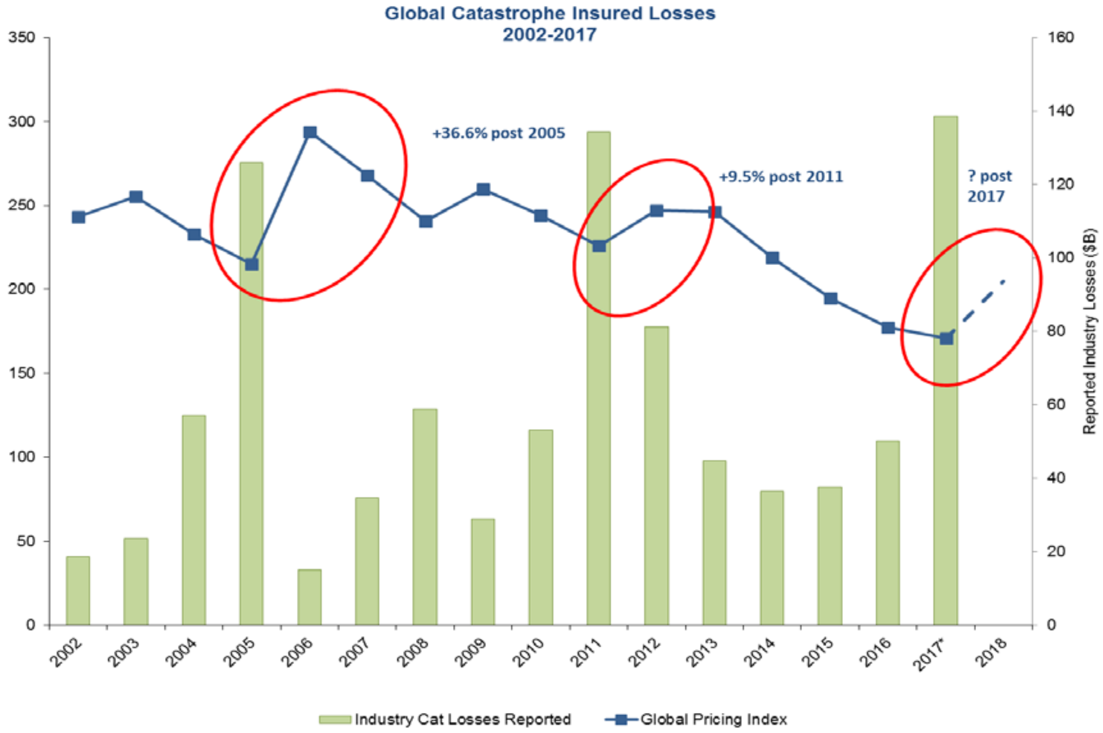
Global Index Return vs. Volatility (December 2005 – September 2017)[1,2]



- Returns directionally uncorrelated to other asset classes
- Volatility is manageable and diversifiable
- Sizeable and structured market

1. Property Catastrophe: Swiss Re Cat Bond Total Return Index; Insurance-linked Securities: Eureka ILS Advisors Index; US Corporate High Yield: Barclays U.S. Corporate High Yield Total Return Index; US Equities: S&P 500; MSCI EAFE: a free-float weighted equity index covering developing markets in Europe, Australasia and Far East regions; US Aggregate: Barclays U.S. Aggregate Total Return Index. Source: Bloomberg
2. The highlighted blue circle above and around the Property Catastrophe Bonds, and Insurance-linked Securities data points is not indicative of a range of possible outcomes, and is only used for presentation illustrative purposes.

