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**CIRCULAR
TO ALL KNOWN INVESTORS**

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Blue Capital Alternative Income Fund Limited (in liquidation) (“the Company”)

The purpose of this circular is to provide investors with an update on the liquidation of the Company and to inform investors of a proposed final redemption which Blue Water Master Fund Ltd. – Blue Capital Global Reinsurance SA-1 (the “Master Fund”) intends to enter into with Blue Water Re Ltd. (“Blue Water Re”).

The effect of this final redemption will be to remove the ongoing investment of the Master Fund in Blue Water Re. This in turn shall enable the return of all residual capital to the Company (net of remaining exposure on the underlying insurance contracts) and enable finalisation of the liquidation of the Company.

Background of the liquidation

The Company was incorporated in Bermuda on 8 October 2012 as a closed-ended exempted mutual fund company of unlimited duration, commencing operations in December 2012 to provide investors, through listing on the London Stock Exchange and Bermuda Stock Exchange, with access to the catastrophe reinsurance market.

The Company invested its assets in the Master Fund, a segregated account of Blue Water Master Fund Ltd. This segregated account in turn invested the assets in Blue Water Re to participate in a diversified portfolio of collateralized reinsurance-linked contracts which Blue Water Re entered into with cedants.

Following the decision by investors to place the Company in run-off on 25 July 2018 the Company was subsequently placed into Members Voluntary Liquidation on the same date. The purpose of the liquidation was to enable the orderly run-off and closure of the Company in the most cost-efficient manner possible.

During the liquidation the Company, through its Joint Liquidators, has continued to provide quarterly reporting of the unaudited Net Asset Value (“NAV”) of the Company and regular distributions of surplus capital to shareholders have been made.

Over 72.0% of the Company’s surplus assets as of the liquidation commencement have now been returned to investors through these distributions. As of 30 September 2021, the Company’s remaining assets total US\$6.0 million, of which US\$5.1 million is held in collateral trusts for the benefit of the cedants.

The 30 September 2021 (Q3) unaudited NAV of the Company reported to investors on 20 October 2021 was US\$1.2 million or US\$0.0066 per ordinary share.

As a result of the small residual assets and liabilities in the Company and the uncertainty of timing as to when the claims will run-off, the Joint Liquidators and the Company’s investment manager have evaluated options available to reach an early conclusion of the liquidation to avoid unnecessary erosion of investors assets through ongoing costs.

Initially Blue Water Re was tasked with attempting to commute the remaining obligations with the underlying cedants. While the majority of commutations were achieved, other cedants do not wish to commute and instead require the collateral to remain available to fund losses as they are paid out.



As an alternative option to reach finality, the Master Fund intends to terminate its relationship with Blue Water Re by agreeing a final redemption of preference shares. This will achieve the result of enabling a release of surplus assets for distribution to the Company's investors.

Assessment of the proposed commutation between Blue Water Master Fund Ltd (and its segregated accounts) and Blue Water Re Ltd.

The Company is not a party to the proposed final redemption; however, as set out above it has an economic interest as a result of its investment position.

The proposed final redemption is to be based in part on reported loss reserve figures by Blue Water Re. There is a possibility that those reported loss reserves may ultimately be higher or lower than ultimate losses. The risk that the Joint Liquidators have identified for the Company's investors arises should ultimate losses be lower than the current reported reserves, as this would mean that the Master Fund's investment in Blue Water Re would otherwise appreciate in value should it not enact an immediate final redemption.

The Joint Liquidators have considered this risk in relation to the likely timing of a natural run-off of the liabilities and the corresponding administration costs of keeping the liquidation open. The timing of the run-off of these residual claims is highly uncertain and may take several years. The Joint Liquidators have evaluated the risk of positive reserve development weighed against the ongoing administration costs within the liquidation and believe that the commutation is in the best interests of the Company's investors.

As evidenced by the table below, the current unaudited NAV would be approximately 50% eroded by the end of 2024 if claims remain open at that point. Further, in order that the final NAV were to be improved over the current position while assuming the residual run-off were to take 3 years, positive reserve development in excess of 14% would be required. The table shows an estimated projection of the Company's run-off assuming no changes to currently stated loss reserves.

Table – Estimate of Company Run-Off

(In thousands of U.S. dollars)	2021	2022				2023				2024			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NAV b/f	1,152	1,146	1,094	1,043	991	940	889	838	788	737	687	637	587
Expenses	(52)	(52)	(52)	(51)	(51)	(51)	(51)	(51)	(50)	(50)	(50)	(50)	(50)
Release of accrued expense provision	46	-	-	-	-	-	-	-	-	-	-	-	-
NAV c/f	1,146	1,094	1,043	991	940	889	838	788	737	687	637	587	538



Action required

The Joint Liquidators are reporting these developments on the basis that it is material to the remaining liquidation process. No action is required from you unless you object to the proposed commutation. Should you object, then the Joint Liquidators request that you notify them within 14 days of the date of this circular providing reasons for your objection.

Should no objections be received within the 14 day period the Joint Liquidators shall confirm their support of the proposed commutation.

Once the commutation is completed, the Joint Liquidators shall be in a position to move towards closure of the liquidation.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Mark Allitt', written over a light blue horizontal line.

Mark Allitt
Joint Liquidator