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# Annual Report

For the year ended 30 June 2017



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## Blue Sky Alternative Investments Limited

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# Chairman's Report

Dear Shareholders

The 2017 financial year ('FY17') was a case of 'the more things change, the more they stay the same'. Whilst we implemented several important changes to Blue Sky's board and leadership during the year, we continued to grow both fee-earning assets under management ('AUM') and profitability at over 50% per annum.

During the year, Robert Shand – who has been with our business since 2010 – took over as Managing Director. We also appointed two new non-executive directors (Philip Hennessy and Michael Gordon) and two new executive directors (Nick Dignam and Elaine Stead). These changes have strengthened the leadership of our business, and have enhanced our ability to capitalise on the enormous growth in investment in alternative assets, both here and overseas.

## *Key deliverables*

At every Annual General Meeting since our listing we have outlined our key priorities for the year and reported back on our progress at the end of the financial year. I am pleased to report that in FY17 we again delivered against our key priorities:

- Our investment track record stands at 15.9% per annum net of fees since inception;
- We grew fee-earning AUM to \$3.25 billion; and
- We delivered earnings towards the top end of the range of our guidance.

## *Financial performance*

In FY17, we delivered an underlying net profit after tax ('NPAT') of \$25.5 million, representing an increase of 56% on FY16 (FY16: \$16.4 million). EBITDA margins grew to 45.8% (FY16: 39.0%) and we expect these margins will grow to 50% in the years to come as our business continues to scale.

Our balance sheet has over \$150 million in net tangible assets and a net cash balance of \$62 million. Having a strong balance sheet is important for our business as it helps us attract long term investment mandates from institutions both in Australia and overseas, and we expect to continue to use our balance sheet to make strategic investments as alignment capital alongside investors in our funds.

Operating cash flow grew by 70% to \$19.5 million (FY16: \$11.5 million) and our distributable earnings – which includes realised gains (and losses) and distributions from our balance sheet investments – increased 73% to \$22.7 million.

Given the performance of the business in FY17 and its outlook, the Board declared a fully franked dividend of \$0.23 per share, up from \$0.16 per share in FY16.

## *Investment returns*

As always, the key driver of Blue Sky's performance remains investor returns. In the 11 years since we began the business in 2006, we have delivered our fund investors returns of 15.9% per annum net of fees. The importance of our investment track record cannot be over emphasised. Not only does it provide a material competitive advantage that will be difficult for others to replicate across the four major alternative asset classes, it also helps us grow our fee-earning AUM. This was again seen in FY17, with our fee-earning AUM growing from \$2.1 billion to \$3.25 billion.

## *Investor Day*

On 30 November 2017, we will be hosting our Annual Investor Day in Brisbane. This day includes presentations from an array of world class speakers, presentations from and meetings with our investment managers as well as a showcase of all of our investee companies. At this showcase, you have the opportunity to meet the management of each of the businesses we have invested in and hear directly from them how they are performing.

With well over 1,000 investors and shareholders attending each year, this is a wonderful opportunity to take a look 'under the bonnet' of Blue Sky and see how we deliver outcomes for investors, shareholders and wider stakeholders. I encourage you to take the opportunity to join us at our Investor Day and learn more about your company.

Yours faithfully



John Kain  
Chairman  
Blue Sky Alternative Investments Limited

# Managing Director's Report

Dear Shareholders

FY17 saw Blue Sky's fee-earning AUM grow 55% to \$3.25 billion at 30 June 2017 and underlying NPAT grow 56% to \$25.5 million. Operating cash flows were solid at \$19.5 million, underlying EBITDA margins expanded to 45.8% and we continued to convert approximately 1% of fee-earning AUM to NPAT.

Australia's funds management industry provides Blue Sky with significant structural tailwinds. With \$2.9 trillion in AUM, the funds management industry is the fourth largest in the world and has been growing at 9.5% per annum over the last five years.<sup>1</sup> Alternatives are the fastest growing asset class and are forecast to become the largest asset class – overtaking Australian equities – within the next decade.<sup>2</sup>

As Australia's only listed diversified alternative asset manager, Blue Sky is particularly well positioned to capitalise on these trends. We expect our fee-earning AUM will grow to at least \$4 billion by the end of FY18 and \$5 billion by the end of FY19, with capacity within our existing four asset classes to grow to \$10 billion.

The growth we have experienced is a result of the compelling risk-adjusted returns we have delivered to the investors in our funds. Blue Sky's investment track record is 15.9% per annum (net of fees) over eleven years.<sup>4</sup> This track record is a key competitive advantage and has helped us secure institutional mandates both here and overseas. Institutional investors comprised 38% of our fee-earning AUM at 30 June 2017 (up from 25% at 30 June 2016), and we expect this to grow to more than 50% of fee-earning AUM in the coming years as additional mandates are awarded.

During FY17, we realised thirteen investments and delivered investors in those funds an average return on equity of 66% (net of fees).<sup>5</sup> We have now realised thirty-eight investments since inception and 33 of those have been realised at or above carrying value. We expect to deliver another eight to ten exits in FY18.

The vast majority of the funds we manage across Private Equity, Private Real Estate and Real Assets are closed-ended and involve the investment of capital to drive a step-change in an asset's value. For example: in Private Equity, we invest capital into existing businesses to materially accelerate their growth; in Private Real Estate, we invest capital to build new homes for students and retirees; and in Real Assets, our capital is applied to agricultural assets in order to change their use to produce higher value commodities.

The investment of capital and the active management of that investment to drive a step-change in value is at the core of how we generate returns for our fund investors.

Our **Private Equity** team exited four investments during FY17, delivering the following returns to investors:<sup>6</sup>

- HPS, which delivered investors a 2.0x return on invested capital (net of fees);
- Oaktree, which delivered investors a 1.9x return on invested capital (net of fees);
- Milk, which delivered investors a 1.2x return on invested capital (net of fees); and
- Pet Circle, which delivered investors a 1.7x return on invested capital (net of fees).

Our Private Equity team was recently recognised for having made the Best Early Stage Investment at the 2017 AVCAL awards (for its investment in Pet Circle) and has also secured a 15 year, \$50 million mandate from the South Australian Government. With the track record this team has built, I expect this team will continue to secure additional investment from both domestic and international institutions.

Our **Private Real Estate** team is focused on investing in student accommodation and retirement living in Australia. Our student accommodation portfolio has nine sites (either operational or in development) and exceeds 5,000 beds. The student accommodation sector has significant structural tailwinds with more than 60,000 international students arriving in Australia over the last twelve months.<sup>7</sup> While increased supply is coming online, a significant shortage of beds remains and there is increasing evidence of a compression in cap rates as this sector matures.

The retirement sector is underpinned by compelling demographic trends with the number of Australians aged over 65 forecast to increase by 1.4 million over the next ten years.<sup>8</sup> Our team is developing a portfolio of medium density retirement villages in metropolitan locations to meet the needs of these retirees. We currently have five sites in development and are looking to rapidly expand this portfolio over the coming years.

<sup>1</sup> Willis Towers Watson, Global Pension Assets Study 2017; Rainmaker Roundup – Volume 20 Number 3 (September Quarter 2016)

<sup>2</sup> Rainmaker Roundup – Volume 20 Number 3 (September Quarter 2016)

<sup>3</sup> Investor returns are equity-weighted returns since inception through to 30 June 2017. Returns are net of fees (and before tax) and include both realised and unrealised investments for all investment strategies originated and managed by Blue Sky. Returns exclude funds where there has been no change in the value of the investment (i.e. recent investments). Past performance is not a reliable indicator of future performance.

<sup>4</sup> Average returns are equity weighted returns. Past performance is not a reliable indicator of future performance.

<sup>5</sup> Past performance is not a reliable indicator of future performance.

<sup>6</sup> All returns are net of fees (and before tax). Past performance is not a reliable indicator of future performance.

<sup>7</sup> Department of Education and Training, International Student Data monthly summary - July 2017.

<sup>8</sup> Australian Bureau of Statistics, 3222.0 Population Projections, Australia, 2012-2101, TABLE A9. Population projections, By age and sex, Australia -Series A, released 26 November 2013.



Our **Real Assets** team invests in Australia's agriculture sector and has established a leading reputation for investing in water entitlements. While the water entitlement market was flat during FY17, this allowed our team to invest significantly more capital into this asset class at attractive prices. This team also secured new mandates from domestic and international institutions to reach first close of the Blue Sky Strategic Australian Agriculture Fund, with a final close anticipated within the next six months.

Our **Hedge Funds** flagship fund – the Dynamic Macro fund – has delivered returns over ten years of 9.3% per annum (net of fees) with a correlation of -0.53 to the S&P500. The combination of strong returns and a negative correlation to equities means this product can play a powerful role in investors' portfolios. Our strategy of targeting offshore institutional capital has momentum and we are confident that we will attract institutional capital for this fund during FY18.

Our **US business** is focused on three areas: (i) securing mandates from international institutional investors; (ii) investing growth capital into local businesses; and (iii) making targeted real estate investments through our joint ventures with Cove Property Group (commercial property) and Student Quarters (student accommodation). All three elements of our US business continue to see significant growth.

Finally, the listed investment company we manage – the **Blue Sky Alternatives Access Fund** (ASX: BAF) – is performing well. It delivered a pre-tax fund performance of 10.3% in FY17,<sup>9</sup> with returns from realised funds and redemptions from open-ended funds delivering an equity weighted IRR since listing of 19.5%.<sup>10</sup> BAF consistently traded at a premium to net tangible assets ('NTA') throughout FY17 and declared fully franked dividends totalling five cents per share for FY17.

The strong momentum across our business in FY17 has carried over into the first quarter of FY18. Blue Sky's investor base continues to broaden and deepen as investors increasingly search for opportunities to invest outside of traditional asset classes (such as listed equities and fixed income). The pipeline of new opportunities our team is evaluating is better than it has ever been. Our conviction in investing for the long term in private markets in sectors exposed to things people need rather than things people want is unchanged. Given the sheer size of private markets in Australia, we remain focused on capitalising on the momentum that we have built and making the most of the opportunity in front of us.

As our Chairman has noted in his letter, our Annual Investor Day will be held this year on 30 November 2017. There is no better day each year to get an insight into our business, our investments and our team than by attending this event, and I look forward to providing a further update on our progress then.

Regards



Robert Shand  
Managing Director  
Blue Sky Alternative Investments Limited

<sup>9</sup> Includes NTA growth, dividends and franking credits.

<sup>10</sup> Equity-weighted composite IRR from realised investments and redemptions, inclusive of franking credits, and before management and performance fees. Past performance is not a reliable indicator of future performance.

# Directors' Report

The Directors present their report, together with the Financial Report of Blue Sky Alternative Investments Limited (the 'Company', 'parent entity' or 'Blue Sky') and the entities it controlled (the 'Group') for the financial year ended 30 June 2017.

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## Directors

The Directors of the Company are:

<b>John Kain</b>	(Chairman)
<b>Timothy Wilson</b>	(Deputy Chair)
<b>Nicholas Dignam</b>	(Appointed 29 September 2016)
<b>Michael Gordon</b>	(Appointed 17 February 2017)
<b>Philip Hennessy</b>	(Appointed 17 February 2017)
<b>Alexander McNab</b>	
<b>Kim Morison</b>	
<b>Robert Shand</b>	(Appointed 29 September 2016)
<b>Mark Sowerby</b>	(Resigned 30 September 2016)
<b>Elaine Stead</b>	(Appointed 29 September 2016)

The Directors have been in office since the start of the financial year to the date of this report unless otherwise noted.

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## Company Secretary

Blue Sky's company secretary is Jane Prior.

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## Principal Activities

Blue Sky's principal activities are the management of funds and investments across the four major alternative asset classes: Private Equity, Private Real Estate, Real Assets and Hedge Funds.

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## Dividends

On 14 August 2017, the Directors resolved to pay a final fully franked dividend of 23 cents per share in relation to the 2017 financial year ('FY17'). The record date will be 28 August 2017 and the payment date will be 11 September 2017.

Dividends paid during previous financial years were as follows:

	2017 \$'000	2016 \$'000
Dividends paid during the year (fully franked)	10,783	6,221
Cents per share	16	11

## Operating and Financial Review

### Executive Summary

FY17 was another solid year for Blue Sky and we delivered on each of the key priorities identified at last year's Annual General Meeting:

What we said we would do	What we delivered
Maintain our investment track record of >15% p.a. net of fees since inception. <sup>1</sup>	Investor returns of 15.9% p.a. net of fees over the eleven years since inception through to 30 June 2017. <sup>1</sup>
Grow fee-earning assets under management ('AUM') to exceed \$3 billion by 30 June 2017.	Fee-earning AUM was \$3.25 billion at 30 June 2017.
Deliver on our FY17 earnings guidance of underlying net profit after tax ('NPAT') of \$24-26 million.	Underlying FY17 NPAT was \$25.5 million.

Ultimately, there are four drivers critical to Blue Sky's performance. First is our ability to generate compelling risk-adjusted returns for our fund investors. This is reflected in our investment track record which now stands at 15.9% per annum since inception (net of fees)<sup>1</sup>. In FY17, we realised investments from 13 funds and paid investors in those funds an average return on equity of 66% (net of fees)<sup>2</sup>. This means we have now exited 38 investments since inception, of which 33 have been realised at or above the carrying value prior to exit. In addition, twelve funds paid investors a yield during FY17.

The second critical driver is growth in fee-earning AUM. The combination of our eleven year investment track record and ability to access proprietary investment opportunities in private markets has led to substantial growth from both new and existing investors. Our fee-earning AUM grew to \$3.25 billion at 30 June 2017, a net increase of \$1.15 billion over the year.

The third area of importance is governance, compliance and risk management. We are proud of the track record we have built in this area and, as an ASX listed funds management business, recognise that it is – and always will be – a core part of what we do.

The fourth – and most important driver of performance – is the quality of our team. Given that it is now relatively easy for investors to invest anywhere in the world, in order to attract capital we believe it is critical that we build and retain a world class team. We have done this well to date, and it is something we will continue to invest in over the coming years.

Our focus on these four key drivers translated into solid underlying financial results for FY17 that were in line with guidance. These are summarised in the following table.

	Underlying Results <sup>3</sup>			Consolidated Group Results <sup>4</sup>		
	FY17	FY16	% change	FY17	FY16	% change
Revenue	\$85.0m	\$62.8m	35%	\$84.4m	\$70.9m	19%
EBITDA <sup>5</sup>	\$38.9m	\$24.5m	59%	\$32.4m	\$19.3m	68%
Net profit after tax <sup>6</sup>	\$25.5m	\$16.3m	56%	\$20.6m	\$11.4m	81%
Operating cash flow	\$19.5m	\$11.5m	70%	\$8.4m	\$13.2m	-36%
Net tangible assets	\$150.6m	\$133.8m	13%	\$130.4m	\$128.7m	1%

<sup>1</sup> Investor returns are equity-weighted returns since inception through to 30 June 2017. Returns are net of fees (and before tax) and include both realised and unrealised investments for all investment strategies originated and managed by Blue Sky. Returns exclude funds where there has been no change in the value of the investment (i.e. recent investments). For further details, refer to our Investor Presentation that was released to the ASX on 15 August 2017. Past performance is not a reliable indicator of future performance.

<sup>2</sup> Returns are the average returns from all funds that were realised during FY17 and are equity weighted. Past performance is not a reliable indicator of future performance.

<sup>3</sup> The Underlying Results are non-IFRS financial information and are prepared on the basis that all investments held by Blue Sky in funds that it manages are accounted for at Fair Value through Profit and Loss under AASB 139 *Financial Instruments* using the same approach as outlined in AASB 13 *Fair Value Measurement*.

This means that the Underlying Results exclude, for example, all of the revenues and expenses associated with funds that have been consolidated in the Consolidated Group Results. These revenues and expenses are attributable to the fund's unitholders (of which Blue Sky is one), but are not wholly attributable to Blue Sky. It also means that the Underlying Results include, for example, all of the management, performance and other fees that have been earned by Blue Sky from these funds, but which are required to be eliminated upon consolidation in the Consolidated Group Results. The Directors therefore believe the Underlying Results are more reflective of the economic reality for shareholders in Blue Sky.

The non-IFRS financial information has been subject to review by Blue Sky's auditor (Ernst & Young).

<sup>4</sup> The Consolidated Group Results reflect Blue Sky's Statutory Results. These results include the financial information of 34 Blue Sky managed funds (including two operating businesses) that are required to be consolidated or equity accounted in accordance with AASB 10 *Consolidated Financial Statements*. For example, the Consolidated Group Results include all of the revenues and expenses from funds that are consolidated. These revenues and expenses are attributable to the fund's unitholders (of which Blue Sky is one) but are not wholly attributable to Blue Sky. The Consolidated Group Results also exclude the management, performance and other fees earned by Blue Sky from these funds as they are required to be eliminated upon consolidation under AASB 10.

<sup>5</sup> Earnings Before Interest, Taxes, Depreciation and Amortisation ('EBITDA').

<sup>6</sup> Excludes non-controlling interests where applicable.

# Directors' Report - continued

## *Financial Performance and Financial Position – Underlying Results*

FY17 was another year of significant growth for Blue Sky and the momentum that we have built as our business has scaled is reflected in our financial performance. Revenue increased by 35% to \$85.0 million (FY16: \$62.8 million), driven by growth in fee-earning AUM. EBITDA margins have increased each year since our listing in FY12 and did so again in FY17, growing to 46% (up from 39% in FY16). This translated to a net profit after tax of \$25.5 million, which was up 56% from FY16.

Management fees are the largest component of our revenue and grew to \$37.6 million. Performance fees grew to \$22.3 million and are increasingly being converted into cash as investments are realised. Investment income was \$7.6 million, representing a 14.8% return on the balance sheet investments we held at the start of FY17.

Our share of profit of associates and joint ventures of \$9.4 million comes from the joint ventures we have with Cove Property Group ('Cove') (a US based funds management business that invests in institutional grade commercial property) and Student Quarters (a US based funds management business that invests in institutional grade student accommodation). It has been pleasing to see the contribution these businesses are starting to make in what are inherently scalable asset classes.

Expenses grew at a modest rate – and a slower rate than revenue – reflecting the benefits of our larger scale. Overall operating expenses increased by \$7.8 million, with over 72% of this growth attributable to employee costs. Importantly, 28% of our total employee costs were incentives (including employee share of performance fees) and include \$1.1 million in non-cash expense related to the award of options to key team members.

These options are typically issued at or above the prevailing share price, vest over a five year period, and are contingent on Blue Sky reaching \$5 billion in fee-earning AUM and on the recipient being employed at Blue Sky at the time of vesting. Our rationale here is simple: we issue these options to team members that act as owners of our business and who have added materially to the value of Blue Sky. The options are designed to ensure these team members have exposure to the long term equity value of our business, and are structured such that the recipient is only rewarded if shareholders are similarly rewarded. We intend to issue further equity based incentives over the coming years to team members that make a meaningful impact on our business.

Excluding employee expenses, our remaining operating costs grew by 11%. The two major contributors to this growth were (i) expenses associated with capital raising for funds, and (ii) fee rebates that are paid to the Blue Sky Alternatives Access Fund (the 'Alternatives Fund', ASX: BAF). While capital raising expenses grew in absolute terms as our investor base has broadened and deepened, they continued to reduce as a proportion of capital raised. Similarly, the increase in fee rebates paid to the Alternatives Fund reflects the substantial growth in this platform, which has more than tripled in size since its Initial Public Offering of Shares ('IPO') in 2014.

Blue Sky's balance sheet is well capitalised and a key strategic asset. It has \$150.6 million in net tangible assets, including a net cash position of \$62.2 million and \$63.4 million of balance sheet investments in funds that we manage. These balance sheet investments increased by \$11.9 million over FY17, reflecting both the growth in the value of existing investments as well as additional deployment into twelve separate funds, largely as co-investments alongside institutional investors. We anticipate a ramp up in this investing activity in FY18 as we continue to deploy existing mandates and are awarded new mandates from institutions, both in Australia and overseas.

Operating cash flow grew by 70% to \$19.5 million. Our investing cash flow includes the receipt of \$17.7 million from balance sheet investments in funds that were realised during the year (such as Water Utilities Australia and the Blue Sky Private Equity Retirement Village Fund ('Oak Tree')). These realisations – as well as distributions of profit from other balance sheet investments – are included in our distributable earnings, which grew from \$13.1 million in FY16 to \$22.7 million in FY17.<sup>7</sup>

## *FY17 Dividend*

The Directors have resolved to pay a final fully franked dividend of 23 cents per share in relation to the 2017 financial year. The record date is 28 August 2017 and the payment date is 11 September 2017.

## *FY18 Guidance*

Consistent with last year, we anticipate providing earnings guidance for the FY18 year at our Annual General Meeting to be held on Thursday 2 November 2017.

<sup>7</sup> Please refer to the Investor Presentation that was released to the ASX on 15 August 2017 for further details on the calculation of distributable earnings.



## Investment Performance

Blue Sky manages a portfolio of 67 separate funds.<sup>8</sup> This portfolio continued to perform well over the past twelve months and our investment track record now stands at 15.9% per annum since inception (net of fees).<sup>9</sup> This is a track record that spans eleven years and covers all four of the major alternative asset classes. It is a track record that has been difficult to build and one that has become a critical source of competitive advantage for our business.

Three of our four asset classes – Private Equity, Private Real Estate and Real Assets – are focused on making long term investments in private markets. Typically, the investment opportunities we execute are proprietary and reflect our overarching investment thematic of ‘the essentials’ – that is, investing in things that people need rather than things that people want. This has led us to invest into sectors such as food and water, retirement, education, healthcare and technology. We maintain our conviction in these sectors and the structural drivers that underpin their growth.

Our Private Equity team realised four investments during FY17, including generating a 2.0x return (net of fees) for investors in the Blue Sky Private Equity Hospital Pharmacy Services Fund (‘HPS’) and a 1.9x return (net of fees) for investors in Oak Tree. At the same time, the quality and quantity of our deal flow continues to improve. With over 50,000 businesses in Australia having 20 – 199 employees<sup>10</sup> (and therefore being of a size commensurate with the businesses we typically invest in), there has been no shortage of opportunities to evaluate. During the year, we made seven investments into new portfolio companies, including further investments in the healthcare, food, education and technology sectors.

Our Private Real Estate team’s investments in student accommodation are playing out as anticipated and the fundamentals in this sector remain compelling. Education is Australia’s third largest export industry (behind only iron ore and coal)<sup>11</sup> and is a strategically important part of the national economy. In addition, Australia is now the second largest recipient of international students globally.<sup>12</sup> This growth in international students – which increased by approximately 60,000 students over the last twelve months – has seen demand

for purpose built student accommodation continue to increase at a faster pace than the supply of new beds.<sup>13</sup> Unsurprisingly, interest from institutional investors looking to deploy capital into the sector has increased and has led to evidence of the same trend of compression in capitalisation rates for student accommodation assets that has been seen overseas. With a portfolio of over 5,000 beds across nine sites that are currently either operational or in development – as well as Blue Sky’s 50% ownership of Atira<sup>14</sup> – we are well placed to benefit from these trends.

During FY17, our Private Real Estate team commenced investing in the development of a portfolio of retirement villages. This portfolio is being developed in partnership with Aura Australia Holdings Trust (‘Aura’), an operator of retirement villages led by the same people who had previously founded, grown and sold Retire Australia (a retirement village business with 3,700 independent living units at the time it was sold).<sup>15</sup> As Australia’s baby boomer population continues to age, we expect that this platform will provide another scalable growth opportunity for Blue Sky over the years ahead.

Our Real Assets team is focused on investing in a portfolio of water entitlements as well as providing growth capital for opportunities in agriculture. Our water entitlements fund has delivered a 15.9% return per annum since inception (net of fees) and generated a 3.1% return during FY17.<sup>16</sup> While growth in water prices across the Murray-Darling basin moderated during FY17, this was in the context of what was one of the wettest years on record, particularly in the southern part of the basin. This genuine lack of correlation with traditional asset classes is a key feature of this asset class for investors, and the pause in overall water prices has allowed us to deploy significantly more capital into the sector over the last twelve months. We retain our view that the value of water entitlements will continue to move higher over the long term.

Our Hedge Fund team’s flagship product is the ‘Dynamic Macro’ fund. This fund has generated a 9.3% per annum return since inception (net of fees) with a negative correlation to the S&P500 of -0.53. The fund incorporates a highly sophisticated quantitative approach and, with this in mind, we have focused our distribution efforts on offshore institutional investors with resources from our Hedge Fund team now deployed in our New York office. While still in its infancy, this strategy is showing early signs of momentum with several institutions now engaged in due diligence.

<sup>8</sup> As at 30 June 2017.

<sup>9</sup> Investor returns are equity-weighted returns since inception through to 30 June 2017. Returns are net of fees (and before tax) and include both realised and unrealised investments for all investment strategies originated and managed by Blue Sky. Returns exclude funds where there has been no change in the value of the investment (i.e. recent investments). For further details, refer to our Investor Presentation that was released to the ASX on 15 August 2017. Past performance is not a reliable indicator of future performance.

