Blue Capital Alternative Income Fund Limited
(the "Company")
(Incorporated in Bermuda)

Half Yearly Report
For the six months ended 30 June 2017

The Company has today, in accordance with DTR 6.3.5, released its Half Yearly Report for the six month period ended 30 June 2017 ("Period").

HIGHLIGHTS AND CORPORATE SUMMARY[1]

As at June 30, 2017

$187.6 million	$198.0 million	$1.1134
Market Capitalisation	Total Net Assets Ordinary Shares	Net Asset Value per Ordinary Share
$1.1174	1.8%[2]	46.9%[2]
Net Asset Value per Redemption Share	Total Net Asset Value Return for Period Ordinary Shares	Total Net Asset Value Return since Inception
$1.055	$0.033	+ 1,500[3]
Ordinary Share Price, closing mid-price at 30 June 2017	Dividends per Ordinary Share Declared for Period	Number of Positions invested in

COMPANY HIGHLIGHTS[2]

- Historic portfolio outperformance versus other insurance linked securities ("ILS")[4]
- Increase in net asset value ("NAV") of 1.8 per cent. for the reported period and 46.9 per cent. since inception, representing an annualized return of 8.9 per cent. per annum through 30 June 2017
- Positive NAV return in 94.4 per cent. of months since inception
- Consistently in top quartile in non-life ILS funds[4]
- Achieved distribution target of $0.033 per Ordinary Share, representing a dividend yield of LIBOR plus 6 per cent. for the period ending 30 June 2017.

The Company

Blue Capital Alternative Income Fund Limited, formerly known as Blue Capital Global Reinsurance Fund Limited (the "Company") is an exempted closed-ended mutual fund company incorporated under the laws of Bermuda and listed on the London Stock Exchange's Specialist Fund Segment ("SFS") with a secondary listing on the Bermuda Stock Exchange ("BSX"). Trading in the Company's shares commenced on 6

1 All currency references In this Half Year Report are in US Dollars unless otherwise noted.

2 Past performance is not necessarily indicative of future results.

3 Shareholders who invest in a single Ordinary Share enjoy the benefit of investing in a share that is diversified by underlying instruments of greater than 1,500 positions in catastrophe related reinsurance contracts.

4 As reported by Eurekahedge ILS Advisors Index "Eurekahedge". Eurekahedge tracks the performance of participating Insurance Linked Investment funds. It is the first benchmark that allows a comparison between different insurance-linked securities fund managers in the insurance-linked securities, reinsurance and catastrophe bond investment space. The index is calculated and maintained by Eurekahedge. The index includes funds that allocate at least 70 per cent. of their assets to non-life risk.

December 2012. The Company provides investors with access to the risk premia available from catastrophe reinsurance, largely uncorrelated to financial markets.

Target Return[5]

The Company targets an annualised dividend yield of LIBOR plus 6 per cent. per annum on the original issue price of the Ordinary Shares issued in December 2012. The Company's target net return (comprised of dividends and other distributions to Shareholders together with increases in the Company's NAV is LIBOR plus 8 per cent. per annum, to be achieved over the longer term.

Summary of Investment Objective and Investment Policy

The investment objective of the Company is to generate attractive returns from a sustainable annual dividend yield and longer-term capital growth by investing substantially all of its assets in shares linked to the segregated account identified as Blue Capital Global Reinsurance SA-1 (the "Master Fund") within Blue Water Master Fund Ltd., an exempted Bermuda mutual fund segregated accounts company.

The Master Fund invests in a diversified portfolio of fully collateralised reinsurance-linked contracts and other investments carrying exposures to insured catastrophe event risks. The Master Fund predominantly invests in fully collateralised reinsurance-linked contracts through preference shares issued by Blue Water Re Ltd. (the "Reinsurer"), a Bermuda special purpose insurer which helps to support the Company's investment objective. The Master Fund's investment in other reinsurance-linked investments carrying exposure to insured catastrophe event risks such as industry loss warranties ("ILWs"), 144A rated catastrophe bonds ("Cat Bonds") and other insurance-linked instruments ("Insurance-Linked Instruments") may be made directly by the Master Fund or indirectly via the Reinsurer.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Directors") of Blue Capital Alternative Income Fund Limited (the "Company"), I am pleased to present the Company's interim report for the six month period ended 30 June 2017. During the period, the Company recorded an increase in net assets from operations of $3.2 million, repurchased shares totaling $0.9 million, redeemed $13.1 million redemption shares, and distributed $8.9 million in dividends to Shareholders, resulting in a decrease in the Company's net assets to $207.1 million from $226.9 million at the beginning of the year.

Performance

The Company's total NAV return on its Ordinary Shares for the six-month period ending 30 June 2017 was 1.8 per cent. Since inception the Company has provided a total NAV return per share of 46.9 per cent., representing an annualised return of 8.9 per cent through 30 June 2017. Returns by month for the Company's operations are shown in the table below.

Ordinary Share NAV Total Return

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Year
2017	0.7%	0.2%	0.1%	0.2%	0.2%	0.5%							1.8%
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%

5 These are targeted amounts and not profit forecasts. There can be no assurance that these targets can or will be met or that the Company will make any distributions at all and these should not be viewed as an indication of the Company's expected or actual results or returns.

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%

Dividend

Commencing with the first quarter of 2017, the Company moved to quarterly dividends. On 30 March 2017, the Company declared a dividend covering the period from 1 January 2017 to 31 March 2017 of $0.0165 per Ordinary Share. This dividend was paid on 8 May 2017. Then, on 19 July 2017, the Company declared its second quarterly dividend in respect of the three months ended 30 June 2017 of US$0.0165 per Ordinary Share to Shareholders on the register on 28 July 2017. This dividend was paid on 24 August 2017.

The combined dividends declared to date in respect of the half yearly period to 30 June 2017 were in line with the Company's dividend target.

