BlueSky
Alternative Thinking

Notice of Annual General Meeting

Blue Sky Alternative Investments Limited
ACN 136 866 236 (Company)

MONDAY, 19 NOVEMBER 2018
10:00 AM
CHRISTIE CONFERENCE CENTRE,
320 ADELAIDE STREET BRISBANE,
QUEENSLAND

This notice of Annual General Meeting is an important document and should be read in its entirety.

If you are unable to attend the Annual General Meeting, please complete the enclosed Proxy Form and return it in accordance with the instructions set out in this notice.

Notice of Annual General Meeting

The 2018 Annual General Meeting of Blue Sky Alternative Investments Limited (the **Company**) will be held at the Christie Conference Centre, 320 Adelaide Street Brisbane, Queensland at 10:00 am on Monday, 19 November 2018 (the **Meeting**).

IMPORTANT: The resolutions set out in this Notice of Annual General Meeting (**Notice**) should be read in conjunction with the Explanatory Memorandum which follows.

1. FINANCIAL STATEMENTS AND REPORTS

To receive and consider the Annual Financial Report, the Directors' Report and the Auditor's Report for the Company for the financial year ended 30 June 2018.

2. RESOLUTION 1 - APPROVAL OF CONVERSION RIGHT IN RESPECT OF THE CONVERTIBLE LOAN NOTES UNDER THE FACILITY

To consider and, if thought fit, to pass the following resolution as an **ordinary** resolution:

*"THAT, for the purposes of ASX Listing Rule 7.1, and for all other purposes, shareholders approve the conversion right in respect of the convertible loan note facility described in the Explanatory Memorandum (**Facility**). Under the terms of the Facility, the holders of convertible notes issued pursuant to such Facility (**Notes**) will have the ability to convert the Notes to up to 30% of the fully diluted ordinary share (**Share**) capital of the Company (**Conversion Cap**) on the terms of the Facility, as summarised in the Explanatory Memorandum."*

Note: The Company will disregard any votes cast on this resolution by certain persons. Details of the voting exclusions applicable to this resolution are set out in the 'Voting Exclusions' on page 4 of this Notice.

Notice of Annual General Meeting - continued

3. RESOLUTION 2 – APPROVAL OF OAKTREE TO OBTAIN RELEVANT INTEREST GREATER THAN 20%

In this Notice, references to **Oaktree** are to Oaktree Capital Management, L.P., each of its affiliates, any fund which is managed or advised by it or one of its affiliates and any person that controls or is controlled by any of those persons (and, including (without limitation), Special Situations II Rainbow Singapore Pte. Ltd. (**Oaktree Noteholder**)).

To consider and, if thought fit, to pass the following resolution as an **ordinary** resolution:

"THAT, for the purposes of item 7, section 611 of the Corporations Act, and for all other purposes, shareholders authorise and approve the acquisition by Oaktree of a relevant interest greater than 20% of the fully diluted Share capital of the Company as a consequence of the conversion of the Notes under the terms of the Facility as summarised in the Explanatory Memorandum."

Note: The Company will disregard any votes cast on this resolution by certain persons. Details of the voting exclusions applicable to this resolution are set out in the 'Voting Exclusions' on page 4 of this Notice.

4. RESOLUTION 3 – ADOPTION OF THE REMUNERATION REPORT

To consider the Remuneration Report as it appears in the Annual Report for the Company for the financial year ended 30 June 2018 and, if thought fit, pass the following non-binding resolution as an **ordinary** resolution:

"THAT the Company's Remuneration Report for the financial year ended 30 June 2018 is adopted."

Short explanation to resolution:

Pursuant to section 250R(3) of the Corporations Act 2001 (Cth) (**Corporations Act**), the vote on this ordinary resolution is advisory only and does not bind the Directors or the Company.

The Company will disregard any votes cast on this ordinary resolution by certain persons in contravention of section 250R or 250BD of the Corporations Act. Details of the voting exclusions applicable to this resolution are set out in the 'Voting Exclusions' on page 4 of this Notice.

5. RESOLUTION 4 – RE-ELECTION OF JOHN KAIN AS DIRECTOR

To consider, and if thought fit, pass the following resolution as an **ordinary** resolution:

"THAT, for the purposes of ASX Listing Rule 14.4, the Company's constitution, and for all other purposes, John Kain, being eligible for re-election, be elected as a director of the Company."

Note: Information about the candidate appears in the Explanatory Memorandum.

By order of the Board

John Kain
Chairman

Date: 17 October 2018

Notes to Notice of Annual General Meeting

How to vote

You may vote by attending the Meeting in person or by proxy. A body corporate may vote by appointing a corporate representative.

Voting in person

To vote in person, attend the Meeting on Monday, 19 November 2018 at the Christie Conference Centre, 320 Adelaide Street Brisbane, Queensland. The Meeting will commence at 10:00 am.

Voting entitlement

For the purpose of voting at the Meeting, persons holding fully paid ordinary shares in the capital of the Company at 10:00 am (Brisbane time) on Saturday, 17 November 2018 will be treated as shareholders of the Company. This means that if you are not the registered holder of a relevant share at that time, you will not be entitled to vote in respect of that share at the Meeting.

Voting exclusions

The Corporations Act and the ASX Listing Rules require that certain persons must not vote, and the Company must disregard any votes cast by certain persons, on certain resolutions to be considered at the Meeting.

For the purpose of these voting exclusions:

- The relevant interpretation of **associate** is the interpretation in section 11 and sections 13 to 17 of the Corporations Act, with section 13 to be applied as if it was not confined to associate references occurring in Chapter 7 of the Corporations Act.
- The Company's **Key Management Personnel (KMP)** are those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. It includes all Directors.
- A **Closely Related Party (CRP)** of a member of the KMP means:
    - a spouse or child of the member;
    - a child of the member's spouse;
    - a dependent of the member or the member's spouse;
    - anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the Company; or
    - a company that the member controls.

Notes to Notice of Annual General Meeting - continued

These voting exclusions are set out in the table below.

RESOLUTION NO.	RESOLUTION DESCRIPTION	WHO IS EXCLUDED FROM VOTING ON THE RESOLUTION?		
		As a shareholder?	**As holder of a directed proxy?**	**As holder of an undirected proxy?**
1	Approval of conversion right in respect of the Notes under the Facility.	A person who is expected to participate in, or who will otherwise obtain a material benefit as a result of, the proposed issue of Shares on conversion of the Notes under the Facility and their associates (in respect of votes cast in favour of Resolution 1).	Proxy holder for a person who is expected to participate in, or who will otherwise obtain a material benefit as a result of, the proposed issue of Shares on conversion of the Notes under the Facility and their associates (in respect of votes cast in favour of Resolution 1).	Proxy holder for a person who is expected to participate in, or who will otherwise obtain a material benefit as a result of, the proposed issue of Shares on conversion of the Notes under the Facility and their associates (in respect of votes cast in favour of Resolution 1).
2	Approval of Oaktree to obtain relevant interest greater than 20%.	Oaktree and its associates (in respect of votes cast in favour of Resolution 2).	Proxy holder for Oaktree and its associates (in respect of votes cast in favour of Resolution 2).	Proxy holder for Oaktree and its associates (in respect of votes cast in favour of Resolution 2).
3	Adoption of the Remuneration Report.	KMP named in the Remuneration Report and their CRP.	Proxy holder for KMP named in the Remuneration Report or their CRP. *Refer to Note 1 below*	Proxy holder for KMP named in the Remuneration Report or their CRP. Proxy holder who is a KMP or a CRP.
4	Re-election of John Kain as Director.	No exclusions.	No exclusions.	No exclusions.

