

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, or the action you should take, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 or other appropriately authorised financial adviser if you are in a territory outside the UK.

If you sell or have sold or otherwise transferred all of your Ordinary Shares, please forward this Circular, together with the accompanying documents (but not any personalised Form of Proxy or Form of Instruction), at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you sell or have sold part only of your holding of Ordinary Shares, please consult the bank, stockbroker or other agent through whom the sale or transfer was effected. However, neither this Circular nor any accompanying documents should be forwarded to or sent in or into any jurisdiction in which to do so would constitute a breach of the relevant laws of such jurisdiction.

This is not a prospectus but a shareholder circular. This Circular has been prepared for the purposes of complying with English law and the information disclosed may not be the same as that which would have been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

BLUE CAPITAL ALTERNATIVE INCOME FUND LIMITED

(incorporated and registered as an exempted mutual fund company in Bermuda with registered number 46969)

CIRCULAR TO SHAREHOLDERS

Recommended Proposal for a Voluntary Winding Up of the Company

and

Notice of Special General Meeting

This Circular should be read as a whole together with the accompanying documents. Your attention is drawn to the letter from the Chair of the Company which is set out in Part 1 of this Circular. The letter sets out certain information relating to the proposed Winding Up of the Company and recommends that you vote in favour of the Resolutions to be proposed at the Special General Meeting. Your attention is also drawn to the section entitled "Action to be taken" in Part 1 of this Circular.

Shareholders should make their own investigation of the Resolutions proposed at the Special General Meeting. Nothing in this Circular constitutes legal, tax, financial or other advice, and Shareholders should consult their own professional advisers.

The distribution of this Circular and the accompanying documents in certain jurisdictions may be restricted by law. This Circular and the accompanying documents should not be mailed or otherwise sent in, into or from Australia, Canada, Japan, New Zealand, the Republic of South Africa or the United States or any other jurisdiction if to do so would constitute a violation of the laws of such jurisdiction (each a "**Restricted Jurisdiction**"). No action has been or will be taken to permit the possession or distribution of this Circular or the accompanying documents in any jurisdiction, other than the United Kingdom, where action for that purpose may be required. Persons into whose possession this Circular comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

You will find set out in Part 3 of this Circular a notice convening a Special General Meeting for 9:00 a.m. (Bermuda time) on 25 July 2018 to be held at Waterloo House, 100 Pitts Bay Road, Pembroke, HM 08 Bermuda. A Form of Proxy and a Form of Instruction to be used by Shareholders and Depository Interest Holders (respectively) in connection with the Resolutions to be proposed at the Special General Meeting are enclosed.

****ONLY FOR SHAREHOLDERS WHO DO NOT HOLD DEPOSITORY INTERESTS THROUGH CREST****

The accompanying Form of Proxy for use by Shareholders in relation to the Special General Meeting should be completed and returned, in accordance with the instructions printed on it, to Computershare Investor Services (Bermuda) Limited, c/o The Pavilions, Bridgwater Road, Bristol BS99 6ZY, United Kingdom so as to be received as soon as possible and, in any event, not later than 9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 23 July 2018. Completion and return of a Form of Proxy will not preclude Shareholders from attending and voting in person at the Special General Meeting should they so wish and if they are so entitled.

****ONLY FOR SHAREHOLDERS WHO HOLD DEPOSITORY INTERESTS THROUGH CREST**** A Form of Instruction has been sent for use by Depository Interest Holders in relation to the Special General Meeting and should be completed and returned, in accordance with the instructions printed on it, to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, United Kingdom so as to be received as soon as possible and, in any event, not later than 9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 20 July 2018. Depository Interest Holders who are CREST members and who wish to appoint or give instructions to the Depository through the CREST electronic proxy appointment service should follow the procedures as to the appointment of a proxy or as to instructions described in this Circular. Completion and return of a Form of Instruction or transmission of a CREST Instruction will not preclude Depository Interest Holders from attending and voting in person at the Special General Meeting should they so wish and if they are so entitled.

Capitalised terms used in this Circular have the meanings given to them in Part 2 of this Circular.

Dated 27 June 2018

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Accompanying Documents

- *Form of Proxy (for use by Shareholders who do not hold Depository Interests through CREST)*
- *Reply paid envelope*

Information regarding forward-looking statements

This Circular contains a number of forward-looking statements relating to the Company. The Company considers any statements that are not historical facts as “forward-looking statements”. They relate to events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Company to differ materially from the information presented in the relevant forward-looking statement. When used in this Circular the words “estimate”, “project”, “intend”, “aim”, “anticipate”, “believe”, “expect”, “should”, and similar expressions, as they relate to the Company or the management of it, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this Circular. The Company does not undertake publicly to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, save in respect of any requirement under any applicable law or regulation.