<sup>10</sup> Australian Bureau of Statistics, 8165.0 *Count of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2016*, released 21 February 2017.

<sup>11</sup> Department of Foreign Affairs and Trade (‘DFAT’), Figures based on ABS trade data on DFAT STARS database and ABS catalogues 5368.0 and 5429.0; Austrade Benchmark Report 2017.

<sup>12</sup> UNESCO Institute for Statistics, *Global Flow of Tertiary-Level Students*.

<sup>13</sup> Department of Education and Training, *International Student Data monthly summary – June 2017*.

<sup>14</sup> Atira is the operator at each of Blue Sky’s student accommodation sites. Blue Sky’s ownership interest in Atira increased from 35% to 50% after 30 June 2017 following the agreement by Goldman Sachs and Blue Sky to buy out the minority shareholders in this business.

<sup>15</sup> Blue Sky owns 50% of Aura.

<sup>16</sup> As at 30 June 2017. Past performance is not a reliable indicator of future performance.

# Directors' Report - continued

## *Fee-Earning Assets Under Management*

Fee-earning AUM stood at \$3.25 billion at 30 June 2017, up from \$2.1 billion at 30 June 2016. Our investor base both broadened and deepened with all three of our investor segments – institutional, sophisticated and retail – continuing to grow.

Institutional investors increased to 38% of our fee-earning AUM (up from 25% at 30 June 2016) as we deployed new and existing mandates across multiple asset classes. The ongoing growth in fee-earning AUM from institutional investors reflects the quality of our team, our track record and the platform we have built.

Our sophisticated investor base represents 55% of our fee-earning AUM and includes a large number of family offices and high net worth individuals. This segment is at the core of our business and continues to grow as these investors look to allocate more of their portfolios to investments in private markets.

The demand from retail investors for alternative assets is also growing. Blue Sky's primary investment offering for retail investors is the Alternatives Fund (ASX: BAF), a listed investment company that provides investors with exposure to a diverse range of alternative assets in an ASX listed structure. Evidence of the appetite for alternatives from retail investors was reflected in the substantial excess demand for the Alternatives Fund's entitlement offer in November 2016, as well as the fact that its shares have consistently traded at a premium to NTA throughout FY17.

We expect that fee-earning AUM from all three investor segments will continue to grow in the coming years.

Our strategy to pursue these diverse sources of capital is deliberate. It serves the dual purpose of ensuring our business is not reliant on any one investor segment, as well as providing a broader set of opportunities from which to source capital. For example, our institutional investor base is important as it allows us to pursue large scale and programmatic investment opportunities. Our sophisticated investor base is a critical source of diversification (and a key source of proprietary deal flow), while our retail investors provide a stable source of capital for our business.

## *Outlook*

For more than two decades there has been a trend towards increased allocations to alternative assets in Australia.

In 1997, alternative assets represented approximately 5% of allocations.<sup>17</sup> By 2016, this had grown to 19% and alternatives are forecast to overtake domestic equities as the largest asset class in Australia within the next decade.<sup>18</sup>

These long term, structural trends are not unique to Australia. They reflect similar trends overseas that have seen the average allocation to alternatives from global pension funds increase from approximately 4% to 24% over the last two decades.<sup>19</sup>

The growth in alternatives – when considered in the context of Australia's overall funds management industry that is large and growing strongly – has provided the structural tailwinds behind Blue Sky's growth. These tailwinds show no sign of abating.

The long term outlook for our business is easy to articulate: we are building the leading diversified alternative asset manager in Australia, offering investors access to compelling investment opportunities across the four major alternative asset classes: Private Equity, Private Real Estate, Real Assets and Hedge Funds. We have built a scalable platform with significant momentum, and are on track to meet or exceed our goal of \$5 billion in fee-earning AUM by the end of FY19. We are also on track to deliver our longer term target of growing our existing four asset classes to \$10 billion in fee-earning AUM.

While the outlook for Blue Sky is easy to articulate, the execution is always more challenging. As any experienced investor would attest, building a long term investment track record in any asset class is hard and doing so in alternatives is no different. That said, our business is well placed to meet the inevitable challenges that lie ahead: we have built an exceptional team that is highly aligned to investor and shareholder outcomes; our diverse exposure across four asset classes and 67 separate funds, coupled with our investment focus on 'the essentials' has continued to serve us well; the closed-ended nature of the vast majority of our funds provides long term, predictable sources of revenue; and the strength of our balance sheet has enhanced our ability to win long term institutional mandates as well as execute quickly on new investment opportunities.

The focus of Blue Sky's first decade was to build a platform that positioned us to benefit from the growth in alternatives. We are now one year into our second decade, a decade that we have said is focused on scaling up our business to capture that opportunity. In FY17, we added meaningfully to the scale of our business and delivered tangible outcomes for our investors and shareholders. Continuing to scale our business – and continuing to deliver tangible outcomes for our investors and shareholders – will remain very much our focus for FY18, and indeed, for the remainder of our second decade.

<sup>17</sup> Rainmaker Roundup Volume 20 Number 3 SEP Quarter 2016.

<sup>18</sup> Rainmaker Roundup Volume 20 Number 3 SEP Quarter 2016.

<sup>19</sup> Global Pension Assets Study 2017, Willis Towers Watson (February 2017).

## *Financial Performance and Financial Position – Statutory Results*

Blue Sky has invested in a range of funds that we manage, primarily as alignment capital where we have invested alongside institutional and other investors. Given that Blue Sky both (i) holds an economic interest in these funds and (ii) as the investment manager of these funds, exerts a degree of control over these funds, we are required under the accounting standards to either consolidate or account for these funds using the equity method (depending on the degree of control) rather than accounting for them at fair value.

This approach is required under the AASB 10 *Consolidated Financial Statements* accounting standard ('AASB 10'). In accordance with AASB 10, four funds are consolidated into the Group's FY17 statutory Financial Report and a further 28 funds and two operating businesses are accounted for using the equity method in accordance with AASB 128.

The impact of this accounting treatment includes:

- In the Group's statutory financial results, management, performance and other fees that are earned by Blue Sky are eliminated upon consolidation. As such, the management, performance and other fees that Blue Sky earns from these funds are not included in the consolidated results of the Group;
- For those funds that are consolidated, the assets and liabilities of those funds - that are held by each fund on behalf of investors in those funds - appear on the Group's consolidated statement of financial position. Further, the value of the units that Blue Sky holds in those funds is eliminated upon consolidation and therefore is not included in the consolidated results of the Group; and
- For funds that are accounted for using the equity method, a share of the profit or loss – rather than the fair value of the units held by Blue Sky in those funds – appears in the consolidated results of the Group.

Given that AASB 10 has these impacts on Blue Sky's statutory results, the business is managed on a day to day basis using exactly the same approach that is presented in our underlying results. In our underlying results, all balance sheet investments in funds that we manage are reported at Fair Value through Profit or Loss under AASB 139 *Financial Instruments* using the same principles of fair value that are included in AASB 13 *Fair Value Measurement*. This is the only difference between our underlying and statutory results. This approach reflects the approach used by a range of large global alternative asset managers that have investments in their underlying funds (and as such are impacted by IFRS 10, the global equivalent of the AASB 10 accounting standard).

Blue Sky's underlying results are non-IFRS financial information and have been subject to review by Blue Sky's auditor (Ernst & Young).

In relation to the Group's statutory results, in FY17 the Group reported a 19% increase in revenue to \$84.4 million and an 81% increase in net profit after tax to \$20.6 million. While this growth is directionally the same as Blue Sky's underlying results, as noted previously these statutory results exclude items such as the management, performance and other fees that are earned by Blue Sky from funds that are eliminated upon consolidation as required under AASB 10. In addition, they include the revenue and expenses from funds that Blue Sky has invested in and that is deemed to control. For example, the Group's statutory results included the revenue and expenses associated with the supply of water utilities, apartment sales, management and letting rights and the operation of retirement villages. All of these revenue and expense items are attributable to the unitholders of funds managed by Blue Sky, rather than Blue Sky itself.

The Group's statutory net tangible assets ('NTA') at 30 June 2017 were \$130.4 million, up from \$128.7 million at 30 June 2016. These statutory results exclude the value of investments that Blue Sky has made in funds that it manages and which it is deemed to control as the value of these investments is eliminated upon consolidation in accordance with AASB 10. The Group's consolidated statement of financial position also includes the assets and liabilities of those funds and entities that have been consolidated in accordance with AASB 10. For example, the Group's consolidated statement of financial position includes \$54.9 million worth of 'Investment Property – Retirement Villages' that is owned by Aura funded by a range of funds managed by Blue Sky.

Comparative tables that reconcile Blue Sky's statutory results with Blue Sky's underlying results have been provided (starting at page 99).

# Directors' Report - continued

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## Significant changes in the state of affairs

No significant changes in the state of affairs occurred during the year.

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## Matters subsequent to the end of the financial year

On 14 August 2017, the Directors resolved to pay a final fully franked dividend of 23 cents per share in relation to the 2017 financial year. The record date for this dividend will be 28 August 2017 and the payment date will be 11 September 2017.

Other than this matter, there are no other subsequent events.

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## Likely developments and expected results of operations

The Group does not expect a change in the nature of its operations in the foreseeable future.

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## Environmental regulation

The Group is not subject to any particular or significant environmental regulation under Commonwealth, State or Territory legislation.

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## Information on current Directors

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### *John Kain*

#### **Chairman**

#### **Non-Executive Director (Independent)**

##### *Qualifications*

John holds a Bachelor of Laws from the Adelaide University and was admitted to legal practice in South Australia in 1990. He was subsequently admitted to practice in England and Wales, and in New South Wales.

##### *Experience and expertise*

John is a corporate lawyer with over 20 years of experience in corporate advisory, private equity and mergers and acquisitions. John is the Managing Director of Kain Lawyers, an innovative legal consulting company specialising in complex transactions, disputes and advice.

John has also served on a number of boards, including as Chairman of Blue Sky Alternatives Access Fund Limited, Director of public charitable trusts, as Chair of a Commonwealth Government advisory panel and as Director of a number of private companies. He is also a Fellow of the Australian Institute of Company Directors.

##### *Other current directorships of listed entities:*

None

##### *Former directorships of listed entities (in the last 3 years):*

Blue Sky Alternatives Access Fund Limited (resigned 18 November 2016)

##### *Interests in shares:*

1,301,477 shares

##### *Interests in options:*

None

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### *Timothy Wilson*

#### **Deputy Chair**

#### **Executive Director**

##### *Qualifications:*

Tim holds a Bachelor of Commerce and a Bachelor of Laws from the University of Queensland, a Graduate Diploma of Applied Finance and Investment and a Master of Science in Finance from the London Business School. Tim has also undertaken the Private Equity and Venture Capital course at Harvard Business School, Boston, USA.

##### *Experience and expertise:*

Tim is the Head of the Company's private equity division. He is responsible for leading this team, sourcing and negotiating deals, advising portfolio companies on financing, entry and exit negotiation and building the Company's network.

Tim has been involved in private equity since 1997 including with Blue Sky Private Equity, and previously through investment banking roles in London, Sydney and Brisbane. He began his career as a commercial lawyer in Brisbane with Minter Ellison before moving to London where he lived for seven years, working in investment banking roles with Paribas and Credit Suisse First Boston. Tim then returned to Australia and worked in finance roles with Babcock & Brown, Westpac Institutional Bank and Investec before joining Blue Sky in 2009 to run the private equity business.

##### *Other current directorships of listed entities:*

None

##### *Former directorships of listed entities (in the last 3 years):*

None

##### *Interests in shares:*

1,705,480 shares

##### *Interests in options:*

None



# Directors' Report - continued

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## Nicholas Dignam

(Appointed 29 September 2016)

### Executive Director

#### *Qualifications:*

Nicholas holds a Bachelor of Commerce and a Bachelor of Laws from the University of Queensland, and a Masters of Applied Finance from Queensland University of Technology.

#### *Experience and expertise:*

Nicholas is the Head of Blue Sky's growth capital division and is responsible for originating new investment opportunities, working with portfolio companies to deliver growth and managing exit processes. Since joining Blue Sky, he has led investments into several private equity portfolio companies (including Hospital Pharmacy Services) and was instrumental in the successful sale of Readify to Telstra in June 2016. Nicholas also sits on the boards of a number of Blue Sky Private Equity portfolio companies.

Prior to joining Blue Sky, Nicholas spent six years with Catalyst Investment Managers, a Sydney based mid-market private equity firm. During this period Nicholas worked across a broad range of sectors including consumer goods, retail, e-commerce, mining services and trade distribution. Before Catalyst, Nicholas spent three years with Ernst & Young in the mergers and acquisitions group.

#### *Other current directorships of listed entities:*

None

#### *Former directorships of listed entities (in the last 3 years):*

Commstrat Limited (Resigned 8 June 2017)

#### *Interests in shares:*

None

#### *Interests in options:*

500,000 options

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## Michael Gordon

(Appointed 17 February 2017)

### Non-Executive Director (Independent)

#### *Qualifications:*

Michael holds a Bachelor of Business (Finance) from the University of Technology, Sydney.

#### *Experience and expertise:*

Michael has over thirty years' experience in the financial services and funds management industry, in Australia, the UK and Asia. Most recently, Michael was Group Executive for Perpetual Investments where he was responsible for over \$30 billion of funds under management for institutional and retail clients. In this role, Michael was responsible for all aspects of investment management, distribution, products and operations. Prior to Perpetual, Michael held roles as a global Chief Investment Officer (CIO) at BNP Paribas Investment Partners in London, global CIO at Fidelity International worldwide and as joint Managing Director and CIO for Schroders in Australia.

Michael brings to the Board deep operational experience to oversee a regulated business across multiple geographies and a deep knowledge of institutional capital.

Michael is also a Fellow of the Australian Institute of Company Directors.

#### *Other current directorships of listed entities:*

None

#### *Former directorships of listed entities (in the last 3 years):*

Perpetual Equity Investment Company Limited (Resigned 12 May 2016)

#### *Interests in shares:*

10,000 shares

#### *Interests in options:*

None

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## Philip Hennessy

(Appointed 17 February 2017)

### Non-Executive Director (Independent)

#### *Qualifications:*

Philip holds a Bachelor of Business (Accountancy) from the Queensland University of Technology. Philip is also a Fellow, Chartered Accountants Australia and New Zealand.

#### *Experience and expertise:*

Philip stood down as Queensland Chair of KPMG in February 2013 after 12 years in the role and retired from the partnership in July 2013.

Over the past 30 years, Philip has been involved in corporate insolvency and reorganisation across a variety of industries including construction, real estate, mining, manufacturing, professional services, hospitality, tourism, agriculture and financial services. He has served as a Chair and Director on a number of government owned corporations focussed on water storage, treatment and transport services to industrial and mining customers and for household use, and also involving the construction of pipelines, dams and other infrastructure. Philip has also been a Director of various not-for-profit organisations serving intellectually disabled women, children with chronic health issues, hospitals and education.

Philip is currently an independent company director and adviser to public, private and not for profit organisations.

Philip also chaired KPMG's Audit Committee Institute in Queensland, which provided a forum for chairs, audit committee chairs and non-executive directors to focus on emerging trends and best practices for public company boards, as well as serving as a member of KPMG's Ethics and Independence Disciplinary Committee. Through these roles and his other directorships, Philip has developed significant experience in driving good governance and risk management, communicating with shareholders/stakeholders and maximising shareholder value.

#### *Other current directorships of listed entities:*

Collection House Limited (Appointed 22 August 2013)

Metro Mining Limited (Appointed 30 September 2014)

#### *Former directorships of listed entities (in the last 3 years):*

Blue Sky Alternatives Access Fund Limited (Resigned 31 May 2017)

#### *Interests in shares:*

5,000 shares

#### *Interests in options:*

None

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## Alexander McNab

### Executive Director

#### *Qualifications:*

Alexander holds a Bachelor of Economics (University Medal) and a Bachelor of Laws from the University of Queensland. Alexander is also an INSEAD graduate with a Masters of Business Administration (Honours).

#### *Experience and expertise:*

Alexander joined Blue Sky in 2010 as a partner in Blue Sky's private equity division. In that capacity, Alexander was responsible for sourcing potential investments, leading due diligence, negotiating and executing transactions and managing Blue Sky's portfolio of private equity investments.

In 2012 Alexander was appointed Blue Sky's Chief Investment Officer. In that capacity, Alexander is the chair or a member of each of Blue Sky's investment committees and is responsible for managing the investment process across each of Blue Sky's investing businesses.

Prior to joining Blue Sky, Alexander spent eight years at Bain & Company, a global strategy consulting firm. During his time at Bain & Company, Alexander formulated corporate and business unit strategies, led performance improvement projects and influenced management teams to drive results. In this capacity, Alexander worked with clients across a range of industries, including financial services, telecommunications, retail and technology.

#### *Other current directorships of listed entities:*

None

#### *Former directorships of listed entities (in the last 3 years):*

Commstrat Limited (Resigned 8 June 2017)

Blue Sky Alternatives Access Fund Limited (Resigned 22 March 2016)

#### *Interests in shares:*

1,003,504 shares

#### *Interests in options:*

None

# Directors' Report - continued

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## *Kim Morison*

### **Executive Director**

#### *Qualifications:*

Kim holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia, a Graduate Diploma of Agricultural Economics from the University of New England and a Bachelor of Commerce from the University of Western Australia.

#### *Experience and expertise:*

Kim joined Blue Sky in 2010 as Head of Blue Sky's real assets division with responsibility for managing Blue Sky's water, water infrastructure and agribusiness investments.

Prior to Blue Sky, Kim held various roles in Australian agribusiness including General Manager (Marketing) at CSR Sugar, Australia's largest sugar milling and refining company; Division Director and Joint Head of the international cotton trading business at Macquarie Bank; General Manager of Colly Cotton Marketing, a division of the Twynam Agricultural Group and Commercial Manager at Colly Cotton Limited, Australia's largest cotton growing company at the time.

#### *Other current directorships of listed entities:*

None

#### *Former directorships of listed entities (in the last 3 years):*

None

#### *Interests in shares:*

946,815 shares

#### *Interests in options:*

None

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## *Robert Shand*

(Appointed 29 September 2016)

### **Managing Director**

#### *Qualifications:*

Robert holds a Bachelor of Commerce (first class honours) and a Bachelor of Laws (first class honours) from the University of Queensland. He has also completed the Australian Institute of Company Directors course.

#### *Experience and expertise:*

Robert joined Blue Sky in 2010 as part of its private equity team where he was responsible for sourcing and executing investment opportunities, as well as managing and exiting those investments. In this capacity, Robert has served on the board of a range of Blue Sky's private equity portfolio companies. Robert also played a key role in the listing of Blue Sky in 2012.

Robert was appointed Chief Operating Officer of Blue Sky in January 2013. In that role, he was responsible for driving all aspects of the company's growth, including playing a pivotal role in the listing of the Blue Sky Alternatives Access Fund (ASX: BAF) in June 2014. He was also responsible for all of Blue Sky's middle and back office functions, including finance, distribution, funds administration, investor relations, marketing, HR and IT. As part of this role, he managed Blue Sky's network of offices, including the establishment of Blue Sky's North American office. Robert was appointed as Managing Director on 29 September 2016.

Prior to joining Blue Sky, Robert was a management consultant at Bain & Company and worked in their Sydney, Tokyo, London and Johannesburg offices. In this role, Robert advised a range of large Australian and global businesses on business strategy across a range of industries, including financial services, telecommunications, retail, consumer products, resources, and private equity.

#### *Other current directorships of listed entities:*

None

#### *Former directorships of listed entities (in the last 3 years):*

None

#### *Interests in shares:*

200,000 shares

#### *Interests in options:*

1,337,500 options

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## *Elaine Stead*

(Appointed 29 September 2016)

### **Executive Director**

#### *Qualifications:*

Elaine holds a Bachelor of Science (first class honours) and a PhD in biochemistry from the University of Adelaide. She has also completed the Australian Institute of Company Directors course.

#### *Experience and expertise:*

Elaine is the Head of Blue Sky's venture capital division and is responsible for the management of the Blue Sky venture capital funds and portfolio. Elaine sits on the boards of a number of Blue Sky's venture capital portfolio companies.

Elaine has worked for a number of years as a venture capitalist and management consultant to the venture capital industry across Australia and the United States. As an Investment Manager at CM Capital Investments, a venture capital fund with \$250 million under management and a dual focus on healthcare and digital technology, Elaine focused on investment origination and portfolio management as well as portfolio company performance. Elaine has also worked in strategic management consulting with both NASDAQ and ASX-listed and private companies based in Australia and the US.

Originally trained as a stem cell biologist, Elaine has since spent the last decade within the innovation and investment spectrum, initially in technology commercialisation assisting public institutions and founders translate and commercialise their technology across a broad range of industry sectors including agriculture, healthcare and IT.

#### *Other current directorships of listed entities:*

None

#### *Former directorships of listed entities (in the last 3 years):*

None

#### *Interests in shares:*

18,885 shares

#### *Interests in options:*

200,000 options

# Directors' Report - continued

## Company Secretary

### Jane Prior

Jane holds a Bachelor of Arts and a Bachelor of Laws from the University of Queensland and is admitted as a solicitor of the Supreme Courts of QLD and NSW. Jane has worked in law firms in Brisbane and London where she advised on fund establishments and investments as well as a range of joint venture, private equity and merger and acquisition transactions. Jane holds 155,706 shares and 75,000 options in the Company.

## Meetings of Directors

During the financial year, thirteen full meetings of Directors were held.

Attendances by each Director during the year were as follows:

	Meetings of committees									
	Full meetings of Directors		Audit and Risk Committee <sup>1</sup>		Audit Committee <sup>1</sup>		Risk and Compliance Committee <sup>1</sup>		Nomination and Remuneration Committee	
	A	B	A	B	A	B	A	B	A	B
John Kain	11	13	1	1	2	2	1	1	1	1
Timothy Wilson	13	13	1	1	-	-	-	-	-	-
Nicholas Dignam <sup>2</sup>	9	9	-	-	-	-	-	-	-	-
Michael Gordon <sup>3</sup>	4	4	-	-	1	1	-	-	1	1
Philip Hennessy <sup>3</sup>	4	4	-	-	1	1	1	1	-	-
Alexander McNab <sup>4</sup>	13	13	1	1	1	1	1	1	1	1
Kim Morison <sup>5</sup>	13	13	-	-	1	1	-	-	-	-
Robert Shand <sup>2</sup>	9	9	-	-	-	-	-	-	-	-
Mark Sowerby <sup>6</sup>	2	4	-	-	-	-	-	-	-	-
Elaine Stead <sup>2</sup>	9	9	-	-	-	-	-	-	-	-

<sup>1</sup> In March 2016, the Committees were restructured with the Audit and Risk Committee separated into the Audit Committee and the Risk and Compliance Committee.

<sup>2</sup> On 29 September 2016, Mr Nicholas Dignam, Mr Robert Shand and Ms Elaine Stead were appointed as Directors of the Company.

<sup>3</sup> On 17 February 2017, Mr Michael Gordon and Mr Philip Hennessy were appointed as independent Non-Executive Directors of the Company.

<sup>4</sup> On 20 February 2017, Mr Alexander McNab ceased to be a member of the Audit Committee.

<sup>5</sup> On 20 February 2017, Mr Kim Morison ceased to be a member of the Audit Committee.

<sup>6</sup> On 30 September 2016, Mr Mark Sowerby retired from his role as Managing Director of the Company.

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office or was a member of the committee during the period.

## Shares under option

As at the date of this report, there were 7,270,728 unissued ordinary shares under option.

## Indemnity and insurance of Officers

The Company maintains Directors & Officers Insurance and has entered into a Deed of Access, Insurance and Indemnity with each Director. During the year, the Company paid premiums in respect of Directors and Officers liability, and for professional indemnity insurance contracts, for all Directors of the Company named in this report, as well as other Officers of the Company.

This policy insures persons who are Directors or Officers of the Company against certain liabilities incurred as such by a Director or Officer, while acting in that capacity, except where the liability arises out of conduct involving lack of good faith. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Director's and Officer's liability insurance contract, as this disclosure is prohibited under the terms of the contract.



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## Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount) and which have not arisen from the auditor's negligence or wrongful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the financial year.

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## Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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## Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 34 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 34 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

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## Officers of the Company who are former audit partners of Ernst & Young

There are no Officers of the Company who are former audit partners of Ernst & Young.

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## Rounding

The amounts contained in this report and in the Financial Report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Instrument 2016/191 applies.

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## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 30.

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## Rotation of lead audit partner

Ms Paula McLuskie, a partner of Ernst & Young, is the lead audit partner for her firm's audit of the Company's Financial Report. FY16 was the fifth successive financial year in which she was the lead audit partner. As lead audit partner she is, under the *Corporations Act 2001*, "an individual who plays a significant role in the audit".

The *Corporations Act 2001* prohibits any individual from playing a significant role in the audit of a listed company for more than five successive financial years without approval of the Company's board.

