

DESCRIPTION

Alternative Liquidity Fund Limited ("ALF" or the "Company") is a Guernsey-domiciled, London Stock Exchange-traded closed ended investment company. Warana Capital, LLC was appointed as the Investment Manager to continue the mandate to realize ALF's investments in an orderly and timely manner and return cash to investors.

COMPANY INFORMATION

Investment Manager:	Warana Capital, LLC	Subscriptions & Redemptions:	None, LSE Traded
Dollar Share	ORD	Bloomberg:	ALF.LN
Domicile:	Guernsey	Reuters:	ALF.L
SEDOL:	BYRGPD6	ISIN:	GG00BYRGPD65

PORTFOLIO OVERVIEW (as of June 30, 2018):

Significant Positions	Manager NAV (\$M)	Warana Provision	ALF NAV (\$M)	% of Portfolio	Asset Class Exposure	% of ALF NAV
Vision FCVS RJ Fund	\$22.9	-40%	\$13.7	28%	Bonds/Credit	54%
Vision Eletrobras Fund	\$18.0	-40%	\$10.8	22%	Real Estate	19%
Ubique Limited	\$20.0	-70%	\$6.0	12%	Equity	8%
Growth Management Limited	\$3.6	-30%	\$2.5	5%	Other	9%
Abax Arhat Fund	\$6.5	-70%	\$2.0	4%	Cash (Includes cash at underlying fund level)	10%
Argo Special Situations Fund	\$3.1	-50%	\$1.6	3%		
Serengeti Opportunities Fund	\$0.9	0%	\$0.9	2%		
Autonomy Fund	\$0.8	0%	\$0.8	2%		
SFL Clover Limited	\$2.2	-63%	\$0.8	2%		
Vision FCVS PB Fund	\$0.7	0%	\$0.7	1%		
Other Investments	\$29.3	-92%	\$2.4	5%		
Net Cash	\$4.3	-	\$4.3	9%		
Receivables	\$3.3	-	\$3.3	7%		
Total	\$115.5	-57%	\$49.7	100%		
					Geographic Allocation	% of ALF NAV (ex cash)
					Europe	21%
					Ukraine	19%
					Russia	2%
					Americas	70%
					Brazil	62%
					USA	5%
					Asia	8%
					India	0%
					China	5%
					Indonesia	3%
					Other	0%
Net Asset Value Per Share (June 30, 2018)	0.7875		0.3390			
Net Asset Value Per Share (May 31, 2018)	0.8018		0.3636			
Change (%) in NAV Per Share	-1.8%		-6.8%			

Please note totals may not sum due to rounding

FUND UPDATE

During June 2018, ALF's Net Asset Value decreased by approximately 6.8% or 2.5 cents per share. The primary drivers of the negative return were the increase in provision against both Indian holdings – South Asian Real Estate ("SARE") and DUET India Hotels ("DUET") – and the depreciation of the Brazilian Real against the Dollar, approximately 3.75%, which affects the Fund's Brazilian manager, Vision.

SARE, managed by DUET Group in London, is a residential property development company in India. The company was established in 2006 with the intention of going public in India once it had developed and stabilised the majority of its projects. The Great Financial Crisis along with severe domestic market headwinds affected both the build out and sales of these projects. New financing was required and received from local banks and international investors. Despite this funding, the company continued to experience operational difficulties and poor sales, defaulting on one of its international loans in April 2017. The lender remained sympathetic throughout these difficulties, allowing SARE to attempt to re-finance as well as examine selling some of the non-core assets. However, SARE very recently received notice (late August 2018) from the lender that it was exercising its right to appoint a receiver manager ("Receiver") to SARE's board of directors. We understand the Receiver is now gathering information from the company and has yet to make a decision on next steps. In light of this notice as well as the potential knock-on effects of SARE's indebtedness to ALF's equity recovery, Warana has recommended to the ALF Board that the provision for SARE be increased from 50% to 100%. The Board has accepted this proposal.

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FUND UPDATE (Continued)

Duet India Hotels is managed by the same group as SARE, DUET. We have maintained an 80% provision against this position for some time, as we have received very poor information flow from the manager on this investment. We recently received some information, dated March 2017, informing the recipients that the company entered into a financing agreement with an existing shareholder, whilst at the same time restructured the business and placed some of the portfolio up for sale. The time limit for the sale was 30 months and Knight Frank was initially appointed as their agent. However, they were unsuccessful garnering any interest, and they have now been replaced by JLL. There are significant dilution and change of control clauses if the sale is not successful or if the lender is not repaid in accordance with the agreement. As of today, there has been no progress on the sale of assets. Although the manager states that the restructuring has been successful and the group's revenues are showing positive performance, Warana remains concerned about the financing agreement and the negative effects it could have on ALF's equity holding. Therefore, Warana has also recommended that the provision be increased for Duet India Hotels from 80% to 100%. The Board has also accepted this proposal.