EXPECTED TIMETABLE

Latest time and date for receipt of Forms of Instruction and CREST Instructions from the Depository Interest Holders	9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 20 July 2018
Latest time and date for receipt of Forms of Proxy	9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 23 July 2018
Suspension of trading of the Ordinary Shares on the London Stock Exchange	7:30 a.m. (UK time) on 25 July 2018
Suspension of the listing and trading of the Ordinary Shares on the BSX	25 July 2018
Special General Meeting	9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 25 July 2018
Liquidators appointed	25 July 2018
Announcement of the results of the Special General Meeting	By 5:00 p.m. on 25 July 2018
Cancellation of trading of the Ordinary Shares on the London Stock Exchange	8:00 a.m. (UK time) on 26 July 2018
Cancellation of the listing and trading of the Ordinary Shares on the BSX	26 July 2018

Notes:

1. *These times and dates are indicative only. If any of the above times and/or dates change materially, the revised times and/or dates will be notified to Shareholders by announcement through a regulatory information service.*
2. *All references in this Circular to times are to the times in London unless otherwise stated.*
3. *The implementation of the winding up and all events in the timetable following the Special General Meeting, are conditional, inter alia, on the passing of the Winding Up Resolution at the Special General Meeting.*

PART 1

LETTER FROM THE CHAIR

BLUE CAPITAL ALTERNATIVE INCOME FUND LIMITED

(incorporated and registered as an exempted mutual fund company in Bermuda with registration number 46969)

Directors

John R. Weale (Chairman)
Gregory D. Haycock
S. George Cubbon

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

27 June 2018

To Shareholders

Dear Shareholders

RECOMMENDED PROPOSALS IN RELATION TO THE WINDING UP OF THE COMPANY AND NOTICE OF SPECIAL GENERAL MEETING

1. INTRODUCTION

On 9 May 2018, the Board announced its intention to recommend the Winding Up of the Company to the Shareholders at a Special General Meeting to be held at the earliest practicable date.

Although the continuation vote proposed at the Company's recent annual general meeting was passed, the Board reached this conclusion because: (a) a significant proportion of independent shareholders voted against the continuation vote; (b) the resolutions required for the Company to raise further capital were not passed, which limited the Company's ability to grow in the near term; and (c) the market outlook was less positive than it had been earlier in 2018.

The Board has considered maintaining the operations of the Company during the realisation period so as to preserve the benefits of admission to trading on the London Stock Exchange and of listing on the BSX, but has concluded that the likely minimum continuing costs of doing so far exceed the benefits.

Accordingly, the Board believes that it is in the best interests of the Company to be wound up voluntarily, with the simultaneous cancellation of the admission to trading of its Ordinary Shares on the Specialist Fund Segment and the Ordinary Shares' listing on the BSX.

Shareholder approval is required for the Winding Up (and related matters) and such approvals are being sought at the Special General Meeting to be held at 9:00 a.m. (Bermuda time) on 25 July 2018. The purpose of this Circular is to provide you with information relating to the proposed Winding Up. A notice convening the necessary Special General Meeting is set out in Part 3 of this Circular.

No new business has been written on behalf of the Company since the date of the Company's recent annual general meeting.

Shareholders should make their own investigation of the proposals described in this Circular, including the merits and risks involved. Shareholders should read the whole of this Circular and not just rely on the information set out in this letter. Nothing in this

Circular constitutes legal, tax, financial or other advice, and if they are in any doubt about the contents of this Circular, Shareholders should consult their own professional advisers.

Capitalised terms have the meanings given to them in Part 2 of this Circular.

2. THE WINDING UP

It is proposed that the Company be wound up voluntarily in accordance with the Bermuda Companies Act 1981, as amended and the Company's Bye-laws. The Winding Up will commence immediately upon the passing of the Winding Up Resolution and will be implemented as follows (subject to the passing of the Winding Up Resolution).

Appointment and Remuneration of the Liquidators

Mike Morrison and Mark Allitt of KPMG Advisory Limited, Crown House, 4 Par-la-Ville Road, Hamilton HM 08 Bermuda will be appointed as joint liquidators (the "**Liquidators**") of the Company immediately upon the passing of the Winding Up Resolution at the Special General Meeting.