In May 2016, on the recommendation of the Audit Committee, the Board granted approval pursuant to s324DAA(1) of the *Corporations Act 2001* for Ms McLuskie to play a significant role in the audit of Blue Sky Alternative Investments Limited group after FY16. The Board considered that:

1. the interests of the Company would be best served by retaining the services of Ms McLuskie as lead audit partner, especially in view of her experience, her industry knowledge and exposure, and her knowledge of the Company's business;
2. the extension of Ms McLuskie's term as lead audit partner would maintain the quality of the audit and would not give rise to a conflict of interest;
3. the extension would allow the Board to review the role, responsibilities and membership of the Audit Committee from FY17 onwards before it is required to choose the lead audit partner who will take over from Ms McLuskie;
4. in the event of a change in the membership of the Audit Committee, the extension would also facilitate an orderly handover; and
5. the existing independence and service metrics in place were sufficient to ensure that auditor independence would not be diminished by the extension.

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## Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporations Act 2001*.

# Remuneration Report (Audited)

## Remuneration Report for the year ended 30 June 2017

The most important driver of Blue Sky's performance is the quality of our team and our approach to remuneration is specifically designed to maximise their long term performance.

First and foremost, our approach has always included a very significant focus on ownership and alignment, both with our shareholders and our fund investors. As part of this, we actively encourage our team members to have genuine 'skin in the game'. That is, to invest personally in shares in Blue Sky, the Alternatives Fund as well as directly into the funds that we manage.

This approach is fundamentally different to simply having incentives that provide upside rewards but no meaningful downside exposure. While we do use these sorts of incentives to enhance the alignment of our team, we believe there is no better demonstration of genuine alignment with shareholders and fund investors than to have our team invested personally in what we do.

This approach has been critical to instilling a founder's mentality broadly across Blue Sky, and it is something that has underpinned our success to date.

Where we do provide incentives to our team, they are deliberately weighted to – and typically contingent upon – the delivery of outcomes over the long term to shareholders, fund investors or both. This focus reflects the long term nature of the investments that we manage, and ensures our team is incentivised to make decisions that are in the long term interests of our business. Examples of the long term incentives that we use include our Investment Company Bonus Policy and our Employee Share Option Plan ('ESOP'). These are explained in detail in this report.

Our focus on ownership, alignment and the delivery of long term outcomes is fundamental to Blue Sky's culture and something we seek to reflect in our approach to remuneration.

The remainder of this report outlines:

- (i) Our remuneration governance
- (ii) Board remuneration
- (iii) Executive remuneration
- (iv) Managing Director's remuneration
- (v) Our ESOP
- (vi) The statutory disclosures.

## i. Remuneration governance

Our Board recognises the importance of independent oversight of its remuneration policy, structure and implementation. To ensure that independence, in FY17 it restructured its Nomination and Remuneration Committee ('N&R Committee') so that the majority of its members are independent Non-Executive Directors ('NEDs') and the chair is an independent NED who is not Chair of the Board. The Board believes that a majority of Independent NEDs on the N&R Committee is appropriate at this point (rather than a fully independent committee) given Blue Sky's size and the importance of maintaining its culture. The composition of the N&R Committee is reviewed annually by the Board.

The N&R Committee is responsible for a range of functions including advising the Board on remuneration issues for the Directors, the Managing Director and other executive team members. Those functions are set out in the N&R Committee Charter which can be found on our website.

During FY17, the Board accepted all recommendations made to it by the independent N&R Committee.

## ii. Board remuneration

### *Approach to Board remuneration*

The Board seeks advice from external remuneration advisors and keeps appraised of developments in remuneration practice. In September 2016, we commissioned an independent report from Ernst & Young on the quantum and structure of Board remuneration. To ensure that we attract the best possible talent, total NED remuneration has been set in the top quartile of comparable companies as identified in that report.

Director's fees paid to Executive Directors are less than those paid to NEDs, reflecting the fact that the incremental time required in their Board role is, by virtue of inherent knowledge of the business, less than that of NEDs. Director's fees paid to Executive Directors are incremental to the remuneration paid for their executive responsibilities, and reported separately in order to give shareholders greater transparency over our remuneration practices.

### *Alignment of the Board with shareholder outcomes*

The Board has direct responsibility for the management of the capital of our shareholders, whilst indirectly having responsibility for the oversight of the management of the capital of our fund investors. Accordingly, on advice from the independent N&R Committee, the Board's remuneration is structured to align primarily with the interests of our shareholders. In contrast, the remuneration of those members of our executive team who are directly responsible for the management of the capital of our fund investors is structured to align their interests with those investors, and where appropriate, our shareholders. This is explained further in Section (iii) below.

As part of our approach to aligning the Board with shareholder outcomes, we seek to ensure that all Directors have 'skin in the game'. As a minimum, we expect that each Director will hold an investment in Blue Sky shares worth at least double their initial total annual Board remuneration within four years of their appointment.<sup>20</sup> The table below sets out the position as at 30 June 2017.

Name	Total annual FY18 Board remuneration \$'000	Number of BLA shares held at 30 June 2017 '000
<b>Non-Executive Directors</b>		
John Kain	210	1,301
Michael Gordon	155	10
Philip Hennessy	165	5
<b>Executive Directors</b>		
Timothy Wilson	78	1,705
Nicholas Dignam	78	-
Alexander McNab	78	1,004
Kim Morison	78	947
Robert Shand	78	200
Elaine Stead	78	19

### iii. Executive remuneration

Blue Sky's executive remuneration is designed to ensure that we can attract and retain a world class team. Our approach is specifically designed to provide meaningful remuneration over the long term to those members of our team that make a significant positive impact on the long term value of Blue Sky and/or its fund investments.

Our approach includes five 'tiers' of remuneration that are outlined in the table below. The performance of the individual employee and/or the performance of Blue Sky directly impacts all of these tiers except the first (fixed salary).

Tier	Description	Explanation	Alignment
First	Fixed salary	Base compensation reflecting the person's duties and responsibilities.	Shareholders and fund investors (attracting and retaining talent)
Second*	Equity	We actively encourage our Board and team to own shares in Blue Sky. We also grant options through our ESOP to employees that act as owners of our business and who have added materially to the value of Blue Sky. The details of the ESOP are described in more detail below.	Shareholders

<sup>20</sup> This is calculated at 1 July 2017 (for those Directors appointed before that date) or otherwise at the time of appointment.

# Remuneration Report (Audited) - continued

Third*	Performance bonuses for investment management	<p>Blue Sky earns performance fees from its funds. Performance fees are typically calculated as a percentage of the returns paid to fund investors above a prescribed hurdle rate. For each of our closed ended funds, these fees are only paid to Blue Sky once investors have received a return over the hurdle rate relevant for that fund.</p> <p>Blue Sky has a policy that requires a minimum of 25% of the performance fees received by the Company to be paid to a performance bonus pool ('Investment Company Bonus Policy'). That bonus pool is paid to team members who contributed meaningfully to the generation of the performance fee.</p> <p>The amount paid to individuals is discretionary and in order to be eligible an employee must be employed when the pool is paid. The head of the relevant Blue Sky division recommends the allocation of the pool to the Managing Director who then decides upon final allocations.</p>	Fund investors
Fourth*	Discretionary performance bonuses for fund capital raising	<p>The Board has adopted a policy to pay bonuses to those employees that make a meaningful contribution to the growth in fee-earning AUM of the business.</p> <p>These bonuses are recommended by the Chief Operating Officer to the Managing Director who then decides upon final allocations.</p>	Shareholders (increasing fee-earning AUM drives revenue growth)
Fifth*	Other discretionary performance bonuses	<p>From time to time, Blue Sky may pay cash or non-cash incentives to employees who are responsible for delivering outcomes that have a material positive impact on the value of Blue Sky's business and which are not adequately covered by one of the first four tiers in this table.</p> <p>These bonuses are recommended by the Managing Director to the Board and are subject to the financial and non-financial performance of Blue Sky as well as relevant market circumstances.</p>	Shareholders and/or fund investors

\* The Board retains full and final discretion over the payment of bonuses and the issue of equity based compensation, and there is no constructive obligation to pay amounts under each of these tiers.

In contrast to many other businesses, Blue Sky does not pay annual bonuses. We believe these sorts of short term incentives can lead to behaviors that are not necessarily consistent with optimising long term shareholder and/or fund investor outcomes. Instead, performance based remuneration at Blue Sky is 'outcomes based': it is paid or granted only when a tangible outcome is delivered to our shareholders and/or our fund investors.

Our Investment Company Bonus Policy is a good example of this approach. As noted above, these bonuses are paid to those team members that are responsible for generating returns to our fund investors and performance fees for Blue Sky from the funds that we manage. Importantly, these bonuses are only paid to the team when our fund investors have received a return from their investment that exceeds the relevant hurdle rate for a fund.

## *Co-investment by executives in funds managed by Blue Sky*

Blue Sky encourages members of our team – and particularly our investment managers – to invest in our funds. This reflects our belief that there is no better form of alignment with fund investors than to ensure our team have their own 'skin in the game'.

To promote that alignment, Blue Sky has a co-investment facility from which we provide limited recourse loans to select employees and Key Management Personnel ('KMP') to invest in funds managed by the Blue Sky ('Employee Loan Program'). Employees must apply in writing to be granted a loan under the Employee Loan Program, with each loan made on the following terms and at the discretion of the Board:

- loans are only provided on a matching capital basis. That is, for every \$1 which the employee invests in a particular fund, Blue Sky may lend up to an additional \$1 to be invested in that same fund (meaning the maximum loan-to-value ratio for any loan is 50%);
- each loan is provided on arms' length commercial terms with interest payable at market rates; and
- the borrower is required to enter into a Specific Security Agreement that grants Blue Sky a security interest over the securities acquired and authorises Blue Sky to apply all proceeds from that investment (including any income and capital distributions):
  - first, to pay interest;
  - secondly, to repay loan principal; and
  - finally, after all amounts due to Blue Sky have been repaid, to pay the balance to the employee.

The Board has imposed a current limit on the total funds available for the Employee Loan Program to a maximum of \$2.5 million, and the facility is regularly monitored to ensure loans are not concentrated in any one fund, asset class or set of individuals.

Whilst historically loans under the Employee Loan Program were available to employees and Directors, the Board has resolved that loans will not be made to NEDs after 1 July 2017. The Board considers this important to preserve the independence of the NEDs.

## iv. Managing Director's Remuneration

The Board's approach in remunerating the Managing Director is consistent with Blue Sky's overall approach to executive remuneration. It is designed to closely align the Managing Director's remuneration with the delivery of tangible shareholder outcomes and is significantly weighted towards long term variable remuneration (rather than fixed or short term variable remuneration).

Robert Shand earns a fixed salary of \$400,000 (exclusive of Superannuation Guarantee Contributions, the maximum of which are \$19,616 for the 2017 financial year) plus a director's fee of \$77,500 per annum. This salary is reviewed annually.

Robert was also issued with 1,300,000 options under the ESOP (see below for details) following his appointment as Managing Director. These options:

- are only exercisable in the event that Blue Sky hits its target of having \$5 billion in fee-earning AUM;
- vest over a five year period, with 33.3% of the options vesting on each of the third, fourth and fifth anniversaries of their issue; and
- have an exercise price of \$7.74 per option, being the 30 day volume weighted average price at the date of Robert Shand's appointment as Managing Director.

In addition, Robert holds 37,500 options that were granted in 2014. 18,750 of these options have vested, and the remaining 18,750 options will vest in January 2018. The exercise price of these options is \$2.57, which was a premium to the share price at the time of their issue.

The Board believes the quantum and structure of the Managing Director's remuneration will result in Robert being paid less than Managing Directors of comparable companies in the event of Blue Sky not achieving its longer term targets and above his peers if the Company's targets are exceeded. The Board believes this alignment is in the interests of shareholders of the Company.

## v. ESOP

Blue Sky has implemented an ESOP to promote ownership of Blue Sky among key team members and enhance their alignment with the interests of shareholders.<sup>21</sup> A summary of the terms of the ESOP is as follows:

Eligibility	Any Director, employee or consultant (or their approved 'permitted nominee') of Blue Sky who is determined by the Board to be eligible may participate in the ESOP.
Grant of options	All options are offered to eligible participants for no consideration.
Vesting criteria and dates	<p>The ESOP rules enable the Board to determine the applicable vesting criteria and to set a timetable for vesting of options in the relevant offer document. The Board has the discretion to set performance hurdles or to link vesting solely to a defined service period.</p> <p>The most recent options issued were at a strike price of \$10 and are only exercisable if Blue Sky hits its target of having \$5 billion in fee-earning assets under management. These options vest over a five year period with 33.3% of the options vesting on each of the third, fourth and fifth anniversaries of their issue.</p>
Exercise	The options may be exercised, in part or full, subject to the option holder continuing to be employed at the relevant vesting dates and the independent Audit Committee confirming that the relevant vesting criteria (e.g. Blue Sky reaching \$5 billion in fee-earning assets under management) have been satisfied.
Lapse/expiry of options	Subject to the accelerated expiry terms set out in the ESOP, options will expire six years after the date of grant.
Rights of participation	Once shares are allotted upon the exercise of the options, the participant will hold the shares free of restrictions. The shares will rank equally for dividends declared on or after the date of issue but will carry no right to receive any dividend before the date of issue. Should Blue Sky undergo a reorganisation or reconstruction of capital or any other change, the terms of the options (including number and/or exercise price) will be correspondingly changed to the extent necessary to comply with the ASX Listing Rules. With this exception, the terms of the exercise of each option remain unchanged. In the event of a change of control of Blue Sky, all options will vest immediately and may be exercised by the option holder (regardless of whether the vesting conditions have been satisfied). A holder of options is not entitled to participate in dividends, a new or bonus issue of shares or other securities made by Blue Sky to shareholders merely because he or she holds the options.
Assignment	The options are not transferrable, assignable or able to be encumbered, without Board consent, and the options will immediately lapse upon any assignment, transfer or encumbrance, with the exception of certain dealings in the event of death of the option holder.

Whilst the terms of the ESOP allow for options to be issued to all KMP (including NEDs) and employees, there are no options presently on issue to NEDs and the Board does not currently foresee the issue of options to NEDs.

<sup>21</sup> Shareholders approved the implementation of Blue Sky's ESOP at the 2013 Annual General Meeting ('AGM'). This was subsequently renewed at the 2015 AGM.



# Remuneration Report (Audited) - continued

## vi. Statutory disclosures

### *Key Management Personnel*

KMP are defined under AASB 124 Related Party Disclosures as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity. Blue Sky has determined that its KMP in the 2017 financial year included the Directors and Officers as set out below.

Name	Position	Term as KMP
<b>Non-Executive Directors</b>		
John Kain	Independent Chairman	Full Year
Michael Gordon	Independent Director (Appointed 17 February 2017)	17 February 2017 – 30 June 2017
Philip Hennessy	Independent Director (Appointed 17 February 2017)	17 February 2017 – 30 June 2017
<b>Executive Directors</b>		
Timothy Wilson	Deputy Chair	Full Year
Nicholas Dignam	Director (Appointed 29 September 2016)	29 September 2016 – 30 June 2017
Alexander McNab	Director	Full Year
Kim Morison	Director	Full Year
Robert Shand	Managing Director (Appointed 29 September 2016)	Full Year
Mark Sowerby	Director (Resigned 30 September 2016)	1 July 2016 – 30 September 2016
Elaine Stead	Director (Appointed 29 September 2016)	29 September 2016 – 30 June 2017
<b>Other KMP</b>		
Jane Prior	Company Secretary	Full Year

There were no changes of KMP between the reporting date and the date the Financial Report was authorised for issue.

### *Board policy on remuneration for KMP (s300A(1)(a))*

The Board's policies for determining remuneration for KMP's are explained in the preceding sections of this report. On an annual basis, the Board reviews and determines the remuneration of Executive Directors and other KMP in line with the approach set out previously and may utilise the services of external advisors as part of this process.

The fixed remuneration of the Executive Directors and other KMPs for the year ended 30 June 2017 and 30 June 2016 is detailed in the tables on pages 26 and 27 of this report. The cash bonuses detailed in these tables primarily relate to performance bonuses received by KMP in accordance with our Investment Company Bonus Policy (outlined above).

### *Relationship between remuneration policy and Blue Sky's performance (s300A(1)(b)) including consequences of company performance on shareholder wealth (s300A(1AA))*

Executive Directors may receive incentive payments under Blue Sky's Investment Company Bonus Policy and under the other tiers of remuneration outlined in Section (iii).

Executive Directors, KMP and other Directors may also acquire shares through the exercise of options granted through Blue Sky's ESOP.

As required under s300A(1)(b), the table below presents a summary of the Group's statutory financial performance for the years ending 30 June 2013 to 30 June 2017. These results do not reflect Blue Sky's underlying performance, which, for the reasons outlined in the Directors' Report, we believe present a more meaningful view of Blue Sky's performance.

For the year ended:	30 June 2017 \$'000	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2014 \$'000	30 June 2013 <sup>1</sup> \$'000
Operating revenue	69,138	68,839	58,549	32,217	10,595
Profit after income tax	20,634	11,401	10,387	3,863	1,552
Dividend	10,783	6,221	3,941	2,339	1,953
Earnings per share (cents)	30.59	19.80	18.44	8.16	4.77
Share price	9.49	8.10	4.11	2.95	1.20

<sup>1</sup> AASB 10 was effected in June 2014, therefore the results in the prior periods do not reflect the consolidation or equity accounting of investments in funds.

### *KMP remuneration subject to a performance condition (s300A(1)(ba))*

As outlined in Section (iii), four of the five tiers of remuneration at Blue Sky are subject to performance conditions. For example, the payment of performance bonuses under our Investment Company Bonus Policy is subject to:

- investment returns having been delivered to relevant fund investors in excess of the relevant fund's prescribed hurdle rate;
- the KMP having played a meaningful role in the creation of those returns for fund investors; and
- the KMP being employed at Blue Sky at the time the performance fee is received by the Company in cash.

Similarly, the payment of performance bonuses to KMP for capital raising is contingent on the individual making a meaningful contribution to the growth in fee-earning AUM of the business.

Options issued under Blue Sky's ESOP also typically include performance conditions that are designed to focus recipients on delivering long term shareholder returns. For example, all options issued to KMP throughout FY17 are only exercisable if the independent Audit Committee confirms that Blue Sky has met its target of having \$5 billion in fee-earning assets under management and the KMP is employed by Blue Sky at the time the options are exercised.

The Board believes that the hurdle of \$5 billion of fee-earning assets under management is appropriate as it:

- represents significant growth from the current level of fee-earning assets under management;
- is aligned with the interests of shareholders;
- is simple rather than complex;
- cannot be 'gamed' in the way other more complex sets of targets can potentially be; and
- supports a growth culture across the business rather than within each individual's particular business.

The options held by Executive Directors and other KMPs for the year ended 30 June 2017 and 30 June 2016 are detailed in Table 1 and Table 2 on the following page.

### *Prescribed details for KMP (s300A(1)(c))*

The remuneration of the NEDs for the years ended 30 June 2017 and 30 June 2016 is detailed in the tables on the following page. Fees and payments to NEDs reflect the demands which are made on, and the responsibilities of, the Directors. The Board reviews and determines the remuneration of NEDs in line with the principles for Board remuneration set out in this report on an annual basis and may utilise the services of external advisors.

NEDs do not receive performance-based remuneration.

Total remuneration includes any superannuation entitlements. Expenses will be reimbursed or paid in accordance with Group policies. Blue Sky does not pay committee fees. Committee work is seen as part of the role of a Director, not to be separately remunerated.

The Board may pay further fees for one-off projects that have required sustained abnormal time commitments for a NED.

NED's fees are determined within an aggregate annual Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum approved amount currently stands at \$300,000 per annum. In FY17 we paid \$293,095. Approval to increase the aggregate NEDs' fee pool limit will be sought at the 2017 AGM.

# Remuneration Report (Audited) - continued

Table 1: Remuneration of KMP for the year ended 30 June 2017 (Consolidated)

	Short term		Post-employment	Long term	Share-based payment	Total	Performance related	Share options <sup>5</sup>
	Salary	Incentives <sup>1</sup>	Superannuation	Long Service Leave	Share Options Rights			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	'000
<b>Non-Executive Directors</b>								
John Kain	175	-	-	-	-	175	-	-
Michael Gordon <sup>2</sup>	52	-	5	-	-	57	-	-
Philip Hennessy <sup>2</sup>	56	-	5	-	-	61	-	-
Sub-Total	283	-	10	-	-	293	-	-
<b>Executive Directors</b>								
Timothy Wilson	394	118	34	7	-	553	21.34%	-
Nicholas Dignam <sup>3</sup>	213	496	17	-	87	813	71.71%	500
Alexander McNab	360	141	24	6	-	531	26.55%	-
Kim Morison	435	342	23	14	-	814	42.01%	-
Robert Shand <sup>3</sup>	427	1	22	43	177	670	26.57%	1,338
Mark Sowerby <sup>4</sup>	139	-	6	5	-	150	-	-
Elaine Stead <sup>3</sup>	219	57	18	12	31	337	26.11%	200
Sub-Total	2,187	1,155	144	87	295	3,868	37.49%	2,038
<b>Other KMP</b>								
Jane Prior	178	6	18	16	1	219	3.20%	75
Sub-Total	178	6	18	16	1	219	3.20%	75
<b>Total</b>	<b>2,648</b>	<b>1,161</b>	<b>172</b>	<b>103</b>	<b>296</b>	<b>4,380</b>	<b>33.26%</b>	<b>2,113</b>

<sup>1</sup> Includes share of realised performance fees in accordance with the Investment Company Bonus Policy.

<sup>2</sup> On 17 February 2017, Mr Michael Gordon and Mr Philip Hennessy were appointed as independent Non-Executive Directors of the Company.

<sup>3</sup> On 29 September 2016, Mr Nicholas Dignam, Mr Robert Shand and Ms Elaine Stead were appointed as Directors of the Company.

<sup>4</sup> On 30 September 2016, Mr Mark Sowerby retired from his role as Managing Director of the Company.

<sup>5</sup> Share options movements are disclosed in Note 27.

Table 2: Remuneration of KMP for the year ended 30 June 2016 (Consolidated)

	Short term		Post-employment	Long term	Share-based payment	Total	Performance related	Share options <sup>5</sup>
	Salary	Incentives <sup>1</sup>	Superannuation	Long Service Leave	Share Options Rights			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	'000
<b>Non-Executive Directors</b>								
John Kain	66	-	-	-	-	66	-	-
Sub-Total	66	-	-	-	-	66	-	-
<b>Executive Directors</b>								
Timothy Wilson	407	5	24	35	--	471	1.06%	-
Alexander McNab	348	-	22	31	-	401	-	-
Kim Morison	381	143	32	32	-	588	24.32%	-
Mark Sowerby	410	37	27	8	-	482	7.68%	-
Sub-Total	1,546	185	105	106	-	1,942	9.53%	-
<b>Other KMP</b>								
Robert Shand <sup>2</sup>	268	5	20	5	1-	299	2.01%	38
Jane Prior <sup>3</sup>	114	-	4	5	1-	124	0.81%	75
David Mitchell <sup>4</sup>	86	2	8	-	-	96	2.08%	-
Sub-Total	468	7	32	10	2	519	1.73%	113
<b>Total</b>	<b>2,080</b>	<b>192</b>	<b>137</b>	<b>116</b>	<b>2</b>	<b>2,527</b>	<b>7.68%</b>	<b>113</b>

<sup>1</sup> Includes share of realised performance fees in accordance with the Investment Company Bonus Policy.

<sup>2</sup> Mr Robert Shand was defined as a KMP as at 1 September 2015.

<sup>3</sup> From 4 July 2015 to 3 April 2016, Ms Jane Prior was on maternity leave.

<sup>4</sup> Mr David Mitchell resigned as Company Secretary on 26 April 2016.

<sup>5</sup> Share options movements are disclosed in Note 27.

## Loans to KMP and their related parties

### (i) Details of loans to KMP and their related parties

Table 1: Loans to KMP and their related parties for the year ended 30 June 2017

	Balance at beginning of period	Net additional loans /(repayments)	Interest charged	Interest not charged	Interest paid	Balance at end of period	Highest balance during period
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
John Kain <sup>6</sup>	359	(252)	16	-	(25)	98	361
Timothy Wilson	139	142	8	-	(7)	282	294
Nicholas Dignam <sup>7</sup>	100	(3)	5	-	(5)	97	100
Alexander McNab	251	(45)	10	-	(10)	206	251
Kim Morison	69	(69)	-	-	-	-	-
Robert Shand <sup>7</sup>	39	(35)	1	-	(1)	4	36
Elaine Stead <sup>7</sup>	-	-	-	-	-	-	4
<b>Total</b>	<b>957</b>	<b>(262)</b>	<b>40</b>	<b>-</b>	<b>(48)</b>	<b>687</b>	<b>1,046</b>

<sup>6</sup> The terms of the Employee Loan Program were recently amended and effective 1 July 2017 Non-Executive Directors are no longer entitled to participate in the Employee Loan Program.