The Company's net cash position at the end of June was \$4.3mm.

ALF VALUATION METHODOLOGY

ALF is invested in approximately 25 illiquid third party funds. The quality of assets and information provided by these funds varies. While many funds provide regular net asset value estimates of their portfolio, it is Warana's experience that these valuations can be optimistic and it is generally expected that these type of funds trade at a discount to these valuations in the secondary market (where observable). Some of the funds in the investment portfolio are also delinquent in providing their valuation estimates and/or have not had their accounts audited in a regular timeframe. As such, Warana believes it is appropriate to review the valuations provided by the underlying funds and apply provisions where appropriate. Unfortunately, the secondary market for fund interests is not deep, is characterized by many small transactions and pricing information is not particularly transparent. Price points can also be skewed adversely through the activity of one off highly motivated sellers. As such, Warana can not readily apply a 'mark to secondary bid' valuation approach due to a lack of quality independent third party information.

Warana has developed a provisioning process to evaluate the portfolio as objectively as possible by taking into account the quality of the information received from the underlying funds, their valuation processes, geographical locations and risks associated with the assets. Where possible, this analysis is then checked against observable secondary market activity. Provisions are applied based on the following criteria:

1. Where a manager, liquidator or other authorized party has advised that they expect a recovery materially less than the stated net asset value, the conservative end of this range is applied as a provision to the fund.

Where no third-party guidance is received, Warana applies provisions of 10% – 50% across each of the following criteria cumulatively:

2. If the net asset value is delinquent and/or not provided within the time frame previously advised to investors, a provision is applied.
3. If a third-party liquidator (or similar) has been appointed, an incremental discount is applied and if this party has not made progress on the fund in a reasonable time frame, this discount may be increased.
4. Warana seeks to receive bottom up information on the remaining assets in each of the funds. Because these funds are run by third parties, it is not always simple to get the full amount of information desired. An incremental discount is applied if the additional asset level information desired has not been received.
5. If fund audited financial statements are late or qualified, a discount is applied, which increases if an audit has not been completed for several years.
6. It is expected that funds have third party administrators/valuation agents. Should Warana not be able to determine whether such a group is still involved, an incremental discount is applied.
7. An additional discount is applied relating to the perceived incremental geographic, political or currency related risk of the asset or manager.
8. It is common for legacy illiquid funds to be involved in some type of litigation or have issues with key regulators. An incremental discount is applied depending on the severity of the litigation or investigation.
9. Should the fund or assets still have significant leverage an incremental discount is applied.

Warana then gathers the cumulative discounts applied in steps 1 through 9 and seeks to compare the proposed provision against what is observable in the secondary market. The following incremental test is applied.

10. If Warana is aware of a reliable third party, completed secondary market price that is:
 - a. Within the last 6 months: AND

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**ALF VALUATION METHODOLOGY (Continued)**

- b. At a discount to the manager provided net asset value of greater than 50% discount; AND
- c. The price is more than 25% different to Warana's price calculated by applying 1 through 9, then an extra provision is applied to equate the provision levels to the secondary market value.

The following table summarizes how each of the top 15 funds in ALF (by ALF NAV) measure against the valuation approach and the cumulative provision applied against each:

Valuation Guidelines											
Fund Holdings	1. Alternative Outcome Advised	2. Not Reporting NAV on Schedule	3. Liquidator Appointed	4. Unwillingness of Manager to Provide Asset Level Info	5. AFS not Produced on Schedule	6. No Third Party Administrator	7. Asset or Manager Based in EM Country	8. Significant SEC Inquiry or Litigation	9. Asset Levered	10. Recent Secondary Market Trading Activity	Total Warana Provision
	✓/-	*/-	*/-	*/-	*/-	*/-	*/-	*/-	*/-	✓/-	%
Vision Brazil FCVS RJ Fund	-	*	-	-	*	-	*	*	-	-	-40%
Vision Brazil Special Opp Eletrobras Fund	-	*	-	-	*	-	*	*	-	-	-40%
Ubique Limited	-	-	-	-	*	-	*	-	*	-	-70%
Growth Management Ltd	-	-	-	-	-	-	*	-	-	-	-30%
Abax Arhat Fund	-	*	-	-	*	-	*	-	-	✓	-70%
Argo Special Situations Fund LP	-	-	-	-	-	-	*	-	*	✓	-50%
Serengeti Opportunities Fund	-	-	-	-	-	-	-	-	-	-	0%
Autonomy Fund II Ltd	✓	-	-	-	-	-	*	-	-	-	0%
SFL Clover Limited	✓	-	-	-	*	-	*	-	-	-	-63%
Vision Brazil FCVS PB Fund	✓	-	-	-	*	-	*	*	-	-	0%
Warana SP Offshore Fund SPC -2018 Seg	-	-	-	-	-	-	-	-	-	-	0%
Longview Fund Intl Ltd	-	*	-	*	*	-	-	-	-	-	-80%
Galileo Capital Partners LLC	-	-	-	*	*	-	-	*	-	-	-40%
Aarkad PLC (Equity)	✓	*	*	-	*	-	-	*	*	-	-95%
Lomond Capital LLC (Equity)	✓	*	*	-	*	-	-	*	*	-	-95%
Other Investments											-96%
Total											-61%
Net Cash											0%
Receivables/Other Assets											0%
Total											-57%