NOTE 1:

For the purposes of the Corporations Act, the Company will disregard any votes cast on Resolution 3 by KMP whose remuneration details are included in the Remuneration Report or by a CRP of any such person, including any votes cast by a proxy holder for KMP or their CRPs.

However, the Company need not disregard a vote if:

- it is cast by a KMP (including the Chair of the Meeting) or their CRPs as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form (i.e. directed proxy); or
- it is cast by the Chair of the Meeting as proxy for a person who is entitled to vote (other than KMP or their CRPs), and the proxy appointment expressly authorises the Chair to exercise the proxy as the Chair decides even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP (i.e. undirected proxy).

If you appoint any other member of the Board of Directors or their CRPs as your proxy, they will not be able to vote on Resolution 3, unless you have directed them how to vote.

In addition, for the purposes of the ASX Listing Rules, the Company will disregard any votes cast in favour of Resolution 3 by or on behalf of the Directors or any associates of any of the Directors. However the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting by proxy

You may appoint any person to attend the Meeting and vote as your proxy, including the Chair. A proxy is not required to be a shareholder of the Company. A Proxy Form is enclosed with this Notice.

How is the proxy to vote

Unless the proxy is required by law to vote, the proxy may decide whether or not to vote on any particular item of business. If the appointment of proxy directs the proxy to vote on an item of business in a particular way, the proxy may only vote on that item as directed. Any undirected proxies on a given resolution may be voted by the appointed proxy as they choose, subject to the voting exclusions described on the previous page.

Appointing more than one proxy

A shareholder entitled to cast two or more votes may appoint two proxies. If you appoint two proxies, you may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number of votes is specified, each proxy may exercise half of your votes (disregarding fractions).

How to appoint a proxy

You can appoint a proxy in four ways:

- ONLINE: www.linkmarketservices.com.au

  Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgment facility, shareholders will need their 'Holder Identifier' (Security Holder Reference (SRN) or Holder Identification Number (HIN), as shown on the front of the Proxy Form).

- BY MAIL: Blue Sky Alternative Investments Limited

  c/o Link Market Services Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235

- BY FAX: In Australia (02) 9287 0309

  From outside Australia +61 2 9287 0309

- BY HAND: Delivering it to

  Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138
or
Level 12, 680 George Street
Sydney NSW 2000

To be valid, your proxy appointment must be made online or your Proxy Form must be received no later than 10:00 am (Brisbane time) on Saturday, 17 November 2018 (being 48 hours before the commencement of the Meeting).

If the Proxy Form is signed by an attorney, the power of attorney or a certified copy of it must be sent with the Proxy Form.

Chair's intention

The Chair intends to vote all valid undirected proxies received in favour of each Resolution subject to the voting exclusions on the previous page.

If you have any queries on how to cast your votes please call the Company on (07) 3270 7500 between 8:00 am to 5:00 pm (Brisbane time) Monday to Friday.

Explanatory Memorandum

This Explanatory Memorandum forms part of the notice convening the Annual General Meeting of Blue Sky Alternative Investments Limited (the **Company**) to be held at the Christie Conference Centre, 320 Adelaide Street Brisbane, Queensland on Monday, 19 November 2018 (**Meeting**).

Information relevant to the business to be conducted at the Meeting is provided in this Explanatory Memorandum and shareholders should read this document in full.

1. FINANCIAL STATEMENTS AND REPORTS

In accordance with the Corporations Act 2001 (Cth) (**Corporations Act**), the Financial Report, the Directors' Report and the Auditor's Report for the Company for the financial year ended 30 June 2018 will be put before the Meeting.

Shareholders will have a reasonable opportunity at the Meeting to ask questions or make comments on these reports and on the business, operations and management of the Company.

The Company's auditor, Ernst & Young, will be present and will be provided with a reasonable opportunity to answer written questions to the auditor that have been submitted to the Company no later than the fifth business day before the Meeting (in accordance with section 250PA(1) of the Corporations Act).

A reasonable opportunity will also be provided for shareholders at the Meeting to ask the auditor questions relevant to the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and the independence of the auditor in relation to the conduct of the audit.

There is no vote on this item.

BACKGROUND TO RESOLUTIONS 1 AND 2 – OAKTREE FINANCING

As announced on 28 September 2018, the Company executed binding agreements for a long term capital investment by an entity associated with Oaktree Capital Management, L.P. In this Explanatory Memorandum, references to **Oaktree** are to Oaktree Capital Management, L.P., each of its affiliates, any fund which is managed or advised by it or one of its affiliates and any person that controls or is controlled by any of those persons (and, including (without limitation), Special Situations II Rainbow Singapore Pte. Ltd. (**Oaktree Noteholder**)).

The agreements provide the Company with a $50 million investment via a 7-year senior secured convertible loan note facility (**Facility**), to fund co-investments, general working capital requirements and general corporate purposes of the Company and those of its wholly-owned subsidiaries that are obligors in respect of the Facility.

Under the terms of the Facility, the convertible notes (**Notes**) will initially be issued to the Oaktree Noteholder, but may be transferred to (and therefore held by) other parties (subject to the restrictions summarised in Attachment 1). A holder of Notes (**Noteholder**) will have certain rights to convert the Notes (including any accrued but unpaid interest and other amounts outstanding under the Facility) into ordinary shares (**Shares**) to up to 30% of the fully diluted Share capital of the Company (**Conversion Cap**), subject to shareholder approval and any other required regulatory approvals.

The Notes will be issued to the Oaktree Noteholder following satisfaction of the conditions precedent under the Facility, which is expected to occur before the Meeting to be held on 19 November 2018.

The key terms of the Facility are summarised in Attachment 1.

Resolution 1 would, if passed, allow the Company to agree to issue Shares on conversion under the Facility by any Noteholder, outside the usual 15% in 12 month placement limit in ASX Listing Rule 7.1. Even if Resolution 1 is passed, it would not be possible for a Noteholder to convert and acquire a relevant interest in Shares if as a result that Noteholder's voting power in the Company would then exceed 20%. Resolution 2 allows Oaktree to convert Notes and acquire voting power in the Company in excess of the 20% limit.

2. RESOLUTION 1 - APPROVAL OF CONVERSION RIGHT IN RESPECT OF THE CONVERTIBLE LOAN NOTES UNDER THE FACILITY

ASX Listing Rule 7.1

ASX Listing Rule 7.1 prevents the Company from issuing or agreeing to issue more than 15% of its issued share capital within a 12 month period without shareholder approval.

Under the terms of the Facility, Noteholders will have the ability to convert the Notes (including any accrued but unpaid interest and other amounts outstanding under the Facility) into Shares to up to the Conversion Cap, subject to the Company obtaining shareholder approval and any other required regulatory approvals.

The Company seeks shareholder approval, for the purposes of Listing Rule 7.1 and for all other purposes, in respect of the ability for the Notes to be convertible into Shares. This approval will ensure that the Company can agree to issue Shares on conversion of the Notes and does not need to call a further general meeting to seek approval for the issue of Shares as a consequence of Noteholders exercising their right of conversion. The approval will stand for the seven-year term of the Facility.

The Directors believe that it is in the best interests of the Company to have the ability to issue such Shares on conversion of the Notes so as to maintain financial flexibility and to take advantage of opportunities that may arise.