<sup>7</sup> On 29 September 2016, Mr Nicholas Dignam, Mr Robert Shand and Ms Elaine Stead were appointed as Directors of the Company.

# Remuneration Report (Audited) - continued

Table 2: Loans to KMP and their related parties for the year ended 30 June 2016

	Balance at beginning of period	Net additional loans/(repayments)	Interest charged	Interest not charged	Interest paid	Balance at end of period	Highest balance during period
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
John Kain	366	-	18	-	(25)	359	373
Timothy Wilson	60	79	6	-	(6)	139	159
Alexander McNab	251	-	12	-	(12)	251	251
Kim Morison	66	-	3	-	-	69	69
Robert Shand	77	(36)	3	-	(5)	39	80
<b>Total</b>	<b>820</b>	<b>43</b>	<b>42</b>	<b>-</b>	<b>(48)</b>	<b>857</b>	<b>932</b>

## (ii) Terms and conditions of loans to KMP and their related parties

During the year, Blue Sky provided loans under the terms of the Employee Loan Program, as previously mentioned, during the year with the proceeds used exclusively to invest in funds managed by Blue Sky. Interest has been charged at the same rate as that charged by Blue Sky's financial institution on its loan facilities. During FY17, this ranged from 4.41% to 4.81% per annum (FY16: 4.59% to 5.09% per annum).

Remuneration consisting of securities, not subject to performance condition (s300A(1)(d))

There is no remuneration payable to a KMP which consists of securities and which is not dependent on the satisfaction of a performance condition.

Further details of KMP remuneration (s300A(1)(e))

Each Executive Director has entered into an executive service contract with Blue Sky on substantially similar terms other than specific remuneration. Each agreement continues until terminated in accordance with the agreement. During the term, either party may terminate the agreement by giving six months' notice. Grounds of termination by Blue Sky without notice include misconduct and bankruptcy. Non-compete covenants and customary post-termination restraints apply to each Executive Director for up to one year after termination of employment.

Other prescribed details are disclosed in Tables 1 and 2 on page 26 and 27.

Prescribed matters (s300A(1)(f))

There are no other matters prescribed by the regulations.

25% of votes cast against remuneration report at the last AGM (s300A(1)(g))

No comments were made at Blue Sky's most recent AGM held on 18 November 2016 and 0.28% of votes (i.e. less than 25%) were cast against the remuneration report.

Remuneration consultant recommendation in relation to any of the KMP (s300A(1)(g))

No remuneration recommendations were made within the meaning of s300A(1)(g) of the Corporations Act, including in the September 2016 report from Ernst & Young on Board remuneration.



# Directors' Report

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in blue ink, appearing to read 'John Kain', with a horizontal line underneath.

John Kain  
Chairman

14 August 2017  
Brisbane

# Auditor's Independence Declaration



Ernst & Young  
111 Eagle Street  
Brisbane QLD 4000 Australia  
GPO Box 7878 Brisbane QLD 4001

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Fax: +61 7 3011 3100  
ey.com/au

## **Auditor's independence declaration to the directors of Blue Sky Alternative Investments Limited**

As lead auditor for the audit of Blue Sky Alternative Investments Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Blue Sky Alternative Investments Limited and the entities it controlled during the financial year.

Ernst & Young

Paula McLuskie  
Partner  
14 August 2017

# Corporate Governance Statement

The Company's Corporate Governance Statement is available at the following internet address:  
<http://blueskyfunds.com.au/shareholder-centre/>



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# Financial Report - continued

FOR THE YEAR ENDED 30 JUNE 2017

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## General information

The Financial Report covers Blue Sky Alternative Investments Limited ('Company', 'parent entity' or 'Blue Sky') as a consolidated entity consisting of the Company and the entities it controlled ('the Group'). The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

The Financial Report consists of the financial statements, notes to the financial statements and the Directors' Declaration.

The Company is a publicly listed company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 46, 111 Eagle Street  
Brisbane QLD 4000

The Financial Report was authorised for issue, in accordance with a resolution of Directors, on the date that the Directors' Declaration was signed. The Directors have the power to amend and reissue the Financial Report.



# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2017

		Year ended	
		30 June 2017	30 June 2016
	Notes	\$'000	\$'000
<b>Revenue</b>			
Operating revenue	4	69,138	68,839
Share of profit of associates and joint ventures	23	8,081	2,802
Other income	5	7,179	(704)
<b>Expenses</b>			
Employee benefits		(26,513)	(20,683)
Occupancy		(2,156)	(2,053)
External service providers		(2,888)	(4,504)
Consultancy		(1,240)	(563)
Marketing		(2,001)	(1,639)
Administrative		(1,691)	(1,110)
Travel and entertainment		(2,779)	(2,358)
Other expenses	6	(12,722)	(18,703)
Finance costs		(1,250)	(1,313)
Depreciation and amortisation		(1,430)	(2,302)
<b>Profit before income tax</b>		<b>29,728</b>	<b>15,709</b>
Income tax expense	9	(9,043)	(5,202)
<b>Profit after income tax</b>		<b>20,685</b>	<b>10,507</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Other comprehensive income – net of tax		-	-
<b>Total comprehensive income</b>		<b>20,685</b>	<b>10,507</b>
Profit is attributable to:			
Non-controlling interests		51	(894)
Owners of Blue Sky Alternative Investments Limited		20,634	11,401
		<b>20,685</b>	<b>10,507</b>
Total comprehensive income is attributable to:			
Non-controlling interests		51	(894)
Owners of Blue Sky Alternative Investments Limited		20,634	11,401
		<b>20,685</b>	<b>10,507</b>
<b>Earnings per share</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share (profit per share)	7	30.59	19.80
Diluted earnings per share (profit per share)	7	30.29	19.55

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

FOR THE YEAR ENDED 30 JUNE 2017

		As at	
		30 June 2017	30 June 2016
	Notes	\$'000	\$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	18	72,187	63,828
Trade and other receivables	10	38,371	54,379
Inventory	11	491	2,534
Other assets	31	4,651	4,251
Total current assets		115,700	124,992
<b>Non-current assets</b>			
Trade and other receivables	10	48,481	18,473
Inventory	11	1,986	-
Investment property – retirement villages	12	54,917	-
Investments in associates and joint ventures	23	51,567	35,486
Property, plant and equipment	13	4,783	30,151
Intangible assets	14	11,038	18,669
Deferred tax assets	9	-	661
Total non-current assets		172,772	103,440
<b>Total assets</b>		<b>288,472</b>	<b>228,432</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	35,667	20,863
Borrowings	20	16,726	8,603
Deferred revenue	16	9,061	6,687
Income tax	9	1,345	(854)
Employee benefits	29	4,424	4,527
Resident loans – retirement villages	17	14,849	-
Total current liabilities		82,072	39,826
<b>Non-current liabilities</b>			
Deferred revenue	16	3,637	4,745
Employee benefits	29	506	393
Borrowings	20	37,164	9,335
Other liabilities	32	12,781	13,054
Deferred tax liabilities	9	10,875	13,638
Total non-current liabilities		64,963	41,165
<b>Total liabilities</b>		<b>147,035</b>	<b>80,991</b>
<b>Net assets</b>		<b>141,437</b>	<b>147,441</b>
<b>Equity</b>			
Contributed equity	21	120,613	119,611
Reserves	21	(5,547)	(6,633)
Accumulated profits		26,664	16,813
<b>Total equity, attributable to the owners of Blue Sky Alternative Investments Limited</b>		<b>141,730</b>	<b>129,791</b>
Non-controlling interests		(293)	17,650
<b>Total equity</b>		<b>141,437</b>	<b>147,441</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Contributed equity	Reserves	Accumulated profits	Non-controlling interests	Total equity
		\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016		119,611	(6,633)	16,813	17,650	147,441
Profit after income tax for the year		-	-	20,634	51	20,685
Other comprehensive income for the year, net of tax		-	-	-	-	-
Total comprehensive income for the year		-	-	20,634	51	20,685
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs		1,002	-	-	-	1,002
Employee share option reserve		-	1,086	-	-	1,086
Decrease in non-controlling interests		-	-	-	(12,322)	(12,322)
Dividends	22	-	-	(10,783)	(5,672)	(16,455)
<b>Balance at 30 June 2017</b>	<b>21</b>	<b>120,613</b>	<b>(5,547)</b>	<b>26,664</b>	<b>(293)</b>	<b>141,437</b>
Balance at 1 July 2016		53,162	(6,908)	11,633	18,974	76,861
Profit after income tax for the year		-	-	11,401	(894)	10,507
Other comprehensive income for the year, net of tax		-	-	-	-	-
Total comprehensive income for the year		-	-	11,401	(894)	10,507
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs		66,449	-	-	-	66,449
Employee share option reserve		-	275	-	-	275
Decrease in non-controlling interests		-	-	-	(430)	(430)
Dividends	22	-	-	(6,221)	-	(6,221)
<b>Balance at 30 June 2016</b>	<b>21</b>	<b>119,611</b>	<b>(6,633)</b>	<b>16,813</b>	<b>17,650</b>	<b>147,441</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2017

		Year ended	
		30 June 2017 \$'000	30 June 2016 \$'000
Notes			
<b>Cash flows from operating activities</b>			
		65,838	65,464
		(54,816)	(48,938)
		11,022	16,526
		2,393	1,238
		(1,165)	(1,223)
		(3,880)	(3,321)
	18	<b>8,370</b>	<b>13,220</b>
<b>Cash flows from investing activities</b>			
		(10,965)	(14,324)
		27,610	7,183
		(396)	(2,341)
		(28,260)	-
		652	(148)
		(7,328)	(20,511)
		<b>(18,687)</b>	<b>(30,141)</b>
<b>Cash flows from financing activities</b>			
		1,020	67,510
		(175)	(2,390)
		71,888	7,677
		(37,602)	(8,243)
		(16,455)	(6,221)
		<b>18,676</b>	<b>58,333</b>
<b>Net increase in cash and cash equivalents</b>			
		<b>8,359</b>	<b>41,412</b>
		63,828	22,416
	18	<b>72,187</b>	<b>63,828</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## Section 1: About this Report

### Note 1. Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### *Going concern*

The Financial Report of the Group is prepared on a going concern basis.

#### *Basis of preparation*

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. These financial statements also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). The Company is a for-profit entity for the purpose of preparing the financial statements.

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention except for, where applicable, financial assets and financial liabilities measured at fair value, including investment properties and resident loans.

#### *Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

#### *Principles of consolidation*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2017 and the results of all subsidiaries for the year then ended or from when control was obtained. The Company and its subsidiaries together are referred to in these financial statements as 'the Group'.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'Business Combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit and loss.

#### *Changes in accounting policy, disclosures, standards and interpretations*

The accounting policies applied in these financial statements are the same as those applied in the Group's financial statements as at and for the year ended 30 June 2016 unless otherwise mentioned.

#### *New accounting policies adopted*

The Group has adopted the following new accounting policies for the year ended 30 June 2017:

- 1) *Accounting for investment properties (refer to Note 12)*
- 2) *Accounting for resident loans (refer to Note 17)*

#### *Parent entity information*

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 28.

#### *Rounding*

The amounts contained in the Financial Report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports). The Company is an entity to which the Instrument 2016/191 applies.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 2. New and amended accounting standards

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

Reference	Title	Summary	Application date of standard	Application date for the group
AASB 9	Financial Instruments	AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139 Financial Instruments: Recognition and Measurement. Under the new requirements the four current categories of financial assets will be replaced with two measurement categories: fair value and amortised cost, and financial assets will only be measured at amortised cost where very specific conditions are met.	1 January 2018	1 July 2018*
AASB 15	Revenue from Contracts with Customers	<p>AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.</p> <p>AASB 15 replaces current revenue recognition guidance in AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations. AASB 15 is a significant change from the current revenue requirements and will involve more judgement and estimates.</p> <p>The Group has performed analysis across a selection of its contracts with customers following the five step process outlined in the guidance released in relation to the new accounting standard. Given the majority of the Group's revenue is contracted with its customers, further analysis is required for each contract to determine the impact of the new accounting standard.</p>	1 January 2018	1 July 2018*
AASB 16	Leases	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 <i>Leases</i> . The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).	1 January 2019	1 July 2019*

\*The Group is currently assessing the impact of these standards.



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### Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other factors, including expectations of future events that management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

#### *Revenue recognition – performance fees*

Performance fees are recognised when financial performance outcomes in relation to funds managed by Blue Sky are highly probable and can be reliably measured. Performance fees are accrued when there is evidence that the stated hurdle rate within the respective fund constituent document has been exceeded. In order to ensure reliable measurement in relation to unrealised funds, performance fees are recognised and recorded after Blue Sky's valuation has been reviewed by an independent expert or valuer, where material. In relation to realised funds, performance fees are recognised and recorded based on actual cash flows to investors following the realisation of assets within funds.

#### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact the statement of comprehensive income and equity. The assumptions and models used for estimating fair value of share-based payment transactions are disclosed in Note 30.

#### *Goodwill and other indefinite life intangible assets*

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 14. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

#### *Impairment of non-financial assets (other than goodwill and other indefinite life intangible assets)*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The Group assesses impairment of non-financial assets (other than goodwill and other indefinite life intangible assets) at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment indicator exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

#### *Subsidiaries and associates*

The Group has investments in a number of investees and is therefore required to assess whether it has significant influence, joint control or control over these investees in accordance with the guidelines provided in AASB 128 *Investments in Associates and Joint Ventures* and AASB 10 *Consolidated Financial Statements*, respectively. An assessment is performed at each reporting date, or more frequently where appropriate, with reference to the guidelines in the applicable accounting standards. Both quantitative and qualitative factors are taken into account when making this assessment.

#### *Investment entity and venture capital organisation exemption*

The Group has investments in a number of investees that are considered associates in accordance with AASB 128 *Investments in Associates and Joint Ventures*. Further, a number of the associates satisfy the criteria to be considered an investment entity in accordance with AASB 10 *Consolidated Financial Statements*, or a venture capital organisation in accordance with AASB 128 *Investments in Associates and Joint Ventures*. As a result, the investments held by these entities are recorded at fair value. Both quantitative and qualitative factors are taken into account when making this assessment.

#### *Investment properties – retirement villages*

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are re-measured at fair value, which reflects market conditions. Estimates of fair value are prepared by management and are subject to independent review by a qualified expert where material. Refer to Note 12 for further details.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Section 2: Results for the Year

### Note 4. Operating revenue

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Management fees	33,433	30,984
Performance fees	22,252	18,730
Responsible entity and trustee fees	1,266	983
Sales commissions	623	528
Interest revenue	4,037	1,465
Other revenue	2,066	1,706
Supply of water utilities	1,851	6,457
Apartment sales revenue	306	4,402
Management and letting rights revenue	2,600	3,584
Deferred management fees – retirement villages	704	-
<b>Total operating revenue<sup>1</sup></b>	<b>69,138</b>	<b>68,839</b>

<sup>1</sup> Refer to Note 26 for information regarding revenue from related parties.

## ACCOUNTING POLICY

Revenue is measured at the fair value of the consideration received or receivable and is recognised if it meets the criteria below:

<i>Management and establishment fees</i>	<p>Management fees for ongoing management services are charged on a regular basis and recognised as revenue at the time the services are provided.</p> <p>One-off transactional fees (establishment fees) are charged to compensate Blue Sky for costs associated with establishing funds and acquiring the associated assets. Revenue is recognised as per the contractual arrangements in each fund's constituent documents, and is typically upon the issue of units to investors in that fund.</p>
<i>Performance fees</i>	<p>Performance fees are recognised when financial performance outcomes in relation to funds managed by Blue Sky are highly probable and can be reliably measured. Performance fees are accrued when there is evidence that the stated hurdle rate within the respective fund constituent document has been exceeded. In order to ensure reliable measurement in relation to unrealised funds, performance fees are recognised and recorded after Blue Sky's valuation has been reviewed by an independent expert or valuer, where material. In relation to realised funds, performance fees are recognised and recorded based on actual cash flows to investors following the realisation of assets within funds.</p>
<i>Responsible entity and trustee fees</i>	<p>Blue Sky Private Equity Limited, a 100% owned subsidiary of the Company, acts as the appointed responsible entity / trustee for a number of funds and receives the fees set out in the relevant fund constituent document.</p>
<i>Sales commissions</i>	<p>Sales commission revenue is recognised in stages when the services to which it relates have been performed and the right to receive payment has been established. Typically, this is on the sale and/or settlement of an apartment.</p>
<i>Interest revenue</i>	<p>Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.</p>
<i>Supply of water utilities revenue</i>	<p>Revenue from the supply of water utilities is recognised on an accruals basis in accordance with the contractual terms of supply agreements with customers.</p>
<i>Apartment sales revenue</i>	<p>Revenue from the sale of residential development properties is recognised when the developments are completed and sales are settled.</p>
<i>Management and letting rights revenue</i>	<p>Revenue from the rendering of property management and holiday agency services is recognised on an accruals basis when the right to receive the revenue is established, it can be reliably measured and it is probable that the revenue will be received.</p>
<i>Deferred Management Fees ('DMF') – retirement villages</i>	<p>DMF revenue from retirement village investment property is earned while a resident occupies an independent living unit and is recognised as revenue over the resident's expected tenure. The expected tenure is calculated with reference to Australian Bureau of Statistics current data relating to life expectancy and national trends of rollovers. DMF revenue is not discounted to present value, as the revenue is received by a reduction of the existing resident loan on its settlement. (refer to Note 17).</p> <p>DMF revenue to which the Group is contractually entitled at reporting date is presented on the balance sheet as a deduction from resident loans. The excess of DMF revenue to which the Group is contractually entitled at reporting date, over DMF revenue earned to date by amortisation of the expected period of tenure, is included in deferred revenue on the balance sheet.</p>
<i>Other revenue</i>	<p>Other revenue is recognised when it is received or when the right to receive payment is established.</p>

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 5. Other income

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Gain on disposal of subsidiary <sup>1</sup>	5,231	-
Change in fair value of investment properties (Note 12)	2,569	-
Change in fair value of resident loans (Note 17)	(283)	-
Other	(338)	(704)
<b>Total other income</b>	<b>7,179</b>	<b>(704)</b>

<sup>1</sup> This balance relates to the sale of Water Utilities Australia Group ("WUG") by the Water Utilities Australia Fund 1 ("WUA Fund 1"), as explained in Note 25.

## Note 6. Other expenses

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Rebates of transaction costs and fees to BAF	(5,933)	(5,638)
External capital raising costs for funds	(2,370)	(2,112)
Insurance	(642)	(474)
Gain/(loss) on contingent consideration – acquisition of Investment Science Pty Ltd	(50)	211
Costs associated with supply of water utilities	(601)	(2,733)
Costs associated with apartment sales	(259)	(3,432)
Management and letting rights expenses	(2,297)	(4,522)
Retirement village operator expenses	(320)	-
Other	(250)	(3)
<b>Total other expenses</b>	<b>(12,722)</b>	<b>(18,703)</b>

## Note 7. Earnings per share

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Profit after income tax	20,685	10,507
Non-controlling interests	(51)	894
<b>Total earnings</b>	<b>20,634</b>	<b>11,401</b>
<b>Number of shares</b>	<b>\$'000</b>	<b>\$'000</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	67,456	57,594
Weighted average number of ordinary shares and ordinary shares under option used in calculating diluted earnings per share	68,126	58,306
	<b>Statutory EPS (cents)</b>	<b>30.59</b>
	<b>Diluted statutory EPS (cents)</b>	<b>30.29</b>
		<b>19.80</b>
		<b>19.55</b>

### ACCOUNTING POLICY

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing the statutory profit attributable to the owners of the Group (excluding any costs of servicing equity other than ordinary shares), by the weighted average number of ordinary shares outstanding during the financial year.

#### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 8. Operating segments

### *Identification of reportable operating segments*

The Group's core operating segment is Alternative Asset Management. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The financial information below in relation to the core operating segment incorporates the results, assets and liabilities of the 100% owned subsidiaries of the Group as outlined in Note 24.

There is no aggregation of operating segments.

The Group's non-core operating segment includes the various funds where control and/or significant influence exists. The management and performance of these entities is currently not being reviewed at an operating segment level by the CODM in the same manner at which the core operating segment is reviewed. However, the management and performance of these entities is reviewed regularly by the appropriate Investment Manager.

The CODM review both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and net profit before income tax (segment result). The information is reported to the CODM on at least a monthly basis.

### *Types of products and services*

The principal products and services of the core operating segment is Alternative Asset Management.

	Core segment	Non-core segment	Adjustments and eliminations	Consolidated
<b>Year ended 30 June 2017</b>	\$'000	\$'000	\$'000	\$'000
Total income	68,672	19,491	(3,765)	84,398
Profit before income tax	21,165	11,234	(2,671)	29,728
<b>Year ended 30 June 2016</b>				
Total income	55,211	16,131	(405)	70,937
Profit before income tax	15,563	222	(76)	15,709
<b>As at 30 June 2017</b>				
Total assets	217,379	73,806	(2,713)	288,472
Total liabilities	93,377	60,684	(7,026)	147,035
<b>As at 30 June 2016</b>				
Total assets	189,152	52,962	(13,682)	228,432
Total liabilities	65,576	19,542	(4,127)	80,991

### ACCOUNTING POLICY

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the CODM. The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

## Note 9. Taxation

### (a) Reconciliation of income tax expense

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Profit before income tax	29,728	15,709
Tax at the Australian tax rate of 30%	8,918	4,713
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Franked distribution	(895)	(192)
Non-deductible expenses	148	186
Non-assessable income	113	(90)
Deferred tax balances not brought to account	(661)	645
Sundry items	-	(60)
Effect of foreign tax rate	1,420	-
Income tax expense	9,043	5,202
<i>Represented by:</i>		
Current tax	4,771	(320)
Deferred tax	4,272	5,522
Aggregate income tax expense	9,043	5,202

### (b) Breakdown of deferred tax balances

	Deferred tax asset 30 June 2017 \$'000	Deferred tax liability 30 June 2017 \$'000	Deferred tax asset 30 June 2016 \$'000	Deferred tax liability 30 June 2016 \$'000
Tax losses	773	-	172	-
Property, plant and equipment	-	-	1	(6,005)
Employee benefits	1,163	-	723	-
Investments	1,334	(5,875)	331	(2,422)
Accrued expenses	4,420	-	3,580	-
Accrued revenue	-	(13,289)	-	(10,409)
Transaction costs on share issue	527	-	756	-
Unearned income	8	-	131	-
Prepayments	-	(295)	-	(389)
Other	359	-	554	-
<b>Total</b>	<b>8,584</b>	<b>(19,459)</b>	<b>6,248</b>	<b>(19,225)</b>
Set-off against deferred tax liabilities pursuant to set-off provisions	(8,584)	8,584	(5,587)	5,587
<b>Net deferred tax balances</b>	<b>-</b>	<b>(10,875)</b>	<b>661</b>	<b>(13,638)</b>



# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## (c) Movements in deferred tax balances

	Opening balance \$'000	Credited/ (Charged) to profit or loss \$'000	Credited/ (Charged) to equity \$'000	Deferred tax in business sale \$'000	Tax losses \$'000	Closing balance \$'000
<b>2017</b>						
Deferred tax assets	6,248	2,022	8	(571)	877	8,584
Deferred tax liabilities	(19,225)	(6,294)	-	6,060	-	(19,459)
<b>2016</b>						
Deferred tax assets	2,329	3,132	717	-	70	6,248
Deferred tax liabilities	(10,571)	(8,654)	-	-	-	(19,225)

## (d) Income tax

	As at	
	30 June 2017 \$'000	30 June 2016 \$'000
Provision for income tax	1,345	(854)
<b>Total current income tax</b>	<b>1,345</b>	<b>(854)</b>

## ACCOUNTING POLICY

### *Income Tax*

The income tax expense for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and under and over provisions in prior periods, where applicable.

### *Deferred Tax*

Deferred income tax liabilities are recognised for all taxable temporary differences except:

When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset where:

There is a legally enforceable right to offset current tax assets against current tax liabilities; and

They relate to the same taxable authority on either the same taxable entity or different taxable entities, which intend to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### *Tax consolidation*

The Company and its wholly-owned Australian subsidiaries elected to form a tax consolidated group effective from 1 July 2011. Entities that were acquired after this date and that are eligible, join the tax consolidated group on acquisition or joining roll up date.

The parent entity and the tax consolidated group's wholly-owned tax consolidated entities continue to account for their current and deferred tax amounts. These tax amounts are measured based on a modified separate taxpayer within a Group approach (modified such that each entity continues to notionally recognise intra-group revenue and expenses, except that intra-group dividends are not assessable).

In addition to its current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the tax consolidated Group's wholly-owned tax consolidated entities.

The members of the tax consolidated Group have entered into a tax funding agreement under which the wholly-owned entities fully compensate Blue Sky Alternative Investments Limited for any current tax payable assumed and are compensated by Blue Sky Alternative Investments Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Blue Sky Alternative Investments Limited.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other Group entities. Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreements are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

The members of the tax consolidated Group have also entered into a tax sharing agreement which sets out the allocation of income tax liabilities between the entities, should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated Group.