Please note that South Asian Real Estate Limited and Duet India Hotels Limited have been removed from the Top 15 funds table as the Investment Manager has written them down to zero (100% provision). As described in the Fund Update, these decisions were in line with Warana's concern regarding the appointment of a Receiver and the refinancing terms of SARE and DUET, respectively.

**BOARD OF DIRECTORS**

The Board comprises three Directors, all of whom are non-executive and independent of the Investment Manager. The Directors are responsible for the determination of the Company's investment policy and overall supervision. The Directors are as follows:

Quentin Spicer (Chairman): Mr Spicer is a resident of Guernsey. He qualified as a solicitor with Wedlake Bell in 1968 and became a partner in 1970 and head of the Property Department. He moved to Guernsey in 1996 to become senior partner in Wedlake Bell Guernsey, specialising in United Kingdom property transactions and secured lending for UK and non-UK tax resident entities. Mr Spicer retired from practice in 2013. He is former chairman of F&C UK Real Estate Investments Limited, Quintain Guernsey Limited, The Guernsey Housing Association LBG, and is a director of a number of Property Funds including Summit Germany Limited and Phoenix Spree Deutschland Limited. He is a member of the Institute of Directors.

Dr. Richard Berman: Dr Berman is a UK resident. He has been involved with the investment management sector since 1989. He was previously a Manager with Orion Bank Limited, Treasurer of Andrea Merzario SpA, Group Treasurer of Heron Corporation plc, joint Managing Director and co-founder of Pine Street Investments Limited, and CEO and co-founder of Sabrecorp Limited and Signet Capital Management Limited, respectively. His experience includes advising on the establishment, regulation and management of funds and fund management companies in a range of jurisdictions. He has a PhD in History from the University of Exeter and an MA in Economics from the University of Cambridge. He is a Fellow of the Chartered Securities & Investment Institute, a Fellow of the Association of Corporate Treasurers and a Visiting Research Fellow at Oxford Brookes University.

Anthony Pickford: Mr Pickford is a resident of Guernsey. He qualified as a Chartered Accountant in 1976. He moved to Guernsey in 1978 as an Audit Senior with Carnaby Harrower Barnham & Company (now Deloitte). In 1986 he joined Chandlers as a partner with a specialism in insolvency matters and advised a range of financial services companies and trading companies on insolvency matters as well as acting as financial adviser to local entities. He became Managing Director of the firm in 2000 and assumed the role of Chairman in 2004 until his retirement in 2008. He has previously been a non-executive Director of several listed companies. During the year he was also a Director of the Catholic National Mutual limited where he chaired the Audit Committee and served on the Investment Committee until he retired on 6 August 2017.

SERVICE PROVIDERS

Custodian:	Citibank, N.A.	Guernsey Legal:	Carey Olsen
Auditor:	Grant Thornton LLP	UK Legal:	Dickson Minto W.S.
Administrator:	Praxis Fund Services Ltd.	Registrar:	Link Asset Services

RECENT DISTRIBUTIONS

Announcement Date	Ex Date	Record Date	Payment Date	Amount (per share)
August 31, 2016	September 5, 2016	September 6, 2016	September 15, 2016	\$0.020
November 28, 2016	November 30, 2016	December 1, 2016	December 15, 2016	\$0.055
June 8, 2017	June 20, 2017	June 21, 2017	June 30, 2017	\$0.025
October 30, 2017	October 31, 2017	November 1, 2017	November 10, 2017	\$0.030
April 6, 2018	April 9, 2018	April 10, 2018	April 19, 2018	\$0.030
Total				\$0.160

DISCLOSURES/ FOOTNOTES

There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses. Due to rounding, totals in tables may not add up to 100%. Fund holdings are subject to change and should not be considered investment advice.

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