

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 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 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 [†] | \$1.1117 |
| Redemption Share NAV [†] | \$1.1117 |
| Ordinary Share Price [‡] | \$1.035 |
| Premium (Discount) | (6.9%) |
| Market Cap | \$181.8M |
| Net Assets | \$195.3M |

Performance

| | |
|-------------------------------|-------|
| Return Since Inception | 48.9% |
| Best Monthly Return | 3.2% |
| Worst Monthly Return | -1.8% |
| Current Dividend Yield* | 6.4% |
| Percentage of Positive Months | 94.6% |
| Annualised ST. Dev | 2.05 |

[†] NAV per share as at 31 August 2017

[‡] Closing mid-price at 31 August 2017

* Based on projected forward annual dividends of \$0.066 and 31 August 2017 ending stock price of \$1.035.

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% | 0.5% | 0.9% | 0.5% | | | | | 3.1% |
| 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 August 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 | 168.6 | 86.3% | 135.4 | 65.0% | 33.2 | 24.5% |
| Quota Share | 67.6 | 34.6% | 71.2 | 32.6% | -3.6 | -5.1% |
| Indemnity Reinsurance | 66.9 | 34.2% | 57.5 | 26.7% | 9.3 | 16.2% |
| Indemnity Retrocession | 34.2 | 17.5% | 6.7 | 5.6% | 27.5 | 411.5% |
| Non-Traditional | 5.3 | 2.7% | 41.4 | 21.3% | -36.1 | -87.2% |
| Cat Bond | 0 | 0.0% | 2.0 | 0.9% | -2.0 | -100.0% |
| Derivatives | 0 | 0.0% | 10.2 | 4.8% | -10.2 | -100.0% |
| Industry Loss Warranties | 5.3 | 2.7% | 29.3 | 15.6% | -23.9 | -81.8% |
| Retrocessional Hedging | 3.3 | 1.7% | 4.6 | 2.2% | -1.3 | 0.0% |
| Cash | 18.1 | 9.2% | 35.6 | 11.6% | -17.6 | -49.3% |
| Portfolio Total | 195.3 | 100.0% | 217.1 | 100.0% | -21.8 | -10.0% |

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

Regulatory News

The Fund announced on 7 September 2017 that it suspended its share repurchase programme initially announced on 25 May 2017. The Fund made this decision based on the potential impact to its investments from a U.S. landfall of Hurricane Irma, although it will not know what, if any, material impact there may be until it has completed its normal post-event procedures. Through 6 September 2017, 3,250,000 ordinary shares were repurchased under the programme at an average price of \$1.04.

The Fund announced on 1 September 2017 that the Fund's Ordinary Shares have traded at an average discount of more than 5 per cent. to the net asset value per Ordinary Share over the three month period ending on 31 August 2017. As a result, in accordance with the discount management policy of the Fund implemented at launch, the Directors are considering various options and will put a proposed course of action to shareholders in due course.