Tender Offer

On 2 September 2016, the Company announced that its Ordinary Shares had traded at an average discount of more than 5 per cent. to the NAV per Ordinary Share calculated over the three month period ended 31 August 2016 which triggered the Board of Directors to offer Shareholders the opportunity to tender Ordinary Shares in accordance with the Company's discount management policy (the "Tender Offer"). Under the Tender Offer, the Company offered to repurchase up to 10 per cent. of the Ordinary Shares in issue. Each Ordinary Share tendered was converted into one Redemption Share, a new unlisted class of shares in the capital of the Company. Redemption Shares continue to participate in an indirect pro rata share of each underlying reinsurance-linked investment in the Company's portfolio as at the date of their issue, and will be redeemed for cash as and when these investments are realised. Conversion of 19,855,391 tendered Ordinary Shares into Redemption Shares under the Tender Offer was completed on 30 December 2016 (representing 10 per cent. of the Ordinary Shares in issue at that time).

On 30 April 2017, the Company distributed an amount equal to US$13.1 million to Shareholders of the Company who participated in the Tender Offer in consideration for the first partial redemption of Redemption Shares. This represented a distribution of 58% of the initial value of the total Redemption Shares issued under the Tender Offer.

On 26 July 2017, the Company announced that on or before 30 September 2017, an amount equal to US$8.1 million was expected to be distributed to Shareholders of the Company who participated in the Tender Offer in consideration for the second partial redemption of Redemption Shares. Such amount will be distributed to Shareholders pro rata to their holdings of Redemption Shares, and their holdings of Redemption Shares will be reduced accordingly following such redemption. The second partial redemption represents a distribution of approximately 36% of the initial value of the total Redemption Shares issued under the Tender Offer.

Assuming that no additional loss events occur in respect of the portfolio attributable to the Redemption Shares, the Company anticipates (but can provide no assurances) that all outstanding Redemption Shares will be redeemed and proceeds will be distributed to Shareholders no later than 31 January 2018.

The unaudited net asset value of all the Redemption Shares in issue at 30 June 2017 was US$9.1 million.

Share Repurchase Programme

On 25 May 2017, the Company announced that it has engaged Stifel Nicolaus Europe Limited to effect share buy backs on its behalf. As of 30 June 2017, 0.9 million Ordinary Shares had been repurchased. As of 29 August 2017, 2.95 million shares have been repurchased and are held in Treasury by the Company.

Capital Deployment

The Company’s investment in Blue Capital Global Reinsurance SA-I (the “Master Fund”) at 30 June 2017, including amounts allocated to Redemption Shares, was US$201.9 million, representing all of the Company’s capital excluding that retained for working capital purposes.

As at 30 June 2017, The Master Fund has invested substantially all of its assets in: (i) preferred shares of Blue Water Re Ltd. and (ii) industry loss warranty (“ILW”) derivatives. The combined investments represent the deployment of US$165.3 million across 98 different positions and 40 different clients generating US$41.1 million of net insurance premium written and fixed ILW payments, which is an increase of US$0.4 million from the previous year.

Outlook

The Company has maintained a consistent strategy of providing investors with access to attractive, largely uncorrelated, investment returns of the traditional reinsurance and insurance linked securities market. The Company's preferred access to risk, its proprietary methodology of portfolio construction and its conservative approach to reserving allow the Company to continue to deliver superior portfolio returns.

The January to June 2017 underwriting period saw promising signs in market pricing, although conditions remained competitive during this renewal period. The Reinsurer observed reductions in risk adjusted pricing beginning to moderate at approximately 3 per cent. compared with more significant reductions during previous renewal periods. Despite such pricing pressure, Blue Capital Management Ltd. (the “Investment Manager”) successfully executed its renewal strategy. We remain confident that we can deliver attractive returns for our Shareholders in spite of the current insurance market cycle and the pro forma modelled return expectations for the portfolio constructed are consistent with the Company's target return.

In April 2017, the Company announced the appointment of Stifel Nicolaus Europe Limited as sole broker and Michael J. McGuire as Chief Executive Officer of the Investment Manager. Mr. McGuire has served as the Chief Financial Officer of Endurance Specialty Holdings Ltd. (“Endurance”) since January of 2006. Endurance, the Company’s largest shareholder, was acquired by Sompo Holdings, Inc. in March of 2017.

The Board continues to monitor the effects of the Tender Offer and share repurchase programme on the Company’s Ordinary Share trading price compared with the Company’s net asset value per Ordinary Share. The Board, in conjunction with the Investment Manager, continuously reviews matters relating to the Company with a view to ensuring the Company is best placed to meet its investment objectives and generate returns for Shareholders. To that end, the Board has made a number of corporate changes during the period. Following Shareholder approval, the Board changed the name of the Company from Blue Capital Global Reinsurance Fund Limited to Blue Capital Alternative Income Fund Limited. The Company also moved to quarterly dividends to provide more regular distributions to Shareholders.

At its annual general meeting of Shareholders held on 9 May 2017, all of the resolutions that were presented to the Shareholders were duly approved.

We expect the Company's Ordinary Shares will have traded at an average discount of more than 5 per cent. to the NAV per Ordinary Share over the three month period ending on 31 August 2017. As a result, the Board is considering various options and will put to Shareholders a proposed course of action in due course. The Board continues to consider ways to improve the Company's profitability, market valuation and to monitor fees and overall expenses in relation to the Company.

The Company remains pleased with the diversified portfolio that the Investment Manager has created, which has attractive risk adjusted return characteristics, consistent with the Company’s investment objectives. I am pleased with the performance achieved by this portfolio, and I would like to thank our Shareholders for their support. If you have any questions regarding your Company, please do not hesitate to contact the Company or the Investment Manager.

