17 October 2018

Dear Shareholders

The 2018 Annual Report detailed Blue Sky's disappointing performance in 2018 and the steps the Board and Company are taking to improve the Company's transparency, governance and oversight. We are confident that these and other steps will improve the Company's future performance.

At this year's Annual General Meeting (**AGM**), shareholders are being asked to vote as usual (in Resolutions 3 and 4) on adoption of the Remuneration Report and Directors' appointments.

Shareholders are also being asked to vote (in Resolutions 1 and 2) on conversion rights being afforded to funds managed by Oaktree Capital Management, L.P. (**Oaktree**) in relation to agreements entered, and announced to the ASX, on 28 September 2018. These agreements relate to a $50 million 7-year senior secured convertible loan note facility (**the Facility**).

The Board's recommendation in respect of each resolution is included in the Notice of Meeting and attached Explanatory Memorandum. As Chairman, I would like to take this opportunity to provide you with some additional context. I have also provided some comments regarding our progress in appointing new company executives and non-executive directors.

Background

Since April 2018, the Board and interim Managing Director Kim Morison have reviewed Blue Sky's business strategy and commissioned a series of external reviews of all aspects of the business, including risk, valuations, fund compliance, remuneration structures and the underlying financial model. These and other reviews have allowed us to objectively assess the strengths and weaknesses of Blue Sky's business and the changes required to better protect and grow the business in future. These changes amount to a re-set of our business as explained in our Annual Report. An update on the implementation of these changes is included at the end of this letter.

Strategic rationale

Rebuilding investor and shareholder confidence is fundamental to Blue Sky's future. The Board considered that while it may be possible to simply 'tough it out', with our investment returns ultimately able to win back confidence, an alternative path was preferred. This would involve the introduction of a capital partner who would invest in Blue Sky to provide capital for further co-investment and growth, but who also deliver the following strategic benefits:

- international expertise to collaborate with Blue Sky to help further improve our operating platform;
- access to investment capital at fund level; and
- independent third-party validation of our fundamentals and our future.

The Board recognised that the introduction of a capital partner would invariably lead to shareholder dilution, but that such dilution was warranted if the right partner could deliver these additional strategic benefits. Indeed, the Board remains firmly of the view that the value of these benefits to Blue Sky and its shareholders will far exceed the financial cost of that investment.

Selection of Oaktree

We selected Oaktree (www.oaktreecapital.com) as our preferred capital partner after a competitive process which had particular regard, not only to the capital investment, but to the strategic benefits outlined above.

Oaktree was founded in 1995 and is listed on the New York Stock Exchange. It is one of the world's largest and most credible alternative asset managers, with more than USD120 billion in assets under management across four core strategies: Private Equity, Real Assets, Listed Equities and Credit. It employs more than 900 people across three continents. Its knowledge and expertise in managing alternative assets, as a listed company, will be of great value to Blue Sky as we re-set the business and move to the next phase in our history.

The capital to be invested by Oaktree managed funds will be used principally for co-investment with our institutional clients. We anticipate that this capital can help facilitate the deployment of between $1 and $2 billion in new fee-earning assets under management (**FEAUM**). This will generate new management and performance fees and consequently grow the profitability of our Company, to the benefit of our shareholders. Oaktree's investment is a strong endorsement of Blue Sky's future.

Oaktree's convertible note loan facility carries a 15% coupon however we believe that the strategic benefits to Blue Sky's shareholders in the short, medium and long term far outweigh those costs.

Conversion rights

The Company intends to draw down on the AUD50 million Oaktree facility before the AGM. The Oaktree facility is a convertible note loan facility—a debt facility which can be converted to equity at $1.87 per share (a premium of 55.83% to the closing share price on 16 October 2018). That conversion may occur at any time in the next seven years, and is subject a 30% cap on Oaktree's shareholding in Blue Sky Alternative Investments Limited (ASX: BLA). To the extent that the note is converted to equity, the corresponding value of the loan is extinguished. The unconverted balance of the loan remains payable on its existing terms.

Oaktree's right to convert is subject to shareholder approval. If the conversion rights are approved at the AGM, then Oaktree's interests are better aligned with those of our shareholders, of which Oaktree will be largest if the conversion rights are exercised. Our shareholders (and consequently Oaktree) will benefit if we run our business effectively, we continue to invest well, and we continue to attract capital to invest through our funds. Indeed, we believe that as a leading global alternative asset manager, Oaktree is uniquely positioned to help create shareholder value for Blue Sky. However, if those conversion rights are not approved then Oaktree remains a debt provider. In these circumstances Oaktree has less incentive to assist Blue Sky to drive further growth in the profitability or value of the business, other than in protecting its coupon and ultimately the loan repayment. In short, Oaktree has far less incentive to help Blue Sky attract new capital and grow its business (and consequently shareholder value) if the conversion rights are not approved.