Upon the appointment of the Liquidators, all powers of the Board will cease. The Liquidators will then be responsible for the affairs of the Company until it is wound up.

The remuneration of the Liquidators will be based on the time spent by the Liquidators and members of their staff in attending to matters arising prior to and during the Winding Up. The costs of Liquidators are preliminarily estimated to amount to approximately \$55,000-\$65,000 for the initial 12 month period from the date of the Winding Up and approximately \$30,000-\$40,000 per annum thereafter. The Liquidators will also be reimbursed for all reasonable out of pocket expenses and disbursements properly incurred in connection with the Winding Up out of the assets of the Company.

Suspension and Cancellation of Trading in Ordinary Shares

The register will be closed and the Ordinary Shares disabled in CREST at close of business on 24 July 2018. Application will be made to the London Stock Exchange for suspension of trading in the Ordinary Shares at 7:30 a.m. on 25 July 2018. Accordingly, the last day for dealings in the Ordinary Shares on the London Stock Exchange on a normal rolling two day settlement basis will be 20 July 2018. As from 20 July 2018, dealings should be for cash settlement only and will be registered in the normal way if the transfer, accompanied by documents of title, is received by the Registrar by 5:00 p.m. on 24 July 2018. Transfers received by the Registrar after 5:00 p.m. on 24 July 2018 will be returned to the person lodging them.

If the Resolutions are passed, the Company will make an application to the London Stock Exchange for the cancellation of trading in the Ordinary Shares following the Special General Meeting, with the cancellation expected to take effect at 8:00 a.m. (UK time) on 26 July 2018.

On the appointment of the Liquidators, the Ordinary Shares will no longer be freely transferable without the approval of the Liquidators. However, although the ISIN of the Ordinary Shares will be disabled and transfers restricted as noted in the preceding sentence, Shareholders should note that the Company intends to keep the Depository Interests arrangements in place for the time being as these arrangements are expected to continue to offer administrative benefits to both the Shareholders and the Company (including by facilitating the payment of distributions). However, these arrangements may be discontinued by the Liquidators at a later date.

3. IMPLEMENTATION OF THE WINDING UP

Redemption of Master Fund Shares

As the Company is a feeder fund, the Winding Up is expected principally to be achieved by the redemption of all of the Company's Master Fund Shares in accordance with the terms thereof and distributing the net proceeds thereof to Shareholders. Consequently, on or shortly following their appointment, the Liquidators are expected to serve a redemption notice on the Master Fund in respect of 100% of the Company's Master Fund Shares.

Distributions to Shareholders

Distributions of cash by the Liquidators pursuant to the Winding Up will take place in the normal course of the liquidation. The amount and the timing of the distributions will be at the Liquidator's discretion. However, the Liquidators expect to distribute the net proceeds of the redemptions of the Master Fund Shares (after payment of any costs and save for any amount required for reserves in respect of anticipated liabilities) to Shareholders on a quarterly basis by way of a dividend or other distribution.

Shareholders should note that the Liquidators may delay the distribution until a material amount is available for distribution to avoid the cost and administrative burden of distributing small amounts.

For the avoidance of doubt, the Company's distribution policy will not apply during the Winding Up (including in respect of the period to 30 June 2018).

Arrangements with Company's service providers

Assuming the Winding Up Resolution is passed, the Liquidators will terminate all arrangements with the Company's service providers that are no longer required upon the Company being placed into liquidation or when any services being performed in connection with the Winding Up have been completed, in each case in accordance with the terms of that service provider's appointment. It is expected that the Depository and Registrar will remain in place. Please note that should the Investment Manager or Administrator cease providing the certain reporting and administrative services in the Winding Up, the Liquidators' costs will increase accordingly.

On-going Costs at Master Fund level

Shareholders should note that the Company's investment in the Master Fund will continue to bear fees and costs, including (but not limited to) the Management Fee and the Performance Fee, until such time as the Company's Master Fund Shares are redeemed in full. However, the Company does not expect a Performance Fee to be paid during the Winding Up and Shareholders should note that the Management Fee will reduce in line with the declining fund size.

Reporting and further announcements

During the Winding Up, the Company will cease making monthly Net Asset Value announcements and will not publish interim financial statements. Instead, the Company will post: (a) quarterly Net Asset Value reports; (b) quarterly distribution statements; and (c) annual unaudited financial statements, to its website at <http://ir-bcai.bluecapital.bm>.

