



# Blue Capital Alternative Income Fund Limited (In Members' Voluntary Liquidation)

## Joint Liquidators' Report

15 July 2019



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## **1 Background**

### **1.1 Factors leading to appointment**

Due to minimal trade activity on the stock exchanges, recent lack of liquidity and shares trading below book value, the Shareholders of the Company voted against raising further capital at the Company's Annual General Meeting in May 2018.

The board noted that although the continuation vote proposed at the Company's recent Annual General Meeting ("AGM") was passed:

- 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.

As a result of the above factors, on 9 May 2018, the board of Blue Capital Alternative Income Fund Limited ("Blue Capital" or "the Company") recommended to wind down the operations of the Company, either through an orderly run-off or through a Members' Voluntary Liquidation ("MVL").

### **1.2 Reasons for the MVL**

It was decided that an MVL process would be more cost-effective than managing the run-off within the existing structure and would maximize the potential return to Shareholders. This was due to the following key reasons:

1. Administration costs would decrease significantly by eliminating:
  - a) the ongoing costs associated with directors; and
  - b) the annual fees paid to the Bermuda Monetary Authority ("BMA") and Registrar of Companies ("RoC").
2. The Company could be delisted from the London Stock Exchange ("LSE") and the Bermuda Stock Exchange ("BSX"). This would reduce the statutory reporting requirement and costs associated with same.
3. Companies in liquidation are not required to prepare financials or have audits. As a result, the time and cost of preparation of financial statements, external audits, board meetings and governance committees are dispensed with.

The board believed that it was 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.

A Special General Meeting was called for 25 July 2018 in order for the Shareholders to vote on the proposed MVL of the Company ("the Liquidation").



### **1.3 Appointment**

Pursuant to resolutions passed at the SGM, Mark Allitt and Mike Morrison of KPMG Advisory Limited were appointed as Joint Liquidators ("the JLs") of the Company on 25 July 2018.

Upon the appointment of the JLs, all powers of the Board ceased and the JLs became responsible for the affairs of the Company during the course of the MVL.

In addition, whilst trading of the Company's shares had been suspended from 25 July 2018, these shares were cancelled on the LSE and BSX on 26 July 2018 following the Liquidation.

## **2 Arrangements with Company's service providers**

Upon the appointment of the JLs, the JLs terminated all arrangements with the Company's service providers which were no longer required, being the majority of arrangements.

In order to minimize the costs of the liquidation, the JLs have continued to engage Computershare Investor Services ("Computershare") to provide depositary and registrar services, BCML as investment manager and SS&C Fund Services (Bermuda) Limited ("SS&C") to provide Fund Administration services.

As previously noted, should the Investment Manager or Administrator cease providing the certain reporting and administrative services in the Liquidation, the JLs' costs may increase accordingly.

## **3 Redemption of Master Fund Shares**

On August 8, 2018, the JLs served a redemption notice on Blue Water Master Fund Limited ("Blue Water" or "the Master Fund") in respect of 100% of the Company's Series B Preference Shares ("the Shares") in the Master Fund, which are linked to the segregated account known as Blue Capital Global Reinsurance SA-1 ("the Fund").

As the Company is a feeder fund to the Master Fund, the Liquidation is primarily being achieved by redeeming the Shares in accordance with the terms thereof and distributing the net proceeds to Shareholders.

Further details regarding the redemption of the Shares and subsequent distributions to Shareholders is detailed in section 5.

## **4 Distributions to Shareholders**

As previously noted, the JLs served a redemption notice on the Master Fund in respect to the Company's shares in the Master Fund.



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In order to minimize costs, a decision was made by the JL's, in consultation with Blue Capital Management Limited ("BCML"), to cease the preparation of monthly Net Asset Value ("NAV") announcements.

In addition, under the statutory roles for conducting MVL's the JL's no longer prepare interim financial statements. Instead, quarterly NAV reports and distribution statements are prepared and posted on the Company's website at <http://ir-bcai.bluecapital.bm>.

As at the date of this report, the JLs have received distributions totaling \$66.2 million from the Master Fund and have authorized the following distributions to the Company's shareholders:

- \$7 million on 26 October 2018;
- \$3 million on 28 January 2019; and
- \$56 million on 25 April 2019.