Information provided pursuant to ASX Listing Rule 7.3

Shareholder approval of Resolution 1 is sought for the purposes of ASX Listing Rule 7.1. The following information is provided in accordance with ASX Listing Rule 7.3:

(a) *The maximum number of securities the Company is to issue or the formula for calculating the number of securities the Company is to issue*

Subject to shareholder approval and any other required regulatory approvals, Noteholders will have the right to convert the Notes into Shares in accordance with the terms of the Facility (see Attachment 1). That right can be exercised during the seven-year term of the Facility in accordance with the terms of the Facility (see Attachment 1). However, Noteholders are not obliged to convert the Notes, and therefore it is possible that conversion of the Notes may not occur at all.

The number of Shares to be issued on conversion will be ascertained based on the face value of the Notes and any accrued but unpaid interest at the time of conversion in accordance with the following formula: S = LA ÷ CP where:

S = the number of Shares to be issued to the relevant Noteholders on conversion;

LA = the aggregate of the principal amount outstanding at the relevant time of the Notes being converted plus all accrued and unpaid interest, fees and other amounts (including any make whole amount) then payable to the relevant Noteholders at that time under the Facility;

CP = the conversion price, which is set out in paragraph (c) below,

subject to the Conversion Cap such that to the extent the above formula would result in the number of Shares being issued exceeding the Conversion Cap, the number of Shares to be issued on conversion will be scaled back accordingly (and on a pro rata basis as between the relevant Noteholders converting). In determining the fully diluted Share capital of the Company for the purposes of the Conversion Cap, any security or right issued pursuant to an employee incentive scheme and which may become, or result in the issuance of a Share will be taken into account (irrespective of whether the right has vested or any performance conditions remain unfulfilled), however any options on issue in the capital of the Company for which the exercise price is 25% or more higher than the price of an underlying Share will not be taken into account.

By way of example:

i. if the Notes are converted immediately after issue, the Company would issue approximately 26.74 million Shares, which would be equivalent to 25.64% of the Company's issued capital;[1]

[1] Calculated as the face value of the Facility divided by the conversion price of $1.87 per Share and without considering the impact of the existing 6.3 million options (**BLA Options**). As discussed in section 4.5 of the Independent Expert's Report at Attachment 2, most of the BLA Options have a significantly higher exercise price than the current trading price of the Company and accordingly, they are unlikely to be exercised. The options with an exercise price of less than $5.00 are only 683,750.

ii. if the Notes plus capitalised interest are converted after five years, the Company's total outstanding liability would be approximately $81.93 million (face value of the Notes plus PIK Interest as defined below). Based on the current number of Shares on issue (excluding BLA Options as defined below), Oaktree would be entitled to 43.81 million Shares, which would be equivalent to 36.11% of the Company's issued capital[2] and accordingly, the Conversion Cap would be triggered and the number of Shares would be reduced to 33.23 million. The remainder of the outstanding liability of approximately $19.79 million[3] would be required to be repaid by the Company; and

iii. if the Notes plus capitalised interest are converted at maturity, the Company's total outstanding liability would be approximately $99.82 million (face value of the Notes plus PIK Interest as defined below). Based on the current number of Shares on issue (excluding BLA Options as defined below), Oaktree would be entitled to 53.38 million Shares, which would be equivalent to 40.78% of the Company's issued capital[4] and accordingly the Conversion Cap would be triggered and the number of Shares reduced to 33.23 million. The remainder of the outstanding liability of approximately $37.69 million[5] would be required to be repaid by the Company.

(b) *The date by which the Company will issue the securities*

Subject to shareholder approval and any other required regulatory approvals, each Noteholder will have the right to elect to convert its Notes into Shares:

i. 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 Notes held by that Noteholder);

ii. upon an Exit Event (as described in Attachment 1) provided such conversion is for the full amount outstanding under the Notes held by that Noteholder at the relevant time (including any make whole amount as described in Attachment 1); or

iii. upon a voluntary prepayment by the Company of the Facility (in whole or in part) in lieu of receiving such prepayment in cash (including any make whole amount as described in Attachment 1),

and subject to the Conversion Cap.

(c) *The issue price of the securities*

The Notes will be issued at a principal face value of A$50 million.

The conversion price for the Notes is A$1.87, being a 10% premium to the net tangible assets as at 30 June 2018 of $1.70 (adjusted for AASB 15 Revenue from Contracts with Customers), subject to adjustment pursuant to customary anti-dilution provisions; and, an 18% premium to the last traded price prior to the announcement of this transaction.

(d) *The names of the persons to whom the Company will issue the securities*

The Notes will initially be issued to the Oaktree Noteholder.

Under the terms of the Facility, the Notes may be transferred to (and therefore held by) other parties (subject to the restrictions noted in Attachment 1).

(e) *The terms of the securities*

The terms of the Notes are summarised in Attachment 1.

Upon conversion, the Notes would convert into Shares on the terms set out in the constitution of the Company.

(f) *The intended use of the funds raised*

The funds raised through the issue of the Notes will be used to fund the Company's co-investments, general working capital requirements and general corporate purposes of the Company and its wholly owned subsidiaries that are obligors in respect of the Facility.

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[2] Calculated as the face value of the Facility and the quarterly compounded interest payable-in-kind (**PIK Interest**) at 10%.
[3] Calculated as the total outstanding liability of $81.93 million less $62.14 million which, in turn, is calculated as the number of Shares issued (33.2 million) x conversion price ($1.87 per Share).
[4] Calculated as the face value of the Facility and the quarterly compounded interest payable-in-kind (**PIK Interest**) at 10%.
[5] Calculated as the total outstanding liability of $99.82 million less $62.14 million which, in turn, is calculated as the number of Shares issued (33.2 million) x conversion price ($1.87 per Share).

Implications of not approving Resolution 1

If Resolution 1 is not approved, the Notes would remain on issue subject to the terms of the Facility, but would not be convertible into Shares until such time that shareholder approval is obtained. This would be the case even if Resolution 2 is approved.

Under the terms of the Facility, following a request from a Noteholder (such request to be given no more than once a year), the Company is obliged to call a further general meeting to seek approval so that Noteholders are able to convert their Notes into Shares as contemplated by the Facility.

If shareholder approval to convert the Notes is not obtained prior to maturity of the Facility, the prevailing face value plus any accrued but unpaid interest on the Facility would need to be repaid by the Company.

RECOMMENDATION OF DIRECTORS

The Directors recommend that shareholders vote in favour of Resolution 1.

Reasons for Directors' recommendation

In considering whether to recommend Resolution 1, the Directors have considered that, if both Resolutions 1 and 2 are approved, upon conversion Oaktree's interests would be substantially aligned with those of the Company's existing shareholders. The Company's shareholders (and consequently Oaktree) would benefit if the Company is able to attract new capital and invest it successfully. With exposure of up to 30% of the Company's equity, Oaktree would be incentivised to assist the Company to source capital to invest at fund level. Oaktree would be uniquely placed to facilitate this.

The Directors have considered the above benefits against potential disadvantages of shareholders approving Resolutions 1 and 2. These disadvantages include that the Company's other shareholders would be diluted following a conversion of the Notes, and the Company may be less likely to receive a takeover offer in the future (as any potential takeover offer would likely require the support of Oaktree).

