

3 July 2018

Dear Investors and Shareholders

The Blue Sky Water Fund

In response to continuing media commentary, Blue Sky Alternative Investments Limited (ASX: BLA) ('Blue Sky' or 'the Company') provides the following facts in relation to the Blue Sky Water Fund ('Water Fund', the 'Fund').

The Water Fund

The Blue Sky Water Fund invests in Australian Water Entitlements and is managed by Blue Sky's Real Assets division, Blue Sky Water Partners Pty Ltd ('BSWP').

Water Entitlements are perpetual titles issued and registered with state government titles offices, which represent the right to be allocated a share of the annual capacity of a particular water resource; a regulated river system or aquifer.

The Water Fund was established in 2012 to invest in a portfolio of Water Entitlements, to derive annual income from the sale of water allocated to the entitlements each year and to lease Water Entitlements to irrigation farmers over the medium-term.

The Water Fund is structured as an open-ended unit trust. The Fund's Trust Deed and Information Memorandum permit investors to subscribe and redeem on a quarterly basis, or as otherwise determined by the Trustee.

As at 31 May 2018, the Fund's Water Entitlement holdings were valued at \$258M; representing \$194M of sophisticated investor capital and \$64M of institutional capital, sourced from over 500 investors. Investors who have held the Fund since inception have participated in unlevered returns over 17% per annum, net of fees, gross of tax.

Blue Sky's Institutional Mandates

Blue Sky also manages two bespoke mandates on behalf of an Australian super fund and a North American pension fund, which are deployed into irrigated farmland and water entitlements. The majority of capital deployed by Blue Sky in the Water Entitlement strategy is sourced from Australian investors. FIRB approvals have been sought and granted in relation to any significant foreign capital deployed by Blue Sky.

Blue Sky's Role in the Market for Water Entitlements

Blue Sky is proud of the role that it plays, together with Blue Sky's Water Fund and its institutional investor mandates, in facilitating an important source of capital for Australia's agricultural industries, to expand and grow production of high value export crops including almonds, cotton, citrus, wine and table grapes, macadamias and other high value horticultural crops. Blue Sky's Water Entitlements are generally leased to irrigators, or the underlying water allocations are progressively sold to irrigators in spot and forward markets throughout each Water Year (1 July to 30 June).

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Blue Sky actively limits its deployment of committed capital to prevent artificial inflation of market prices over time. On the basis of its relatively low level of monthly turnover (refer below), Blue Sky rarely outbids irrigators in the various regional water markets.

Blue Sky's Market Position

Collectively across all of its portfolios, Blue Sky manages a portfolio of Water Entitlements deployed in 29 separate trading regions with a combined market value of \$0.5 billion as of 31 May 2018.

There are approximately \$23 billion of water entitlements on issue in these regions; hence Blue Sky's total deployment in six years since the inception of the Water Fund in August 2012 represents only 2.2% of the value of relevant Water Entitlements on issue in these various regions.

Blue Sky's investment in Water Entitlements has represented an average of only 3.2% of the registered¹ monthly turnover across the Murray Darling Basin's water markets since 2012.

Other known investor managers participating in Water Entitlement markets include Kilter Rural's Balanced Water Fund, Duxton Water Limited, and Aware Water Group.

Independent Fund Administration and Support

Water Entitlements beneficially owned by the Fund are legally registered in the name of independent custodian, Australian Executor Trustees Limited. Australian Executor Trustees Limited is a subsidiary of IOOF Holdings Limited.

An independent administrator, Link Fund Solutions, is responsible for maintaining the Fund's investor unit registry, unit price and monthly accounts, including the calculation of Net Asset Value (NAV). Link Fund Solutions is a subsidiary of Link Administration Holdings Limited (Link Group).

Water Entitlements and water allocations held by the Water Fund are independently valued each month by Colliers International based on traded market values registered on publicly available state government water registers which record the volume and value of water entitlement transaction and most water allocation trades.

Returns and Redemptions

Blue Sky categorically rejects any suggestion that its activities in Australia's water markets, explained above, are illegitimate, lack due process and governance, or are inconsistent with principles of the National Water Initiative to promote markets to allow water to trade to its highest and best use.

Returns derived from the Fund are the result of movement in underlying prices for entitlements in well-traded open markets and from the water allocation sales and leasing activities of BWSP, as manager of the Fund. Redemptions are funded through cash reserves, earnings in the Fund, existing and new capital commitments, and the sale of underlying assets (if needed), as is the case with *any open-ended investment fund*.

In November 2017 BSWP elected to temporarily close the Fund to new investors given the significant unfulfilled institutional demand from existing investors to progressively deploy and build out the Fund's

¹ Some Water Entitlement and water allocation trades are conducted within specific irrigation co-operatives and those trades are not necessarily registered with state government registers.

water holdings and to fund redemption demands for the foreseeable future. That currently remains the case.

Blue Sky is aware of considerable interest from well-capitalised corporate agribusinesses backed by institutional investors to acquire large parcels of Water Entitlements in the southern Murray Darling Basin in order to expand their irrigated farmland ventures. Should the need arise, the assets of the Water Fund are of great interest to those agribusinesses.

Blue Sky considers BSWP to be a leading manager of water rights and irrigated agricultural investments in Australia and rejects any suggestion that the scale of its activities in either market gives rise to unrealistic or inflated prices or performance.

The Water Fund is operated day to day by a highly skilled and experienced team of professionals who have been collectively responsible for the Fund's investment strategy and performance over the past six years. Collectively the team has over 100 years' experience in agricultural industries, in particular in water markets, commodity risk management, and irrigated agriculture.

Should you have any further queries please call myself or Nick Waters, the Fund's Investment Director on 07 3270 7500.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kim Morison', with a horizontal line extending from the end of the signature.

Kim Morison

Managing Director (Interim)