In accordance with their statutory obligations, in the event the Winding Up of the Company continues for more than one year (which is expected), the Liquidators will call a general meeting of the Company at the end of the first year from commencement of the Winding Up, and of each

succeeding year to update Shareholders and provide an account of the Winding Up during the preceding year.

Final meeting prior to dissolution

As soon as the Company's affairs are fully wound up, the Liquidators will prepare an account of the Winding Up in accordance with the Bermuda Companies Act 1981, as amended, and will call a general meeting of the Company at which the account will be presented and resolutions will be proposed to accept the Liquidators' final report, determine the manner in which the books and records of the Company are to be disposed of and approve the dissolution of the Company.

Within one week after this meeting, the Liquidators will provide notice to the Registrar of Companies in Bermuda that the final general meeting has been held and the Company has been dissolved. The Registrar of Companies will record the dissolution of the Company as at the date of such meeting and will issue a certificate of dissolution approximately three to six weeks after such date.

If no quorum is present at the final general meeting, the Company may be dissolved on the date for which the meeting was convened by the Liquidators giving notice of the same to the Registrar of Companies in Bermuda pursuant to the Bermuda Companies Act 1981, as amended.

4. THE RESOLUTIONS

The following Resolutions will be proposed at the Special General Meeting:

- the Winding Up Resolution, to be proposed as an Ordinary Resolution; and
- an Ordinary Resolution, conditional on the passing of the Winding Up Resolution, to authorise the Liquidators to divide among the members in specie and/or vest the assets of the Company in trustees upon trust for the benefit of the Shareholders, in each case in accordance with Bye-laws.

The Special General Meeting has been convened for 9:00 a.m. (Bermuda time) on 25 July 2018. The full text of the Resolutions is set out in the Notice of Special General Meeting set out in Part 3 of this Circular.

If the Winding Up Resolution is not passed, the Company will continue in its current state.

5. UK TAXATION

The comments below do not constitute tax advice and are of a general nature only. They apply only to UK resident Shareholders who hold their Ordinary Shares and/or Depository Interests as investments. Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK should consult an appropriate professional advisor.

Provided that the "offshore funds" rules do not apply (as to which, see below), UK resident Shareholders may be subject to UK capital gains tax (or corporation tax on chargeable gains) on any gain arising on disposal of their Ordinary Shares or Depository Interests. Distributions in liquidation of the Company will be treated as part (or full) disposals by the recipient Shareholder of their Ordinary Shares for capital gains tax purposes.

If the Company (or the Ordinary Shares as a class) were to be treated as an "offshore fund" for UK taxation purposes, gains on disposals of Ordinary Shares or Depository Interests by UK

resident shareholders (including gains arising on liquidation distributions) would potentially be subject to UK tax as income rather than capital gains. It is not expected that either the Company or the Ordinary Shares would be treated as an "offshore fund". In accordance with HM Revenue & Customs' published guidance, being put into liquidation will not of itself make the Company (or the Ordinary Shares as a class) an "offshore fund". The Company (or Ordinary Shares) should not therefore be an "offshore fund" during the liquidation (absent any other relevant changes).

Shareholders in the UK should note that, following the cancellation of the Ordinary Shares' listing on the BSX, Ordinary Shares and Depository Interests will no longer be eligible for inclusion in ISAs, and may be treated as no longer eligible for a SIPP by SIPP operators (depending on each SIPP operator's own policy in respect of investments).

Depository Interest Holders should note that, following the cancellation of the Ordinary Shares' listing on the BSX, the Depository Interests will cease to be eligible for the exemption from UK stamp duty reserve tax applicable to UK Depository interests in foreign securities. As such, agreements to transfer Depository Interests may be subject to stamp duty reserve tax, at 0.5% of the consideration.

6. KEY RISK FACTORS

Certain risks factors associated with the Winding Up are set out below. Shareholders should carefully consider all such risk factors (although there may be others which are of equal or greater magnitude which are not known to the Company and, which accordingly are not set out in this Circular or which may be applicable to certain Shareholders or types of Shareholder and of which the Company is not aware). However, the Board considers the following to be key risk factors relating to the Winding Up:

- There may be a significant delay in the Company's ability to realise its investment in the Master Fund as a result of the illiquidity of such investments. These terms provide for monthly redemptions on 10 days' notice with cash settlement within 45 days. However, this is expressly subject (inter alia) to the ability of the Master Fund to liquidate assets (which may be held as collateral against the potential for loss reserve liabilities under the terms of the reinsurance treaties in which the Master Fund invests). Accordingly, redemptions may take significantly longer in certain circumstances and the Company (having been advised by the Investment Manager) anticipates the Winding Up to take at least two years.