John R. Weale

Chairman
29 August 2017

INVESTMENT MANAGER'S REPORT

The Company continues to benefit from a strong reception from insurance brokers and clients. The Company has successfully targeted heavily regulated regional insurance companies who purchase traditional reinsurance programmes. These companies, in the Investment Manager's opinion, tend to be more persistent buyers of reinsurance and generally have a superior risk adjusted expected return. The Investment Manager views each of these relationships as the basis for a longer-term relationship which we hope to grow over time, subject to satisfactory terms and conditions.

The Company focuses on traditional reinsurance, which provides customised protection to insurance clients in bespoke indemnity programmes. Traditional reinsurance, which is most commonly provided in the rated (as opposed to collateralised) reinsurance market, represents the bulk of the more than $375 billion of limits purchased annually. The advantage of establishing relationships with longer-term reinsurance buyers is that consistency of counterparties, service quality and claims-paying history are important considerations for these buyers of reinsurance.

Loss Events Impacting the Company

The first half of 2017 was characterized by a relatively low level of insured losses from large natural catastrophes. The most significant event was Cyclone Debbie which struck the Queensland coast as a Category 4 storm in late March 2017. It has also been an active first half within the United States due to a high frequency of tornado and hail events. The Company employed its normal post-event procedures to estimate the losses from Cyclone Debbie and other events and determined the losses did not have a material impact on the Company.

On 25 August 2017, Hurricane Harvey made landfall near Corpus Christi, Texas as a Category 4 hurricane with winds of 130 miles per hour followed by substantial rainfall and flooding. The Investment Manager has now commenced its normal post-event procedures to estimate any loss to the Company from Hurricane Harvey, and continues to monitor this event for potential material impact to the Company.

Portfolio Overview

Portfolio Overview as of June 30, 2017

Investment Type	%
Quota Share Retrocessional	35%
Indemnity Reinsurance	31%
Indemnity Retrocession	16%
Industry Loss Warranties	4%
Retrocessional Hedging	2%
Other Non-Property Catastrophe	0%
Catastrophe Bond	0%
Cash for Deployment	2%
Non-deployable cash*	10%

Occurrence Type	%
Property Cat – First Event	73%
Property Cat – Subsequent Event	7%
Property Cat – Aggregate	2%
ILW – Subsequent Event	3%
Retrocessional Hedging	2%
ILW – First Event	1%
ILW – Aggregate	0%
Cash for Deployment	2%
Non-deployable cash*	10%

Geography	%
Int'l Global/Pan Regional	49%
U.S. Single State	25%
U.S. Nationwide	5%
U.S. Regional	9%
Int'l Regional	0%
Cash for Deployment	2%
Non-deployable cash*	10%

*Consists of cash held for future expenses, share repurchases and dividend payments.

DIRECTORS' REPORT

30 June 2017

The Directors present their report and the unaudited financial statements of the Company for the half-year period ended 30 June 2017.

Principal Activity

The Company was incorporated with limited liability in Bermuda as a closed-ended mutual fund company on 8 October 2012. The Ordinary Shares were listed on the SFS and admitted to trading on the London Stock Exchange, with a secondary listing on the BSX, on 6 December 2012.

Investment Objective and Policy

The Company seeks to achieve its investment objective by investing all of its assets (other than cash or near cash pending distribution to Shareholders or investment in the Master Fund or any funds required for short-term working capital purposes) in the Master Fund. The Master Fund invests in a diversified portfolio of fully collateralised reinsurance-linked contracts and other investments carrying exposures to insured catastrophe event risks.

The Company's published investment policy is consistent with that of the Master Fund. Blue Water Master Fund Ltd. has agreed pursuant to the control agreement that it will not amend the Master Fund's investment policy without the consent of the Company. Any material change to the investment policy of the Company will be made only with the approval of Shareholders.

The Company may not borrow for investment purposes. However, borrowings may be used for the purposes of funding repurchases of Ordinary Shares or managing other working capital requirements. In each of these circumstances, the Company is limited to borrowing an amount equivalent to a maximum of 20 per cent. of its NAV at the time of draw down.

On 16 May 2016, the Company entered into a credit facility (the "2016 Credit Facility") with Endurance Investment Holdings Ltd. (the "Lender"), a wholly-owned subsidiary of Endurance. The 2016 Credit Facility provides the Company with an unsecured $20.0 million revolving credit facility for working capital and general corporate purposes and expires on 30 September 2018. The 2016 Credit Facility replaces the 364-day $20.0 million revolving credit facility which expired on 12 May 2016. Borrowings under the 2016 Credit Facility bear interest, set at the time of the borrowing, at a rate equal to the applicable LIBOR rate plus 150 basis points. The 2016 Credit Facility contains covenants that limit the Company's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, or incur debt. If the Company fails to comply with any of these covenants, the Lender could revoke the facility and exercise remedies against the Company. As of 30 June 2017, the Company was in compliance with all of its respective covenants associated with the 2016 Credit Facility. There were no borrowings from the 2016 Credit Facility as of 30 June 2017.

Principal Risks and Uncertainties

The Board regularly reviews the principal risks facing the Company and, for the purposes of this Half Yearly Report, has carried out an assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Investment Manager maintains risk management systems to manage risks the Company faces. Key risks relating to the Company's portfolio and borrowing are managed by the Investment Manager applying Endurance's proprietary risk modeling approaches, various third-party vendor models and underwriting judgment, and by application of the Company's investment policy and restrictions.

The Board considers the following to be the principal risks facing the Company:

Institutional Credit Risk

In the event of the insolvency of the institutions, including brokerage firms, banks and custodians, with which the Master Fund and the Reinsurer may do business, or to which assets have been entrusted, the Master Fund and the Reinsurer may be temporarily or permanently deprived of the assets held by or entrusted to that institution, which will affect the performance of the Master Fund and the Reinsurer and, in turn, the performance of the Company.