It is for these reasons that the Board has unanimously recommended that shareholders pass the necessary resolutions (Resolutions 1 and 2) to approve the Oaktree conversion mechanisms—because it better aligns the interests of Oaktree and Blue Sky shareholders. It also provides Oaktree with far greater incentive to assist Blue Sky to grow its business, and in turn increase value for all shareholders.

Separately, I note the Independent Expert's Report from Grant Thornton which accompanies the Notice of Meeting. Grant Thornton is required to compare the value per Blue Sky share before the conversion on a control basis (**Control Valuation**), to the value per Blue Sky share after approval of the proposed conversion on a diluted and minority basis (**Diluted and Minority Valuation**)[1]. On this basis, Grant Thornton assessed the Control Valuation of Blue Sky to be between $2.56 and $3.06 per share, compared with a Diluted and Minority Valuation range between $1.94 and $2.22 per share. Consequently, Grant Thornton considers that the conversion price of $1.87 per share is not fair as its assessment of Blue Sky's Control Valuation is higher than its assessment of Blue Sky's Diluted and Minority Valuation.

[1] See pages 20-21 of Grant Thornton report.

However, Grant Thornton also expresses the view that, whilst not fair, the advantages of conversion of the notes outweigh the disadvantages, and consequently the conversion of the notes is reasonable.

I encourage you to read the Independent Expert's Report before making your voting decision.

Executive and Board appointments

It would be naïve to think that six months of extremely adverse media and other scrutiny would not affect external views of our business. Candidates for executive and board roles rightly want to know that the disruption of recent months has stabilised. We believe the extensive internal and external reviews we have undertaken assist in providing that comfort. However, the most compelling assurance that candidates can receive is from knowing that Oaktree has, in conjunction with leading legal, accounting and corporate advisory firms, undertaken months of extremely detailed due diligence and, following this diligence, has committed to invest in Blue Sky. This third-party validation is critical in building candidates' confidence in Blue Sky, its people, its structures and its future.

Kim Morison has admirably discharged his role as interim CEO. However, the Board and Kim agree that in the longer term, Blue Sky shareholders' interests are best served by Kim returning to his former role as Managing Director of our Real Assets business. Our Real Assets team is recognised amongst global peers and has progressively built out a unique platform investing institutional capital in water entitlements, farmland developments and agribusiness supply-chain infrastructure. This business will be one of the key drivers of our future profitability and growth.

Other initiatives to further strengthen our executive team are also well advanced. We look forward to updating our shareholders on this at the AGM. This revitalised executive team will complete the re-set of the business commenced in April and will lead the business into the next stage of its future.

In February, we advised shareholders that Blue Sky intended moving to a majority independent board. The Board currently comprises me (Chairman), Tim Wilson (Executive and Deputy Chair), Phil Hennessy (Independent Non-Executive Director) and Kim Morison (Executive and Interim Managing Director).

The process of appointing additional non-executive directors, including a new Chairman, is well advanced. We expect to announce those appointments at the AGM, with the appointments to occur by 31 December 2018.

As previously forecast, Kim Morison and Tim Wilson will step down as directors when the relevant replacements are appointed. This is also expected to occur before 31 December 2018.

Phil Hennessy is not due for re-election at the 2018 AGM. He has advised that he currently intends to retire following the appointment and transition of new non-executive directors following the AGM.

Personally, I am due for re-election at the 2018 AGM, in accordance with our director rotation policy. The re-set of the business has driven significant change to the Company's strategy, operations, board and executive. Your Board and I believe that it is important that there be a continuing 'corporate memory' at all times, and that such memory is critical at a time of such change in the Company. In order that such continuity is assured, the Board has unanimously recommended my re-appointment as the sole continuing director of Blue Sky (post Phil Hennessy, Kim Morison and Tim Wilson standing down). If re-elected, I currently intend to remain as a non-executive director until the re-set of our business, including the transition to a new board, is completed. I do not intend to stand for a further term as a director.

