

**28 September 2018**

## **Long-Term Capital Investment by Oaktree**

Blue Sky Alternative Investments Limited (ASX: BLA) ('Blue Sky' or 'the Company') has executed a binding subscription agreement ('Subscription Agreement') with funds managed by the Special Situations group of Oaktree Capital Management L.P. ('Oaktree') in respect of a long-term capital investment in Blue Sky by Oaktree.

Under the terms of the Subscription Agreement, Oaktree has agreed to make available to Blue Sky a \$50 million 7-year senior secured loan note facility ('the Facility'). Funds will be used for co-investments and general working capital requirements.

Subject to Blue Sky shareholder approval, Oaktree will have the right to convert the amount owing under the Facility into equity in the Company, capped at 30% of the resulting fully diluted share capital on issue at the time.

Commenting on today's announcement, Blue Sky Chairman Mr. John Kain said:

"We are pleased to announce this investment by Oaktree. Oaktree is a world class alternative asset manager and, in our view, this investment reflects the strong fundamentals of Blue Sky's business model, our management team and our growth outlook.

"The funds available under the Facility will strengthen our capital and liquidity position. In addition, Oaktree's involvement with our business will enable Blue Sky to tap into the deep expertise and networks of a global leader in alternative asset management. We believe that, taken together, these factors will assist Blue Sky to restore its growth path and enhance our ability to pivot to institutional grade investment mandates across the breadth of our business."

Blue Sky interim Managing Director Mr. Kim Morison added:

"Today's announcement is testament to Oaktree's confidence in the strength of Blue Sky's private markets investment platform and our 12-year track record. Oaktree's investment, combined with its support to our investment managers, will help Blue Sky deliver on its strategy."

### *Overview of Process*

Entry into the Subscription Agreement follows a comprehensive process undertaken by the Board to assess expressions of interest or proposals in the context of:

- Alignment with Blue Sky's revised business strategy to focus on institutional grade, scalable, profitable businesses in underserved asset classes where Blue Sky can offer stakeholders a competitive advantage
- Investing capital in Blue Sky to fund further co-investments and working capital requirements
- Adding additional market leading expertise in asset management
- Assisting to attract additional investment capital into underlying funds and strategies

#### **BLUE SKY ALTERNATIVE INVESTMENTS LIMITED**

**Post** PO Box 15515, Brisbane QLD 4002  
**Phone** +61 7 3270 7500  
**Email** [investorservices@blueskyfunds.com.au](mailto:investorservices@blueskyfunds.com.au)

#### **HEAD OFFICE**

Level 46  
 111 Eagle Street  
 Brisbane QLD 4000

ABN 79 136 866 236

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

*Details of the Facility*

Under the terms of the Subscription Agreement, Oaktree has agreed to provide a \$50 million investment in Blue Sky via a 7-year senior secured loan note facility. No make whole amount is payable if the loan is prepaid after the fifth anniversary of financial close.

Blue Sky has agreed that Oaktree will have certain rights to convert the amounts owing to it into ordinary shares of Blue Sky, subject to shareholder approval<sup>1</sup> of the conversion and Oaktree obtaining any required regulatory approvals (such as Foreign Investment Review Board approval). Key terms of the conversion right include:

- Conversion price of \$1.87, being a 10% premium to the 30 June 2018 NTA of \$1.70 (adjusted for AASB15) and an 18% premium to the last closing price of Blue Sky shares on the Australian Securities Exchange ("ASX")<sup>2</sup>
- Aggregate number of shares issued on conversion to not exceed 30% of the fully diluted share capital of Blue Sky
- Customary anti-dilution provisions in the event of future capital raisings, distributions or certain other corporate actions by Blue Sky

Subject to regulatory timetables, it is currently proposed that approval of conversion rights will be sought from Blue Sky shareholders at the forthcoming Blue Sky Annual General Meeting of shareholders on 19 November 2018. Grant Thornton has been appointed to provide an independent expert's report on whether the potential acquisition by Oaktree of more than 20% of the shares in Blue Sky, resulting from the conversion of the amounts owing under the Facility, is fair and reasonable to Blue Sky shareholders. The Board of Directors of Blue Sky (other than any Oaktree nominee director) will unanimously recommend that shareholders vote in favour of the resolutions to approve the conversion rights<sup>3</sup>.

The Company has entered customary exclusivity arrangements with Oaktree until the conclusion of its AGM on 19 November 2018.

*Implications for Dividend Policy*

Under the Facility, future distributions to Blue Sky shareholders will be permitted in an amount of up to 50% of adjusted net profit after tax ('NPAT') for the relevant financial year (and capped at \$10m per financial year), subject to there being at the time of, and immediately following, such distribution minimum recurring cash earnings before interest, depreciation, tax and amortisation ('EBITDA') of \$15m and minimum adjusted NPAT of \$10m, and no default or review event under the Facility is subsisting at the time or occurs as a result of the distribution.