2017 Events Leading to Potential Market Correction



Source: Statista 2017 and Guy Carpenter
*Estimated industry losses

2017 is likely going to be one of the most costly catastrophe loss years in industry history

- **Hurricane Harvey** (highest wind of 130 mph, insured loss of $25-$35 billion, 83 fatalities, largest auto loss in U.S. history and wettest tropical cyclone on record in the U.S.)
- **Hurricane Irma** (highest wind of 185 mph, insured loss of $35-$55 billion, 84 fatalities, largest Caribbean insurance loss in history)
- **Hurricane Maria** (highest wind of 175 mph, insured loss of $15-$50 billion, costliest Puerto Rico loss in history)
- Smaller events include Mexican earthquakes, Hurricane Nate and California Wildfires

Market pricing is anticipated to improve following these events

- Increases in non-impacted areas
- Higher increases in impacted areas for traditional reinsurance
- Greatest increase for retrocession in impacted areas

BCAI's Performance to 2017 Events

Annual Aggregate Net Return on NAV[1]

Modelled Return Probability		Return Period
Mean or Greater	70%	1.4 Years
Breakeven or Greater	78%	1.3 Years
Loss Greater than 5%	15%	6.6 Years
Loss Greater than 10%	10%	10 Years
Loss Greater than 15%	7%	14.3 Years
Loss Greater than 25%	3%	33.3 Years
Loss Greater than 35%	2%	50 Years

[1]The in force portfolio return summary is provided for illustrative purposes only. The projections are derived by reference to BCAI's portfolio as at 30 June 2017 using AIR Worldwide ("AIR") Version 17.0 results extracted from CATM®, Sompo International'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 BCAI's actual returns should no losses occur or otherwise.

[2]BCAI's actual contractual buffer loss provisions may ultimately differ materially from estimated contractual buffer loss provisions due to the underlying nature of the risks assumed, the complexity of the assessment of damages and the limited number of reported claims received to date.

BCAI's 2017 losses to date are within expected levels given the magnitude of the events

- **Hurricane Harvey** $4.8 million in estimated losses
- **Hurricane Irma** $42.4 million in estimated losses
- **Hurricane Maria** $6.5 million in estimated losses
- 2nd event/Aggregate losses triggered by multiple events estimated losses of $9.3
- $7.4 million in estimated losses from smaller events and attritional losses

In aggregate, our year-to-date NAV decline is 23.7%, implying a return period of between 1 in 14.3 and 1 in 33.3 years, which is within the expected range for industry wide losses

Majority of current NAV expected to be available for upcoming renewals:

- In addition to estimated losses that have already reduced NAV, estimated contractual buffer loss provisions are expected to lock up approximately 15.6%[2] of current NAV at January 1, 2018 renewals. These lockups are projected to be released systematically through the course of 2018 and 2019.

Portfolio Construction

A Successful and Proven Strategy

- **Leveraging the strength and expertise of Blue Capital and Sompo International**
  - Broad access through a global network of operations headquartered in Bermuda
  - Leverages Sompo International's global footprint, staffing, and distribution

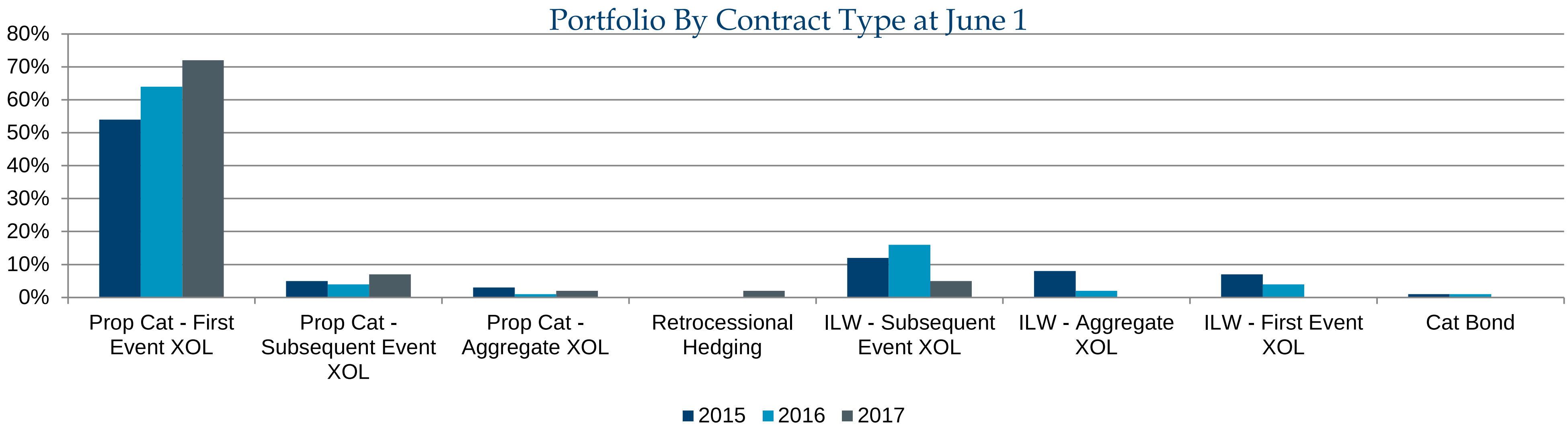
- **Preferred access to market opportunities**
  - Provides access to a well diversified global catastrophe book of business
  - Returns are generated from the construction of a portfolio of traditional catastrophe reinsurance contracts not normally available to investors
  - Avoid non-catastrophe and longer tail lines of business