The future

2018 has been a disappointing year for Blue Sky, particularly for our shareholders and people. The loss in market confidence is highlighted by a share price which last traded at $1.20 at market close on 16 October 2018. This is a discount of 29.41% to our 30 June 2018 (AASB15 adjusted) underlying net tangible assets per share (**NTA**) of $1.70.

As noted in the Independent Expert's Report[2] accompanying the Notice of Meeting, this NTA of $1.70 per share itself attributes limited value to:

- accrued performance fees of ~$20.9 million (~27cps);
- accumulated tax losses of ~$28.8 million that can be set off against future profits (an after-tax value of ~11cps); or
- the ability for Blue Sky to continue to profitably manage and grow its existing FEAUM.

The implementation of the strategic and operational plan summarised in the attachment to this letter, together with the involvement of Oaktree, is designed to close the gap between the current share price and our underlying NTA, and then further grow shareholder value.

Despite our recent challenges, we have continued to retain the support of our institutional investor clients and of our investment teams. We continue to manage more than $3 billion in FEAUM[3] from which good risk-adjusted returns are delivered to our investor clients in under serviced asset classes.

We are confident that this base, together with the initiatives undertaken by the Board and management since April and the new capital relationship with Oaktree, creates a solid foundation to stabilise and then grow our business.

We look forward to working with our team and Oaktree to continue to deliver for our investor clients, and in doing so to building a stronger future for Blue Sky and you, our shareholders.

John Kain
Chairman
17 October 2018

[2] Page 12 of Grant Thornton report.
[3] Definitions of fee earning assets under management and funds under management are contained in the investor presentation dated 7 May 2018 available on the ASX website.

Summary of strategic and operational plan

Area	Changes	Status
Strategy	Focus on managing alternative asset classes that are scalable, profitable, institutional grade, are within our risk tolerance and circle of competence, and where we offer a unique value proposition for investors (demonstrable competitive advantage).	• Completed exit of retirement living. • Agreed terms to convert Blue Sky Alternative Access Fund from a 'captive' Blue Sky Listed Investment Company to a multi-manager Listed Investment Company. • Exit of hedge funds to be completed by 31 December 2018. • Exit progressing of: regional residential developments and property management rights.
Fee-earning AUM	Reduce focus on growing FEAUM and marketing by: • Changing remuneration structure to remove incentives for FEAUM growth (see Remuneration Report) - other than existing ESOP grants. • Adjust Blue Sky's cost base so that fixed operating costs are covered by annual management fees. • Change future fund structure to focus more on co-mingled (rather than single asset) funds and reduce reliance on one off transaction fees.	 • Complete • To be completed by 31 December • Underway
Governance	Appoint additional directors with requisite independence and experience in investment and asset management.	Expected to be appointed post AGM and before 31 December 2018
	Appoint an independent Chair of Blue Sky Private Equity Limited, the trustee entity.	Complete
Risk and compliance	• Appoint a dedicated Chief Risk Officer to replace the former role of the Chief Investment Officer • Appoint a Group Investment Committee to replace the former role of the Chief Investment Officer. • Implement relevant recommendations from external review of risk, valuations and financial processes. • Implement uniform institutional grade risk and compliance function. Where a business unit does not already meet institutional grade investment standards, enhance our risk, compliance and governance regimes to achieve that benchmark.	• Complete • Complete • Report complete and recommendations being implemented • Underway

Area	Changes	Status
Remuneration	Change remuneration structure to better align investment teams to investor outcomes and remove alignment to FEAUM growth (see Remuneration Report) - other than existing ESOP grants.	Complete
Management	Recruit new, appropriately qualified executives.	• CEO, CIO and CFO resigned. • CRO appointed in August. • CEO and CFO expected to be appointed by 31 December 2018.
Balance sheet	Increase rigour in deployment of balance sheet by restructuring the risk and compliance functions, with balance sheet allocation reserved to the Group Investment Committee under tight Board delegations.	Complete
Investment	Making hard decisions about underperforming assets early by: • Giving Group Investment Committee greater oversight of portfolio performance. • Changing the remuneration structure (see 2018 Remuneration Report) to better align investment teams to actively manage all assets. • Create Blue Sky Strategic Capital to support the Group Investment Committee on underperforming assets.	 • Complete • Complete • Complete
Communication	Coordinate the content, timing, consistency, transparency, and coordination of communications with all stakeholders.	Complete
	Further transparency of market disclosures through: • Detailed breakdown of FEAUM. • Breakdown of one-off transaction fees and recurring annual management fees • Breakdown of divisional profit and loss.	 • Complete • Complete • To be included in FY2019 reporting.