### *Goods and Services Tax ('GST') and other similar taxes*

Revenues, expenses and assets are recognised net of the amount of GST, except:

- when the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable;
- when receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Section 3: Operating Assets and Liabilities

### Note 10. Trade and other receivables

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Current</b>		
Trade receivables	797	1,136
Other receivables	367	375
Performance fees receivable – Blue Sky managed funds	3,012	14,361
Receivables from Blue Sky managed funds <sup>1</sup> (Note 26)	34,195	38,507
<b>Total current trade and other receivables</b>	<b>38,371</b>	<b>54,379</b>

<sup>1</sup> This balance relates to bridging finance provided to Blue Sky managed funds and management fees.

#### *Impairment of trade receivables*

The Group has recognised a loss of nil (2016: nil) in profit or loss in respect of impairment of trade receivables for the year ended 30 June 2017.

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Current</b>		
0 – 1 month	402	778
1 – 2 months	33	76
Over 2 months	362	282
	<b>797</b>	<b>1,136</b>

#### *Past due but not impaired trade receivables*

Customers with balances past due but without provision for impairment of trade receivables amount to \$395,579 as at 30 June 2017 (2016: \$357,634). The Group did not adjust for credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

The Company has determined that no impairment of other receivables, performance fees receivable and receivables from Blue Sky managed funds is required given the counterparties, the majority of which are related parties, and the expected timeframe for payment.

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Non-Current</b>		
Performance fees receivable – Blue Sky managed funds	28,845	9,587
Receivables from Blue Sky managed funds <sup>2</sup> (Note 26)	19,636	8,886
<b>Total non-current trade and other receivables</b>	<b>48,481</b>	<b>18,473</b>

<sup>2</sup> This balance relates to investments (structured as loans) into Blue Sky managed funds and management fees.

#### ACCOUNTING POLICY

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

## Note 11. Inventory

	As at	
	30 June 2017	30 June 2016
Current	\$'000	\$'000
Cost of land acquisition – Riverside Gardens Trust	67	505
Development work in progress – Riverside Gardens Trust	388	1,876
Interest capitalised – Riverside Gardens Trust	36	153
<b>Total current inventory</b>	<b>491</b>	<b>2,534</b>

	As at	
	30 June 2017	30 June 2016
Current	\$'000	\$'000
Cost of land acquisition – Riverside Gardens Trust	402	-
Development work in progress – Riverside Gardens Trust	1,372	-
Interest capitalised – Riverside Gardens Trust	212	-
<b>Total non-current inventory</b>	<b>1,986</b>	<b>-</b>

Inventory has been allocated between current and non-current based on the latest information available in relation to the development including the tiered construction and sales approach adopted in relation to stage 3 (the final stage) of the development.

#### ACCOUNTING POLICY

Inventory is carried at the lower of cost and net realisable value. Net realisable value is determined based on sales for each class of inventory in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

##### *Development work in progress*

Costs have been assigned to inventory quantities at balance date based on the expected gross margin rate. The rate has been determined based on expected sales and costs from the remainder of the project. Cost comprises all costs of purchase and conversion including material, labour, sub-contract charges and direct contract expenses and an appropriate proportion of fixed and variable overheads.

The amount of any write-down of inventories to net realisable value is recognised as an expense in the statement of comprehensive income. The amount of any reversal of write-down of inventory arising from a change in the circumstances that gave rise to the original write-down is recognised as a reduction in the impairment of inventories recognised as an expense in the statement of comprehensive income.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 12. Investment property – retirement villages

	As at	
	30 June 2017	30 June 2016
At Fair Value	\$'000	\$'000
Acquisition of investment properties – Aura	16,969	-
Acquisition of development land – Aura	6,425	-
Capitalised development costs – Aura	28,954	-
Change in fair value of investment properties (Note 5) – Aura <sup>1</sup>	2,569	-
<b>Balance at the end of the year</b>	<b>54,917</b>	<b>-</b>

<sup>1</sup> This balance excludes change in fair value of resident loans.

The investment property assets above relate to retirement villages owned by Aura, an entity established to own, operate and manage retirement villages throughout Australia including Blue Sky's portfolio of retirement villages.

The Group's investment properties consist of retirement villages held to earn revenues and capital appreciation over the long term, comprising of independent living units, common facilities and integral plant and equipment.

At 30 June 2017, the fair value of investment properties has been determined using the discounted cash flow valuation method. These valuations are based on projected cash flows using resident contracts and the current market value of individual retirement units.

Estimates of fair value are prepared by management and have been independently reviewed by a qualified expert.

Retirement villages are classified as level 3 in the fair value hierarchy, meaning key assumptions used in management's valuations are not directly observable. The key assumptions used are as follows:

- Discount rate of 13.2% to 15.6% (2016: n/a);
- Property price growth rates of 4% in the medium term and 4% in the long term (2016: n/a);
- Average subsequent tenure period of 10 years for independent living units (2016: n/a); and
- Aggregate current market value of individual retirement units of \$16,819,685.

Increasing assumptions made on aggregate current market value of individual retirement units and property price growth rates would increase the fair value of the retirement villages (and vice-versa). Increasing assumptions made about the discount rate and average tenure period would reduce the fair value of the retirement villages (and vice-versa).

An explanation of the fair value hierarchy is given in Note 19.

### ACCOUNTING POLICY

Retirement villages are investment properties held to derive revenue and capital growth over the long term and are made up of independent living units, common facilities and integral plant and equipment. Retirement villages also include undeveloped land and land subject to residential site lease agreements including constructed independent living units.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are re-measured at fair value, which reflects market conditions. Estimates of fair value are prepared by management and are subject to independent review by a qualified expert where material. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the period in which they arise. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the period of retirement or disposal.

## Note 13. Property, plant and equipment

	As at	
	30 June 2017 \$'000	30 June 2016 \$'000
Land and buildings – at cost	1,619	1,918
Less: Accumulated depreciation	(182)	(170)
	1,437	1,748
Plant and equipment – at cost <sup>1</sup>	130	29,095
Less: Accumulated depreciation	(8)	(4,398)
	122	24,697
Motor vehicles – at cost	111	120
Less: Accumulated depreciation	(37)	(42)
	74	78
Office equipment – at cost	1,547	1,496
Less: Accumulated depreciation	(756)	(591)
	791	905
Leased asset – fit out	3,204	3,204
Less: Accumulated depreciation	(852)	(492)
	2,352	2,712
Office equipment – under lease	120	119
Less: Accumulated depreciation	(113)	(108)
	7	11
<b>Total property, plant and equipment</b>	<b>4,783</b>	<b>30,151</b>

<sup>1</sup> The decrease in this balance relates to the sale of WUG by the WUA Fund 1, as explained in Note 25.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Land and buildings	Plant and equipment	Motor vehicles	Leased motor vehicles	Office equipment	Leased asset – fit out	Leased office equipment	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015	1,793	24,725	97	11	515	2,998	14	30,153
Additions	5	1,539	-	-	642	206	-	2,392
Disposals	-	-	-	(8)	-	-	-	(8)
Depreciation expense	(50)	(1,567)	(19)	(3)	(252)	(492)	(3)	(2,386)
<b>Balance at 30 June 2016</b>	<b>1,748</b>	<b>24,697</b>	<b>78</b>	<b>-</b>	<b>905</b>	<b>2,712</b>	<b>11</b>	<b>30,151</b>
Balance at 1 July 2016	1,748	24,697	78	-	905	2,712	11	30,151
Additions	2	130	25	-	107	-	1	265
Disposals	(301)	(23,881)	(16)	-	(30)	-	-	(24,228)
Depreciation expense	(12)	(824)	(13)	-	(191)	(360)	(5)	(1,405)
<b>Balance at 30 June 2017</b>	<b>1,437</b>	<b>122</b>	<b>74</b>	<b>-</b>	<b>791</b>	<b>2,352</b>	<b>7</b>	<b>4,783</b>

## ACCOUNTING POLICY

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line and diminishing balance basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives. The useful lives of assets acquired in the ordinary course of business are in line with Australian Taxation Office guidelines as follows:

Land and buildings	40 years
Plant and equipment (including infrastructure assets)	5 - 80 years
Motor vehicles	6 - 8 years
Office equipment (including lease fit-out)	2 - 20 years

The useful lives of infrastructure assets acquired as a part of a business combination are assessed via independent engineering reviews, taking into account obsolescence.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.



## Note 14. Intangible assets

	As at	
	30 June 2017 \$'000	30 June 2016 \$'000
Goodwill – at cost <sup>1</sup>	6,627	13,006
Less: Accumulated impairment	-	(190)
	6,627	12,816
Management rights – at cost	4,438	5,985
Less: Accumulated amortisation	(403)	(433)
	4,035	5,552
Licenses and trademarks – at cost	11	11
Less: Accumulated amortisation	-	-
	11	11
Website – at cost	153	84
Less: Accumulated amortisation	(61)	(65)
	92	19
Software – at cost	794	636
Less: Accumulated amortisation	(535)	(365)
	259	271
Other – at cost	34	18
Less: Accumulated amortisation	(20)	(18)
	14	-
<b>Total intangible assets</b>	<b>11,038</b>	<b>18,669</b>

<sup>1</sup> The decrease in this balance relates to the sale of WUG by the WUA Fund 1, as explained in Note 25.

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill	Management rights	Licenses & trademarks	Website development	Software	Other	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015	12,816	5,699	11	34	334	6	18,900
Additions	-	-	-	-	148	-	148
Disposals	-	-	-	-	-	-	-
Amortisation expense	-	(147)	-	(15)	(211)	(6)	(379)
<b>Balance at 30 June 2016</b>	<b>12,816</b>	<b>5,552</b>	<b>11</b>	<b>19</b>	<b>271</b>	<b>-</b>	<b>18,669</b>
Balance at 1 July 2016	12,816	5,552	11	19	271	-	18,669
Additions	1,100	-	-	88	168	16	1,372
Disposals	(7,289)	(1,358)	-	-	-	-	(8,647)
Amortisation expense	-	(159)	-	(15)	(180)	(2)	(356)
<b>Balance at 30 June 2017</b>	<b>6,627</b>	<b>4,035</b>	<b>11</b>	<b>92</b>	<b>259</b>	<b>14</b>	<b>11,038</b>

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## *Impairment*

AASB 136 *Impairment of Assets* requires an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. AASB 136 identifies, as a minimum, indications which could result in an asset being impaired. One such indication is if there is a significant change with an adverse effect on the entity from a technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

There are no indications of impairment for any assets held at 30 June 2017, unless stated otherwise below.

## *Goodwill*

Irrespective of whether any indications of impairment exist, an entity shall test goodwill acquired from business combinations on an annual basis in accordance with AASB 136.

There were no impairment losses from goodwill during the financial year ended 30 June 2017 (2016: nil). The Group performed its annual impairment tests as at 30 June 2017. Significant tests included:

1. Blue Sky Water Partners Pty Ltd (a wholly owned subsidiary of the Company)

Goodwill was acquired through the acquisition of Blue Sky Water Partners Pty Ltd (which trades as Blue Sky's Real Assets division). Blue Sky Water Partners Pty Ltd has been identified as a separate cash generating unit (CGU) distinct from other alternative asset classes within the business. The recoverable amount of the CGU has been determined by a value-in-use calculation using discounted cash flow projections from financial budgets approved by senior management covering a three-year period. The projected cash flows have been updated to reflect the income and expenditure derived from managing Real Assets funds. The pre-tax discount rate applied to cash flow projections is 12%.

### **Key assumptions used in value in use calculations**

The calculation of value in use for Blue Sky Water Partners Pty Ltd is most sensitive to the following assumptions:

- (i). Procurement of fee-earning assets under management in real assets: Management have made estimates of the value of the fee-earning assets under management to the Group. Management has assumed that fee-earning assets under management grow by an average of \$250 million p.a. over the next three years across water entitlements and agribusiness assets managed by Blue Sky.
- (ii). Discount rates: Discount rates represent the current market assessment of the risks specific to the cash-generating unit taking into consideration the time value of money and inherent risks of the underlying cash flows. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ('WACC'). A reasonably expected change in key cash flow projections of 1% would not alter the impact of the impairment assessment.

The carrying value of the goodwill is \$4.2 million and the recoverable amount has been calculated as \$26.3 million at 30 June 2017 (2016: \$26.3 million). As a result of this analysis, management determined that no impairment is considered necessary as the recoverable amount of the CGU exceeds the carrying value for the financial year ended 30 June 2017.

## ACCOUNTING POLICY

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the de-recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangibles are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

### *Goodwill*

Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### *Management and letting rights*

Management and letting rights are recognised at cost less any accumulated amortisation and any accumulated impairment losses. Management and letting rights are amortised over the life of the building with which they are associated on the basis that the useful life of the rights will equate to the period over which the building will be used for its current purpose. The Company has assessed that the buildings over which the Group has management and letting rights have a finite useful life of not less than 40 years.

### *Software*

Costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 2.5 years.

### *Impairment of non-financial assets*

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 15. Trade and other payables

	As at	
	30 June 2017	30 June 2016
<b>Current</b>	<b>\$'000</b>	<b>\$'000</b>
Trade payables	5,453	4,807
Other payables	20	20
Accrued expenses	1,695	3,594
Lease incentive liability	359	341
Payables to Blue Sky managed funds <sup>1</sup> (Note 26)	28,140	12,101
<b>Total current trade and other payables</b>	<b>35,667</b>	<b>20,863</b>

<sup>1</sup> This balance relates to uncalled capital in relation to investments in Blue Sky managed funds and fee rebates.

### ACCOUNTING POLICY

#### Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured.

## Note 16. Deferred revenue

	As at	
	30 June 2017	30 June 2016
<b>Current</b>	<b>\$'000</b>	<b>\$'000</b>
Unearned income	8,355	6,487
Payments in advance for sale of water – WUA Fund 1	-	200
Unearned deferred management fees – Aura	706	-
<b>Total current deferred revenue</b>	<b>9,061</b>	<b>6,687</b>
<b>Non-current</b>		
Unearned income	3,637	4,382
Payments in advance for sale of water – WUA Fund 1	-	363
<b>Total non-current deferred revenue</b>	<b>3,637</b>	<b>4,745</b>

### ACCOUNTING POLICY

#### Unearned income

Revenues are deferred and recorded as liabilities when the services to which the revenue relates have not yet been performed at the reporting date.

#### Unearned deferred management fees

Unearned deferred management fees are recorded as a liability when the expected tenure of a resident is different to the resident's contracted term.

## Note 17. Resident loans – retirement villages

	As at	
	30 June 2017 \$'000	30 June 2016 \$'000
Opening balance	-	-
Deferred management fees	(1,410)	-
Change in fair value of resident loans (Note 5)	283	-
Net cash receipts on resident departures and arrivals	15,976	-
<b>Closing balance</b>	<b>14,849</b>	<b>-</b>

The resident loan liabilities above relate to retirement villages owned by Aura, an entity established to own, operate and manage retirement villages throughout Australia including Blue Sky's portfolio of retirement villages.

Resident loans are classified as level 3 in the fair value hierarchy, meaning that a key assumption used in their valuation is not directly observable. A capital growth rate assumption of 4% has been used when determining the aggregate market value of occupied retirement units of \$16,819,685 (2016: n/a). This was determined on the same basis as the market value of the underlying units used as an input into the fair value of Investment Property – Retirement Villages (Note 12). If the value used for this input was 5% higher, the fair value of these loans would be \$1,077,579 higher (2016: n/a), and if the input was 5% lower, the fair value of these loans would be \$1,052,026 lower (2016: n/a).

An explanation of the fair value hierarchy is given in Note 19.

### ACCOUNTING POLICY

Resident loans are classified as financial liabilities at fair value through profit and loss with resulting fair value adjustments recognised in the statement of comprehensive income. Fair value is the amount payable on demand and is measured at the principal amount less deferred management fees contractually accruing to reporting date.

Resident loans are non-interest bearing and are payable at the end of the resident contract. They are classified as current liabilities because the Group does not have an unconditional right to defer settlement for at least 12 months after reporting date. The rate at which the Group's retirement residents vacate their units, and hence the rate at which the resident loans will fall due for repayment, can be estimated based on statistical tables.

Resident loans are presented net of deferred management fees contractually accrued to reporting date and other amounts owing by residents, which are offset against the repayment of the loan on settlement following a residents departure.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 18. Notes to the consolidated statement of cash flows

### (a) Reconciliation of cash flow from operating activities

	Year ended	
	30 June 2017	30 June 2016
	\$'000	\$'000
Profit after income tax expense for the year	20,685	10,507
Non-cash adjustments to reconcile profit after tax to net cash flow from operations:		
Share options	1,086	275
Depreciation	1,430	2,302
Share of profit from associates and joint ventures	(8,081)	(2,802)
Change in fair value of investment properties	(2,569)	-
Change in fair value of resident loans	283	-
Gain on disposal of subsidiary	(5,231)	-
Loss on disposal of intangible assets	452	-
Other	(1,090)	857
Change in operating assets and liabilities		
(Increase)/Decrease in trade and other receivables	(8,191)	(31,531)
(Increase)/Decrease in inventories	112	822
(Increase)/Decrease in other operating assets	507	(2,817)
Increase/(Decrease) in trade and other payables	1,719	18,594
Increase/(Decrease) in provisions	2,119	3,124
Increase/(Decrease) in other non-current liabilities	(309)	5,535
Increase/(Decrease) in income tax provision	1,884	(2,853)
Increase/(Decrease) in resident loans	(1,411)	-
Increase/(Decrease) in deferred taxes	3,185	6,545
Increase/(Decrease) in deferred revenue	1,790	4,662
<b>Net cash from operating activities</b>	<b>8,370</b>	<b>13,220</b>

### (b) Cash and cash equivalents

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
Cash at bank	72,187	63,828
<b>Total cash and cash equivalents</b>	<b>72,187</b>	<b>63,828</b>

As at 30 June 2017, monies held on trust is nil (2016: nil).

### ACCOUNTING POLICY

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Section 4: Capital and Financial Risk Management

### Note 19. Financial assets and financial liabilities

#### Financial risk management objectives

The Group's principal financial assets comprise of cash and cash equivalents and trade and other receivables. The Group's principal financial liabilities comprise of borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.

The Group's activities expose it to a variety of financial risks: for example, market risk (including interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk, and ageing analysis for credit risk.

Risk management is carried out by senior management and the Board. The Board identifies and monitors the risk exposure of the Group and determines appropriate procedures, controls and risk limits. Senior management identifies, evaluates and monitors financial risks within the Group's operating units. Senior management reports to the Board on a monthly basis.

#### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk relates primarily to cash and cash equivalents and borrowings.

#### Sensitivity analysis

Based on the cash and cash equivalents (including term deposits) and borrowings held by the Group at balance date, the sensitivity on the Group's operating profit before tax from an increase/decrease of 50 basis points in floating interest rates, assuming all other variables remain constant is:

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
Impact on operating profit before tax	253	237

#### Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

#### Liquidity risk

Liquidity risk is the risk that financial obligations of the Group cannot be met as and when they fall due without incurring significant costs. Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (primarily cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable. The Group manages liquidity risk by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Maturity profiles and cash flow forecasts are reviewed by the Board on a monthly basis to ensure sufficient liquidity within the Group.

In determining the level of liquidity to maintain, regard is had to cash flows required over the next 12 months, regulatory obligations such as Australian Financial Services Licence requirements and financial covenants attached to any relevant contractual obligations of the Group.

#### Capital management

In relation to capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise shareholder value. In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to any relevant contractual obligations of the Group and interest-bearing borrowings that have defined capital structure requirements. Breaches in meeting financial covenants would permit the counter-parties to immediately call borrowings.

The Group's objectives when managing capital is to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There have been no events of default or breaches of financial covenants during the financial year and the Group was in compliance with all financial covenants at reporting date.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Contractual maturities

The following tables detail the Group's remaining contractual maturities for its financial liabilities. The tables have been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid.

Year ended 30 June 2017	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Interest-bearing loans and borrowings	16,726	37,164	-	-
Trade and other payables	35,667	-	-	-
Resident loans	14,849	-	-	-
<b>Total</b>	<b>67,242</b>	<b>37,164</b>	<b>-</b>	<b>-</b>

  

Year ended 30 June 2016				
Interest-bearing loans and borrowings	8,603	9,335	-	-
Trade and other payables	20,863	-	-	-
<b>Total</b>	<b>29,466</b>	<b>9,335</b>	<b>-</b>	<b>-</b>

## Fair value

All financial instruments carried at fair value may be grouped into three categories, defined as follows:

- 'Level 1' inputs  
Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- 'Level 2' inputs  
Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. They include quoted prices for similar assets or liabilities in active markets.
- 'Level 3' inputs  
Level 3 inputs are unobservable inputs for an asset or liability. Unobservable inputs have been used to measure fair value where relevant observable inputs are not available.

As at reporting date, the Group held the following financial instruments measured at fair value:

Year ended 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Financial liabilities</i>				
Resident loan obligations at fair value through profit and loss	-	-	14,849	14,849
	-	-	<b>14,849</b>	<b>14,849</b>

  

Year ended 30 June 2016				
<i>Financial liabilities</i>				
Resident loan obligations at fair value through profit and loss	-	-	-	-
	-	-	-	-

The fair value of interest-bearing loans and borrowings are \$53,891,149 at 30 June 2017 (2016: \$17,937,567) and are level 3 financial instruments. Unless otherwise stated, the carrying amounts of financial assets and liabilities reflect their fair value. The carrying amounts of trade and other receivables, trade and other payables and borrowings are assumed to approximate their fair values due to their short-term nature or are at market rates. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.



## ACCOUNTING POLICY

### *Financial assets*

Financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the asset is derecognised or impaired.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Fair value movements are recognised in the statement of comprehensive income.

### *Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been had the impairment not been recognised and is reversed to the statement of comprehensive income. The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

### *Financial liabilities*

All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings and payables, net of directly attributable transaction costs. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled, or expires. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 20. Borrowings

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Current</b>		
Bank loans – Blue Sky	7,902	7,578
Bank loans – Aura	8,060	-
Other borrowings	764	1,025
<b>Total current borrowings</b>	<b>16,726</b>	<b>8,603</b>

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Non-current</b>		
Bank loans – Water Utilities Australia Fund 1	-	6,000
Bank loans – Blue Sky RAMS Management Rights Income Fund 2	2,480	3,335
Other borrowings – Aura <sup>1</sup>	34,684	-
<b>Total non-current borrowings</b>	<b>37,164</b>	<b>9,335</b>

<sup>1</sup> This balance relates to borrowings from a number of Blue Sky Retirement Living Funds that are managed by the Group, in accordance with the constituent documents.

Other than 'Bank loans – Blue Sky', the above borrowings all relate to funds that have been consolidated by Blue Sky. These borrowings are guaranteed by the respective funds with no recourse to Blue Sky Alternative Investments Limited or its 100% controlled subsidiaries. Interest rate risk in relation to the above borrowings and other financial assets and liabilities is considered in Note 19 of the financial statements.

### ACCOUNTING POLICY

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

## Note 21. Equity

### (a) Contributed equity

	2017 Shares '000	2016 Shares '000	2017 \$'000	2016 \$'000
Ordinary shares – fully paid	67,693	67,354	120,613	119,611
Details	Date	Number of shares '000	Issue price \$	\$'000
Opening balance	1 July 2015	56,383		53,162
Share issue	17 July 2015	147	\$4.17	612
Share issue	9 September 2015	25	\$1.00	25
Share issue	20 May 2016	4,615	\$6.50	30,000
Share issue	20 May 2016	2,331	\$6.50	15,152
Share issue	24 May 2016	350	\$1.00	350
Share issue	26 May 2016	20	\$3.37	67
Share issue	26 May 2016	20	\$5.37	107
Share issue	26 May 2016	6	\$2.57	15
Share issue	8 June 2016	3,325	\$6.50	21,613
Share issue	15 June 2016	32	\$2.57	81
Share issue	23 June 2016	100	\$1.00	100
Equity raising costs (net of tax)				(1,673)
<b>Closing balance</b>	<b>30 June 2016</b>	<b>67,354</b>		<b>119,611</b>
Opening balance	1 July 2016	67,354		119,611
Share issue	29 August 2016	37	\$2.57	95
Share issue	21 October 2016	25	\$2.89	72
Share issue	21 February 2017	27	\$1.00	27
Share issue	28 February 2017	50	\$4.64	232
Share issue	15 May 2017	200	\$2.97	594
Equity raising costs (net of tax)				(18)
<b>Closing balance</b>	<b>30 June 2017</b>	<b>67,693</b>		<b>120,613</b>
Summary of ordinary share capital				
			As at	
			30 June 2017 \$'000	30 June 2016 \$'000
Opening balance - ordinary shares			119,611	53,162
Movements in ordinary share capital:				
– Equity contributions			1,020	68,122
– Equity raising costs (net of tax)			(18)	(1,673)
<b>Closing balance – ordinary shares</b>			<b>120,613</b>	<b>119,611</b>

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Ordinary shares

The Group had authorised share capital amounting to 67,693,064 ordinary shares at 30 June 2017 (2016: 67,353,898).