Nevertheless, on balance, the Directors consider that the anticipated upside would outweigh the potential disadvantages associated with shareholder approval of the Oaktree transaction. Furthermore, if Resolutions 1 and 2 are not approved, then Oaktree would remain a debt provider to the Company, and the relationship between the Company and Oaktree would be merely one of borrower and lender. Oaktree's returns would be capped at the 15% coupon under the Facility. In that event, Oaktree would have little incentive to drive further growth in the profitability or value of the Company's business. In short, the Directors consider that the incentive for Oaktree to help the Company attract new capital and grow its business (and consequently shareholder value) would be limited.

It is for these reasons that the Board unanimously recommends that shareholders pass Resolutions 1 and 2 to approve the Oaktree transaction.

Note: Voting exclusions apply to this Resolution as stated in the attached Notice.

3. RESOLUTION 2 – APPROVAL OF OAKTREE TO OBTAIN RELEVANT INTEREST GREATER THAN 20%

The Notes will be issued to the Oaktree Noteholder following satisfaction of the conditions precedent under the Facility, which is expected to occur before the Meeting to be held on 19 November 2018.

From time to time, the Notes may be held by lenders other than the Oaktree Noteholder under the terms of the Facility. A Noteholder may seek to convert its Notes into Shares in accordance with the terms of the Facility. Pursuant to Resolution 2, shareholders are only being asked to approve the conversion of Shares by Oaktree (and not any other Noteholder).

Oaktree is not obliged to convert the Notes under the Facility. However, if it does, Oaktree may acquire a relevant interest in more than 20% of the Share capital of the Company on conversion of the Notes. Accordingly, Resolution 2 seeks shareholder approval under item 7, section 611 of the Corporations Act for the acquisition by Oaktree of a relevant interest in the Shares as a consequence of the conversion of the Notes, where such conversion would otherwise breach section 606 of the Corporations Act. This approval would not allow Oaktree to acquire a relevant interest in more than 20% of the Share capital of the Company other than by conversion of the Notes or as otherwise allowed by law.

Explanatory Memorandum - continued

Section 606 Prohibition

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in shares in a company where, as a consequence of the conversion, that person's voting power in the company increases:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%,

(**Section 606 Prohibition**).

The voting power of a person in a company is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a 'relevant interest'.

A person has a relevant interest in securities if they:

- are the holder of the securities;
- have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- have the power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

There is a possibility that Oaktree will acquire a relevant interest in excess of 20% of the voting shares in the Company as a consequence of the conversion of the Notes that it holds.

Item 7 exemption

Item 7 of section 611 of the Corporations Act provides an exemption to the Section 606 Prohibition. This exemption would enable Oaktree to acquire a relevant interest in the Company's Share capital in excess of 20% if shareholders approve the acquisition at a general meeting. However, as noted above, this shareholder approval would not extend to any transferee of the Notes (ie any holder of the Notes other than Oaktree). Accordingly, any transferee of the Notes would not be permitted to acquire a relevant interest in the Company's Share capital in excess of 20% (unless separate shareholder approval is obtained).

In other words, the Company may issue the Shares to Oaktree on conversion of the Notes where such issue would otherwise cause Oaktree to acquire a relevant interest in more than 20% of the voting shares of the Company in breach of the Section 606 Prohibition if, at the Meeting:

- the shareholders approve Resolution 2;
- no votes are cast in favour of Resolution 2 by Oaktree or its associates; and
- shareholders are given all information known to Oaktree or its associates, or known to the Company, that is material to the shareholders' decision on how to vote on Resolution 2.

This information is set out further below.

Independent Expert's Report

The Company has engaged Grant Thornton to provide an independent expert's report relating to the potential conversion of the Notes held by Oaktree into Shares and whether, as a consequence, it is fair and reasonable for shareholders to approve a potential acquisition of a relevant interest in voting shares that would otherwise contravene the Section 606 Prohibition (**Independent Expert's Report**). The Independent Expert's Report is intended to provide shareholders with the information that is material to their decision on how to vote on Resolution 2.

Grant Thornton's opinion is that the issue of Shares resulting from the conversion of convertible loan notes is not fair but reasonable to shareholders.

A copy of the Independent Expert's Report is set out in Attachment 2. The Directors recommend that shareholders read the Independent Expert's Report in its entirety before deciding how to vote on Resolution 2.

Information provided pursuant to item 7 of section 611 of the Corporations Act

Approval is sought for the purposes of item 7 of section 611 of the Corporations Act. The following information is provided in relation to the issue of Shares to Oaktree resulting from the conversion of the Notes (**Proposed Conversion**). The maximum number of Shares that would be issued to Oaktree at the Conversion Cap is referred to as the **Conversion Cap Shares**.

(a) *The identity of the person proposing to make the acquisition and their associates*

Oaktree may acquire Shares on conversion of the Notes. Oaktree for this purpose is relevantly defined to mean Oaktree Capital Management, L.P., each of its affiliates, any fund which is managed or advised by it or one of its affiliates and any person that controls or is controlled by any such person.

(b) *The maximum extent of the increase in that person's voting power in the Company that would result from the acquisition*

As at the date of the Notice, Oaktree does not have a relevant interest in the Company's Shares.

The maximum increase in Oaktree's voting power in the Company that could result from the Proposed Conversion is the number of votes that attach to the Conversion Cap Shares as a proportion of the number of votes attaching to all Shares in the Company.

For example, if the Conversion Cap Shares equate to 30% of the Company's issued Shares, the maximum increase in Oaktree's voting power in the Company would be 30%.

As the number of Conversion Cap Shares is determined by reference to the fully diluted share capital of the Company at the time of conversion of the relevant Notes, the issuance of such Shares to Oaktree may, in the event of the Company issuing other securities during the term of the Facility, result in Oaktree's voting power in the Company exceeding 30% of the share capital on issue today.

(c) *The voting power that person would have as a result of the acquisition*

The voting power Oaktree would have as a result of the Proposed Conversion will depend on the actual number of Shares issued on conversion under the Facility. As noted above, the maximum voting power in the Company that Oaktree could have as a result of the Proposed Conversion is the number of votes that attach to the Conversion Cap Shares as a proportion of the number of votes attaching to all Shares in the Company.

For example, if the Conversion Cap Shares equate to 30% of the Company's issued Shares, the voting power of Oaktree would be 30%.

(d) *The maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition*

There are no associates of Oaktree that currently have voting power in the Company.

The maximum increase in the voting power of any associate of Oaktree that could result from the Proposed Conversion is the number of votes that attach to the Conversion Cap Shares as a proportion of the number of votes attaching to all Shares in the Company.

For example, if the Conversion Cap Shares equate to 30% of the Company's issued Shares, the maximum increase in the voting power of any associate of Oaktree would be 30%.

(e) *The voting power that each of that person's associates would have as a result of the acquisition*

The voting power each associate of Oaktree would have as a result of the Proposed Conversion will depend on the actual number of Shares issued on conversion under the Facility. As noted above, the maximum voting power in the Company that any associate of Oaktree could have as a result of the Proposed Conversion is the number of votes that attach to the Conversion Cap Shares as a proportion of the number of votes attaching to all Shares in the Company.

For example, if the Conversion Cap Shares equate to 30% of the Company's issued shares, the voting power of each associate of Oaktree would be 30%.

ASIC Regulatory Guide 74

The Company is required to give all material information to shareholders to assist them in determining how to vote on Resolution 2. The following information is given in accordance with ASIC Regulatory Guide 74:

(a) *An explanation of the reasons for the proposed acquisition*

The purpose of the Facility is to provide the Company with $50 million to fund co-investments, general working capital requirements and general corporate purposes of the Company and those of its wholly owned subsidiaries that are obligors in respect of the Facility.

