Alternative Liquidity Fund Limited

Investment Adviser Update

August 2023

Summary of Investments

SIGNIFICANT POSITIONS	Manager NAV ($M)	Provision	ALF NAV ($M)	% of Portfolio
Vision FCVS RJ Fund	$22.3	-60%	$8.9	61.5%
Vision Special Credit Opp Eletrobras Fund	$4.6	-45%	$2.5	17.3%
Vision Invest RJ	$1.8	-20%	$1.4	10.0%
Autonomy Rochavera Fund	$0.5	-50%	$0.25	1.7%
Warana 2018 Fund	$0.3	-36%	$0.2	1.5%
Abax Arhat Funds	$4.1	-95%	$0.2	1.4%
Other Investments	$30.1	-100%	$0.0	0.2%
Cash	$0.9		$0.9	6.3%
Total	$64.6		$14.5	100.0%
Fund Liabilities	-$1.1		-$1.1	-8.5%
Total	**$63.5**	**-79%**	**$13.3**	**100%**
Net Asset Value Per Share (June 30, 2023)	**0.4329**		**0.0910**	
Net Asset Value Per Share (Mar 31, 2023)	**0.4246**		**0.0896**	
Change (%) in NAV Per Share	**1.94%**		**1.56%**	

Note: Table represents ALF NAV as at June 30, 2023. Figures may not sum due to rounding.

Underlying Fund Developments

Vision Funds - Brazil Visit

Tim Gardner (Hindsight Solutions) travelled (at no cost to the Company) to Brazil on 3 July for meetings on July 4/5 to obtain a first-hand update on the Vision FCVS RJ Fund ("RJ Fund") and improve the current monetization strategy. With the support of all RJ Fund investors, an independent securities lawyer was also appointed to act on behalf of all such investors.

The first meeting was with Caixa, the state-owned Brazilian financial services company headquartered in Brasilia; the remainder were in Sao Paolo with three investment banks, two firms of lawyers and Vision Fund Management. The independent lawyer was present at the Caixa meeting and will provide a report to all RJ Fund shareholders, together with tactical and strategy recommendations.

To date Vision has been pursuing four separate strategies to monetize the FCVS RJ credits:

1. Novation
2. Sale to Caixa
3. Deal amongst the other FCVS RJ holders to resolve the debt overhang
4. Private Sale (as completed successfully with the PB portfolio in 2018)

Caixa Econômica Federal (Caixa), a state-owned Brazilian financial services company, controls the FCVS novation process; FCVS credit holders are required to submit proof of the entire ownership chain for each FCVS credit for approval by Caixa.

Once a credit has been verified, Caixa produces a report, the 'P3026 report'. This validates that the credit is genuine and approved, and its receipt ensures that the credit will proceed smoothly through the novation process.

The novation process usually takes 12-24 months, following which the holder receives cash, equivalent to the accrued interest of the claim and the balance owed in Brazilian Government debt.

Caixa had stated to Vision in early 2022 that a P3026 report was to be issued by November 2022 in respect of the FCVS RJ portfolio. This would have dramatically improved the value of the portfolio in that the validation would have been completed formally and the portfolio permitted to enter the novation process.

Since the report had not been issued as stated, the Vision shareholders agreed that it would be appropriate to arrange a face-to-face meeting with Caixa in order to determine its status. Caixa eventually offered a date for a meeting and Tim Gardner attended on behalf of all shareholders, along with Vision, the FCVS consultants and the independent securities lawyer mentioned above.

Caixa informed us that they had not published the P3026 report on the RJ Portfolio as a whole since a minority of asset holders unrelated to the Vision Fund had not provided the required title information. However, they suggested that Vision should submit its claims for validation and that Caixa would then analyze the ownership chains and then submit a validation report for each group of claims.

This was a surprise and an apparent concession since it had been understood by legal advisers that the current regulations do not permit partial validation claim reports to be issued by Caixa. The question was posed again and Caixa confirmed that this was indeed possible.