As at the date of this Circular, 99% of the assets attributable to the Company's Master Fund Shares are held within trust accounts as collateral in excess of booked loss reserve liabilities or are otherwise illiquid and the Master Fund Shares in respect of such holdings will only be redeemed following such assets being released and/or realised.

- The Company will remain exposed to the performance of the Master Fund and its underlying investments until the redemption of all of its Master Fund Shares. Consequently, the amount to be received by Shareholders and the timing of those receipts will be dependent on that performance and may be significantly less than the Company's current Net Asset Value.
- The admission to trading of the Company's Ordinary Shares on the Specialist Fund Segment and their listing on the BSX will be suspended by no later than 7:30 a.m. (UK time) on 25 July 2018 and, subject to the passing of the Winding Up Resolution, the Ordinary Shares will no longer be capable of being traded on the London Stock Exchange or the BSX. During the Winding Up, Ordinary Shares will only be transferable with the

approval of the Liquidators. Accordingly, Shareholders should expect their Ordinary Shares to be illiquid throughout the Winding Up.

7. THE SPECIAL GENERAL MEETING

As explained above, the Proposals require the approval of Shareholders at a general meeting of the Company. Accordingly, you will find set out in Part 3 of this Circular a notice convening a Special General Meeting for 9:00 a.m. (Bermuda time) on 25 July 2018 to be held at Waterloo House, 100 Pitts Bay Road, Pembroke, HM 08 Bermuda.

Each of the Resolutions being put to Shareholders at the Special General Meeting will be proposed on a poll.

In order to become effective, the Resolutions (as Ordinary Resolutions) must be approved by, a simple majority of the votes cast on a poll by Shareholders present in person or by proxy at the Special General Meeting.

The quorum for the Special General Meeting shall be any one or more Shareholders present in person or represented by proxy and entitled to vote representing not less than one third of the total Ordinary Shares in issue. Any Shareholder present in person or by proxy may demand a poll and every Shareholder shall on a poll have one vote in respect of each Ordinary Share held by it at 5:00 p.m. on 23 July 2018. If the Special General Meeting needs to be adjourned because it is not quorate, it will be adjourned to the same day in the next week, at the same time and place or to such other day, time and place as the Chair may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the Shareholders present shall be a quorum.

8. ACTION TO BE TAKEN

The only action that you need to take in respect of the Special General Meeting is to complete the accompanying Form of Proxy or, if you are a Depository Interest Holder, the accompanying Form of Instruction or a CREST Instruction. Shareholders are asked to complete a Form of Proxy, a Form of Instruction or a CREST Instruction, as appropriate, whether or not they wish to attend the Special General Meeting.

Shareholders who do not hold Depository Interests through CREST

Shareholders who do not hold Depository Interests through CREST are asked to complete the accompanying Form of Proxy in accordance with the instructions printed on it and return it to Computershare Investor Services (Bermuda) Limited, c/o The Pavilions, Bridgwater Road, Bristol BS99 6ZY, United Kingdom so as to be received as soon as possible and, in any event, not later than 9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 23 July 2018.

Shareholders who do hold Depository Interests through CREST

Depository Interest Holders are asked to complete a Form of Instruction in accordance with the instructions printed on it and return it to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, United Kingdom so as to be received as soon as possible and, in any event, not later than 9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 20 July 2018. Depository Interest Holders who hold their interests in respect of shares in CREST may instruct the Depository by completing and transmitting a CREST Instruction to Computershare Investor Services PLC so that it is received by no later than 9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 20 July 2018.

9. COSTS AND EXPENSES OF THE WINDING-UP

The costs and expenses of the Company during its Winding Up will principally comprise the Liquidators' fees and expenses (as set out above), the operating costs of the Company and the fees and expenses of any service providers that continue to provide services to the Company. All such costs and expenses shall be satisfied out of the Company's cash reserves and/or out of the proceeds of the redemptions of the Master Fund Shares (prior to and by way of set-off against the distribution of proceeds to Shareholders).