(b) *When the proposed acquisition is to occur*

The Notes will be issued to the Oaktree Noteholder following satisfaction of the conditions precedent under the Facility, which is expected to occur before the Meeting to be held on 19 November 2018.

Subject to shareholder approval and any other required regulatory approvals, during the seven-year term of the Facility, Oaktree will have the right to convert the Notes into Shares:

i. 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 Notes held); or

ii. upon an Exit Event (as described in Attachment 1) provided such conversion is for the full amount outstanding under the Notes held at the relevant time; or

iii. upon a voluntary prepayment by the Company of the Facility (in whole or in part) in lieu of receiving such prepayment in cash,

and subject to the Conversion Cap.

However, Oaktree is not obliged to convert the Notes, and therefore it is possible that conversion of the Notes may not occur at all.

(c) *The material terms of the proposed acquisition*

The terms of the Proposed Conversion are summarised in Attachment 1. These terms include the ability of Oaktree to, subject to shareholder approval and any other regulatory approvals, convert the Notes into Shares in accordance with the terms of the Facility.

(d) *Details of the terms of any other relevant agreement between the acquirer and the Company (or any of their associates) that is conditional on shareholders' approval of the proposed acquisition*

There is no other agreement between Oaktree and the Company that is conditional on shareholder approval.

(e) *A statement of the acquirer's intentions regarding the future of the Company if shareholders approve the acquisition*

Oaktree intends to assist the Company to strengthen its capital and liquidity position and enable the Company to tap into Oaktree's expertise and global networks, including by assisting the Company to attract institutional investment capital into its funds. Oaktree's overall strategic objective is to improve the Company's growth outlook.

The Company understands that Oaktree does not intend to:

- make any significant changes to the business or affairs of the Company;
- inject further capital into the Company other than through participation in rights issues or other pro rata equity capital raisings or unless called upon by the Company in its best interest;
- unilaterally make any changes to the current employment arrangements of the Company's employees;
- transfer any assets between the Company and Oaktree or any person associated with them unless called upon by the Company in its best interest; or
- otherwise redeploy the fixed assets of the Company.

Furthermore, under the terms of the Facility, Oaktree does not have the power to require the Company to take any of the above actions.

(f) *The interests of any Director in the acquisition*

No Director has a material personal interest in the Proposed Conversion that is not otherwise disclosed.

(g) *Details of any person who has become a Director as a result of this transaction*

As summarised in Attachment 1, the Facility entitles Oaktree:

- in the event that (i) there is a Board comprising four or fewer Directors and (ii) upon conversion of the balance of the Facility, Oaktree would own more than 10% of the Company's issued Shares, to nominate one person to be appointed as a non-executive Director; and
- in the event that (i) there is a Board of five or more Directors (inclusive of any Oaktree nominee) and (ii) upon conversion of the balance of the Facility, Oaktree would own more than 20% of the Company's issued Shares, to nominate two people to be appointed as non-executive Directors.

Oaktree has not yet exercised any Director nomination rights under the Facility, and the Company does not anticipate that it will exercise such rights prior to the Meeting.

As at the date of this Notice, the Board currently comprises four directors, namely non-executive directors Mr John Kain (who will stand for re-election at the Meeting) and Mr Philip Hennessy and executive directors Mr Kim Morison and Mr Tim Wilson. This means that, based on the current composition of the Board, Oaktree will be entitled to nominate one person to be appointed as a non-executive Director and that nominee Director would not control the Board.

Under the terms of the Facility, the appointment of any Oaktree nominated Director is subject to shareholder approval.

Implications of not approving Resolution 2

If neither Resolution 1 nor Resolution 2 is approved, the Notes would remain on issue subject to the terms of the Facility, but would not be convertible into Shares until such time that shareholder approval is obtained. This would also be the case if Resolution 2 is approved, but Resolution 1 is not approved.

If Resolution 2 is not approved, Oaktree would not be able to exercise its conversion rights to the extent this would result in its voting power in the Company exceeding 20%. Under the terms of the Facility, following a request from Oaktree (such request to be given no more than once a year), the Company is obliged to call a further general meeting to seek approval so that Oaktree is able to acquire a relevant interest in excess of 20%. This would also be the case if Resolution 2 is not approved, but Resolution 1 is approved.

However, if Resolution 2 is not approved but Resolution 1 is approved, it would be possible for Oaktree to exercise its conversion rights and acquire voting power in the Company of up to 20%, and then transfer any remaining Notes to another lender who could then convert those remaining Notes (assuming that lender is not otherwise restricted pursuant to the Section 606 Prohibition and subject to the Conversion Cap).

If Oaktree continues to hold that number of Notes as would convert into Shares in breach of the Section 606 Prohibition, and shareholder approval is not obtained prior to maturity of the Facility (assuming Resolution 1 is approved), the prevailing face value plus any accrued but unpaid interest in respect of any portion of the Facility that has not been converted would need to be repaid by the Company.

Note: Voting exclusions apply to this Resolution as stated in the attached Notice.

RECOMMENDATION OF DIRECTORS

The Directors recommend that shareholders vote in favour of Resolution 2.

Reasons for Directors' recommendation

In considering whether to recommend Resolution 2, the Directors have considered that, if both Resolutions 1 and 2 are approved, upon conversion Oaktree's interests would be substantially aligned with those of the Company's existing shareholders. The Company's shareholders (and consequently Oaktree) would benefit if the Company is able to attract new capital and invest it successfully. With exposure of up to 30% of the Company's equity, Oaktree would be incentivised to assist the Company to source capital to invest at fund level. Oaktree would be uniquely placed to facilitate this.

The Directors have considered the above benefits against potential disadvantages of shareholders approving Resolutions 1 and 2. These disadvantages include that the Company's other shareholders would be diluted following a conversion of the Notes, and the Company may be less likely to receive a takeover offer in the future (as any potential takeover offer would likely require the support of Oaktree).

Nevertheless, on balance, the Directors consider that the anticipated upside would outweigh the potential disadvantages associated with shareholder approval of the Oaktree transaction.

Furthermore, if Resolutions 1 and 2 are not approved, then Oaktree would remain a debt provider to the Company, and the relationship between the Company and Oaktree would be merely one of borrower and lender. Oaktree's returns would be capped at the 15% coupon under the Facility. In that event, Oaktree would have little incentive to drive further growth in the profitability or value of the Company's business. In short, the Directors consider that the incentive for Oaktree to help the Company attract new capital and grow its business (and consequently shareholder value) would be limited.

It is for these reasons that the Board unanimously recommends that shareholders pass Resolutions 1 and 2 to approve the Oaktree transaction.

4. RESOLUTION 3 - ADOPTION OF REMUNERATION REPORT

The Company's Remuneration Report for the financial year ended 30 June 2018, which is set out on pages 24 to 35 of the Annual Report, has been submitted to shareholders for consideration and adoption.

The Remuneration Report sets out the Company's remuneration arrangements for Directors and Key Management Personnel. A reasonable opportunity will be provided for shareholders to ask questions about, or make comments on, the Remuneration Report.

Shareholders should note that, in accordance with section 250R(3) of the Corporations Act, the vote on Resolution 3 is advisory only and does not bind the Company or its Directors. The Board will consider the outcome of the shareholders' vote on the Remuneration Report at the Meeting when reviewing the Company's remuneration policies.