*Board Nomination Rights*

In order to adequately reflect Oaktree's significant investment in the Company, Oaktree will be given certain Board nomination rights in relation to Blue Sky being the right to nominate up to 2 non-executive directors for appointment to the Board from time to time<sup>4</sup>.

The Company will also establish a Group Investment Committee that will be required to approve certain investments above agreed monetary thresholds. The establishment of the Group Investment Committee

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<sup>1</sup> Under ASX Listing Rule 7.1 and item 7 of section 611 of the Corporations Act.

<sup>2</sup> Last closing price of \$1.585 on 27 September 2018

<sup>3</sup> The Board's recommendation of the shareholder approval required for the purposes of item 7 of section 611 of the Corporations Act is subject to the independent expert determining that such acquisition is reasonable to shareholders.

<sup>4</sup> Please see Appendix 1 for further details.

is another initiative by Blue Sky to strengthen governance for future investments. Oaktree will have the right to appoint two non-voting observers to the Group Investment Committee.

**Key Dates**

Explanatory Memorandum and Notice of Meeting despatched	Mid-October, 2018
Finalisation of conditions precedent to drawdown	Mid-late October, 2018
Annual General Meeting of shareholders	19 November, 2018

**About Blue Sky**

Blue Sky is an Australian alternative asset manager, with approximately AUD3.4 billion in fee earning assets under management at 30 June 2018. Blue Sky has particular expertise in managing funds in Real Assets (agriculture and water), Private Real Estate (purpose built student accommodation) and Private Equity (growth capital and venture capital).

**About Oaktree**

Oaktree is a leader among global investment managers specialising in alternative investments, with USD122 billion in assets under management at June 30, 2018. The firm emphasizes an opportunistic, value-oriented and risk-controlled approach to investments in credit, private equity, real assets and listed equities. The firm has over 900 employees and offices in 18 cities worldwide. For additional information, please visit Oaktree's website at <http://www.oaktreecapital.com/>.

**For more information, please contact:**

Leyya Taylor  
Company Secretary  
Blue Sky Alternative Investments Limited  
Telephone: 07 3270 7500  
Email: [ltaylor@blueskyfunds.com.au](mailto:ltaylor@blueskyfunds.com.au)  
Website: [blueskyfunds.com.au](http://blueskyfunds.com.au)

**For shareholder enquiries, please contact:**

Neil Power  
Investor Relations Officer  
Blue Sky Alternative Investments Limited  
Telephone: 0416 186 016  
Email: [npower@blueskyfunds.com.au](mailto:npower@blueskyfunds.com.au)

**For media enquiries, please contact:**

Emily Blyth  
Telephone: 0401 601 044  
Email: [emily.blyth@teneostrategy.com](mailto:emily.blyth@teneostrategy.com)

**Appendix 1 – Key terms of Convertible Note Facility**

<b>Facility</b>	Senior secured term loan facility
<b>Borrower</b>	Blue Sky Alternative Investments Limited ('Company')
<b>Guarantee</b>	Cross guarantee from the Company and all wholly owned subsidiaries of the Company, other than dormant subsidiaries and certain 'excluded' subsidiaries that are restricted under third party arrangements from encumbering their assets. No guarantee or other covenant is provided by any of Blue Sky's underlying funds.
<b>Security</b>	First ranking security over all the assets and undertaking of the Company and each Guarantor subject to certain limited exclusions.
<b>Principal Amount and currency</b>	A\$50 million
<b>Use of proceeds</b>	To fund co-investments, working capital requirements and general corporate purposes.
<b>Fee</b>	2% of the Principal Amount as an original issue discount, payable from the loan note proceeds or directly by the Company in certain circumstances.
<b>Coupon</b>	Cash pay interest of 5% per annum payable monthly in arrears.  PIK interest of 10% per annum, automatically capitalising quarterly in arrears (and thereafter accruing cash pay and PIK interest).
<b>Conversion rights</b>	<p>The whole or part of the outstanding amount under the loan notes (including accrued and unpaid interest and any applicable make whole amount) can be converted into ordinary shares in the Company as follows:</p> <ul style="list-style-type: none"> <li>at any time during the 30 day period following the Company's release of its annual and half yearly results to the ASX in each year provided such conversion is for an amount of shares representing no less than 10% of the fully diluted issued share capital of the Company (or, if less, the balance of the amount outstanding under the loan notes);</li> <li>upon an Exit Event provided such conversion is for the full amount outstanding under the loan notes at the relevant time; and</li> </ul>