- **Disciplined approach to portfolio execution**
  - Seasoned team equipped with analytics and optimized pricing metrics
  - Risk Management integrated into Blue Capital's proprietary pricing and portfolio management system, along with the support of seasoned team

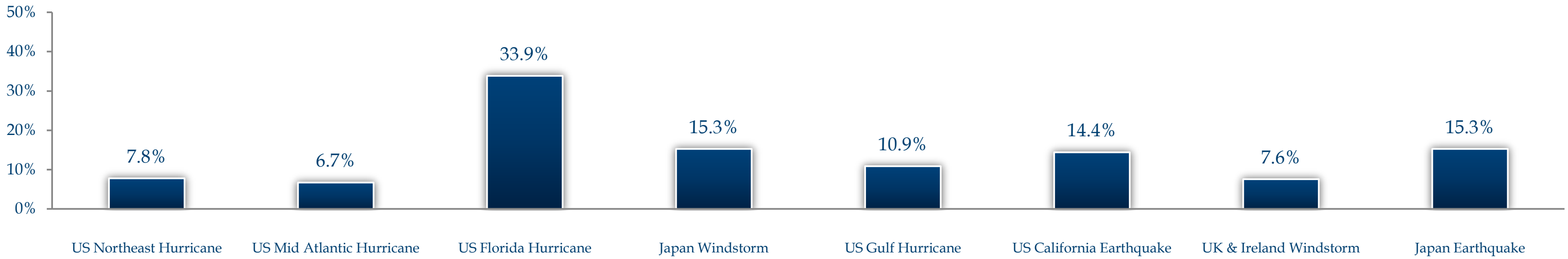
- **Minimal underlying investment asset risk**
  - Invested collateral is cash or cash equivalent securities held in custody by Bank of New York Mellon
  - Portfolio returns generated predominantly from reinsurance premiums

Portfolio Construction
Portfolio Contract Type

BCAI adheres to strict underwriting discipline, maintaining focus on its key clients (rather than ILWs and catastrophe bonds) and leveraging benefits of its relationship with Sompo International



June 1, 2017 Modelled Probable Maximum Loss as a percentage of NAV [1]



- Largest exposure remains US Florida Hurricane due to it remaining the most profitably priced market
  - Japan pricing remains strong following large events in 2011 and 2016
  - Other markets provide adequate pricing and diversification benefits

[1]For contracts that overlap zones, the full policy exposure is counted in each exposed zone. The illustrative portfolio and expected loss impact on the illustrative portfolio are hypothetical and for illustrative purposes only. There is no guarantee that hypothetical catastrophe events would be as illustrated in this slide and would reflect the actual loss impact on the portfolio. Further, the illustrative loss impact does not take into account any costs, expenses or other factors which are not attributable to the reinsurance arrangements, save for the management and performance fees referred to in the assumptions. As such, the inclusion of the hypothetical returns set out should not in any way be construed as forecasting the actual returns from the portfolio should such hypothetical events occur. Results produced using AIR Worldwide Version 17.0. Modelled Probable Maximum Losses (PML's) are 1 in 100 year event modelled loss, except for earthquake which is 1 in 250 year.