As a result of amendments to the Corporations Act known generally as the 'two strikes rule', shareholders should note that the result of the vote on this item may affect the 2019 Annual General Meeting.

If 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings (constituting two strikes), shareholders will be required to vote at the second of those annual general meetings on a resolution (a **spill resolution**) determining whether to hold a further meeting (within 90 days) to spill the Board as required by section 250V(1) of the Corporations Act (**spill meeting**) and, if approved, at the spill meeting all of the Directors must be re-elected.

Note: Voting exclusions apply to this Resolution as stated in the attached Notice.

As detailed on the Proxy Form, if you appoint the Chairman as your proxy, and you do not provide voting directions, the Chairman is entitled to cast your vote in accordance with his stated intentions, even though Resolution 3 is connected directly or indirectly with the remuneration of a member of the Key Management Personnel. The Chairman intends to vote all available proxies in favour of Resolution 3.

If you appoint another director or member of the Key Management Personnel as your proxy for Resolution 3, you must direct your proxy how to vote, otherwise your vote will not be counted. Follow the instructions on the Proxy Form to direct your proxy how to vote.

5. RESOLUTION 4 – RE-ELECTION OF JOHN KAIN AS DIRECTOR

John Kain co-founded Blue Sky Water Partners in 2007 and served as a director of it until 2014. He has served as non-executive Chairman of the Company since April 2011. He is also a member of the Company's Audit Committee, Risk and Compliance Committee and Nomination and Remuneration Committee.

Mr Kain is retiring from office at the Meeting in accordance with ASX Listing Rule 14.4 and clause 48 of the Company's constitution, and, being eligible, is standing for re-election at the Meeting. As previously announced, Mr Kain intends to stand down as Chairman upon the appointment of new directors after the Annual General Meeting. He does not intend to stand for re-election as a director of the Company following this term.

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.

RECOMMENDATION OF DIRECTORS

The Directors (with John Kain abstaining) support the re-election of Mr Kain and recommend that shareholders vote in favour of Resolution 4.

Whilst the core of our business remains, we have fundamentally changed our business. Our capital structure has altered with the introduction of Oaktree as a capital partner. Our business lines have narrowed as we exit hedge funds, retirement living, residential property development and property management rights. Our sources of capital will become more institutionally focused, whilst our fund structures will move to more co-mingled, and less single assets, funds. Our fee structures will be more heavily weighted toward ongoing annual fees, rather than upfront fees. Our internal cost structure is being rebased, so that annual management fees will cover our fixed operating costs. Our remuneration structures have changed to better align the interests of our investors, our teams and our shareholders. There is material change to our personnel at board and executive level. Internally, our governance, risk and valuation processes have also fundamentally changed.

The Board believes that, whilst these changes are implemented, it is more important than ever that there be a continuing 'corporate memory'. John's expertise and knowledge of the Company are important to ensuring that the changes initiated this year are successfully implemented.

Attachment 1 - Key terms of Facility

Facility	Senior secured convertible term loan note facility.
Borrower	Blue Sky Alternative Investments Limited ('Company').
Guarantee	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.
Security	First ranking security over all the assets and undertakings of the Company and each Guarantor, subject to certain limited exclusions.
Principal Amount and currency	A$50 million
Use of proceeds	To fund co-investments, working capital requirements and general corporate purposes.
Fee	2% of the Principal Amount of the loan notes as an original issue discount, payable from the loan note proceeds (and also payable if financial close does not occur as a result of the disruption, delay or inaction of the Company in circumstances where Oaktree has taken all necessary actions to achieve financial close).
Coupon	Cash pay interest of 5% per annum payable monthly in arrears. PIK interest of 10%, automatically capitalising quarterly in arrears (and thereafter accruing cash pay and PIK interest).
Conversion rights	The whole or part of the outstanding amount under the loan notes (including accrued and unpaid interest) can be converted into ordinary shares in the Company as follows: ▪ 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); ▪ upon an Exit Event provided such conversion is for the full amount outstanding under the loan notes at the relevant time; or ▪ if the Company elects to prepay the loan notes (in lieu of receiving a cash prepayment), 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. 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. 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.
Maturity	7 years following financial close.

Call protection	Non-call period for the first 5 years following financial close. 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 (and taking into account any capitalisation of PIK interest that would have occurred on the amount prepaid during such period).
Prepayment on Exit Event	The loan note holders have 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. '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.
Prepayment on Review Events	The facility includes the following 'Review Events': ▪ 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; ▪ 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 that the financial covenants will be complied with for the next 12 months; and ▪ 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. 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.
Acceleration on Event of Default	The facility includes 'Events of Default' for the Company and Guarantors (but not the underlying funds) common for facilities of this nature, such as: ▪ 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 specified 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 ▪ repudiation of the transaction, insolvency or de-listing from the ASX. 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.

Attachment 1 - Key terms of Facility - continued

Board nomination and IC appointment rights	Oaktree has the right: ▪ to appoint 1 nominee to the board of directors where there is a board of 4 or less directors and, upon conversion of the balance of the loan, Oaktree would own more than 10% of the Company's issued capital. ▪ to appoint 2 nominees where there is a board of 5 or more directors, and, upon conversion of the balance of the loan, Oaktree would own more than 20% of the Company's issued capital. ▪ to appoint 2 representatives to be non-voting observers on the Group Investment Committee established for the purposes of approving balance sheet investments of the Group above certain monetary thresholds. The nomination rights are personal to Oaktree.
Financial covenants	The following financial covenants (for the Blue Sky group and not its underlying funds) tested quarterly (in the case of the first 3): ▪ minimum cash balance; ▪ minimum recurring Cash EBITDA; ▪ minimum net tangible assets; and ▪ maximum annual capex.
Permitted distributions	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: ▪ Minimum Recurring Cash EBITDA of no less than $15m for the previous four quarterly testing dates; ▪ Minimum Adjusted NPAT of no less than $10m for the relevant financial year ▪ No Default or Review Event continuing or which would result from the distribution; and ▪ Evidence of pro forma compliance with the financial covenants taking into account the distribution.
Transferability	The holders of the loan notes are entitled to assign and/or transfer their rights and/or obligations in respect of the loan notes to another bank, financial institution or other entity regularly engaged in or established for the purposes of making or investing in loans, securities or other financing assets, subject to prohibitions on assigning or transferring to certain restricted persons (including competitors of the Company).
Governing law	New South Wales

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Blue Sky Alternative Investments Limited

Independent Expert's Report and Financial Services Guide

16 October 2018

The Directors
Blue Sky Alternative Investments Limited
Level 46, 111 Eagle Street
Brisbane QLD 4000

16 October 2018

Dear Directors

Independent Expert's Report and Financial Services Guide

Introduction

Blue Sky Alternative Investments Ltd ("Blue Sky" or "the Company" or "BLA") is a pure alternative assets manager listed on the Australian Securities Exchange ("ASX") with a market capitalisation of $122.89 million as at 28 September 2018[1]. Blue Sky's current focus is to manage investments in three key asset classes being private equity ("Private Equity Division"), private real estate ("Private Real Estate Division") and real assets ("Real Assets Division")[2]. As at 30 June 2018, BLA had $3.4 billion of fee earning assets under management ("FEAUM") or $2.7 billion of funds under management ("FUM") [3]. The capital is typically deployed via closed-ended funds with a combination of portfolio-style and single-asset investments (more than 90 underlying assets as at 30 June 2018), open-ended funds and investments mandates.