10. QUESTIONS

If you have any questions relating to this Circular; the completion and return of a Form of Proxy; the completion and return of a Form of Instruction; or sending a CREST Instruction, please contact Computershare Investor Services PLC on 0370 707 4040 or, if telephoning from outside the UK, on +44 370 707 4040. Calls may be recorded and monitored randomly for security and training purposes. Computershare Investor Services PLC cannot provide advice on the merits of the Resolutions to be proposed at the Special General Meeting or in relation to the Winding Up nor can it give any financial, legal or tax advice.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Hogan Lovells International LLP, Atlantic House, 50 Holborn Viaduct, London, EC1A 2FG and at the registered office of the Company during normal business hours from the date of this Circular until the conclusion of the Special General Meeting and at the place of the Special General Meeting for at least 15 minutes prior to, and during the Special General Meeting:

- the Bye-laws; and
- this Circular.

12. RECOMMENDATIONS

The Board considers that the Winding Up and each of the Resolutions are in the best interests of the Shareholders as a whole. Accordingly, the Board unanimously recommends Shareholders, as those Directors who own Ordinary Shares intend to do so in respect of their own beneficial holdings, to vote in favour of each of the Resolutions. You are requested to complete and return the accompanying Form of Proxy and Form of Instruction without delay, whether or not you intend to attend the Special General Meeting.

The Investment Manager has informed the Board that its parent, Sompo International Holdings Ltd, which holds 28.5% of the Ordinary Shares, intends to vote in favour of both of the Resolutions proposed at the Special General Meeting.

Shareholders are recommended to consult their duly authorised independent advisers and make their own decision.

Yours faithfully

John Weale, Chairman

On behalf of the Board

PART 2

DEFINITIONS

The following definitions apply throughout the Circular unless the context requires otherwise:

"Administrator"	means SS&C Fund Services (Bermuda) Limited, an exempted company incorporated under the laws of Bermuda whose registered office is located at 5 Reid Street, Hamilton HM 11, Bermuda;
"Board" or "Directors"	the board of directors of the Company or, where the context permits, the board of directors of the Company (or any duly authorised committee of such board);
"BSX"	the Bermuda Stock Exchange;
"Bye-laws"	the Bye-laws of the Company as in force as at the date of this Circular;
"Circular"	this document;
"Company"	Blue Capital Alternative Income Fund Limited, an exempted mutual fund company incorporated with limited liability and registered in Bermuda with registration number 46969 (previously named Blue Capital Global Reinsurance Fund Limited);
"CREST"	the computer based system for the transfer of uncertificated securities operated by Euroclear;
"CREST Manual"	the CREST manual issued by Euroclear;
"CREST member"	a person who has been admitted by Euroclear as a system member (as defined in the CREST Regulations);
"CREST participant"	a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations);
"CREST Instruction"	the instruction whereby CREST members send a CREST message appointing a proxy to vote as custodian of its Depository Interests at the Special General Meeting and instructing the proxy how to vote and containing the information set out in the CREST Manual;
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001/3755);
"CREST sponsor"	a CREST participant admitted to CREST as a CREST sponsor being a sponsoring system participant (as defined in the CREST Regulations);
"CREST sponsored member"	a CREST member admitted to CREST as a sponsored member;
"Depository"	Computershare Investors Services PLC or where applicable its nominated custodian;

"Depository Interest Holders"	holders of Depository Interests;
"Depository Interests"	the dematerialised Depository Interests issued in respect of Ordinary Shares (on a one-for-one basis);
"Euroclear"	Euroclear UK and Ireland Limited;
"Form of Instruction"	the form of Instruction accompanying this Circular for use by Depository Interest Holders in relation to voting on the Resolutions to be proposed at the Special General Meeting;
"Form of Proxy"	the form of proxy accompanying this Circular for use by Shareholders at the Special General Meeting;
"Investment Manager"	Blue Capital Management Ltd., an exempted company incorporated with limited liability and registered in Bermuda with registration number 38829;
"ISIN"	International Securities Identification Number;
"Liquidators"	mean Mike Morrison and Mark Allitt of KPMG Advisory Limited, Crown House, 4 Par-la-Ville Road, Hamilton HM 08 Bermuda;
"Management Fee"	means the management fee to which the Investment Manager is entitled pursuant to the SAC Investment Management Agreement;
"Master Fund"	Blue Capital Global Reinsurance SA-I, a segregated account of the Master Fund SAC;
"Master Fund SAC"	Blue Water Master Fund Ltd., an exempted mutual fund company incorporated with limited liability and registered in Bermuda with registration number 46069;
"Master Fund Shares"	non-voting, redeemable preference shares of US\$0.001 par value in the capital of the Master Fund SAC, designated by the Master Fund SAC as being linked to the Master Fund;
"Net Asset Value"	the net asset value of the Company or the Master Fund or per share (as the context requires);
"Notice of Special General Meeting"	the notice of the Special General Meeting which is set out in Part 3 of this Circular;
"Ordinary Share"	an ordinary share in the capital of the Company, and, where the context requires, a Depository Interest issued in respect of an Ordinary Share;
"Ordinary Resolution"	a resolution passed by a majority of the votes cast by Shareholders (in nominal value) of the issued Ordinary Shares;
"Performance Fee"	means the performance related fee to which the Investment Manager is entitled pursuant to the terms of the Underwriting and Insurance Management Agreement;
"Proposals"	means the proposals set out in this Circular;