For example, the Reinsurer may pay amounts owed on claims under fully collateralised reinsurance-linked contracts entered into in respect of the Master Fund to reinsurance brokers, and these brokers, in turn, may pay these amounts over to the ceding companies that have reinsured a portion of their liabilities with the Reinsurer. In some jurisdictions, if a broker fails to make such a payment, the Reinsurer might remain liable to the ceding company for the deficiency. Conversely, in certain jurisdictions when the ceding company pays premiums in respect of reinsurance contracts to reinsurance brokers for payment over to the Reinsurer, these premiums are considered to have been paid and the ceding company will no longer be liable to the Reinsurer for those amounts, whether or not the Reinsurer has actually received the premiums. Consequently, consistent with industry practice, the Reinsurer assumes a degree of credit risk associated with brokers.

Furthermore, while the Master Fund invests predominantly in fully-collateralised reinsurance-linked contracts by subscribing for preference shares issued by the Reinsurer, it may, in accordance with its investment policy and when the Investment Manager identifies suitable investment opportunities, also invest in other reinsurance-linked investments and such investments may form a material part of its investment portfolio from time to time. Where the Master Fund invests in certain Insurance-Linked Instruments, a broker may trade with an exchange as a principal on behalf of the Master Fund, in a “debtor/creditor” relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. That broker could, therefore, have title to all of the assets of the Master Fund (for example, the transactions which the broker has entered as principal as well as the margin payments that the Master Fund provides). In the event of the broker’s insolvency, the transactions which the broker has entered into as principal could default and the Master Fund’s assets could become part of the insolvent broker’s estate, resulting in the Master Fund’s rights being limited to that of an unsecured creditor.

Illiquidity of Insurance-Linked Instruments

Insurance-Linked Instruments have a limited or, in some cases, no secondary market. Fully collateralised reinsurance-linked contracts of the type that the Reinsurer enters into in respect of the Master Fund typically cover annual periods. Cat Bonds and investments in sidecars may have market quotes, but the trading volume may be low and pricing correspondingly ineffective. ILWs have even less liquidity and pricing transparency, and bilateral insurance contracts currently have no secondary market.

The liquidity of Insurance-Linked Instruments may also be affected by a number of other factors, such as whether a covered event has occurred or whether a catastrophe season has passed. It is anticipated that the Master Fund and/or the Reinsurer will retain their respective exposures for the duration of the Insurance-Linked Instruments, gradually recognising income as the likelihood of a covered event occurring in respect of one or more Insurance-Linked Instruments.

While these Insurance-Linked Instruments generally can be sold at a price, they are largely “buy and hold” instruments, and it may require substantial time to enter into or exit a position and the amount that could be recognised upon liquidation may be materially less than its theoretical fair value. Consequently, the Master Fund may need to realise assets at below fair value and the Master Fund may need to borrow to meet its financing needs, each of which will have an impact on the returns to Shareholders. Further, the illiquidity of Insurance-Linked Instruments means that the Master Fund’s portfolio is more likely to be mis-valued as the valuation ascribed to an Insurance-Linked Instrument may differ significantly from the price at which it may ultimately be realised. In turn, any mis-valuation is likely to have an impact on the trading price of the Ordinary Shares, which may be adverse to Shareholders, as well as on the fees based on such valuations.

Portfolio invested in Insurance-Linked Instruments

The Master Fund predominantly invests in a diversified portfolio of fully collateralised reinsurance-linked contracts, through preference shares issued by the Reinsurer, but also invests in other investments carrying exposures to insured catastrophe event risks, such as ILWs and Cat Bonds. The Master Fund’s portfolio is therefore concentrated in Insurance-Linked Instruments. Insurance-Linked Instruments are particularly exposed to sudden substantial or total loss due to, among other things, natural catastrophes or other covered risks, which together with other factors, can cause sudden and significant price movements in Insurance-Linked Instruments. The Master Fund's, and hence the Company's, portfolio is more exposed to such risks, than it would be if it were diversified across other asset classes in addition to Insurance-Linked Instruments.

Currency Risk

The Master Fund's and the Reinsurer's functional currency is the US dollar, but a portion of their respective businesses will receive premiums and hold collateral in currencies other than US dollars. The Master Fund and the Reinsurer may use currency hedges for balances held in non-US currencies. Therefore, they can choose (but are not obliged) to manage currency fluctuation exposure. The Master Fund and the Reinsurer may experience foreign exchange losses to the extent their respective foreign currency exposure is not hedged, which in turn would adversely affect their respective financial condition and that of the Company.

Counterparty Risk; Counterparty Credit Risk

Where the Master Fund invests other than in fully collateralised reinsurance-linked contracts, a number of the investment techniques that may be utilised by the Master Fund, and a number of markets in which the Master Fund may invest, will expose it to counterparty risk, which is the risk that arises due to uncertainty in a counterparty's ability to meet its obligations. Non-performance by counterparties for financial or other reasons could expose the Master Fund, and therefore Shareholders, to losses.

GOING CONCERN STATUS

In accordance with the Financial Reporting Council's guidance on going concern and liquidity risk issued in October 2009, the Board of Directors has reviewed the Company's ability to continue as a going concern.

The Company's assets consist of cash and a diverse portfolio of fully collateralised reinsurance-linked contracts (held indirectly through investments in preference shares of the Reinsurer) and other Insurance-Linked Instruments. The Board has considered the Company's assets and reviewed forecasts and has determined that the Company has sufficient financial resources to continue as a going concern. Accordingly, the Directors have adopted the going concern basis in preparing the financial statements for the six month period ended 30 June 2017.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Half Yearly Report in accordance with applicable law and regulations. The Directors confirm that, to the best of their knowledge:

1. The condensed set of financial statements contained within the Half Yearly Report has been prepared in accordance with the applicable accounting standards and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

2. The Chairman's Statement, the Investment Manager's Report, the Directors' Report and the notes to the unaudited financial statements provides a fair review of the information required by rule 4.2.7R of the Disclosure Guidance and Transparency Rules (being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year) and rule 4.2.8R (being related party transactions that have taken place since commencement of operations and that have materially affected the financial position of the Company during that period; and any changes in the related party transaction described in the last annual report that could do so).