On 28 March 2018, a report was published by Glaucus Research Group California LLC[4] ("Glaucus" or "Short Seller") making a number of allegations about the financial information reported by Blue Sky in particular in relation to how the FEAUM, performance fees, management fees and carrying value of the investments were calculated ("Glaucus Report"). In the period following the release of the Glaucus Report, the share price of Blue Sky reduced from $11.43 on 27 March 2018 to $1.40 on 12 July 2018. The stock has traded between $1.40 and $2.79 per share since that date.

In April 2018, BLA launched a strategic review which led the Company to implement significant changes to its structure, organisation and disclosure in order to provide greater transparency to investors and shareholders on its modus operandi and financial information.

As a result of the challenging market conditions faced by the Company and a lack of trust from sophisticated investors[5] in the aftermath of the release of the Glaucus Report, BLA decided to defer nearly all new capital raises for the closed-ended funds from sophisticated investors. BLA has traditionally raised a large proportion of

[1] Based on 77,531,678 fully paid ordinary shares ("BLA Shares").
[2] The Company has recently announced that it intends to exit the assets under management in the domestic hedge funds.
[3] Refer to Appendix D for a definition of FEAUM and FUM.
[4] A short seller investment house.
[5] High net worth individuals and family offices.

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its investment fund capital in the last quarter of the financial year and this decision impacted the business of Blue Sky from a number of perspectives:

- Lower transaction and management fees for FY18 which negatively affected the FY18 financial performance[6].
- Limiting the ability of Blue Sky to support the financial needs of the Funds Investments[7].
- Limiting the ability of Blue Sky to co-invest with certain institutional investor clients in accordance with the terms of the investment management agreement.

As a result of the above, on 28 September, BLA announced that it had entered into a binding subscription agreement with funds managed by Oaktree Capital Management L.P. (“Oaktree”) for the provision of a $50 million long-term capital investment via a seven year[8] senior secured convertible notes facility to be used principally to fund co-investments and general working capital requirements (“Convertible Notes” or “Loan Notes”). The Convertible Notes are convertible into BLA Shares subject to shareholder approval of the conversion being obtained (“Proposed Issue”) in accordance with the requirements of Section 611 Item 7 of the Corporations Act.

Oaktree is a Los Angeles-based alternative assets investment firm with assets under management of US$122 billion as at 31 December 2017. Oaktree has a range of managed funds with the ability to invest across a broad range of industries and with a variety of different structures.

We have set out below the other key terms of the Convertible Notes:

- The Convertible Notes bear a total annual interest rate of 15% of which 5% is payable in cash (“Cash Interest”) on a monthly basis and 10% is capitalised into the principal value on a quarterly basis (“PIK Interest”).
- The Convertible Notes have a first ranking security over all the assets, shares and undertakings of the Company and of certain subsidiaries.
- Oaktree is entitled to convert the Convertible Notes into ordinary shares based on the mechanics described in section 1 of the IER and in the Explanatory Memorandum. If not converted earlier, the Convertible Notes plus capitalised interest will be redeemed at maturity. BLA cannot seek/force a conversion of the Convertible Notes.
- The number of BLA Shares to be issued to Oaktree is determined by dividing the face value plus the capitalised PIK Interest at the time of conversion by the conversion price of $1.87 per share (“Conversion Price”)[9]. Accordingly, the number of BLA Shares to be issued upon conversion of the Convertible Notes will depend on the time of conversion and the amount of PIK Interest capitalised. In any case, Oaktree’s interest in BLA is subject to a conversion cap of 30% (“Conversion Cap”).

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[6] We note that the FY18 financial performance was also affected by a number of other one-off costs and other factors as set out in section 4.4.
[7] Defined as the investment companies in the closed-ended funds.
[8] The tenure of the Convertible Notes is 7 years from financial close. Financial close represents the date on which all conditions precedent to the subscription agreement are satisfied or waived by the Oaktree.
[9] The Conversion Price is calculated as the NTA per share as at 30 June 2018 after AASB15 adjustment of $1.7/share plus a premium of 10%.

- If the Convertible Notes are converted immediately after the issue, BLA will issue c. 26.74 million BLA Shares equivalent to 25.64% [10] of the issued capital. If the Convertible Notes plus capitalised interest are converted at maturity, the total outstanding liability will be c. $99.82 million (face value of the Convertible Notes plus PIK Interest). Based on the current BLA Shares on issue (excluding BLA Options), Oaktree would be entitled to 53.38 million[11] BLA Shares equivalent to 40.78% of the issued capital and accordingly the conversion cap of 30% will be triggered and the number of shares reduced to 33.23 million. The remainder of the outstanding liability of c. $37.69[12] million will be required to be repaid by Blue Sky.

- BLA can elect to repay the Convertible Notes before the maturity date by providing not less than 20 business days' notice, subject to the call protection provision[13]. However, the repayment of the Convertible Notes can only occur if Oaktree does not elect to convert. Oaktree's right to convert prevails on BLA's right to repay.

- Oaktree is entitled to nominate one person to be appointed to the Board of BLA as non-executive director if the Board is comprised of four or less Directors, otherwise Oaktree can nominate two people to be appointed to the Board as non-executive directors. As a result, Oaktree will not have free and unfettered control over BLA.

The Directors of BLA (other than any Oaktree nominees) have unanimously recommended that the shareholders of BLA not associated with Oaktree ("Non-Associated Shareholders") vote in favour of the Proposed Issue subject to the Independent Expert opining that the Proposed Issue is reasonable to the Non-Associated Shareholders. Subject to that qualification, each Director intends to vote or to procure to vote the BLA Shares that they own in favour of the Proposed Issue.

Purpose of the report

The Directors have engaged Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") to prepare an independent expert's report ("IER") stating whether, in its opinion, the Proposed Issue of BLA Shares upon conversion of the Convertible Notes is fair and reasonable to the Non-Associated Shareholders for the purposes of Item 7 of Section 611 of the Corporations Act.

For the avoidance of doubt, we note that the IER is not required in conjunction with the issue of the Convertible Notes which has already occurred as at the date of this IER.

[10] Calculated as the face value of the loan divided by the conversion price of $1.87/share and without considering the impact of the existing 6.3 million options ("BLA Options"). As discussed in section 4.5, most of the BLA Options have a significantly higher exercise price than the current trading prices of BLA and accordingly, they are unlikely to be exercised. The options with an exercise price of less than $5 are only 683,750.
[11] Calculated as the face value of the loan and the quarterly compounded interest payable-in-kind ("PIK") at 10%.
[12] Calculated as the total outstanding liability of $99.82 million less $62.13 million which in turn is calculated as the number of shares issued (33.2 million) x Conversion Price $1.87/share.
[13] If the facility is prepaid voluntarily before year 5 from the financial close, a make whole amount is payable which 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 on the non-call period (and taking into account any capitalisation of PIK interest that would have occurred on the amount prepaid during such period).

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Proposed Issue is NOT FAIR BUT REASONABLE to the Non-Associated Shareholders.

In forming our opinion, Grant Thornton Corporate Finance has considered whether the Proposed Issue is fair and reasonable to the Non-Associated Shareholders and other quantitative and qualitative considerations.