Key Fund Characteristics

Blue Capital Alternative Income Fund Limited	
Investment Policy	To invest in a portfolio of fully collateralised natural catastrophe reinsurance risks, diversified across geography, perils and events, accessed predominantly via the traditional reinsurance market
Target Yield[1]	LIBOR + 6% per annum on the original issue price of BCAI's shares paid semi-annually
Target Return[1]	Annualised portfolio target return (net of fees and expenses) of LIBOR 1M + 8% over the longer term
Market cap	$144.7 million as at September 30, 2017.
Listing	Specialist Fund Segment of the London Stock Exchange (BCAI) and Bermuda Stock Exchange (BCAI.BM)
Manager Fees	• Management fees of 1.5% of NAV per annum, reducing to 1.25% in respect of amounts above $300 million. • Annual performance fees of 15% of returns subject to LIBOR + 5% hurdle, LIBOR + 8% trigger and high water mark • Performance fees are not anticipated in 2017 or 2018 due to impact of 2017 performance on high water mark
NAV	Monthly NAV publication. Ordinary Share NAV $0.8250 and total net assets of $145.3 million, both as at September 30, 2017
Anchor Commitment	Sompo International - strategic investment of 28% of outstanding shares
Manager	Blue Capital Management Ltd., a wholly owned subsidiary of Sompo International

[1] These are targets only and not profit forecasts. There can be no assurance that these targets will be met or that BCAI 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 BCAI.

Conclusion

- Fund is invested in an attractive portfolio of catastrophe reinsurance linked securities
- Expected returns are directionally uncorrelated to financial markets with negligible risk from financial assets
- Fund benefits from strategic alignment with Sompo International which maintains anchor investment in Fund, provides operational support, and direct access to diversified portfolio opportunities
- Proven reinsurance risk selection & portfolio construction approach
- Market conditions are expected to improve given sizeable losses experienced in 2017

Appendix

Experienced Team and Strong Oversight

BLUE CAPITAL Management Ltd.

BCAI Board Of Directors

John Weale
Chairman

- Extensive industry experience in various CFO roles

Greg Haycock
Audit Committee Chairman

- Former senior partner at KPMG in Bermuda
- Financial Expert

George Cubbon
Independent Director

- Has held numerous industry executive roles
- Over 30 years industry experience

Blue Capital Management Limited

Mike McGuire
Chief Executive Officer

Will Haddrell
Portfolio Manager

Allison Kiene
Chief Compliance Officer

How does the reinsurance market work?
Harvesting Risk Premia and Portfolio Diversification

BLUE CAPITAL Management Ltd.

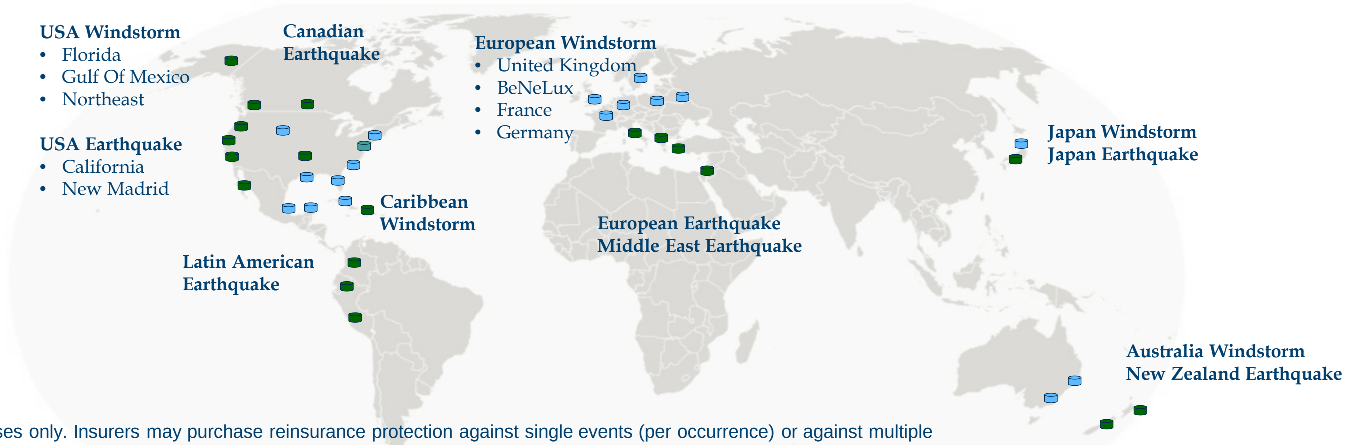
- Insurers typically purchase Excess of Loss reinsurance contracts from reinsurance companies like Sompo International and ILS funds like BCAI