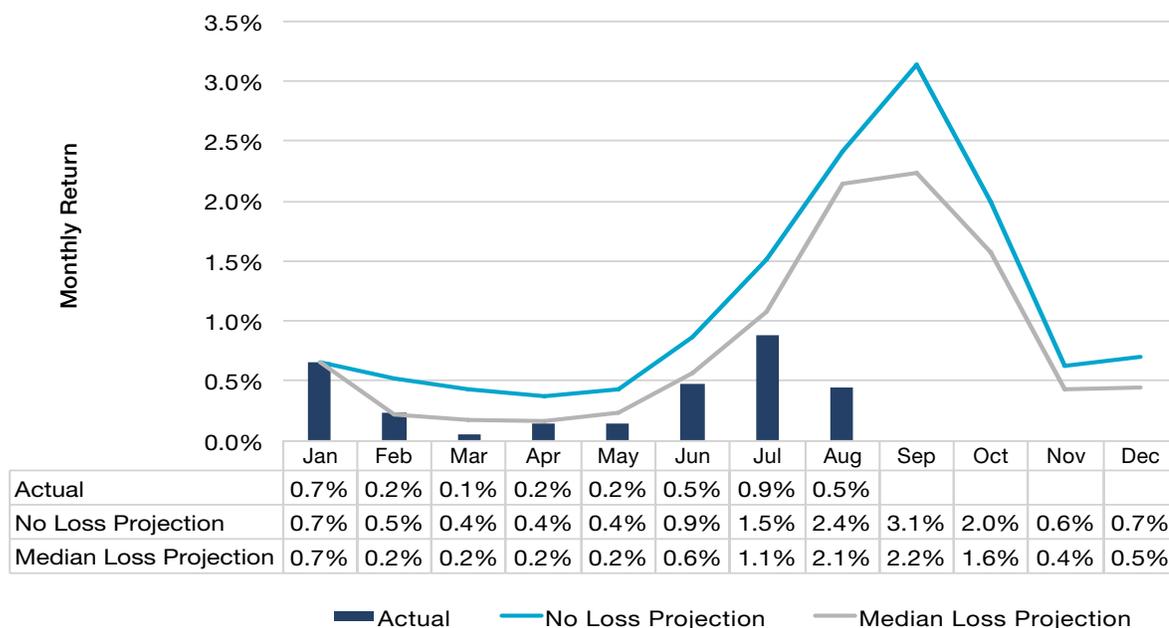
Portfolio Overview

The net asset value of the Fund's Ordinary Shares at 31 August 2017 reflects the impact of Hurricane Harvey which made landfall near Corpus Christi, Texas on 25 August, 2017. The estimate for losses incurred from Hurricane Harvey, net of recoveries from reinstatement premiums, amounted to 2.4% of the opening net asset value for Ordinary Shares in August.

During the month of September, two major hurricanes made landfall followed by substantial rainfall and flooding. On 10 September 2017, Hurricane Irma made initial U.S. landfall near the Florida Keys, Florida and on 20 September 2017, Hurricane Maria made landfall in Puerto Rico. Blue Capital has now commenced its normal post-event procedures to estimate any loss to the Fund from these events.

Blue Capital's loss estimates have been and will be largely derived from the utilization of proprietary catastrophe modeling, standard industry models, an in-depth review of in-force contracts or initial indications from clients and brokers. The actual losses from these events may ultimately differ materially from estimated losses due to the nature of the risks assumed, the complexity of the assessment of damages and the limited number of reported claims received to date. Blue Capital will continue to monitor these events for potential material impact to the Fund.

2017 Actual NAV Return YTD and Illustrative and Hypothetical Return Projections¹

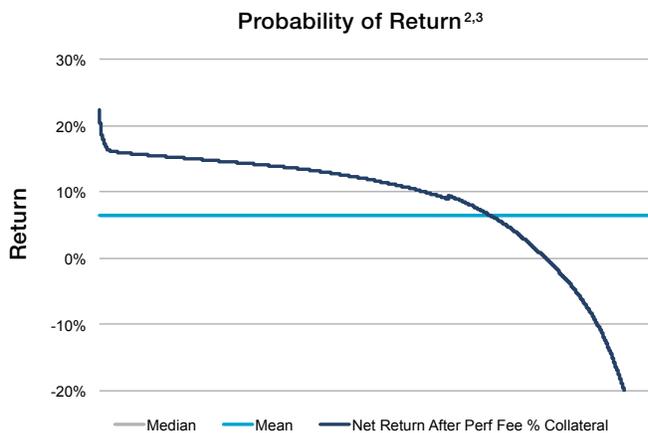


¹ The hypothetical 2017 projected net asset value ("NAV") growth and monthly return projections do not comprise a profit forecast and have been provided for illustrative and comparative purposes only and to demonstrate the impact of the accounting treatment of earning premiums. The projections are derived 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 | 70% |
| Breakeven or Greater | 78% |
| Loss Greater than > (5%) | 15% |
| 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 30 June 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 Fund'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.

This fact sheet does not constitute, and is not intended to be, an investment advertisement or invitation to any person in respect of the Fund; it constitutes neither an offer nor an attempt to solicit offers for the securities described herein. The information or opinion expressed in this fact sheet should not be construed to be a recommendation to buy or sell the financial instruments referred to herein, or to be investment, tax or other advice.

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