"Registrar"	Computershare Investor Services (Bermuda) Limited;
"Reinsurer"	Blue Water Re Ltd., an exempted company incorporated with limited liability in Bermuda with registration number 45989 and licenced by the Bermuda Monetary Authority as a "special purpose insurer" to transact property reinsurance business;
"Resolutions"	the two resolutions to be proposed at the Special General Meeting in the form set out in Part 3 of this Circular;
"Restricted Jurisdiction"	Australia, Canada, Japan, New Zealand, the Republic of South Africa or the United States or any other jurisdiction where the mailing of this Circular into such jurisdiction would constitute a violation of the laws of such jurisdiction;
"SAC Investment Management Agreement"	means the investment management agreement made between the Master Fund SAC (in respect of the Master Fund) and the Investment Manager and dated 27 November 2012;
"Shareholders"	a registered holder of a share in the capital of the Company and/or, as the context may permit, Depository Interest Holders;
"Special General Meeting"	the special general meeting of the Company, notice of which is set out in Part 3 of this Circular, or any adjournment of that meeting;
"Specialist Fund Segment"	the Specialist Fund Segment of the Main Market of the London Stock Exchange;
"Underwriting and Insurance Management Agreement"	an agreement dated 27 November 2012 between the Master Fund SAC (on behalf of the Master Fund), Blue Capital Insurance Managers Ltd. (which merged with the Investment Manager on 15 December 2014) and the Reinsurer, as amended with effect from 1 January 2016;
"Winding Up"	the proposed members' voluntary liquidation of the Company, as described in this Circular; and
"Winding Up Resolution"	the first of the two Resolutions which, if approved, will trigger the Winding Up.

PART 3

NOTICE OF SPECIAL GENERAL MEETING

BLUE CAPITAL ALTERNATIVE INCOME FUND LIMITED

(incorporated and registered as an exempted mutual fund company in Bermuda with registration number 46969)

NOTICE IS HEREBY GIVEN that a SPECIAL GENERAL MEETING of Blue Capital Alternative Income Fund Limited (the "**Company**") will be held at Waterloo House, 100 Pitts Bay Road, Pembroke, HM 08 Bermuda on 25 July 2018 at 9:00 a.m. (Bermuda time). Capitalised terms in this notice will have the meaning given to them in Part 2 of the Circular dated 27 June 2018 (the "**Circular**"). This Special General Meeting is being convened for the purpose of considering and, if thought fit, passing the following two Resolutions, each of which will be proposed as Ordinary Resolutions, which require the approval of a majority of the votes cast in respect of them.

ORDINARY RESOLUTION 1

THAT:

- (a) the Company be Wound Up voluntarily pursuant to the provisions of the Companies Act 1981, as amended (the "**Act**") and Mike Morrison and Mark Allitt of KPMG Advisory Limited, Crown House, 4 Par-la-Ville Road, Hamilton HM 08 Bermuda be and hereby are appointed as Liquidators of the Company with the power to act jointly or severally for the purpose of such Winding Up with all powers conferred on them by the Act, the Bye-laws or by this Ordinary Resolution, such appointment becoming effective on the passing of this Ordinary Resolution; and
- (b) the remuneration of the Liquidators be drawn in accordance with the letter of engagement dated 22 June 2018, together with the reimbursement of all reasonable out of pocket expenses and disbursements properly incurred in connection with the Winding Up of the Company out of the assets of the Company, be and hereby are approved.