This is a crucial development given that Caixa's validation report is the legal sign-off required for a claim or claim portfolio to be sold to a third party since, following validation, the claim or portfolio can begin novation and the only remaining variable is the time to process the novation, that is, 12-24 months.

Vision's lead external counsel has recommended that Vision does precisely what they have been instructed to do by Caixa and to do this as soon as possible, that is, to document and perfect each ownership chain for submission.

At the same time, Vision's legal counsel will work with Caixa on a legal proceeding to have the judiciary amend (or clarify) the law on validation, which will allow Caixa to validate claims as they are submitted rather than wait for documentation for an entire portfolio. He believes that Caixa will then be permitted to fulfil what they stated to us.

The three investment bank meetings were similar in outcome.

BTG Pactual, Leste and Prisma all have experience in novating FCVS claims against the government.

BTG is the largest and best-connected of the three with a R$10 billion FCVS portfolio that they are slowly novating.

Leste has hired an ex-Vision employee who oversaw the successful sale of the PB portfolio to Bradesco in 2018.

Prisma is a well-funded special situations investor.

Each confirmed that in its current state the RJ portfolio is probably worth in the region of 5-10c of face value, which is equivalent to 15-20c of Visions NAV. They all confirmed that Caixa validation would allow the portfolio to be sold at a far higher bid.

The highest price is likely to be from Banco de Bradesco or Banco Itaú – but they are also likely to be the slowest to complete. By way of example, the FCVS PB trade in 2018 took almost one year.

We made the same proposal to all three banks:

First, that they inject approximately US$10mm into the Vision Cayman Fund.

Second, that the Vision Cayman Fund would then reimburse the V-Invest Loan (see below) in full and retain $1.5mm for working capital.

Third, that the Cayman Fund would issue approximately $30mm (nominal) equity in exchange for the cash injection.

The end result would be that ALF and other investors would be repaid their loans in full (approx. $1.8mm for ALF), and although the current investors' equity would be diluted, the shareholders would have onboard a well-connected local investment partner who is motivated to expedite and manage the realization process.

We are currently awaiting a formal response from each of BTG Pactual, Leste and Prisma.

<u>Vision Special Credit Opportunity Eletrobrás Fund (Vision ELT)</u>

Vision and their lawyers continue to pressure the judiciary for the release of this claim.

No date has been specified for receipt of the withdrawal permit, however, the funds have been in escrow for 17 months and the longest they have ever had to wait for a withdrawal permit has been 20 months.

Last month Eletrobrás filed another petition disputing part of the ownership chain related to the claim.

We view this as a time-wasting exercise. Vision and their counsel are delivering the answers requested to the court in the first week of August and will then request a face-to-face audience with the judge to expedite the withdrawal permit for the funds.

V-Invest Loan

This SPV was created in 2017 to provide working capital for the Vision FCVS RJ Cayman vehicles. It was originally funded with $1mm. The interest rate charged is approximately 30% per annum. ALF invested $209k. This position now has a manager NAV of $1.8mm. The SPV has 100% control over the FCVS RJ portfolio. The Cayman vehicle recently requested a further cash injection as service providers had not been paid for two years. All original shareholders agreed to contribute $650k pro-rata. ALF's additional investment was $135k.

Liquidation preparedness

The Company has been in wind-down and for the last year Hindsight has been tasked by the Board to prepare the Company for its eventual liquidation. A Continuation Vote is due to be put to the Shareholders at the next AGM to be held in December and the Board is likely to recommend a continuation of the wind down. The Board considers that given of the costs of a Liquidation and taking into account the views expressed by a number of shareholders, it is preferable to retain the Company's Listing, to realise its holdings prior to Liquidation and to seek the maximum return (as shown on the Table below), which may therefore delay the future appointment of a Liquidator by some months.

One of the difficulties ALF has had since launch has been the relatively high percentage of certificated shareholders versus digital or CREST holders. A certificated shareholder must receive all communications by mail and all distributions in the form of a physical cheque. There is a large backlog of unclaimed distributions being held by the Company's registrar (LINK) in escrow on behalf of those shareholders. The funds can only be remitted to the shareholder of record at the time of the distribution.