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

## (b) Reserves

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
Capital reserve	(7,436)	(7,436)
Share-based payments reserve	332	332
Employee share options reserve	1,557	471
<b>Total reserves</b>	<b>(5,547)</b>	<b>(6,633)</b>

  

<i>Movements in reserves</i>	Capital reserve	Share based payments reserve	Employee share options reserve	Total reserves
	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2015	(7,436)	332	196	(6,908)
Additions	-	-	275	275
Balance at 30 June 2016	(7,436)	332	471	(6,633)
Additions	-	-	1,086	1,086
<b>Balance at 30 June 2017</b>	<b>(7,436)</b>	<b>332</b>	<b>1,557</b>	<b>(5,547)</b>

### ▪ Capital reserve

This reserve is used to recognise adjustments to equity arising from the acquisition of non-controlling interests in subsidiary companies.

### ▪ Share-based payments and employee share options reserve

These reserves are used to recognise the value of equity benefits provided to employees as part of their remuneration, and other parties as part of their compensation for services.

## ACCOUNTING POLICY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

## Note 22. Dividends

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
Cash dividends to the equity holders of Blue Sky		
Dividends on ordinary shares declared and paid:		
Final dividend in relation to the 2016 financial year: 16.0 cents fully franked per share	10,783	6,221
(2015 financial year: 11.0 cents fully franked per share)		

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
<i>Proposed dividends on ordinary shares<sup>1</sup></i>		
Final dividend in relation to the 2017 financial year: 23.0 cents fully franked per share	15,569	10,776
(2016 financial year: 16.0 cents fully franked per share)	15,569	10,776

<sup>1</sup>No provision has been recorded as at 30 June 2017 in relation to the proposed dividends.

### *Franking account*

Balance as at the end of the financial year at 30%	1,208	785
Franking credits that will arise from the payment of income tax payable	1,368	(516)
Franking credits that will be used from the payment of dividends	-	-
Franking credits available for subsequent financial years at 30%	2,576	269
Franking credits that will be used from the payment of dividends declared subsequent to the reporting date at 30%	(6,672)	(4,618)
	<b>(4,096)</b>	<b>(4,349)</b>

In relation to the above franking credit deficit, it is anticipated that tax instalments will be paid during the year such that the franking account will not be in deficit at 30 June 2018 (consistent with previous years).

### ACCOUNTING POLICY

Dividends are recognised when declared during the financial year and no longer at the discretion of the Group.

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at the reporting date.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Section 5: Group Structure

### Note 23. Investments in associates and joint ventures

The Group's associates and joint ventures can be categorised into the following major asset classes:

1. Private Equity  
Specialise in funds that deploy capital into established growing businesses, primarily as 'expansion capital' or 'late stage venture capital'.
2. Private Real Estate  
Specialise in funds that include a range of real estate investments focusing on student accommodation, retirement living and commercial property.
3. Real Assets  
Specialise in funds that include a range of investments focusing on water entitlements and agribusiness.

Investments in associates and joint ventures are accounted for using the equity method where significant influence exists. Information relating to material associates and joint ventures is set out below.

Associate	Percentage interest	
	30 June 2017	30 June 2016
	%	%
Atira Student Living Pty Ltd	35.00	35.00
Blue Sky Alternatives Access Fund Limited	-	3.91
Blue Sky Private Equity Vinomofo Fund	19.30	19.30
Blue Sky Private Equity Retirement Village Fund	17.84	17.84
Blue Sky Retirement Living Parkwood Fund	8.21	-
Blue Sky Strategic Australian Agriculture Fund	5.54	-
Blue Sky Student Accommodation Funds (5-9)	10.00	-
Cove Operating Company LLC	38.00	38.00
Valterra Hops Holdings LLC	24.00	-

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Investments</b>		
Atira Student Living Pty Ltd	4,855	4,993
Blue Sky Alternatives Access Fund Limited <sup>1</sup>	-	5,808
Blue Sky Private Equity Vinomofo Fund	4,500	4,342
Blue Sky Private Equity Retirement Village Fund <sup>2</sup>	217	9,843
Blue Sky Retirement Living Parkwood Fund	2,007	-
Blue Sky Strategic Australian Agri.culture Fund	4,739	-
Blue Sky Student Accommodation Funds (5-9)	10,822	4,637
Cove Operating Company LLC	11,397	1,684
Valterra Hops Holdings LLC	5,172	-
Other investments accounted for using the equity method	7,858	4,179
<b>Total investments accounted for using the equity method</b>	<b>51,567</b>	<b>35,486</b>

<sup>1</sup> The Group disposed of its investment in the Blue Sky Alternatives Access Fund Limited during the 2017 financial year.

<sup>2</sup> The Blue Sky Private Equity Retirement Village Fund realised its underlying asset during the 2017 financial year.

#### Reconciliation

Opening value	35,486	22,737
Additions	25,018	16,573
Disposals	(15,879)	(5,073)
Share of profit of associates and joint ventures for the year	8,081	2,802
Dividends	(1,139)	(1,553)
<b>Closing value</b>	<b>51,567</b>	<b>35,486</b>

	Year ended	
	30 June 2017	30 June 2016
	\$'000	\$'000
Share of profit of associates and joint ventures	8,081	2,802

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

The following tables illustrate the summarised financial information for the Group's material associates and joint ventures.

Summary - 2017	Atira Student Living Pty Ltd	Blue Sky Private Equity Vinomofu Fund	Blue Sky Retirement Living Parkwood Fund	Blue Sky Strategic Australian Agriculture Fund	Blue Sky Student Accommodation Funds (5-9)	Cove Operating Company LLC	Valterra Hops Holdings LLC
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets and liabilities</b>							
Current assets	321	1,594	21,699	86,690	20,161	488	-
Non-current assets	507	21,382	2,750	-	89,741	35,572	37,152
Total assets	828	22,976	24,449	86,690	109,902	36,060	37,152
Current liabilities	(332)	-	-	(1,135)	(403)	(17)	(16,088)
Non-current liabilities	-	-	-	-	(1,357)	(6,051)	-
Total liabilities	(332)	-	-	(1,135)	(1,760)	(6,068)	(16,088)
<b>Net assets</b>	<b>496</b>	<b>22,976</b>	<b>24,449</b>	<b>85,555</b>	<b>108,142</b>	<b>29,992</b>	<b>21,064</b>
Proportion of the Group's ownership	35.00%	19.30%	8.21%	5.54%	10.00%	38.00%	24.00%
<b>Carrying amount of the investment<sup>1</sup></b>	<b>174</b>	<b>4,434</b>	<b>2,007</b>	<b>4,740</b>	<b>10,814</b>	<b>11,397</b>	<b>5,055</b>
<b>Revenue, expenses and results</b>							
Revenue	147	1,382	-	-	12,195	34,125	5,300
Expenses	(3,605)	(565)	(2,351)	(195)	(6,076)	(9,613)	-
<b>Profit/(loss) for the year</b>	<b>(3,458)</b>	<b>817</b>	<b>(2,351)</b>	<b>(195)</b>	<b>6,119</b>	<b>24,512</b>	<b>5,300</b>
<b>Group's share of profit for the year</b>	<b>(1,210)</b>	<b>158</b>	<b>(193)</b>	<b>(11)</b>	<b>612</b>	<b>9,315</b>	<b>1,272</b>

<sup>1</sup> The carrying amount of the Group's ownership in the above funds does not equal the carrying amount of the investment as a result of changes in the investment percentage held by the Group throughout the year (where applicable), establishment costs incurred prior to the Group's investment and consideration paid to third parties for the Group's investment (where applicable).



Summary - 2016

	Atira Student Living Pty Ltd	Blue Sky Alternatives Access Fund Limited	Blue Sky Private Equity Vinomofo Fund	Blue Sky Private Equity Retirement Village Fund
	\$'000	\$'000	\$'000	\$'000
<b>Assets and liabilities</b>				
Current assets	358	12,042	213	36
Non-current assets	384	133,990	20,000	61,279
Total assets	742	146,032	20,213	61,315
Current liabilities	(256)	(3,835)	(3,195)	(6,028)
Non-current liabilities	-	(2,242)	-	-
Total liabilities	(256)	(6,077)	(3,195)	(6,028)
<b>Net assets</b>	<b>486</b>	<b>139,955</b>	<b>17,018</b>	<b>55,287</b>
Proportion of the Group's ownership	35.00%	3.91%	19.30%	17.84%
<b>Carrying amount of the investment<sup>1</sup></b>	<b>170</b>	<b>5,472</b>	<b>3,284</b>	<b>9,863</b>
<b>Revenue, expenses and results</b>				
Revenue	667	20,856	-	7,124
Expenses	(758)	(7,360)	(1,438)	(1,159)
<b>Profit/(loss) for the year</b>	<b>(91)</b>	<b>13,496</b>	<b>(1,438)</b>	<b>5,965</b>
<b>Group's share of profit for the year</b>	<b>(32)</b>	<b>528</b>	<b>(277)</b>	<b>1,064</b>

<sup>1</sup> The carrying amount of the Group's ownership in the above funds does not equal the carrying amount of the investment as a result of changes in the investment percentage held by the Group throughout the year (where applicable), establishment costs incurred prior to the Group's investment and consideration paid to third parties for the Group's investment (where applicable).

## ACCOUNTING POLICY

Associates are entities over which the Group has significant influence but not control or joint control.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, the share of profits or losses of the associate are recognised in the statement of comprehensive income. Investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Dividends received or receivable from associates reduce the carrying amount of the investment. Transactions between the Group and its associates are eliminated to the extent of the interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 24. Subsidiaries

### *Information relating to subsidiaries*

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the Group's accounting policy:

		Equity holding	
Name of entity	Principal place of business	30 June 2017	30 June 2016
Australian Financial Services Licence holders			
Blue Sky Investment Science Asset Management Pty Ltd	Australia	100%	100%
Blue Sky Private Equity Ltd	Australia	100%	100%
Investment management entities			
Blue Sky Alternative Investments LLC	USA	100%	100%
Blue Sky Investment Science Pty Ltd	Australia	100%	100%
Blue Sky Opportunity Fund Pty Ltd	Australia	-	100%
Blue Sky Private Real Estate Projects Pty Ltd	Australia	100%	100%
Blue Sky Private Real Estate Pty Ltd	Australia	100%	100%
Blue Sky Real Asset Investment Manager Pty Ltd	Australia	100%	-
Blue Sky Real Assets Holdings Pty Ltd	Australia	100%	100%
Blue Sky Residential Asset Managers Pty Ltd	Australia	100%	100%
Blue Sky Residential Development Managers 1 Pty Ltd	Australia	100%	100%
Blue Sky Residential Development Managers Pty Ltd	Australia	100%	100%
Blue Sky Retirement Living Managers Pty Ltd	Australia	100%	-
Blue Sky SRA Alliance Pty Ltd	Australia	100%	100%
Blue Sky Student Developments Pty Ltd	Australia	100%	100%
Blue Sky Student Investments Pty Ltd	Australia	100%	100%
Blue Sky Water Partners Pty Ltd	Australia	100%	100%
BSAAF Management Pty Ltd	Australia	100%	100%
BSAI International Pty Ltd	Australia	100%	100%
BSIF Investment Manager Pty Ltd	Australia	100%	-
BSPE Pty Ltd	Australia	100%	100%
BSPRE Investment Management Pty Ltd	Australia	100%	100%
BSPRE RDM Investment Management Pty Ltd	Australia	100%	-
BSPRE RL Investment Management Pty Ltd	Australia	100%	-
BSPRE RL Lutwyche Development Manager Pty Ltd	Australia	100%	-
BSPRE RL Maroochydore Development Manager Pty Ltd	Australia	100%	-
BSPRE RL Parkwood Development Manager Pty Ltd	Australia	100%	-
BSVC Pty Ltd	Australia	100%	100%
Trustee companies			
Agricultural Infra Nominees Pty Ltd	Australia	100%	-
Agricultural PE Nominees Pty Ltd	Australia	100%	-
Agricultural Water Nominees Pty Ltd	Australia	100%	-
Blue Sky 3DF1 Pty Ltd	Australia	100%	-
Blue Sky 3DF1B Pty Ltd	Australia	100%	-
Blue Sky Carbon Services Pty Ltd	Australia	100%	100%

## Equity holding

Name of entity	Principal place of business	30 June 2017	30 June 2016
Blue Sky Citrus Holdings Pty Ltd	Australia	100%	100%
Blue Sky Commercial Asset Managers Pty Ltd	Australia	100%	100%
Blue Sky Hotel Assets Pty Limited	Australia	100%	100%
Blue Sky MR3 Cullen Bay Resorts Co Pty Ltd	Australia	100%	100%
Blue Sky MR3 Gabba Central Co Pty Ltd	Australia	100%	100%
Blue Sky MR4 Co Pty Ltd	Australia	100%	100%
Blue Sky Retirement Operator Pty Ltd	Australia	100%	-
Blue Sky Student Operations Pty Ltd	Australia	100%	100%
Blue Sky VC GP Pty Ltd	Australia	100%	100%
Blue Sky Water GP LLC	USA	100%	100%
BSIF Pty Ltd	Australia	100%	-
BSPE Medical Technology Pty Ltd	Australia	100%	100%
BSPE Mining Services Pty Ltd	Australia	100%	100%
BSPE SPV 1 Pty Ltd	Australia	100%	100%
BSPE SPV 2 Pty Ltd	Australia	100%	100%
BSPE SPV 3 Pty Limited	Australia	100%	-
BSPE SPV 4 Pty Limited	Australia	100%	-
Carinya Street Property Pty Ltd	Australia	100%	-
Excel Leasing Pty Ltd	Australia	100%	100%
Excel Operations Pty Ltd	Australia	100%	100%
Excel RE Holdings Pty Ltd	Australia	100%	100%
Excel RE Pty Ltd	Australia	100%	100%
Flora Street Holdings Pty Ltd	Australia	100%	100%
Gladys Street Investments Pty Ltd	Australia	-	100%
GSAC 1 Pty Ltd	Australia	100%	-
Hamilton Road Property Pty Ltd	Australia	100%	-
High Street Lutwyche Pty Ltd	Australia	100%	100%
HK Farming Pty Ltd	Australia	100%	-
Kingsford Terrace Property Holdings Pty Ltd	Australia	100%	-
La Trobe Street Property Pty Ltd	Australia	-	100%
Lutwyche Retirement Property Holdings Pty Ltd	Australia	100%	-
Maroochydore Retirement Property Holdings Pty Ltd	Australia	100%	-
Mildura Citrus Pty Ltd	Australia	100%	-
Milky Way Development 2 Pty Ltd	Australia	100%	100%
Parkwood Retirement Property Holdings Pty Ltd	Australia	100%	-
Peel Street Property Pty Ltd	Australia	-	100%
RCL Accelerator Fund One Pty Ltd	Australia	100%	100%
Regina Apartments Pty Ltd	Australia	100%	100%
Waymouth Street Property Pty Limited	Australia	100%	100%
Wellington Road Holdings 1 Pty Ltd	Australia	100%	100%

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

Wellington Road Holdings 2 Pty Ltd	Australia	100%	100%
<b>Other entities</b>			
Aura Anzac Avenue Trust	Australia	50%	-
Aura Australia Holding Trust	Australia	50%	-
Aura Australia Holdings Pty Ltd	Australia	50%	-
Aura Australia Management Pty Ltd	Australia	50%	-
Aura Kingsford Terrace Trust	Australia	50%	-
Blue Sky Conventus Co-investment Pty Limited	Australia	96%	96%
Blue Sky Infrastructure Pty Ltd	Australia	-	51%
Blue Sky Management Rights Income Fund 2	Australia	48%	48%
Riverside Gardens Trust	Australia	48%	48%
Water Utilities Australia Fund 1	Australia	52%	52%

## Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

	30 June 2017	30 June 2016
<b>Name of entity</b>	<b>%</b>	<b>%</b>
Riverside Gardens Trust	52	52
Aura Australia Holdings Trust	50	-
Water Utilities Australia Fund 1	48	48

Accumulated balances of material non-controlling interests:

Riverside Gardens Trust	704	740
Aura Australia Holdings Trust	248	-
Water Utilities Australia Fund 1	(269)	17,362

Profit/(loss) allocated to material non-controlling interests:

Riverside Gardens Trust	(15)	277
Aura Australia Holdings Trust	854	-
Water Utilities Australia Fund 1	1,974	(136)

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

	Riverside Gardens Trust	Aura Australia Holdings Trust	Water Utilities Australia Fund 1
<b>Summarised statement of profit or loss – 2017</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Revenue	306	3,009	6,766
Expenses	(335)	(1,300)	(3,478)
Profit/(loss) before income tax	(29)	1,709	3,288
Income tax benefit/(expense)	-	-	(202)
Profit/(loss) for the year from continuing operations	(29)	1,709	3,086
<b>Total comprehensive income</b>	<b>(29)</b>	<b>1,709</b>	<b>3,086</b>
Attributable to non-controlling interests	(15)	854	1,974
Dividends paid to non-controlling interests	-	-	5,672

	Riverside Gardens Trust	Aura Australia Holdings Trust	Water Utilities Australia Fund 1
	\$'000	\$'000	\$'000
<b>Summarised statement of profit or loss – 2016</b>			
Revenue	4,402	-	6,483
Expenses	(3,871)	-	(6,890)
Profit/(loss) before income tax	531	-	(407)
Income tax benefit/(expense)	-	-	(159)
Profit/(loss) for the year from continuing operations	531	-	(566)
<b>Total comprehensive income</b>	<b>531</b>	<b>-</b>	<b>(566)</b>
Attributable to non-controlling interests	277	-	(136)
Dividends paid to non-controlling interests	-	-	-
<b>Summarised statement of financial position as at 30 June 2017</b>			
Current assets	474	1,171	493
Non-current assets	678	54,054	(312)
Current liabilities	(256)	(22,608)	65
Non-current liabilities	-	(33,221)	-
<b>Total equity</b>	<b>896</b>	<b>(604)</b>	<b>246</b>
Attributable to:			
– Equity holders of parent	192	(852)	515
– Non-controlling interest	704	248	(269)
<b>Summarised statement of financial position as at 30 June 2016</b>			
Current assets	2,401	-	1,676
Non-current assets	(537)	-	26,273
Current liabilities	(917)	-	(615)
Non-current liabilities	-	-	(12,378)
<b>Total equity</b>	<b>947</b>	<b>-</b>	<b>14,956</b>
Attributable to:			
– Equity holders of parent	207	-	(2,406)
– Non-controlling interest	740	-	17,362
<b>Summarised cash flow information for the year ended 30 June 2017</b>			
Operating	91	(1,170)	(391)
Investing	208	(33,973)	11,755
Financing	(297)	36,221	(11,838)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2</b>	<b>1,078</b>	<b>(474)</b>
<b>Summarised cash flow information for the year ended 30 June 2016</b>			
Operating	977	-	1,780
Investing	(33)	-	(1,539)
Financing	(955)	-	(450)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(11)</b>	<b>-</b>	<b>(209)</b>

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 25. Business combinations

### (a) Aura Australia Holding Trust

On 15 September 2016, Blue Sky acquired 50% of the units and voting interests in the Aura Australia Holding Trust ('Aura'). Aura was established to own, operate and manage retirement villages throughout Australia including Blue Sky's portfolio of retirement villages. As a result of this acquisition, Blue Sky is required to consolidate the assets, liabilities and results of Aura into its consolidated financial statements from the date of acquisition.

In accordance with AASB 10, Blue Sky is deemed to have controlled Aura from 15 September 2016 given: (a) the percentage of voting interests held; (b) the size and variable nature of returns arising from the equity investment; and (c) the relative dispersion of the remaining interests not held.

The following table summarises the total acquisition-date fair value of the consideration transferred:

	30 June 2017
	\$'000
Cash (including commitments)	2,200
<b>Total consideration transferred</b>	<b>2,200</b>

The following table summarises the total acquisition-date fair value of identifiable net assets acquired and liabilities assumed:

	30 June 2017
	\$'000
Cash (including commitments)	-
<b>Acquisition date fair value of identifiable net assets</b>	<b>-</b>

Goodwill arising from the acquisition has been recognised as follows:

	30 June 2017
	\$'000
Total consideration transferred	2,200
Non-controlling interest share at fair value on acquisition date	(1,100)
Acquisition date fair value of identifiable net assets	-
<b>Goodwill</b>	<b>1,100</b>

The fair values mentioned above are final and have not changed since the provisional assessment in accordance with AASB 3 *Business Combinations*.

### (b) Water Utilities Australia Fund 1

At 30 June 2017, Blue Sky held 52% of the stapled securities and voting interests in the Water Utilities Australia Fund 1 ('WUA Fund 1'), a fund created by Blue Sky to enable investors to gain exposure to the water infrastructure sector through the fund's investment in the Water Utilities Australia Group ('WUG').

In accordance with AASB 10, Blue Sky is deemed to control WUA Fund 1 given: (a) the percentage of voting interests held; (b) Blue Sky's role as trustee; (c) the size and variable nature of returns arising from the equity investment; and (d) the relative dispersion of the remaining interests not held.

On 23 December 2016, WUA Fund 1 completed on the 100% sale of its investment in WUG to Colonial First State's Global Diversified Infrastructure Fund. As a result of disposing of its investment, WUA Fund 1 has deconsolidated WUG during the period as a result of the loss of control.

Blue Sky is still considered to control WUA Fund 1 (while the fund assets have been sold, the fund has not yet been wound up) for the same reasons as mentioned above and as such continued to consolidate it during the period.

## ACCOUNTING POLICY

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to the profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in the statement of comprehensive income. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in the statement of comprehensive income by the acquirer on the acquisition date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of: (i) 12 months from the date of the acquisition; or (ii) when the acquirer receives all the information possible to determine fair value.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 26. Related party transactions

### *Ultimate parent entity*

Blue Sky Alternative Investments Limited is the ultimate parent entity of the entities defined as subsidiaries in Note 24. These subsidiaries are involved in the management of funds of related entities.

### *Associates*

Blue Sky Alternative Investments Limited is associated to entities through its investments in those entities as set out in Note 23 (Investments in associates and joint ventures).

### *Key management personnel*

Details of key management personnel are set out in Note 27.

	As at 30 June 2017		As at 30 June 2016	
<i>Related party investments in related entities</i>	<b>KMP</b>	<b>BSAIL</b>	<b>KMP</b>	<b>BSAIL</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Aura Australia Holding Trust	-	2,200	-	-
Atira Student Living Pty Ltd	-	6,097	-	5,025
Blue Sky Agriculture Fund	180	-	180	-
Blue Sky Agriculture Fund II	50	-	50	-
Blue Sky Alternatives Access Fund Limited	821	-	1,414	5,000
Blue Sky Alliance Fund Dynamic Macro Units	25	-	5	-
Blue Sky Beach Burrito Company Fund	100	-	50	-
Blue Sky Carbon Services Trust	45	-	45	-
Blue Sky Digital Outdoor Advertising Fund	860	-	870	-
Blue Sky Hotel Fund	140	-	140	-
Blue Sky Management Rights Income Fund	-	135	-	135
Blue Sky Management Rights Income Fund 2	-	2,190	-	2,190
Blue Sky Mining Services Trust	80	-	80	-
Blue Sky Premium Beef Development Fund	100	2,000	-	-
Blue Sky Private Equity 2010 Institutional Trust	125	1,486	125	1,486
Blue Sky Private Equity Aquila Fund	600	-	100	-
Blue Sky Private Equity Better Medical Fund	100	-	-	-
Blue Sky Private Equity Early Learning Fund	45	-	45	-
Blue Sky Private Equity Hospital Pharmacy Services Fund	72	-	-	-
Blue Sky Private Equity Lexer Fund	20	-	-	-
Blue Sky Private Equity Origo Education Fund	40	-	40	-
Blue Sky Private Equity QFS Fund	50	-	-	-
Blue Sky Private Equity Tourism Fund	52	-	-	-
Blue Sky Private Equity Retirement Village Fund	140	4,350	140	4,350
Blue Sky Private Equity Vinomofo Fund	-	4,620	-	4,620
Blue Sky Private Equity Wild Breads Fund	140	-	90	-
Blue Sky Private Equity Wild Breads RCPS Fund	23	-	-	-
Blue Sky RAMS Plantations Fund	-	-	-	42
Blue Sky Residential Asset Income Fund 1/Mackay Opco Pty Ltd	-	418	-	418
Blue Sky Residential Developments Fund	40	-	27	-
Blue Sky Retirement Living Corinda Fund	100	-	-	-
Blue Sky Retirement Living Parkwood Fund	-	2,200	-	-



<i>Related party investments in related entities</i>	As at 30 June 2017		As at 30 June 2016	
	<b>KMP</b>	<b>BSAIL</b>	<b>KMP</b>	<b>BSAIL</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Blue Sky VC2012 Fund LP	225	525	209	525
Blue Sky VC2014 Fund LP	50	-	50	-
Blue Sky VC2017 ESVCLP Fund LP	-	2,500	-	2,500
Blue Sky Strategic Australian Agriculture Fund	-	4,750	-	-
Blue Sky Student Accommodation Fund II	5	-	5	-
Blue Sky Student Accommodation Fund III	-	-	-	61
Blue Sky Student Accommodation Fund IV	-	-	-	864
Blue Sky Student Accommodation Fund 5	-	2,163	-	1,950
Blue Sky Student Accommodation Fund 6	-	1,575	-	1,575
Blue Sky Student Accommodation Fund 7	-	2,150	-	340
Blue Sky Student Accommodation Fund 8	-	2,375	-	1,000
Blue Sky Student Accommodation Fund 9	-	2,100	-	-
Blue Sky SMG Fund	44	-	-	-
Blue Sky VC Milk Fund	568	200	568	200
Blue Sky Water Fund	590	-	107	-
Cove Property Group 441 Ninth Avenue Trust	50	-	-	-
Duke Street Kangaroo Point Trust	-	125	-	125
Fernleigh Paddocks Management Trust	-	-	72	-
High Street Lutwyche Trust	-	1,000	-	-
Milky Way Development 2 Unit Trust	169	-	144	-
Milky Way Development 4 Unit Trust	200	-	200	-
RCL Accelerator Fund One	-	10	-	10
Riverside Gardens Trust	137	1,200	137	1,200
Wellington Road East Brisbane Trust 2	-	860	-	-
Water Utilities Australia Fund 1	-	7,875	-	7,875
Water Utilities Australia Fund 2	-	1,236	-	1,236
Valterra Hops Holdings LLC	-	3,900	-	-
<b>Total</b>	<b>5,986</b>	<b>60,240</b>	<b>4,893</b>	<b>42,727</b>

The above amounts are recorded at the entry price paid or committed for the relevant investment in accordance with AASB 124 *Related Party Disclosures* and have not been adjusted for subsequent valuation changes.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Fees

The Company provides management services to the funds it manages (which are defined as either associates or related entities).