The JLs expect to continue distributing 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.

Whilst the substantial portion of the Company's assets is expected to be available for distribution to Shareholders by early 2020, the JLs expect distributions of the residual balance to occur through 2021.

Please note that as the liquidation continues to wind down and the majority of assets are distributed, the JLs may delay future distributions until a material amount is available for distribution to avoid the cost and administrative burden of distributing small amounts.

## **5 Creditors**

The JLs are yet to call for creditors to submit their claims in the liquidation. This will occur closer to finalization of the liquidation. The Company has good record keeping and therefore this statutory requirement to call for creditors to submit their claims is not expected to give rise to any creditor claims.

## **6 Professional Fees**

As detailed in the circular to shareholders dated 27 June 2019 ("the Circular"), the remuneration of the JLs is based on the time spent by the JLs and members of their staff in attending to matters arising prior to and during the Liquidation.

At the commencement of the Winding Up the costs of the JLs were estimated to amount to approximately \$55k to \$65k for the initial 12 month period from the date of the Liquidation and approximately \$30k to \$40k per annum thereafter.



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In addition, the JLs 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.

On 28 February 2019, the JLs raised an invoice for our professional fees and disbursements for the period 26 June 2018 to 31 January 2019 in the amount of \$39,977.29. This invoice was approved and paid on 27 March 2019.

The JLs fees for the period 1 February 2019 to 30 June 2019 total \$28,030.50, plus disbursements, however, is yet to be invoiced. The JLs fees for the initial 12 month period is marginally above the estimate provided at the commencement of the winding up. The slight increase in fees being incurred as a result additional communication with investors regarding queries in respect to future distributions and timing of the liquidation.

## 7 Receipts and Payments

The Company operates a bank account with HSBC Bank Bermuda Limited ("HSBC").

Due to SS&C Fund Services (Bermuda) Limited acting as the Fund Administrator, all payments are prepared by SS&C and approved by the JLs.

A receipts and payments schedule for the period 25 June 2018 to 30 June 2019 is attached as Appendix A.

## 8 Annual General Meeting

Notice of the Annual General Meeting ("AGM") of the Company was sent to creditors and contributories of the Company and published on the Company's website on 27 June 2019.

The AGM is scheduled to be held at Waterloo House, 100 Pitts Bay Road, Pembroke HM 08, Bermuda on 24 July 2019 at 10:00 a.m. (Bermuda time).

There will be no resolutions proposed at the meeting, however, there will be an update provided by the JLs and an opportunity to ask the JLs any questions in respect to the conduct or proposed next steps of the Liquidation.

Should you have any queries, please contact Jacob Grant on +1 441 294 2718 or by email at [jacobgrant@kpmg.bm](mailto:jacobgrant@kpmg.bm).

Yours faithfully

*For and on behalf of Blue Capital Alternative Income Fund Limited (in liquidation)*

Mark Allitt  
*Joint Liquidator*



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## A Receipts and payments

| Receipts and payments for the period 25 June 2018 to 30 June 2019 |                  |
|---|------------------|
|   | Amount           |
| Cash at Bank as at 25 June 2018                                   | 437,457.06       |
| <b>Receipts</b>   |                  |
| Master Fund Redemption  | 66,200,000.00    |
| Total Receipts  | 66,200,000.00    |
| <b>Payments</b>   |                  |
| Bank Fee  | 515.00           |
| Appleby (Bermuda) Limited   | 22,450.00        |
| Ernst and Young   | 16,500.00        |
| Hogan Lovells International                                       | 127,452.43       |
| Computershare Investor Services Limited                           | 35,030.72        |
| Richard Davies Investor Relations                                 | 879.67           |
| IPES (UK) Limited   | 7,941.98         |
| Beecher Carlson   | 236,142.82       |
| SS&C Fund Services (Bermuda) Limited                              | 45,131.11        |
| Directors fees  | 52,708.33        |
| London Stock Exchange   | 1,252.40         |
| FCA Compliance  | 431.48           |
| Shareholder Distribution  | 65,999,997.42    |
| KPMG Advisory Limited   | 39,977.29        |
| Total Payments  | 66,586,410.65    |
| <b>Closing Cash at Bank as at 30 June 2019</b>                    | <b>51,046.41</b> |