The unaudited financial statements were approved by the Investment Manager and the Directors and available for issuance on 29 August 2017. Subsequent events have been evaluated through this date.

Signed by John R. Weale for and on behalf of the Board of Directors on this 29th day of August 2017:

John R. Weale

Chairman
29 August 2017

BLUE CAPITAL ALTERNATIVE INCOME FUND LIMITED
Unaudited Statements of Assets and Liabilities

(expressed in thousands of U.S. dollars, except shares and per share amounts)

		Unaudited 30 June 2017		Unaudited 30 June 2016		Audited 31 December 2016
Assets						
Investments in Master Fund at fair value (cost 30 June 2017 – $139,638; 30 June 2016 – $164,730; 31 December 2016 – $155,467)	$	201,933	$	216,207	$	221,283
Cash and cash equivalents		5,274		4,706		5,482
Amounts due from related parties (Note 6)		-		1,202		-
Other assets		116		115		158
Total assets		207,323		222,230		226,923
Liabilities						
Proceeds from the redemption of investments received in advance		-		6,000		-
Share repurchase payable		53		-		-
Accrued expenses and other liabilities		173		125		64
Total liabilities		226		6,125		64
Net assets	$	207,097	$	216,105	$	226,859
Ordinary Shares in issue		177,798,523		198,783,914		178,698,523
Net asset value per Ordinary Share		1.1134	$	[illegible]		1.1434
Redemption Shares in issue		8,183,916		-		19,855,391
Net asset value per Redemption Share	$	1.1174	$	-	$	1.1351

See accompanying notes to the Unaudited Financial Statements

BLUE CAPITAL ALTERNATIVE INCOME FUND LIMITED
Unaudited Statements of Operations

(expressed in thousands of U.S. dollars)

	Unaudited For the six month period ended 30 June 2017	Unaudited For the six month period ended 30 June 2016	Audited For the year ended 31 December 2016
Net investment loss allocated from Master Fund	$ (1,681)	$ (1,692)	$ (4,267)
Expenses			
Professional fees	(434)	(376)	(895)
Other fees	(29)	(105)	(93)
Administration fees	(29)	(34)	(69)
Total expenses	(492)	(515)	(1,057)
Net investment loss	(2,173)	(2,207)	(5,324)
Realized and unrealized gain on investments allocated from Master Fund:			
Net realized gain on investments in securities	20,640	28,203	29,182
Net change in unrealized (depreciation) on investments in securities	(15,309)	(26,334)	(6,662)
Net gain on investments	5,331	1,869	22,520
Net increase (decrease) in net assets resulting from operations	$ 3,158	$ (338)	$ 17,196

See accompanying notes to the Unaudited Financial Statements

BLUE CAPITAL ALTERNATIVE INCOME FUND LIMITED
Unaudited Statements of Changes in Net Assets

(expressed in thousands of U.S. dollars)

	Unaudited For the six month period ended 30 June 2017	Unaudited For the six month period ended 30 June 2016	Audited For the year ended 31 December 2016
(Decrease) Increase in net assets			
From operations			
Net investment loss	$ (2,173)	$ (2,207)	$ (5,324)
Net realized gain on investments in securities	20,640	28,203	29,182
Net change in unrealized (depreciation) on investments in securities	(15,309)	(26,334)	(6,662)

Net increase (decrease) in net assets resulting from operations	3,158	(338)	17,196
From capital share transactions			
Issuance of shares	-	4	-
Share repurchases of ordinary shares	(935)	(326)	(555)
Redemption of redemption shares	(13,139)	-	-
Dividends declared	(8,846)	(6,571)	(13,118)
Net decrease in net assets resulting from capital transactions	(22,920)	(6,893)	(13,673)
(Decrease) Increase in net assets	(19,762)	(7,231)	3,523
Net assets - Beginning of period	226,859	223,336	223,336
Net assets - End of period	$ 207,097	$ 216,105	$ 226,859

See accompanying notes to the Unaudited Financial Statements

BLUE CAPITAL ALTERNATIVE INCOME FUND LIMITED
Unaudited Statements of Cash Flows

(expressed in thousands of U.S. dollars)

	Unaudited For the six month period ended 30 June 2017	Unaudited For the six month period ended 30 June 2016	Audited For the year ended 31 December 2016
Cash flows from operating activities			
Net increase (decrease) in net assets resulting from operations	$ 3,158	$ (338)	$ 17,196
Adjustments to reconcile to net cash and cash equivalents provided by operations:			
Proceeds from sales (purchases) of investments in Master Fund and net investment loss, net realized gain on investments in securities and net change in unrealized appreciation on investments in securities allocated from Master Fund	19,350	19,073	7,997
Net change in other assets and liabilities:			
(Increase) decrease in amounts due from related parties	-	(1,202)	-
Decrease in other assets	42	59	16
Increase (decrease) in accrued expenses and other liabilities	109	(9)	(70)
Net cash provided by operating activities	22,659	17,583	25,139

Cash flows from financing activities			
Repayments to credit facility	-	(6,000)	(6,000)
Share repurchases of ordinary shares	(882)	(326)	(555)
Redemption of redemption shares	(13,139)	-	-
Dividends paid	(8,846)	(6,567)	(13,118)
Net cash used in financing activities	(22,867)	(12,893)	(19,673)
Net (decrease) increase in cash and cash equivalents	(208)	4,690	5,466
Cash and cash equivalents – Beginning of period	5,482	16	16
Cash and cash equivalents – End of period	$ 5,274	4,706	$ 5,482