	Year ended	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Revenue from associates</b>		
Management fees	9,854	13,636
Performance fees	1,373	5,167
Responsible entity and trustee fees	472	363
Other revenue	1,700	2,035
<b>Total</b>	<b>13,399</b>	<b>21,201</b>
<b>Revenue from related entities</b>		
Management fees	21,919	16,585
Performance fees	20,895	12,760
Responsible entity and trustee fees	794	670
Other revenue	4,644	2,700
<b>Total</b>	<b>48,252</b>	<b>32,715</b>
<b>Total revenue from related parties</b>	<b>61,651</b>	<b>53,916</b>

## Receivables from and payables to related parties

Balances held with related parties as disclosed in Note 10 and Note 15 are shown below:

	Year ended	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Receivables</b>		
Current trade and other receivables from associates	17,174	15,596
Current trade and other receivables from related parties	17,021	22,911
Non-current trade and other receivables from associates	7,307	6,830
Non-current trade and other receivables from related parties	12,329	2,056
<b>Total</b>	<b>53,831</b>	<b>47,393</b>
<b>Payables</b>		
Current trade and other payables to associates	19,369	8,426
Current trade and other payables to related parties	8,771	3,675
Non-current trade and other payables to associates	2,670	-
Non-current trade and other payables to related parties	465	7,109
<b>Total</b>	<b>31,275</b>	<b>19,210</b>

## Loans to related parties

The Group has loans owing from related parties and associates at 30 June 2017. These loans are provided on commercial terms with interest being charged at an interest rate of 10% per annum (2016: 10% per annum).

Where loans have been made to Blue Sky employees (including KMP), interest has been charged at interest rates ranging from 4.41% to 4.81% per annum (2016: 4.59% to 5.09% per annum).

## Note 27. Key management personnel disclosures

### *Directors*

The following persons were Directors of the Company during the financial year:

John Kain (Chairman)	Alexander McNab
Timothy Wilson (Deputy Chair)	Kim Morison
Nicholas Dignam (Appointed 29 September 2016)	Robert Shand (Appointed 29 September 2016)
Michael Gordon (Appointed 17 February 2017)	Mark Sowerby (Resigned 30 September 2016)
Philip Hennessy (Appointed 17 February 2017)	Elaine Stead (Appointed 29 September 2016)

### *Other key management personnel*

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:

Jane Prior (Company Secretary)

### *Compensation*

The aggregate compensation paid/payable to Directors and other members of key management personnel of the Group is set out below:

	Year ended	
	30 June 2017	30 June 2016
	\$'000	\$'000
Short-term employee benefits	3,809	2,272
Post-employment benefits and long service leave	275	253
Share based payments	296	2
<b>Total</b>	<b>4,380</b>	<b>2,527</b>

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Shareholdings

The number of shares in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their related parties, is set out below:

	Balance at the start of the year	Granted as remuneration	Additions	Disposals	Balance at the end of the year
	'000	'000	'000	'000	'000
<b>Ordinary shares</b>					
<b>2017</b>					
John Kain	1,210	-	91	-	1,301
Timothy Wilson	1,700	-	5	-	1,705
Michael Gordon <sup>1</sup>	-	-	10	-	10
Philip Hennessy <sup>1</sup>	5	-	-	-	5
Alexander McNab	1,004	-	-	-	1,004
Kim Morison	947	-	-	-	947
Robert Shand <sup>2</sup>	200	-	-	-	200
Mark Sowerby <sup>3</sup>	8,365	-	-	(3,365)	5,000
Elaine Stead <sup>2</sup>	15	-	4	-	19
Jane Prior	156	-	-	-	156
	<b>13,602</b>	<b>-</b>	<b>110</b>	<b>(3,365)</b>	<b>10,347</b>
<b>2016</b>					
John Kain	1,110	-	100	-	1,210
Timothy Wilson	1,800	-	-	(100)	1,700
Alexander McNab	1,004	-	-	-	1,004
Kim Morison	945	-	2	-	947
Robert Shand	210	-	37	(47)	200
Mark Sowerby	9,500	-	-	(1,135)	8,365
Jane Prior	156	-	-	-	156
	<b>14,725</b>	<b>-</b>	<b>139</b>	<b>(1,282)</b>	<b>13,582</b>

<sup>1</sup> On 17 February 2017, Mr Michael Gordon and Mr Philip Hennessy were appointed as independent Non-Executive Directors of the Company.

<sup>2</sup> On 29 September 2016, Mr Robert Shand and Ms Elaine Stead were appointed as Directors of the Company.

<sup>3</sup> On 30 September 2016, Mr Mark Sowerby retired from his role as Managing Director of the Company.

## Share options

The number of share options in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their related parties, is set out below:

	Balance at the start of the year	Granted as remuneration	Option exercised	Balance at the end of the year	Total	Exercised	Not exercisable
	'000	'000	'000	'000	'000	'000	'000
<b>Share options</b>							
<b>2017</b>							
Nicholas Dignam <sup>4</sup>	200	300	-	500	500	-	400
Robert Shand <sup>4</sup>	38	1,300	-	1,338	1,338	-	1,319
Elaine Stead <sup>4</sup>	-	200	-	200	200	-	200
Jane Prior	75	-	-	75	75	-	19
	<b>313</b>	<b>1,800</b>	<b>-</b>	<b>2,113</b>	<b>2,113</b>	<b>-</b>	<b>1,938</b>
<b>2016</b>							
Robert Shand	75	-	38	38	38	38	38
Jane Prior	75	-	-	75	75	-	38
	<b>150</b>	<b>-</b>	<b>38</b>	<b>113</b>	<b>113</b>	<b>38</b>	<b>76</b>

<sup>4</sup> On 29 September 2016, Mr Nicholas Dignam, Mr Robert Shand and Ms Elaine Stead were appointed as Directors of the Company.

### *Share based compensation*

1,800,000 share options were granted as remuneration to KMP, during the year ended 30 June 2017 (2016: nil).

### *Related party transactions*

Related party transactions are set out in Note 26.

## Note 28. Parent entity information

Set out below is the supplementary information about the parent entity:

	Year ended	
	30 June 2017	30 June 2016
	\$'000	\$'000
<i>Statement of comprehensive income</i>		
Net (loss) after income tax	(13,640)	(12,773)
<b>Total comprehensive income</b>	<b>(13,640)</b>	<b>(12,773)</b>
	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
<i>Statement of financial position</i>		
Total current assets	33,200	36,964
Total assets	76,058	98,011
Total current liabilities	15,271	12,437
Total liabilities	18,213	15,868
Equity		
Contributed equity	120,613	119,611
Reserves	1,889	804
Accumulated losses	(64,657)	(38,272)
<b>Total equity</b>	<b>57,845</b>	<b>82,143</b>

### *Contingent liabilities*

The Company has provided Letters of Financial Support to its wholly owned subsidiaries Blue Sky Water Partners Pty Ltd and Blue Sky Residential Asset Managers Pty Ltd. Pursuant to these letters, the Company undertakes to provide financial support for the debts of these subsidiaries.

At the date of this declaration, there are reasonable grounds to believe that Blue Sky Water Partners Pty Ltd and Blue Sky Residential Asset Managers Pty Ltd will be able to meet any obligations or liabilities to which they are, or may become, liable due to the Letters of Financial Support.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Section 6: Other

### Note 29. Employee benefits

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Current</b>		
Employee provisions	1,091	853
Salaries and superannuation	3,333	3,674
<b>Total current employee benefits</b>	<b>4,424</b>	<b>4,527</b>
<b>Non-current</b>		
Employee provisions	506	393
<b>Total non-current employee benefits</b>	<b>506</b>	<b>393</b>

#### ACCOUNTING POLICY

##### *Provisions*

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability.

##### *Employee benefits*

Wages and salaries, annual leave, bonuses

Liabilities for wages and salaries, including non-monetary benefits, annual leave and bonuses in accordance with the Investment Company Bonus Policy are recognised in current and non-current liabilities depending on the expected date of settlement. Those expected to be settled within 12 months of the reporting date are recognised in current liabilities and are measured at the amounts expected to be paid when the liabilities are settled. Those not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities and are measured using the present value of expected future payments.

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

## Note 30. Share-based payments

	2017 Number '000	2017 WAEP <sup>1</sup>	2016 Number '000	2016 WAEP <sup>1</sup>
<b>Options outstanding at 1 July</b>	<b>2,428</b>	<b>\$3.72</b>	<b>2,820</b>	<b>\$2.03</b>
Granted during the year	3,492	\$8.05	911	\$6.29
Forfeited during the year	(200)	\$7.00	(750)	\$2.26
Exercised during the year	(339)	\$3.01	(553)	\$1.28
<b>Options outstanding at 30 June</b>	<b>5,381</b>	<b>\$6.45</b>	<b>2,428</b>	<b>\$3.72</b>
Exercisable at 30 June	1,060	\$2.29	1,073	\$1.80

<sup>1</sup> Weighted Average Exercise Price ('WAEP').

The weighted average remaining life of share options outstanding as at 30 June 2017 was 3.74 years (2016: 3.15 years).

The weighted average fair value of share options granted during the year was \$272,478 (2016: \$227,216).

The range of exercisable prices for share options outstanding at the end of the year was \$1.00 to \$10.00 (2016: \$1.00 to \$7.50).

The information below lists the inputs to the models used for the years ended 30 June 2017 and 30 June 2016.

2017	Issue 1	Issue 2	Issue 3	Issue 4
Dividend yield (%)	2.09%	2.71%	2.00%	2.14%
Expected volatility (%)	35.00%	35.00%	35.00%	35.00%
Risk-free interest rate (%)	2.11%	2.16%	1.62%	2.27%
Expected life of options (years)	6.0	6.0	6.0	6.0
Weighted average share price (\$)	\$10.00	\$7.7	\$8.63	\$7.50
Model used	Binomial	Binomial	Binomial	Binomial
2016	Issue 1	Issue 2	Issue 3	
Dividend yield (%)	2.00%	2.00%	2.05%	
Expected volatility (%)	35.00%	35.00%	35.00%	
Risk-free interest rate (%)	2.03%	1.61%	2.22%	
Expected life of options (years)	5.0	5.0	5.0	
Weighted average share price (\$)	\$6.87	\$7.50	\$4.13	
Model used	Binomial	Binomial	Binomial	

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the share options is indicative of future trends, which may not necessarily be the actual outcome.

The Group has recognised a \$1,086,000 (2016: \$275,000) expense in relation to share based payments for the year ended 30 June 2017.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## ACCOUNTING POLICY

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The probability of meeting non-market vesting conditions is used to estimate the number of options which are likely to vest.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to the statement of comprehensive income is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in the statement of comprehensive income for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

## Note 31. Other assets

	As at	
	30 June 2017	30 June 2016
<b>Current</b>	<b>\$'000</b>	<b>\$'000</b>
Prepayments	4,651	4,251
<b>Total other assets</b>	<b>4,651</b>	<b>4,251</b>

## Note 32. Other liabilities

	As at	
	30 June 2017	30 June 2016
<b>Non-current</b>	<b>\$'000</b>	<b>\$'000</b>
Accrued expenses	7,529	3,499
Contingent consideration – acquisition of Investment Science Pty Ltd	125	75
Lease incentive liability	1,992	2,371
Related party payables (Note 26)	3,135	7,109
<b>Total other non-current liabilities</b>	<b>12,781</b>	<b>13,054</b>



## Note 33. Commitments for expenditure

	Year ended	
	30 June 2017	30 June 2016
	\$'000	\$'000
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	1,945	1,718
One to five years	6,412	6,141
More than five years	3,103	4,264
<b>Total commitment</b>	<b>11,460</b>	<b>12,123</b>
Investment commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	12,867	-
One to five years	-	-
More than five years	-	-
<b>Total commitment</b>	<b>12,867</b>	<b>-</b>

### ACCOUNTING POLICY

#### Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

# Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2017

## Note 34. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Group, and its related practices:

	Year ended	
	30 June 2017	30 June 2016
	\$	\$
<i>Audit services – Ernst &amp; Young</i>		
Audit or review of Financial Report	296,412	291,795
<i>Other services – Ernst &amp; Young</i>		
Accounting, due diligence and taxation advice	346,354	217,876
<b>Total remuneration of auditors</b>	<b>642,766</b>	<b>509,671</b>

## Note 35. Events subsequent to the reporting date

On 14 August 2017, the Directors resolved to pay a final fully franked dividend of 23 cents per share in relation to the 2017 financial year. The record date for this dividend will be 28 August 2017 and the payment date will be 11 September 2017.

Other than this matter, there are no other subsequent events.

# Directors' Declaration

In accordance with a resolution of the Directors of the Company, the Directors declare that:

1. the financial statements and notes, as set out on pages 34 to 88, are in accordance with the Corporations Act 2001 and:
  - a. comply with Australian Accounting Standards, which, as stated in the accounting policy in Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
  - b. give a true and fair view of the financial position of the Company as at 30 June 2017 and of the performance for the year ended on that date;
2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. the Directors have been given the declarations required by s295A of the Corporations Act 2001 from the Chief Financial Officer and Managing Director.

On behalf of the Directors

A handwritten signature in blue ink, appearing to read 'John Kain', with a horizontal line underneath.

**John Kain**  
Chairman

14 August 2017  
Brisbane

# Independent Auditor's Report



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## Independent auditor's report to the members of Blue Sky Alternative Investments Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Blue Sky Alternative Investments Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## 1. Revenues from management services

Refer to note 4 of the financial report

Why significant	How our audit addressed the key audit matter
<p>Revenues from management services are the largest revenues of the Group which comprise management fees, performance fees and establishment fees are the result of investment management services provided by the Group.</p> <p>The calculation of all fees for management services is based on fund specific contractual arrangements as detailed in each fund's constituent documents.</p> <p>Establishment fees arise on inception of a new fund and are typically recorded upon issuance of units by the fund.</p> <p>Performance fees are based on the return of each fund over a specific benchmark as outlined in the fund's constituent documents. For closed ended funds that have not been realised at 30 June 2017 there is subjectivity involved in determining the performance fee revenue as the calculation is based on the valuation of the underlying investment.</p> <p>Performance fees are either paid quarterly/annually or on the realisation of the underlying investment.</p>	<p>In obtaining sufficient and appropriate audit evidence, we performed the following procedures for a sample of management services revenue recognised during the year:</p> <ul style="list-style-type: none"> <li>▶ Read contracts and agreements for management services revenue including Information Memorandums to understand the nature of the transactions</li> <li>▶ Agreed the management services revenue calculation to the terms in the fund's constituent documents and evaluated whether the revenue had been recognised in relation to the stage of completion of the management services</li> <li>▶ Agreed the management services revenue where applicable to cash receipt in the bank account</li> <li>▶ Assessed whether the management services revenue receivables as at 30 June 2017 are recoverable.</li> </ul> <p>For a sample of performance fee revenues we agreed the performance fee calculation to the fund's constituent documents and to the valuation of the underlying investment and performed the procedures on the internal valuations as set out in the key audit matter on valuation of investments below (KAM 3).</p>

## 2. Control / significant influence over funds

Refer to notes 23 and 24 of the financial report

Why significant	How our audit addressed the key audit matter
<p>The Group holds investments in certain funds that it manages. In accordance with Australian Accounting Standards the Group is required to determine whether it controls or has significant influence over these investments.</p> <p>If the investment is controlled it is required to be consolidated. Where the Group has significant influence, the investment is equity accounted.</p> <p>As a result of the Group controlling four funds as at 30 June 2017 these funds have been consolidated into the Group's financial report.</p>	<p>For a sample of investments we assessed whether the Group had control or significant influence in accordance with Australian Accounting Standards and the subsequent accounting treatment adopted by the Group.</p> <p>The procedures performed on the equity accounted investments where the underlying investment is recorded at fair value are set out in the valuation of investments key audit matter below (KAM 3).</p>

# Independent Auditor's Report - continued



## 3. Valuation of investments

Refer to note 23 of the financial report

### Why significant

The Group holds investments in certain funds that are equity accounted. Some of the underlying investments that these funds have invested in are recorded at fair value.

The valuation process involves significant judgement as these investments are classified as "level three" securities in accordance with Australian Accounting Standard - AASB 13 *Fair Value Measurement*, as there are no observable market inputs for valuation.

The Group uses internal and external valuation specialists to assist in determining the appropriateness of fair value, as explained in note 3 of the financial report. Due to the significant judgement involved, the valuers generally provide a range of estimated values.

### How our audit addressed the key audit matter

For a sample of underlying investments that are fair valued we performed the following:

- ▶ Examined underlying financial reports of the investments where available
- ▶ Examined the internal valuations and the work of the external valuation experts engaged by the Group
- ▶ Assessed the competence and independence (where applicable) of the Group's internal and external valuation experts
- ▶ Where relevant, we involved our valuation specialists to assess the valuation methodology and key assumptions used in the valuation of the underlying investments including discount rates and multiples
- ▶ Agreed the forecasted and actual earnings used in the valuation to Board approved forecasts and actual results and checked the clerical accuracy of the calculation
- ▶ Assessed the reasonableness of forecasted earnings including review of key assumptions and evaluated accuracy of forecasting by comparing previous forecasts to actuals.

## 4. Valuation of investment properties

Refer to note 12 of the financial report

### Why significant

The Group holds investment properties in retirement villages carried at fair value, which are assessed with reference to either external independent property valuations or internal valuations, based on market conditions existing at reporting date.

The Group engages internal and external valuation experts to assist in determining the appropriateness of the value. Due to the significant judgement involved, the valuers generally provide a range of estimated values.

### How our audit addressed the key audit matter

For a sample of investment properties that are fair valued we performed the following:

- ▶ Examined the internal valuations and the work of external valuation experts engaged by the Company
- ▶ Assessed the competence and independence (where applicable) of the Group's internal and the external valuers
- ▶ Tested a sample of the source data used in the valuations by agreeing the source data to supporting resident contracts
- ▶ Performed testing of the clerical accuracy and calculation methodology of the internal valuation models, including assessing the key valuation inputs
- ▶ Where relevant, we involved our real estate valuation specialists to assess the valuation methodology and key assumptions used in the valuation of the underlying investment including discount rates, growth rates and terminal values.

## Information other than the financial Report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report and the Corporate Governance Statement that are to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Independent Auditor's Report - continued



## Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our auditor's report.

## Report on the audit of the remuneration report

### Opinion on the remuneration report

We have audited the Remuneration Report included in pages 20 to 28 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Blue Sky Alternative Investments Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.





### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Ernst & Young*  
Ernst & Young

*PMuskie*  
Paula McLuskie  
Partner  
Brisbane  
14 August 2017

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# Appendix A

## Comparative Tables: Statutory Results and Underlying Results

### *Adoption of AASB 10 Accounting Standard by the Group*

The Group consists of Blue Sky Alternative Investments Limited and its wholly owned subsidiaries. These subsidiaries manage a range of funds across Private Equity, Private Real Estate, Real Assets and Hedge Funds on behalf of investors in each of those funds. The Group also holds investments in a number of the funds that it manages from which it seeks to derive investment income.

Blue Sky adopted AASB 10 in the 2014 financial year and this standard continues to apply. Following the adoption of the control framework provided in AASB 10, the accounting treatment of the investments Blue Sky holds in a number of the funds it manages changed. In this Financial Report, four funds have been consolidated into the Group's FY17 full year results and investments in 28 funds and two operating businesses have been accounted for using the equity method during the year. The accounting treatment for each of these funds is discussed in more detail below.

In order to provide shareholders with meaningful insight into the financial condition and performance of the Group, comparative tables have been provided that reconcile the Group's statutory results with Blue Sky's underlying results. These underlying results are those that would be produced if Blue Sky reported all of its investments in funds that it manages at fair value through Profit and Loss under AASB 139 *Financial Instruments* using the same principles of fair value that are included in AASB 13 *Fair Value Measurement*. Management and the Board review the performance of Blue Sky on the basis of its underlying results on at least a monthly basis throughout each year. The performance of Blue Sky on the basis of its statutory results is only reviewed by Management and the Board semi-annually at the time of preparing Blue Sky's half and full-year Financial Reports.

These underlying results are non-IFRS financial information and have been subject to review by Blue Sky's auditor (Ernst & Young).

### *Investments Consolidated in Blue Sky's Statutory Results*

Under AASB 10, the Group consolidates all of the entities it controls, including those funds managed by Blue Sky in which it holds equity and is deemed to have control. In relation to the funds in which Blue Sky holds equity, the Company is presumed to have control based on a range of quantitative and qualitative factors that include:

- the economic return that Blue Sky derives from its ownership in the relevant fund;
- whether Blue Sky or its related parties have control or significant influence over the relevant fund; and
- variable returns, such as performance and other fees, that Blue Sky is entitled to as manager of the fund.

In the 2017 financial year, four funds managed by Blue Sky have been consolidated into the Group's Financial Report and the Group's statutory results include the financial performance of these funds:

1. Blue Sky Private Real Estate Riverside Gardens Trust ('Riverside Gardens Trust')

The Riverside Gardens Trust ('the Trust') is managed by Blue Sky's Private Real Estate division. The Trust owns a parcel of land in Townsville that is being developed into 110 apartments across three stages. Construction is complete in Stages 1 and 2 of the development. Construction design is complete and sales and marketing are progressing in Stage 3. Blue Sky owns 1.2 million units in the Trust.

2. Water Utilities Australia Fund 1 ('WUA Fund 1')

WUA Fund 1 is managed by Blue Sky's Real Assets division and invested in the Water Utilities Group ('WUG'), a business that was established to invest in water infrastructure in Australia.

On 23 December 2016, WUA Fund 1 completed on the 100% sale of its investment in WUG to Colonial First State's Global Diversified Infrastructure Fund. As a result of disposing of its investment, WUA Fund 1 has deconsolidated WUG during the period as a result of the loss of control.

Blue Sky is still considered to control WUA Fund 1 (while the fund's assets have been sold, WUA Fund 1 has not yet been wound up) as it continues to hold a controlling interest in the fund and as such Blue Sky continues to consolidate the fund during the period. Blue Sky owns 7.875 million units in WUA Fund 1.

3. Blue Sky RAMS Management Rights Income Fund 2 ('Management Rights Fund 2')

Management Rights Fund 2 is managed by Blue Sky's Private Real Estate division. The trust owns management rights for a range of apartment complexes in Townsville. As at 30 June 2017, there were approximately 134 apartments in the letting pool managed by this trust. The decline since FY16 is primarily due to the sale of the management rights at one apartment complex. Blue Sky owns 2.19 million units in Management Rights Fund 2.

4. Aura Australia Holdings Trust ('Aura')

Aura owns, operates and manages retirement villages throughout Australia including Blue Sky's portfolio of retirement villages. These retirement villages are currently at varying stages of completion ranging from finished product earning deferred management fee revenue, to under construction or in the development approval process. Blue Sky owns 120 units in Aura.