When we started the decertification project there were over 100 certificated shareholders and over $500k of unclaimed distributions. We have successfully brought the number down to 49 (and $150k of unclaimed distributions) and have several pending shareholders wishing either to sell or convert their shares into CREST. This is a time-consuming and administratively intensive task but extremely important since it would otherwise hinder the eventual liquidation which would translate into higher costs.

The Board is allowed (post shareholder-approved Article changes at the 2022 EGM) to absorb non-responsive shareholders' shares and funds if certain criteria have been met. It is anticipated that by September 2023 ALF will have absorbed approximately 35,500 shares and US$26,000 from forfeited shares.

Hindsight has also been asked to ascertain which investments in the portfolio are transferable and which are saleable in the secondary market. The Board plans to sell nil and low-value positions before handing

ALF ALTERNATIVE LIQUIDITY FUND

over the Company to a liquidator so as to minimize remaining line items and ensure a low-cost liquidation. We expect this clean-up operation to occur in the fourth quarter of 2023. Once the portfolio has only a small number, probably only Vision-related holdings, the Custodian relationship can be terminated, saving up to $70,000 a year in fees.

Liquidation Timing

We have set out a recovery scenario analysis table below.

The four shaded columns on the right represent our **estimates**, corroborated by information supplied by Vision, the recent visit to Brazil and input from the other managers, of the potential recovery amounts.

The main driver for the differences is the percentage valuation of the RJ portfolio (vs. the Manager NAV) in the secondary market, which is dependent upon Caixa's validation, the likely purchaser and whether we work in tandem with a local investor partner which is likely to expedite recovery but dilute our share of the RJ Fund.

		Manager NAV	06/23 ALF NAV	Recovery by 12/23	Recovery by 06/24	Recovery by 12/24	Recovery by 6/25
				7% RJ	25% RJ	45% RJ	60% RJ
Portfolio:	**Vision RJ**	$ 22,258,000	$ 8,103,000	$ 1,558,060	$ 5,564,500	$ 10,016,100	$ 13,354,800
	Vision V Invest	$ 1,800,000	$ 1,446,000	$ 1,800,000	$ 1,800,000	$ 1,800,000	$ 1,800,000
	Vision ELT	$ 5,325,160	$ 2,928,000	$ 2,459,520	$ 3,500,000	$ 3,500,000	$ 3,500,000
	Vision Farms	$ 2,394,000	$ 40,000	$ 40,000	$ 80,000	$ 120,000	$ 120,000
	Warana 2018	$ 339,000	$ 217,000	$ 200,000	$ 220,000	$ 240,000	$ 240,000
	Autonomy	$ 503,000	$ 252,000	$ 201,200	$ 301,800	$ 301,800	$ 301,800
	ABAX	$ 4,106,000	$ 205,000	$ 20,500	$ 102,500	$ 102,500	$ 102,500
	Totals	$ 36,725,160	$ 13,191,000	**$ 6,279,280**	**$ 11,568,800**	**$ 16,080,400**	**$ 19,419,100**

Given the meaningful differences in potential recovery that relate to the RJ Fund which is dependent upon the progress made over the next several months, we will again evaluate the situation and present a detailed cost/benefit analysis to shareholders in November/December 2023. At that point the Company intends to discuss the timing of the liquidation with shareholders to ensure that their perspectives are considered and to ascertain that they remain supportive of the recommended process and approach in view of the Continuation Vote.

Growth Opportunities

The Board and Hindsight have continued to hold conversations with other investment managers who are considering using ALF (the Company as opposed to the underlying assets) to launch a new share class to pursue a separate investment strategy.

There are currently three distinct opportunities being pursued. Each is similar to the 2021/22 Waverton proposal which was unfortunately derailed due to the Ukraine war. As has previously been the position, the Board would ask and require shareholder approval to pursue any of these opportunities, all of which would be at no cost to current shareholders and, if approved and successful, would lead to a significant cost reduction for the existing share class and shareholders.