See accompanying notes to the Unaudited Financial Statements

BLUE CAPITAL ALTERNATIVE INCOME FUND LIMITED
Unaudited Notes to the Financial Statements
30 June 2017

(expressed in thousands of U.S. dollars, except shares and per share amounts)

1. Nature of operations

Blue Capital Alternative Income Fund Limited, formerly Blue Capital Global Reinsurance Fund Limited, (the “Company”) is a closed-ended exempted mutual fund company of unlimited duration incorporated under the laws of Bermuda on 8 October 2012 which commenced operations on 6 December 2012. The Company invests substantially all of its assets through a “master/feeder” structure in Blue Capital Global Reinsurance SA-I (the “Master Fund”). The Master Fund is a segregated account of Blue Water Master Fund Ltd., a mutual fund company incorporated under the laws of Bermuda on 12 December 2011, and registered as a segregated account company under the Segregated Accounts Company Act 2000. The investment objective of the Company is to generate attractive returns from a sustainable annual dividend yield and longer-term capital growth through its investment in the Master Fund. The Company is the only investor in the Master Fund.

The Company’s shares are admitted to trading on the Specialist Fund Segment of the London Stock Exchange’s main market (symbol BCAI LN) (formerly BCGR LN). The Company’s shares are listed on the Bermuda Stock Exchange (symbol BCAI BH) (formerly BCGR BH).

The investment objective of the Master Fund is to generate attractive returns by investing in a diversified portfolio of fully collateralised reinsurance-linked instruments (“RLI”) and other investments carrying exposures to insured catastrophe event risks. The Master Fund invests predominantly in fully collateralised RLIs through non-voting redeemable preference shares issued by Blue Water Re Ltd. (the “Reinsurer”) which in turn writes reinsurance contracts with ceding companies. Each non-voting redeemable preference share of the Reinsurer corresponds to a specific reinsurance contract entered into by the Reinsurer. The Master Fund’s investments in other reinsurance-linked investments which carry exposure to insured catastrophe event risks such as industry loss warranties, catastrophe bonds and other reinsurance-linked instruments are made directly by the Master Fund. The Investment Manager to the Master Fund is Blue Capital Management Ltd. (the “Investment Manager”). The Investment Manager is licensed in Bermuda to carry on investment business under the Investment Business Act 2003, as amended, and as an agent and Investment Manager under the Bermuda Insurance Act 1978. The Investment Manager is a wholly-owned subsidiary of Endurance Specialty Holdings

Ltd. (“Endurance”), a recognized global specialty provider of property and casualty insurance and reinsurance whose ordinary shares were formerly listed on the New York Stock Exchange (symbol ENH). On 28 March 2017, Sompo Holdings, Inc. ("Sompo") completed its acquisition (the "Merger") of Endurance. Upon closing the Merger, Sompo became the ultimate parent holding company of the Investment Manager.

The Reinsurer is an exempted limited liability company incorporated on 12 December 2011 under the laws of Bermuda and is licensed by the Bermuda Monetary Authority as a special purpose insurer with an underwriting plan focused on fully collateralised reinsurance protection of the property catastrophe insurance and reinsurance market. The Investment Manager also acts as the Reinsurer’s insurance manager and insurance agent.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The Company is an investment company and is therefore applying the specialized accounting and reporting requirements of ASC Topic 946, *Financial Services – Investment Companies.*

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year/period. Actual results could differ from those estimates.

Investment in Master Fund

The Company records its investment in the Master Fund at fair value, determined as the value of the net assets of the Master Fund.

Investment transactions

The Company records its participation in the Master Fund’s income, expenses, and realized and change in unrealized gains and losses within the Statements of Operations. The Company records its investment transactions on a trade date basis. Realized gains and losses on disposals of investments are calculated using the first-in, first-out (FIFO) method. In addition, the Company records its own income and expenses on the accrual basis of accounting.

Cash and cash equivalents

Cash and cash equivalents include short-term, highly liquid investments, such as money market funds, that are readily convertible to known amounts of cash and have original maturities of three months or less.

Offering costs

Offering costs are costs directly incurred in connection with the registration and distribution of the Company’s shares at each capital raise and are recorded as a reduction in proceeds from the issuance of shares.

3. Fair value measurements

In accordance with the authoritative guidance on fair value measurements and disclosures under US GAAP, the Company discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (Level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3 - Inputs that are unobservable.

The investment in the Master Fund is carried at fair value and has been estimated using the Net Asset Value (“NAV”). FASB guidance provides for the use of NAV as a “Practical Expedient” for estimating fair value of alternative investments. The Company uses the "market approach" valuation technique to value its investment in the Master Fund. As the Directors' valuation of the Company's investment in the Master Fund has been based upon observable inputs such as ongoing redemption and subscription activity, the Company's investment in the Master Fund has been classified as Level 2. The determination of what constitutes “observable” requires significant judgment by the Directors. The categorization within the hierarchy does not necessarily correspond to the Directors' perceived risk of an investment in the Master Fund, nor the level of the investments held within the Master Fund.

4. Losses and reserves

The reserve for unpaid losses and loss adjustment expenses recorded by the Reinsurer includes estimates for losses incurred but not reported as well as losses pending settlement.

The Reinsurer makes a provision for losses on contracts only when an event that is covered by the contract has occurred. When a potential loss event has occurred, the Reinsurer obtains and uses assessments from counterparties as a baseline, incorporating its own models and historical data regarding loss development, to determine the level of reserves required.

Future adjustments to the amounts recorded as of period-end, resulting from the continual review process, as well as differences between estimates and ultimate settlements, will be reflected in the Reinsurer’s statement of operations in future periods when such adjustments become known. Future developments may result in losses and loss expenses materially greater or less than the reserve provided.