### *Investments Accounted for using the Equity Method in Blue Sky's Statutory Results*

As a result of the control considerations outlined in AASB 10 which contemplates both returns from equity investments and other variable returns such as those from investment management services, Blue Sky has re-assessed where it is deemed to exert significant influence, but not control its funds, which are accounted for using the equity method of accounting. Under the equity method of accounting, Blue Sky's share of profits or losses from equity accounted investments are included in the statement of comprehensive income and the carrying amounts reflected in the consolidated statement of financial position. During the 2017 financial year, Blue Sky held investments in 28 funds and two operating businesses that have been accounted for using the equity method:

Blue Sky Alternatives Access Fund Limited  
Blue Sky Private Equity 2010 Institutional Trust  
Blue Sky Private Equity Retirement Village Fund  
Blue Sky Private Equity Vinomofu Fund  
Blue Sky VC2012 Fund LP  
Blue Sky VC2017 ESVCLP Fund LP  
Blue Sky Venture Capital Milk Fund  
RCL Accelerator Fund One  
Blue Sky Management Rights Income Fund  
Blue Sky RAMS Plantations Fund  
Mackay Opco Pty Ltd  
Blue Sky Residential Asset Income Fund 1  
Blue Sky Retirement Living Parkwood Fund  
Duke Street Kangaroo Point Trust  
High Street Lutwyche Trust  
Wellington Road East Brisbane Trust 2  
Blue Sky Student Accommodation Fund III  
Blue Sky Student Accommodation Fund IV  
Blue Sky Student Accommodation Fund 5  
Blue Sky Student Accommodation Fund 6  
Blue Sky Student Accommodation Fund 7  
Blue Sky Student Accommodation Fund 8  
Blue Sky Student Accommodation Fund 9  
Blue Sky Premium Beef Development Fund  
Blue Sky Strategic Australian Agriculture Fund  
Water Utilities Australia Fund 2  
Valterra Hops Holdings LLC  
Atira Student Living Pty Ltd  
(formerly The Pad Management (Australia) Pty Ltd)  
Cove Operating Company LLC  
Student Quarters Blue Sky GP LLC

### *Measurement of Fair Value*

#### **Valuation techniques**

Investments held by the Company include investments in funds that it manages. These funds are in turn invested in direct and indirect equity and debt investments and other assets. The following valuation techniques are applied by the Company to determine fair values in accordance with AASB 13:

- Market approach;
- Income approach; and
- Adjusted net asset value method.

The Company has control mechanisms in place to ensure that the fair value of financial instruments that are reported in or are material to its financial statements are in accordance with AASB 13, are determined on a reasonable basis and are subject to appropriate levels of independent review by third parties.

#### **1) Market approach**

A market approach uses quoted market prices or dealer quotes for comparable instruments to fair value a financial asset. A multiple approach can be used in the valuation of less liquid securities, such as equity in a private operating company. Comparable businesses and multiple techniques assume that the valuation of unquoted direct investments can be assessed by comparing performance measure multiples of similar quoted assets for which observable market prices are readily available. This may involve defining a list of comparable public companies based on industry, size, development stage, strategy, etc. Subsequently, the most appropriate performance measure for determining the valuation of the relevant direct investment is selected (these include but are not limited to EBITDA, price/earnings ratios for earnings or price/book ratios for book values). Trading multiples for each comparable company identified are calculated by dividing the market capitalisation or enterprise value of the comparable company by the defined performance measure. The relevant trading multiples might be subject to adjustment for general qualitative differences such as liquidity, growth rate or quality of customer base between the valued direct investment and the comparable company set. The indicated fair value of the direct investment is determined by applying the relevant adjusted trading multiple to the identified performance measure of the valued company.

## Appendix A - continued

### 2) Income approach

Within the income approach the Company primarily uses the discounted cash flow method and the income capitalisation model. Expected cash flow amounts are discounted to a present value at a rate of expected return that represents the time value of money and reflects the relative risks of the investment. Direct investments can be valued by using the 'cash flow to investor' method, or indirectly, by deriving the enterprise value using the 'free cash flow to company or project' method and subsequently subtracting the direct investment's net debt in order to determine the equity value of the relevant direct investment. Expected future cash flows based on agreed investment terms or expected growth rates must be determined. In addition, and based on the current market environment, an expected return of the respective direct investment is projected. The future cash flows are discounted to the balance date to determine the fair value at that time.

The Company commonly applies this method to Private Real Estate projects (student accommodation, retirement living and residential development) or infrastructure-style assets.

### 3) Adjusted net asset value method

In certain circumstances, a combination of the market and the income approach is used to derive the adjusted net asset value of an asset owned through a financial instrument. This balance-sheet focused methodology considers the fair value of a company or fund's assets, reduced by the value of its liabilities. It is most applicable for businesses where the value lies in the underlying assets and not the ongoing operations of the business. It may be used for example, where a business is undergoing significant change and no longer operating in its full capacity as a going concern (such as an operating farm undergoing a change of use).

The fair value of one or more balance sheet assets may be determined using a commonly-accepted methodology applied on a consistent basis, with the assistance of a third-party specialist where appropriate (such as for agricultural land, biological assets and farming equipment). Despite the use of observable inputs or expert opinion where possible, such a process may still involve varying degrees of judgement by management.

#### **Unobservable input factors**

Where available, valuation techniques use market-observable assumptions and inputs. If such information is not available, inputs may be derived by reference to similar assets and active markets, from recent prices for comparable transactions or from other observable market data. When measuring fair value, the Company selects the non-market-observable inputs to be used in its valuation techniques based on a combination of historical experience, derivation of input levels based upon similar investment strategies with observable price levels and knowledge of current market conditions and valuation approaches. Within its valuation techniques the Company uses different unobservable input factors. Significant unobservable inputs include: EBITDA multiples (based on budgeted/forward-looking EBITDA or historical EBITDA and EBITDA multiples of comparable listed companies for an equivalent period), discount rates, capitalisation rates, price/book as well as price/earnings ratios and enterprise value/revenue multiples.

The valuation process also considers the original transaction prices, recent transactions in the same or similar instruments and completed third-party transactions in comparable instruments, and adjusts the model as deemed necessary. Further inputs consist of external valuation appraisals and broker quotes.

A significant portion of the Company's Private Equity investments are measured using EBITDA or revenue multiples. Private Real Estate projects typically employ a discounted cash flow or income capitalisation approach, whilst Real Assets funds typically adopt the adjusted net asset value method.

FY17: Reconciliation of Consolidated Statement of Comprehensive Income with Underlying Results for the year ended 30 June 2017

<i>In AUD \$Ms</i>	Consolidated statement of comprehensive income ('statutory results')	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
<b>Revenue</b>			
Management fees	\$33.4m	\$4.2m	\$37.6m
Performance fees	\$22.3m	-	\$22.3m
Investment income	\$7.2m	\$0.4m	\$7.6m
Share of profit of associates and joint ventures	\$8.1m	\$1.3m	\$9.4m
Other income	\$13.4m	-\$5.3m	\$8.1m
<b>Total revenue</b>	<b>\$84.4m</b>	<b>\$0.6m</b>	<b>\$85.0m</b>
<b>Expenses</b>			
Employee benefits	-\$26.5m	\$1.7m	-\$24.8m
Fee rebates to BAF	-\$5.9m	-	-\$5.9m
External capital raising costs	-\$2.4m	-	-\$2.4m
External service providers	-\$2.9m	\$0.2m	-\$2.7m
Travel and entertainment	-\$2.8m	\$0.1m	-\$2.7m
Occupancy	-\$2.2m	\$0.2m	-\$2.0m
Finance costs	-\$1.2m	\$0.2m	-\$1.0m
Depreciation and amortisation	-\$1.4m	\$1.0m	-\$0.4m
Other expenses	-\$9.4m	\$3.8m	-\$5.6m
<b>Total expenses</b>	<b>-\$54.7m</b>	<b>\$7.2m</b>	<b>-\$47.5m</b>
<b>Profit before income tax</b>	<b>\$29.7m</b>	<b>\$7.8m</b>	<b>\$37.5m</b>
Income tax expense	-\$9.0m	-\$3.0m	-\$12.0m
<b>Profit after income tax for the period</b>	<b>\$20.7m</b>	<b>\$4.8m</b>	<b>\$25.5m</b>
<b>Total comprehensive income for the period</b>			
Profit is attributable to:			
Non-controlling interests	\$0.1m	-\$0.1m	-
Owners of Blue Sky Alternative Investments Limited	\$20.6m	\$4.9m	\$25.5m

# Appendix A - continued

## FY17: Reconciliation of Consolidated Statement of Financial Position with Underlying Results as at 30 June 2017

In AUD \$Ms

	Consolidated statement of financial position	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
<b>Current assets</b>			
Cash and cash equivalents	\$72.2m	-\$1.6m	\$70.6m
Trade and other receivables	\$38.4m	-\$0.4m	\$38.0m
Inventory	\$0.5m	-\$0.5m	-
Other assets	\$4.6m	-	\$4.6m
<b>Total current assets</b>	<b>\$115.7m</b>	<b>-\$2.5m</b>	<b>\$113.2m</b>
<b>Non-current assets</b>			
Trade and other receivables	\$48.5m	\$4.3m	\$52.8m
Inventory	\$2.0m	-\$2.0m	-
Investment property – retirement villages	\$54.9m	-\$54.9m	-
Investments in associates and joint ventures	\$51.6m	-\$40.1m	\$11.5m
Financial assets at fair value through profit and loss	-	\$63.4m	\$63.4m
Property, plant and equipment	\$4.8m	-\$1.6m	\$3.2m
Intangible assets	\$11.0m	-\$5.4m	\$5.6m
Deferred tax assets	-	-	-
<b>Total non-current assets</b>	<b>\$172.8m</b>	<b>-\$36.3m</b>	<b>\$136.5m</b>
<b>Total assets</b>	<b>\$288.5m</b>	<b>-\$38.8m</b>	<b>\$249.7m</b>
<b>Current liabilities</b>			
Trade and other payables	\$35.7m	\$0.9m	\$36.6m
Borrowings	\$16.7m	-\$8.3m	\$8.4m
Deferred revenue	\$9.1m	-\$0.7m	\$8.4m
Income tax	\$1.3m	-	\$1.3m
Employee benefits	\$4.4m	-\$0.1m	\$4.3m
Resident loans – retirement villages	\$14.9m	-\$14.9m	-
<b>Total current liabilities</b>	<b>\$82.1m</b>	<b>-\$23.1m</b>	<b>\$59.0m</b>
<b>Non-current liabilities</b>			
Deferred revenue	\$3.6m	\$1.4m	\$5.0m
Employee benefits	\$0.5m	-	\$0.5m
Borrowings	\$37.2m	-\$37.2m	-
Other non-current liabilities	\$12.8m	-	\$12.8m
Deferred tax liabilities	\$10.9m	\$5.3m	\$16.2m
<b>Total non-current liabilities</b>	<b>\$65.0m</b>	<b>-\$30.5m</b>	<b>\$34.5m</b>
<b>Total liabilities</b>	<b>\$147.1m</b>	<b>-\$53.6m</b>	<b>\$93.5m</b>
<b>Net assets</b>	<b>\$141.4m</b>	<b>\$14.8m</b>	<b>\$156.2m</b>
<b>Equity</b>			
Contributed equity	\$120.6m	-	\$120.6m
Reserves	-\$5.6m	-	-\$5.6m
Accumulated profits	\$26.7m	\$14.5m	\$41.2m
<b>Total equity attributable to the owners of Blue Sky</b>	<b>\$141.7m</b>	<b>\$14.5m</b>	<b>\$156.2m</b>
Non-controlling interests	-\$0.3m	\$0.3m	-
<b>Total equity</b>	<b>\$141.4m</b>	<b>\$14.8m</b>	<b>\$156.2m</b>

FY17: Reconciliation of Consolidated Statement of Cash Flows with Underlying Results for the year ended 30 June 2017

In AUD \$Ms

	Consolidated statement of cash flows	Impact where investments are consolidated rather than reported at fair value	Underlying results
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)	\$65.8m	\$5.8m	\$71.6m
Payments to suppliers and employees (inclusive of GST)	-\$54.8m	\$5.0m	-\$49.8m
Interest received	\$2.4m	-	\$2.4m
Interest and other finance costs paid	-\$1.1m	\$0.2m	-\$0.9m
Income taxes paid	-\$3.9m	\$0.1m	-\$3.8m
<b>Net cash from operating activities</b>	<b>\$8.4m</b>	<b>\$11.1m</b>	<b>\$19.5m</b>
<b>Cash flows from investing activities</b>			
Payments for equity investments	-\$11.0m	-\$1.1m	-\$12.1m
Proceeds from disposal of equity investments (including distributions)	\$27.6m	-\$9.9m	\$17.7m
Payments for property, plant and equipment	-\$0.4m	\$0.3m	-\$0.1m
Payments for investment property	-\$28.3m	\$28.3m	-
Payments for intangible assets (net of proceeds on disposal)	\$0.7m	-\$0.9m	-\$0.2m
Bridging finance and loans to funds	-\$7.3m	-\$0.2m	-\$7.5m
<b>Net cash used in investing activities</b>	<b>-\$18.7m</b>	<b>\$16.5m</b>	<b>-\$2.2m</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	\$1.0m	-	\$1.0m
Share issue transaction costs	-\$0.2m	-	-\$0.2m
Proceeds from borrowings	\$71.9m	-\$38.5m	\$33.4m
Repayment of borrowings	-\$37.6m	\$4.6m	-\$33.0m
Dividends paid	-\$16.4m	\$5.6m	-\$10.8m
<b>Net cash from/(used in) financing activities</b>	<b>\$18.7m</b>	<b>-\$28.3m</b>	<b>-\$9.6m</b>
<b>Net increase in cash and cash equivalents</b>	<b>\$8.4m</b>	<b>-\$0.7m</b>	<b>\$7.7m</b>
Cash and cash equivalents at the beginning of the year	\$63.8m	-\$0.9m	\$62.9m
<b>Cash and cash equivalents at the end of the year</b>	<b>\$72.2m</b>	<b>-\$1.6m</b>	<b>\$70.6m</b>

## Appendix A - continued

FY16: Reconciliation of Consolidated Statement of Comprehensive Income with Underlying Results for the year ended 30 June 2016.

<i>In AUD \$Ms</i>	Consolidated statement of comprehensive income ('statutory results')	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
<b>Revenue</b>			
Management fees	\$31.0m	\$0.5m	\$31.5m
Performance fees	\$18.7m	-	\$18.7m
Investment income	-\$0.7m	\$7.6m	\$6.9m
Share of profit of associates and joint ventures	\$2.8m	-\$1.7m	\$1.1m
Other income	\$19.1m	-\$14.5m	\$4.6m
<b>Total revenue</b>	<b>\$70.9m</b>	<b>-\$8.1m</b>	<b>\$62.8m</b>
<b>Expenses</b>			
Employee benefits	-\$20.7m	\$1.5m	-\$19.2m
Fee rebates to BAF	-\$5.6m	-	-\$5.6m
External capital raising costs	-\$2.1m	-	-\$2.1m
External service providers	-\$4.5m	\$0.3m	-\$4.2m
Travel and entertainment	-\$2.3m	-	-\$2.3m
Occupancy	-\$2.1m	\$0.2m	-\$1.9m
Finance costs	-\$1.3m	\$0.5m	-\$0.8m
Depreciation and amortisation	-\$2.3m	\$1.8m	-\$0.5m
Other expenses	-\$14.3m	\$11.3m	-\$3.0m
<b>Total expenses</b>	<b>-\$55.2m</b>	<b>\$15.6m</b>	<b>-\$39.6m</b>
<b>Profit before income tax</b>	<b>\$15.7m</b>	<b>\$7.5m</b>	<b>\$23.2m</b>
Income tax expense	-\$5.2m	-\$1.7m	-\$6.9m
<b>Profit after income tax for the period</b>	<b>\$10.5m</b>	<b>\$5.8m</b>	<b>\$16.3m</b>
<b>Total comprehensive income for the period</b>	<b>\$10.5m</b>	<b>\$5.8m</b>	<b>\$16.3m</b>
Profit is attributable to:			
Non-controlling interests	-\$0.9m	\$0.9m	-
Owners of Blue Sky Alternative Investments Limited	\$11.4m	\$4.9m	\$16.3m



FY16: Reconciliation of Consolidated Statement of Financial Position with Underlying Results as at 30 June 2016

In AUD \$Ms

	Consolidated statement of financial position	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
<b>Current assets</b>			
Cash and cash equivalents	\$63.8m	-\$0.9m	\$62.9m
Trade and other receivables	\$54.4m	\$0.2m	\$54.6m
Inventory	\$2.5m	-\$2.5m	-
Other assets	\$4.3m	-\$0.4m	\$3.9m
<b>Total current assets</b>	<b>\$125.0m</b>	<b>-\$3.6m</b>	<b>\$121.4m</b>
<b>Non-current assets</b>			
Trade and other receivables	\$18.5m	\$2.6m	\$21.1m
Inventory	-	-	-
Investment property – retirement villages	-	-	-
Investments in associates and joint ventures	\$35.5m	-\$33.8m	\$1.7m
Financial assets at fair value through profit and loss	-	\$51.5m	\$51.5m
Property, plant and equipment	\$30.1m	-\$26.4m	\$3.7m
Intangible assets	\$18.7m	-\$13.1m	\$5.6m
Deferred tax assets	\$0.6m	-\$0.5m	\$0.1m
<b>Total non-current assets</b>	<b>\$103.4m</b>	<b>-\$19.7m</b>	<b>\$83.7m</b>
<b>Total assets</b>	<b>\$228.4m</b>	<b>-\$23.3m</b>	<b>\$205.1m</b>
<b>Current liabilities</b>			
Trade and other payables	\$20.9m	-\$1.1m	\$19.8m
Borrowings	\$8.6m	-\$0.7m	\$7.9m
Deferred revenue	\$6.7m	-\$0.2m	\$6.5m
Income tax	-\$0.9m	\$0.4m	-\$0.5m
Employee benefits	\$4.5m	-\$0.2m	\$4.3m
Resident loans – retirement villages	-	-	-
<b>Total current liabilities</b>	<b>\$39.8m</b>	<b>-\$1.8m</b>	<b>\$38.0m</b>
<b>Non-current liabilities</b>			
Deferred revenue	\$4.8m	-\$0.4m	\$4.4m
Employee benefits	\$0.4m	-	\$0.4m
Borrowings	\$9.3m	-\$9.3m	-
Other non-current liabilities	\$13.1m	-\$0.1m	\$13.0m
Deferred tax liabilities	\$13.6m	-\$3.7m	\$9.9m
<b>Total non-current liabilities</b>	<b>\$41.2m</b>	<b>-\$13.5m</b>	<b>\$27.7m</b>
<b>Total liabilities</b>	<b>\$81.0m</b>	<b>-\$15.3m</b>	<b>\$65.7m</b>
<b>Net assets</b>	<b>\$147.4m</b>	<b>-\$8.0m</b>	<b>\$139.4m</b>
<b>Equity</b>			
Contributed equity	\$119.6m	-	\$119.6m
Reserves	-\$6.6m	-	-\$6.6m
Accumulated profits	\$16.8m	\$9.6m	\$26.4m
<b>Total equity attributable to the owners of Blue Sky</b>	<b>\$129.8m</b>	<b>\$9.6m</b>	<b>\$139.4m</b>
Non-controlling interests	\$17.6m	-\$17.6m	-
<b>Total equity</b>	<b>\$147.4m</b>	<b>-\$8.0m</b>	<b>\$139.4m</b>

## Appendix A - continued

FY16: Reconciliation of Consolidated Statement of Cash Flows with Underlying Results for the year ended 30 June 2016

In AUD \$Ms

	Consolidated statement of cash flows	Impact where investments are consolidated rather than reported at fair value	Underlying results
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)	\$65.4m	-\$13.3m	\$52.1m
Payments to suppliers and employees (inclusive of GST)	-\$48.9m	\$10.7m	-\$38.2m
Interest received	\$1.2m	-	\$1.2m
Interest and other finance costs paid	-\$1.2m	\$0.5m	-\$0.7m
Income taxes paid	-\$3.3m	\$0.4m	-\$2.9m
<b>Net cash from operating activities</b>	<b>\$13.2m</b>	<b>-\$1.7m</b>	<b>\$11.5m</b>
<b>Cash flow from investing activities</b>			
Payments for equity investments	-\$14.3m	-	-\$14.3m
Proceeds from disposal of equity investments (including distributions)	\$7.1m	-	\$7.1m
Payments for property, plant and equipment	-\$2.3m	\$1.5m	-\$0.8m
Payments for investment property	-	-	-
Payments for intangible assets (net of proceeds on disposal)	-\$0.1m	-	-\$0.1m
Bridging finance and loans to funds	-\$20.5m	-\$0.9m	-\$21.4m
<b>Net cash used in investing activities</b>	<b>-\$30.1m</b>	<b>\$0.6m</b>	<b>-\$29.5m</b>
<b>Cash flow from financing activities</b>			
Proceeds from issue of shares	\$67.5m	-	\$67.5m
Share issue transaction costs	-\$2.4m	-	-\$2.4m
Proceeds from borrowings	\$7.7m	-\$0.1m	\$7.6m
Repayment of borrowings	-\$8.2m	\$1.5m	-\$6.7m
Dividends paid	-\$6.3m	\$0.1m	-\$6.2m
<b>Net cash from financing activities</b>	<b>\$58.3m</b>	<b>\$1.5m</b>	<b>\$59.8m</b>
<b>Net increase in cash and cash equivalents</b>	<b>\$41.4m</b>	<b>\$0.4m</b>	<b>\$41.8m</b>
Cash and cash equivalents at the beginning of the year	\$22.4m	-\$1.3m	\$21.1m
<b>Cash and cash equivalents at the end of the year</b>	<b>\$63.8m</b>	<b>-\$0.9m</b>	<b>\$62.9m</b>

# Supplementary Information

The following information is current as at 31 August 2017:

## a. Distribution of Shareholders

Holding	Ordinary Shares
1 - 1,000	566,743
1,001 - 5,000	4,125,554
5,001 - 10,000	4,001,029
10,001 - 100,000	13,779,250
100,001 and over	45,870,488
	<b>68,343,064</b>

b. There are 113 holders of less than a marketable parcel of ordinary shares.

c. The names of the substantial shareholders listed in the Company's register are:

Name	Number of Ordinary Fully Paid Shares	% of Issued Ordinary Capital Held
J P MORGAN NOMINEES AUSTRALIA LIMITED	8,252,463	12.1%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,920,265	8.7%
BLUE DOG GROUP PTY LIMITED	5,000,000	7.3%

## d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is call, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

## Supplementary Information - continued

### e. 20 Largest Shareholders – Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
J P MORGAN NOMINEES AUSTRALIA LIMITED	8,252,463	12.1%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,920,265	8.7%
BLUE DOG GROUP PTY LIMITED	5,000,000	7.3%
NATIONAL NOMINEES LIMITED	3,098,866	4.5%
ADCOCK PRIVATE EQUITY PTY LTD	2,957,886	4.3%
CITICORP NOMINEES PTY LIMITED	2,467,212	3.6%
PHENOMENON HOLDINGS PTY LTD	1,705,480	2.5%
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,136,856	1.7%
GEOMAR SUPERANNUATION PTY LTD	1,090,000	1.6%
ADCOCK PRIVATE EQUITY P/L	1,060,000	1.6%
EMERALD HILL HOLDINGS PTY LTD	1,016,583	1.5%
BNP PARIBAS NOMINEES PTY LTD	964,037	1.4%
BNP PARIBAS NOMS PTY LTD	912,740	1.3%
MR KIM SCOTT MORISON	909,376	1.3%
DOCHART HOLDINGS PTY LIMITED	903,504	1.3%
MR ANDREW FRANK CHAMPION	650,000	1.0%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	570,000	0.8%
RNAJ PTY LTD	500,000	0.7%
STEENHUISEN SUPER PTY LTD	478,832	0.7%
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	454,812	0.7%

### f. Use of Cash

For the period 1 July 2016 to 30 June 2017, the Company and its controlled entities used its cash in a manner consistent with its business objectives.

# Corporate Directory

The following information is current as at 31 August 2017:

## **DIRECTORS**

John Kain  
Timothy Wilson  
Nicholas Dignam  
Michael Gordon  
Philip Hennessy  
Alexander McNab  
Kim Morison  
Robert Shand  
Elaine Stead

## **COMPANY SECRETARY**

Jane Prior

## **REGISTERED OFFICE**

Level 46  
111 Eagle Street  
Brisbane QLD 4000

## **SHARE REGISTRY**

Link Market Services Limited  
Level 15, 324 Queen Street  
Brisbane QLD 4000

## **AUDITOR**

Ernst & Young  
111 Eagle Street  
Brisbane QLD 4000

## **STOCK EXCHANGE LISTINGS**

Blue Sky Alternative Investments Limited shares are listed on the Australian Securities Exchange.

## **WEBSITE**

[www.blueskyfunds.com.au](http://www.blueskyfunds.com.au)



**Blue Sky Alternative Investments Limited**

**[www.blueskyfunds.com.au](http://www.blueskyfunds.com.au)**