ORDINARY RESOLUTION 2

THAT, conditional on the approval of the Winding Up Resolution, the Liquidators are hereby authorised to: (a) divide among the Shareholders in specie or in kind the whole or any part of the assets of the Company; and (b) vest the whole or any part of the assets of the Company in trustees upon such trust for the benefit of the Shareholders, in each case in accordance with the Bye-laws and as the Liquidators think fit, provided that, in each case, such authorisation shall be exercised in accordance with the Act, and any other Bermuda statute or law which applies to the Winding Up of the Company ("**Bermuda Insolvency Law**") and provided further that, in the event of conflict between the authorisation provided under this Ordinary Resolution and Bermuda Insolvency Law, the requirements under Bermuda Insolvency Law shall prevail.

By Order of the Board

27 June 2018

Registered office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Registered in Bermuda Number: 46969

Notes:

1. Every Shareholder has the right to appoint some other person(s) of their choice, who need not be a Shareholder as his proxy to attend, speak and vote on their behalf at the meeting. A Shareholder entitled to attend and vote at the Special General Meeting may appoint one or more proxies (who need not be Shareholders of the Company) to attend, speak and vote on his or her behalf. A Shareholder may appoint more than one proxy in relation to the Special General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that Shareholder. In order to be valid, any appointment of proxy (and the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy of such power or authority) must be put in place and returned in accordance with these notes and the notes set out on the accompanying Form of Proxy.
2. ****ONLY FOR INVESTORS WHO DO NOT HOLD DEPOSITORY INTERESTS THROUGH CREST****
A Form of Proxy is enclosed for use at the Special General Meeting. The Form of Proxy should be completed and sent together with (if not previously registered with the Company) the power of attorney or other authority (if any) under which it is executed, to Computershare Investor Services (Bermuda) Limited c/o The Pavilions, Bridgwater Road, Bristol BS99 6ZY, United Kingdom so as to be received as soon as possible and, in any event, not later than 9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 23 July 2018. Completing and returning a Form of Proxy will not prevent a Shareholder from attending and voting in person at the Special General Meeting should he or she so wish. To have the right to attend and vote at the Special General Meeting (and also for the purpose of calculating how many votes the Shareholder may cast on a poll), a Shareholder must first have his or her name entered in the Company's register of shareholders no later than close of business on 23 July 2018. Changes to entries in that register after that time shall be disregarded in determining the rights of any Shareholder to attend and vote at the Special General Meeting. Return of the Form of Proxy will not preclude a Shareholder from attending the Special General Meeting and voting in person.
3. ****ONLY FOR INVESTORS WHO HOLD DEPOSITORY INTERESTS THROUGH CREST**** A Form of Instruction has been sent for use at the Special General Meeting. The Form of Instruction should be completed and sent together with (if not previously registered with the Company) the power of attorney or other authority (if any) under which it is executed, to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, United Kingdom so as to be received as soon as possible and, in any event, by no later than 9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 20 July 2018. In the case of joint holders of Depository Interests, a Form of Instruction completed by the senior holder will be accepted to the exclusion of a Form of Instruction completed by any of the other joint holders. For this purpose seniority is determined by the order in which the names stand in the register of Depository Interests in respect of the joint holding.

A Depository Interest Holder who is a CREST member and who wishes to appoint, or to give instruction to, the Depository through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Instruction) must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50 by 9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 20 July 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of Instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service

provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The return of a completed Form of Instruction or CREST Instruction will not prevent a Depository Interest Holder from attending the Special General Meeting and voting in person (in substitution for their proxy vote) if they wish to do so and are so entitled and, if a Depository Interest Holder wishes to attend the Special General Meeting, a letter of representation must be requested from Computershare Investor Services PLC by 9:00 a.m. (Bermuda time) (1:00 p.m. UK time) on 23 July 2018. Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Depository Interest Register at close of business (UK time) on 20 July 2018. Changes to entries on the Depository Interest Register after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

4. The Company may treat as invalid a CREST Instruction in the circumstances set out in Regulation 35(5)(a) of the CREST Regulations.
5. As at the date of this Circular, the Company's issued share capital is 175,448,523 Ordinary Shares carrying on a poll one vote each.
6. A copy of the Circular will be available for inspection at the registered office of the Company, Canon's Court, 22 Victoria Street, Hamilton, HM12 Bermuda during normal business hours until the conclusion of the Special General Meeting. A copy of the Circular will also be available on the Company's website at <http://ir-bcai.bluecapital.bm>.