During the six-month period ended 30 June 2017, the Reinsurer incurred $3,738 of losses and loss adjustment expenses. For the six-month period to 30 June 2017, the Reinsurer had paid claims of $3,896.

5. Administration fees

SS&C Fund Services (Bermuda) Ltd, formerly Prime Management Limited, (the “Administrator”), a division of SS&C GlobeOp, serves as the administrator for the Company and the Master Fund. The Administrator receives a monthly fee based on the NAV of the Company and the Master Fund, subject to a monthly minimum fee. Administration fees relating to the Master Fund are charged to the Master Fund and flow through to the Company as part of the expenses allocated from the Master Fund in the Statements of Operations.

6. Related party transactions

As of 30 June 2017, Endurance Specialty Insurance Ltd. (“Endurance Bermuda”) owned 28% (31 December, 2016 – 28%) of the voting rights of the Ordinary Shares issued by the Company. Endurance Bermuda and the Investment Manager are 100% owned by Endurance. Through its ownership of Endurance, Sompo indirectly holds 28% of the Ordinary Shares of the Company.

Management and performance fees are charged to the Master Fund and flow through to the Company as part of the expenses allocated from the Master Fund in the Statements of Operations.

Management fees

Pursuant to the Investment Management Agreement dated 27 November 2012, the Investment Manager is empowered to formulate the overall investment strategy to be carried out by the Master Fund and to exercise full discretion in the management of the trading, investment transactions and related borrowing activities of the Master Fund in order to implement such strategy. The Investment Manager is entitled to a management fee, calculated and payable monthly in arrears equal to (a) 1/12 of 1.5% of the month-end NAV (prior to accrual of the performance fee, as defined below) of all redeemable preference shares of the Master Fund (“Offered Shares”) held by the Company, up to a NAV of $300,000 and (b) 1/12 of 1.25% of the month-end NAV (prior to accrual of the performance fee, as defined below) of all Offered Shares held by the Company, above a NAV of $300,000.

Performance fees
The Investment Manager is entitled to a performance fee, payable by the Master Fund on an annual basis, which will generally be equal to 15% of the aggregate increase in NAV of the Master Fund over the previous High Water Mark (as defined below) of all series of shares (except for Special Memorandum Account shares) held by the Company, minus the Performance Hurdle (as defined below). The “High Water Mark” for a holder of Offered Shares at the end of any period is equal to (i) where there is New Net Profit (as defined below) in such period, the then current NAV of such Offered Shares, or (ii) where there is no New Net Profit in such period, the previous High Water Mark. The initial High Water Mark for any holder of Offered Shares is equal to the initial subscription amount of such Offered Shares. Appropriate adjustments will be made to account for subscriptions, redemptions and distributions, if any. “New Net Profit” for any series of Offered Shares for any period is the appreciation of the NAV of such series for such period (“Profit”) after deducting any depreciation in NAV of such series in any prior period that has not been previously eliminated by Profit in prior periods.

The performance trigger in respect of a Performance Period (“Performance Trigger”) is reached when New Net Profit, if any, in respect of the Company’s Offered Shares at the end of such Performance Period exceeds the sum of: (i) the NAV of the Company’s Offered Shares as of the beginning of the Performance Period multiplied by the average of the one-month U.S. Dollar LIBOR on the last Business Day of each month during such Performance Period and (ii) 8% of the NAV of the Company’s Offered Shares as at the beginning of the Performance Period. The Performance Trigger is calculated on an annual basis. If a Performance Period is a partial calendar year, the Performance Trigger will be adjusted proportionately. The Performance Trigger is not cumulative and resets at the beginning of each Fiscal Year. Shortfalls or outperformance of the Performance Trigger in a given year has no effect on the Performance Fee calculated with respect to any other year. The Performance Trigger may be further equitably adjusted to reflect subscriptions which are made during a Performance Period or partial redemptions or distributions of the Company’s Offered Shares.

The performance hurdle in respect of a Performance Period (“Performance Hurdle”) is the amount of New Net Profit, if any, in respect of an investor’s Offered Shares at the end of such Performance Period which equals the sum of: (i) the NAV of such investor’s Offered Shares as of the beginning of the Performance Period multiplied by the average of the LIBOR on the last Business Day of each month during such Performance Period and (ii) 5% of the NAV of such investor’s Offered Shares as at the beginning of the Performance Period. The Performance Hurdle is calculated on an annual basis. If a Performance Period is a partial calendar year, the Performance Hurdle will be adjusted proportionately. The Performance Hurdle is not cumulative and resets at the beginning of each Fiscal Year. Shortfalls or outperformance of the Performance Hurdle in a given year has no effect on the Performance Fee calculated with respect to any other year. The Performance Hurdle may be further equitably adjusted to reflect subscriptions which are made during a Performance Period or partial redemptions or distributions of an investor’s Offered Shares.

Performance fees for shares in the capital of the Master Fund issued in respect of the Tender Offer shall be calculated in the same manner as other Offered Shares. Accordingly, such fees shall be determined separately for such shares and other Offered Shares so that the performance of one class does not impact the performance fee paid in respect of the other, and performance fees will only be payable in respect of such shares at the end of each fiscal year and/or the date on which the last such share is redeemed.

7. Financial instruments

The Company’s investment activities expose it to various types of risk, which are associated with the securities and markets in which it invests. As the majority of the Company’s assets are invested in the Master Fund, they are primarily exposed to the risks faced by the Master Fund. Due to the nature of the “master/feeder” structure, the Company could be materially affected by subscriptions or redemptions in the Master Fund by other feeder funds. However, as the Master Fund was established solely for the Company to invest in, the Company is the only feeder fund of the Master Fund.