	<ul style="list-style-type: none"> <li>in certain other prepayment scenarios,</li> </ul> <p>and subject to an overall cap on shares being issued pursuant to a conversion not exceeding 30% of the diluted share capital of the Company at the time.</p> <p>The right to convert is subject to shareholder approval being obtained from the Company's shareholders and to the holder(s) of the loan notes having obtained any other required regulatory approvals.</p> <p>The conversion price is \$1.87, being a 10% premium to the 30 June 2018 NTA of \$1.70 (adjusted for AASB15) subject to adjustment pursuant to customary anti-dilution provisions.</p>
<b>Maturity</b>	7 years following financial close.
<b>Call protection</b>	<p>Non-call period for the first 5 years following financial close.</p> <p>If the facility is prepaid voluntarily, or by reason of the occurrence of an Exit Event, a Review Event or an acceleration following an Event of Default, during the non-call period, a make whole amount is payable. The make whole amount is calculated as the interest (cash pay and PIK) which would have been payable on the amount prepaid from the date of prepayment until the last day of the non-call period.</p>
<b>Prepayment on Exit Event</b>	<p>The loan note holder has the right to require repayment in full of the loan notes (including any make whole), or convert the amount outstanding under the loan notes (including any make whole) into ordinary shares in the Company upon the occurrence of an Exit Event.</p> <p>'Exit Event' includes the acquisition by any person of 50% or more of the voting shares in the Company, a merger or amalgamation of the Company or demerger of the Company, a delisting of the Company and a disposal of all or substantially all of the assets of the Blue Sky group.</p>
<b>Prepayment on Review Events</b>	<p>The facility includes the following 'Review Events':</p> <ul style="list-style-type: none"> <li>the CEO or independent Chairman of the Company is removed from office and not replaced with a person of appropriate qualifications and approved by the loan note holders within 120 days;</li> <li>termination of a 'Material Contract' (i.e. a contract that contributes 5% or more of revenue) and it is not replaced within 60 days and the Company does not provide a certificate stating that based on fair and reasonable projections, it is of the good faith opinion</li> </ul>

	<p>that the financial covenants will be complied with for the next 12 months; and</p> <ul style="list-style-type: none"> <li>a demand being made under a guarantee granted by the Company or a Guarantor (but not the underlying funds) in respect of the financing arrangements of certain investments, over a certain threshold.</li> </ul> <p>If a Review Event occurs, there is a 60 day good faith negotiation period regarding the terms of the convertible loan note facility, following which, if the Review Event is continuing and agreement cannot be reached on any required amendments, the loan note holders will be entitled to require repayment in full within a further 90 days.</p>
<b>Acceleration on Event of Default</b>	<p>The facility includes 'Events of Default' for the Company and Guarantors (but not the underlying funds) common for facilities of this nature, such as:</p> <ul style="list-style-type: none"> <li>non-payment, breach of financial or other covenants, misrepresentation, cross default or failure to satisfy a judgement, where such matters are not cured within a cure period (being 10 business days for non-payment and 20 business days for breach of other covenants) and in some cases subject to monetary thresholds; and</li> <li>repudiation of the transaction, insolvency or de-listing from the ASX.</li> </ul> <p>While an Event of Default is continuing, the majority holders of the notes have the right to accelerate the loan and call for early repayment of the Facility.</p>
<b>Board nomination and IC appointment rights</b>	<p>Oaktree may nominate one representative of the Board at all times when its loan amount represents at least 10% of the Company's shares on an 'as-converted' basis and it may nominate one additional representative if there are five or more members of the Board and Oaktree's loan amount represents at least 20% of the Company's shares on an 'as-converted' basis, in each case irrespective of whether Oaktree has a right to convert its debt at that time.</p> <p>Oaktree may also nominate two individuals for appointment as non-voting observers on the Group Investment Committee established for the purposes of approving investments of the Group above certain monetary thresholds.</p> <p>The nomination rights are personal to Oaktree</p>
<b>Financial covenants</b>	<p>The following financial covenants (for the Blue Sky group and not its underlying funds) tested quarterly:</p> <ul style="list-style-type: none"> <li>minimum cash balance;</li> </ul>

	<ul style="list-style-type: none"> <li>• minimum recurring Cash EBITDA;</li> <li>• minimum net tangible assets; and</li> <li>• maximum annual capex.</li> </ul>
<b>Permitted distributions</b>	<p>The Company will be permitted to make distributions of up to 50% of Adjusted NPAT in any financial year (capped at \$10m per financial year) subject to the following conditions being satisfied at the time of making the distribution:</p> <ul style="list-style-type: none"> <li>• Minimum Recurring Cash EBITDA of no less than \$15m for the previous four quarterly testing dates;</li> <li>• Minimum Adjusted NPAT of no less than \$10m for the relevant financial year</li> <li>• No Default or Review Event continuing or which would result from the distribution; and</li> <li>• Evidence of pro forma compliance with the financial covenants taking into account the distribution</li> </ul>
<b>Assignment rights</b>	A note holder may assign its rights to third parties from time to time in accordance with certain customary transfer provisions.
<b>Governing law</b>	New South Wales