

1 May 2014

BACIT Limited (“BACIT”)

Portfolio Update

During the first quarter of 2014 BACIT’s net asset value (“NAV”) increased by 0.16%. The FTSE All-Share (Total Return in £) fell by 0.63% during that time, and the HFRI Fund of Funds Strategic Index rose by 1.54% (in £) and 0.43% (in US\$). Since launch, BACIT’s total return has been 16.77%, the FTSE All-Share has risen by 23.35% and the HFRI Fund of Funds Strategic Index has risen by 9.66% (in £), and 13.07% (in US\$).

BACIT started the quarter with 85.9% of NAV invested, and ended it with 96.8% committed, of which 90.1% had been invested, across 31 underlying funds and 22 managers. We have also made our first investment into one of the ICR’s early stage drug prospects, with a further commitment subject to milestones being achieved.

During the quarter, we invested in *Chenavari Corporate Credit Strategy*, to extend the portfolio’s exposure to the opportunities created by the low default rates in Europe, on the back of healing economies. We also added a long-biased fund focussed on smaller European companies, *PCM Europe*. Finally, we made the Fund’s second private equity investment with the initial drawdown by *Permira V*, for 7% of the commitment following the announcement of six acquisitions since late October 2013.

At 31 March 2014 the list of investments was as follows:

	% of NAV
Polar Capital Japan Alpha Fund	6.6%
Majedie Asset UK Equity	5.8%
BlackRock UK Special Situations Fund	5.4%
SW Mitchell European Fund USD	5.1%
Polygon European Equity Opportunity Fund	5.1%
Tower Fund	4.6%
Salt Rock Master Fund Ltd	4.5%
Sinfonietta Fund	4.4%
Maga Smaller Companies Fund	3.8%
Portland Hill Capital LLP	3.5%
CG Portfolio Fund plc Dollar Fund	3.2%
The SFP Value Realization Fund	3.1%
Chenavari Corporate Credit Strategy	3.1%
Polygon Mining Fund	2.9%
HC Master Fund Ltd	2.8%
WyeTree European Recovery Fund EUR	2.6%
InfraCapital Partners II	2.6%
Russian Prosperity Fund	2.5%
Cumulus Energy Fund	2.4%
Chenavari EU Regulatory Capital Strategy	2.2%
AIMS Diversified Fund	2.2%
PCM Europe	1.8%

WyeTree RRETRO	1.8%
Polygon Convertible Opportunity Fund	1.7%
Alphagen Relative Value Agricultural Fund	1.5%
Prosperity Russia Domestic Fund	1.5%
Chenavari EU Real Estate Strategy	1.1%
BlackRock Natural Resources Income Fund	0.9%
Optimal Australia Fund	0.7%
SW Mitchell Emerging European Fund	0.4%
Permira V	0.3%
CRT Pioneer GP Ltd	0.2%

BACIT continues to leave all investments made into US\$ denominated funds unhedged, but to hedge out all exposure to the Euro share classes. Sterling appreciated by 0.85% against the dollar during the first quarter, and continued to appreciate in April. This has clearly been a headwind to NAV progress.

	% of NAV
UK £	37.0%
US \$ (unhedged)	51.1%
€ (hedged back into £)	11.9%

As we expected at the start of 2014, this is a year for stock-pickers, and we are grateful to have such long experience in the portfolio. Reducing the portfolio's net exposure, with allocations to long-short managers with the C share proceeds, also protected it during the first quarter. Both equities and credit are split approximately 60:40 in favour of hedged, versus long only managers, all commodity portfolios are long-short as are, clearly, the global macro ones.

	% of NAV
Equity	55.3%
Credit	10.8%
Commodity	8.9%
Macro	8.9%
Fixed Income	3.2%
Infrastructure	2.6%
Private Equity	0.4%
Cash	9.9%

The first quarter saw a number of our equity managers rebalancing portfolios away from Core Europe, international, and growth companies towards the periphery, domestically oriented companies, and value. Many domestic European companies are trading at discounts of more than

50% to their US equivalents, and on the ground visits and an eye to the tightening spreads in credit markets allowed our managers to catch substantial rallies in the first quarter. Our European-focussed credit managers, who invest in corporate and property debt, enjoyed the prospect of the ECB reinitiating its credit easing, and our commodity managers, all of whom invest long-short, had a bumper quarter.

	% of Invested Capital
Europe ex-UK	33.7%
Europe & US	17.0%
Asia-Pacific	16.4%
UK	12.4%
Emerging	10.0%
US	9.5%
Global	1.0%

The setbacks in the Japanese and Russian markets where BACIT has 9.7% and 4.0% of the portfolio respectively, detracted from progress elsewhere. Both markets are cheap in historical terms, and the managers we are invested with, best in class.

The first quarter of the year saw foreign investors sell Japanese equities at the highest rate since the Lehman crisis, pushing relative valuations of Japanese equities to record lows, and creating a buying opportunity for our managers. The much discussed consumption tax hike (from 5% to 8%) took effect on 1st April, but inflation accelerated ahead of that, and our managers expect Prime Minister Abe to unleash his "Third Arrow" (structural reform) over the course of 2014, accompanied by additional quantitative easing.

The manager of our Russian equity portfolios has similarly found recent setbacks to be a buying opportunity, but has found it surprisingly difficult to identify major lines of stock. They and we are monitoring the Ukrainian situation intently.

Finally, a few words on the endowment-like stream of income you have created by investing in BACIT. We are pleased to have made our first investment into one of the ICR's early stage drugs, and we look forward to meeting the additional commitments in time. We are working with the ICR to broaden this pipeline, and hope that we will have news for you in the coming months.

Once BACIT's audit is finalised, 1% of the fund's average size during the financial year will be available to the charities on the BACIT roster. Half will go automatically to the ICR, and the destination of the balance will be for holders of shares at 31 March 2014 to determine. Any unallocated monies will be split equally between the charities.

BACIT's success is entirely dependent on the philanthropy of the talented managers with whom we invest. We are grateful to our existing managers for delivering another quarter of absolute returns, and warmly welcome those who are now engaging with BACIT. We are in advanced stages of discussions with a global macro manager and ongoing discussions with various others. We expect that BACIT will be fully invested during the current quarter, and look forward to updating you thereafter.

BACIT Management Team, 1 May 2014

About BACIT

BACIT Limited (“BACIT”) is a closed-ended investment company, registered and incorporated in Guernsey (registration number 55514). BACIT was admitted to trading on the London Stock Exchange’s main market for listed securities on 26 October 2012. Shares in BACIT trade under the ticker BACT.L.

BACIT’s investment objective is to deliver superior returns from investments in leading long-only and alternative investment funds across multiple asset classes. BACIT only invests where the relevant investment manager provides investment capacity on a “gross return” basis, meaning that BACIT and its subsidiaries (the “Group”) do not bear the impact of management or performance fees on its investments.

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