8. Credit agreement

On 16 May 2016, the Company entered into a credit facility (the "2016 Credit Facility") with Endurance Investment Holdings Ltd. (the "Lender"), a wholly-owned subsidiary of Endurance. The 2016 Credit Facility provides the Company with an unsecured $20,000 revolving credit facility for working capital and general corporate purposes and expires on 30 September 2018. The 2016 Credit Facility replaces the 364-day $20,000 revolving credit facility which expired on 12 May 2016. Borrowings under the 2016 Credit Facility bear interest, set at the time of the borrowing, at a rate equal to the applicable LIBOR rate plus 150 basis points. The 2016 Credit Facility contains covenants that limit the Company's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, or incur debt. If the Company fails to comply with any these covenants, the Lender could revoke the facility and exercise remedies against the Company. As of June 30, 2017, the Company was in compliance with all of its respective covenants associated with the 2016 Credit Facility. There were no borrowings from the 2016 Credit Facility as of 30 June 2017.

9. Capital share transactions

As at 30 June 2017, the Company is authorized to issue up to 990,000,000 Ordinary Shares of par value $0.00001 per share.

As of 30 June 2017, the Company has issued 177,798,523 Ordinary Shares and 8,183,916 Redemption Shares.

Transactions in Ordinary Shares and Redemption Shares during the six-month period ended 30 June 2017 and the Ordinary Shares and Redemption Shares outstanding and the NAV per share as of 30 June are as follows:

	Beginning Shares 1-Jan-17	Shares Issued	Shares Repurchased/ Redeemed	Ending Shares 30-Jun-17
Ordinary shares	178,698,523	-	(900,000)	177,798,523
Redemption shares	19,855,391	-	(11,671,475)	8,183,916

On 19 January 2017, the Company declared a dividend covering the period from 1 July 2016 to 31 December 2016 of $0.033 per Ordinary Share. On 21 February 2017, a cash dividend of $5,897 was paid.

On 30 March 2017, the Company declared a dividend covering the period from 1 January 2017 to 31 March 2017 of $0.0165 per Ordinary Share. On 2 May 2017, a cash dividend of $2,949 was paid.

On 25 May 2017, the Company announced that it has engaged Stifel Nicolaus Europe Limited to effect share buy backs on its behalf. As of 30 June 2017, 900,000 Ordinary Shares have been repurchased and subsequently held in Treasury by the Company.

The Company has been established as a closed-ended mutual fund and, as such, shareholders do not have the right to redeem their shares.

10. Taxes

At the present time, no income, profit, capital transfer or capital gains taxes are levied in Bermuda and accordingly, no provision for such taxes has been recorded by the Company. The Company has received an undertaking from the Minister of Finance of Bermuda, under the Exempted Undertakings Tax Protection Act 1966 exempting the Company from income, profit, capital transfer or capital taxes, should such taxes be enacted, until 31 March 2035.

The Investment Manager assesses uncertain tax positions by determining whether a tax position of the Company is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial information is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority.

The Investment Manager has not identified any uncertain tax positions in the Company arising in this or any preceding period. However, the Investment Manager's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analysis of changes to tax laws, regulations and interpretations thereof. The Investment Manager has determined that there are no reserves for uncertain tax positions necessary for any of the Company's open tax years.

11. Financial highlights

Financial highlights for the six month period ended 30 June 2017 are as follows:

	Ordinary Shares	Redemption Shares
Per share operating performance		
Net asset value, beginning of period	$1.1434	$1.1351
Gain (Loss) from investment operations	0.0195	(0.0177)
Dividend payment per share	(0.0495)	-
Net asset value, end of period	$1.1134	$1.1174
Total return		
Total return before performance fee	1.71%	(1.56%)
Dividend paid	(4.33%)	-
Performance fee*	-	-
Total return after performance fee**	(2.62%)	(1.56%)
Ratios to average net assets		
Expenses other than performance fee	(1.06%)	(0.90%)
Performance fee*	-	-
Total expenses after performance fee	(1.06%)	(0.90%)
Net investment loss before performance fee	(1.01%)	(0.85%)

* The performance fee and management fee are charged in the Master Fund.
** The total return for the period ended 30 June 2017 before the dividends declared on 19 January 2017 and 30 March 2017 for Ordinary Shares is computed as 1.75% and for Redemption Shares is computed as -1.56%.

Financial highlights are calculated for each permanent, non-managing class or series of Ordinary Share and Redemption Shares. An individual shareholder's return and ratios may vary based on different performance fee and/or management fee arrangements, and the timing of capital share transactions. The ratios include effects of allocations of net investment income from the Master Fund.

Per share operating performance is computed on the basis of average shares outstanding during the period.

Total return is calculated based on the percentage movement in NAV per share. The expense ratio is calculated based on the expenses of the Company and the proportionate share of net expenses allocated from the Master Fund over the average NAV per share in the year. The net investment loss ratio is based on the net loss per share from investment operations of the Company and the proportionate share of net loss allocated from the Master Fund over the average NAV per share in the year.

12. Commitments and contingencies

In the normal course of business, the Company may enter into contracts or agreements that contain indemnifications or warranties. The Company's exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, management expects the risk of loss to be remote.

13. Subsequent events

Subsequent to 30 June 2017, an additional 2,050,000 Ordinary Shares were repurchased by the Company.

The Company declared an interim dividend in respect of the three months ended 30 June 2017 of $0.0165 per Ordinary Share to shareholders on the register on 28 July 2017 which was paid on 24 August 2017.

On 25 August 2017, Hurricane Harvey made landfall near Corpus Christi, Texas as a Category 4 hurricane with winds of 130 miles per hour followed by substantial rainfall and flooding. The Investment Manager has now commenced its normal post-event procedures to estimate any loss to the Company from Hurricane Harvey, and continues to monitor this event for potential material impact to the Company.

These financial statements were approved by the Investment Manager and the Directors and were made available for issuance on 29 August 2017. Subsequent events have been evaluated through this date.

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