Total Loss Exposure: $1 billion	Contract Loss Participation	Contract Description	Contract Max Loss	Risk Premium Paid by Insurer for 1yr (Return)	Contract Expected Loss (Returns Volatility)	Typical Investor Participation	Investor's Strategy
Reinsurance Contract 4: $200mm	Total loss at $1bn / No loss at $800mm	"$200mm xs $800mm"	$200mm	3.00% - 4.00%	Very Low	Pension Funds	Long Term Low Volatility
BCAI: Reinsurance Contract 3: $200mm	Total loss at $800mm / No loss at $600mm	"$200mm xs $600mm"	$200mm	4.00% - 6.00%	Low – Moderate	Cat Bond Funds	Market Beta
BCAI: Reinsurance Contract 2: $200mm	Total loss at $600mm / No loss at $400mm	"$200mm xs $400mm"	$200mm	6.00% - 15.00%	Moderate	Collateralized Reinsurance Fund (e.g. BCAI)	Generate Stable Alpha vs. Benchmark
BCAI: Reinsurance Contract 1: $200mm	Total loss at $400mm / No loss at $200mm	"$200mm xs $200mm"	$200mm	15.00% - 30.00%	High	Collateralized Reinsurance Funds, Hedge Funds	Opportunistic
Insurer Retention / Deductible	Total loss at $200mm / No loss at $0mm	"$200mm xs $0mm"	$200mm	None – 1st loss risk retained by insurer	N/M	N/M	N/M

Insurer's Loss Amount (i.e. severity of hurricane): High to Low

Syndication of Risk Exposure Across a Range of Reinsurance Companies and ILS Funds

Uncorrelated Global Catastrophe Risks Provide Opportunities for Diversification



Windstorm / Winter Storm Exposure

Earthquake Exposure

Notes: Illustration is generic for educational purposes only. Insurers may purchase reinsurance protection against single events (per occurrence) or against multiple cumulative events (per aggregate). This illustration makes generic pricing assumptions about risk levels throughout a reinsurance program. Premium levels may vary based on geography of risk exposure, nature of risk exposure and level of transparency of risk exposure. Some investor groups participate throughout the capital structure of the reinsurance industry. Contract notional amounts are usually smaller at junior (higher risk) layers and larger at senior (lower risk) layers.

Glossary

Catastrophe Bonds Bonds issued by an insurance company with funding tied to the company's losses from disasters, or acts of God. A loss exceeding a certain size triggers a reduction in the bond value or a change in the bond structure as loss payments are paid out of bond funds.

Collateralized Reinsurance A contract where a trust account is created at the inception of the contract term and funds the account in an amount equal to the contract limit (less certain deductions).

Industry Loss Warranty (ILW) An insurance or reinsurance contract in which coverage is triggered when the losses experienced by an industry exceed a specific threshold.

Reinsurance A contract under which a reinsurer agrees to pay specified types and amounts of underwriting loss incurred by an insurer or another reinsurer in return for a premium. Reinsurance serves to 'lay-off' risk. Reinsurance may be proportional or non-proportional and may take the form of a cover in respect of an individual risk exposure (see facultative risk) or cover in respect of multiple risk exposures (see treaty). Reinsurance accounts for more than half of Lloyd's total business.

Retrocession Reinsurance of a reinsurer by another reinsurer. It serves to 'lay-off' risk.

Retrocessionaires The reinsurer under a retrocession.

Quota Share Reinsurance A reinsurance treaty which provides that the reassured shall cede to the reinsurer a specified percentage of all the premiums that it receives in respect of a given section or all of its underwriting account for a given period in return for which the reinsurer is obliged to pay the same percentage of any claims and specified expenses arising on the reinsured account.

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