Fairness Assessment

In forming our opinion in relation to the fairness of the Proposed Issue to the Non-Associated Shareholders, Grant Thornton Corporate Finance has compared the value per BLA Share before the Proposed Issue on a control basis to the assessed value per BLA Share after approval of the Proposed Issue on a diluted (after the conversion of the Convertible Notes) and minority basis.

In our fairness assessment, we have assumed immediate conversion of the Convertible Notes and accordingly BLA will issue 26.74 million BLA Shares equivalent to 25.64% of the issued capital (before considering the impact of the BLA Options).

The following table summarises our valuation assessment:

Valuation summary of the Proposed Issue $/share	Ref	Low	High
Value of Blue Sky on a control basis before the Proposed Issue	*Section 6*	2.56	3.06
Value of Blue Sky on a minority basis after the Proposed Issue	*Section 7*	1.94	2.22
Implied premium/(discount)		**(24%)**	**(27%)**

Source: GTCF Calculations

Our assessment of the fair market value of BLA on a control basis before the Proposed Issue is higher than our assessment of BLA on a minority basis after the Proposed Issue. Accordingly, we have concluded that the Proposed Issue is **NOT FAIR** to the Non-Associated Shareholders.

Non-Associated Shareholders should refer to the disadvantages section of the IER for an illustrative case of the higher dilution suffered in case the Convertible Notes are converted at maturity.

BLA Shareholders should be aware that our assessment of the value per BLA Share does not reflect the price at which BLA Shares will trade if the Proposed Issue is approved. The price at which BLA Shares will ultimately trade depends on a range of factors including the liquidity of BLA Shares, BLA's cash position, macro-economic conditions, and the underlying performance of BLA's investments and business.

Alternative approach to value the Convertible Notes

As discussed above, in our valuation assessment of Blue Sky after the Proposed Issue, we have assumed the immediate conversion of the Convertible Notes to show to the Non-Associated Shareholders the dilution impact of the BLA Shares to be issued to Oaktree upon conversion. However, we could have also valued the Convertible Notes having regard to the terms of the loan component and the embedded equity option and without considering the BLA Shares to be issued to Oaktree.

For completeness, we have outlined below the estimated market value of BLA after the Proposed Issue valuing the Convertible Notes using an equity value methodology (Refer to Appendix F for details).

Valuation summary after the Proposed Issue $000	*Ref*	Assuming conversion after 5 years Low	High
Equity value of BLA before the Proposed Issue	*Section 6.1*	198,731	237,534
Minority discount[1]		23.1%	23.1%
Equity value of Blue Sky on a minority basis		152,870	182,718
Less: Net present value of Convertible Notes	*Appendix F*	(65,279)	(65,279)
Add: Cash inflow from the Convertible Notes[2]		49,000	49,000
Adjusted equity value of Blue Sky on a minority basis		136,591	166,439
Total number of shares outstanding	*Section 7.2*	77,532	77,532
Value per share on a minority basis ($/share)		**1.76**	**2.15**

Source: GTCF Calculations
Note 1: Minority discount is calculated as follows: 1 - (1/ (1+control premium)). For the purpose of the valuation assessment, we have assumed a control premium of 30%
Note 2: The convertible loan facility value is net of the establishment fee of 2% of the face value of the loan facility.

As outlined above, the value range of BLA after the Proposed Issue is slightly lower (in particular at the low-end of the range) by adopting this methodology to value the Convertible Notes, however our opinion in relation to the Proposed Issue would not change.

Comparison with trading prices

We have set out in the graph below a comparison between our valuation assessment before the Proposed Issue on a control and 100% basis with the trading prices of BLA from 1 July 2018. We note that in our opinion, the most relevant observation period is after the release of the annual result on 30 August 2018 as the reported underlying Net Tangible Assets[14] ("NTA") was materially lower than previously announced and accordingly the trading price before this date may not necessarily reflect the latest financial performance of the business.

[14] The FY18 results reported an underlying NTA of c. $1.7/share (after the impact of AASB 15). Previously, on 12 June 2018, BLA announced to the market that the expected underlying NTA was expected to be $2.06/share (after the impact of AASB 15).

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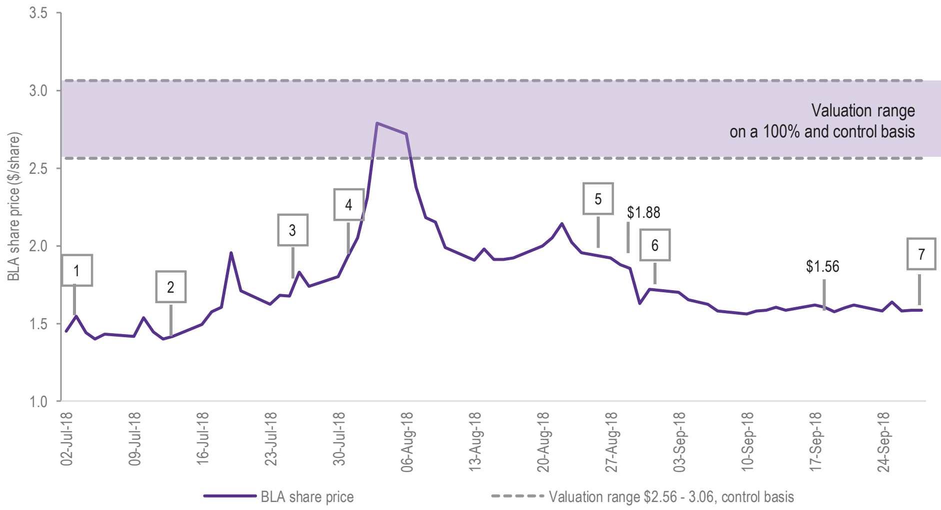
Historical share price movement since 1 July 2018



Source: ASX announcements, S&P Global and GTCF calculations
Notes:
Note 1: 3-Jul-2018: Blue Sky's response in relation to operations of the Water Fund
Note 2: 13-Jul-2018: Market Update on cash balance, FEAUM and NPAT guidance for FY18
Note 3: 26-Jul-2018: Blue Sky confirms ongoing strategic discussions with Oaktree
Note 4: 30-Jul-2018: Macquarie Group Limited acquired a stake in BLA on behalf of its clients
Note 5: 24-Aug-2018: Sale of Retirement Living Funds and Operator
Note 6: 30-Aug-2018: FY18 Results announced to the market
Note 7: 28 Sept-2018: BLA announced the Convertible Notes and it provided an update to the market regarding legal and regulatory matters.

Our valuation range before the Proposed Issue is materially higher than the trading price of BLA over the observed period. In our opinion, this is not unreasonable due to the following:

- The uncertainty in relation to the ability of BLA to secure a funding solution to have the necessary capital available to support its business, its funds' investments and working capital requirements. In our opinion, the terms of the Convertible Notes reflect a level of financial distress which is not captured in our valuation of BLA on a 100% basis before the Proposed Issue (in accordance with the requirements of ASIC RG 111).

- Our valuation assessment before the Proposed Issue is based on the fair market value concept (willing but not anxious parties), however BLA can be described as an anxious party given the specific circumstances of the Company as discussed earlier in the Executive Summary.

- Our valuation assessment of BLA before the Proposed Issue is on a 100% basis and incorporates the application of a full premium for control in accordance with the requirements of RG111. However, if the Proposed Issue is approved and Oaktree elects to convert the Convertible Notes, Oaktree will increase its interest in the Company up to a maximum of 30% of the enlarged share capital. Whilst Oaktree will be able to nominate a person to be appointed to the BLA Board[15], Oaktree will not have free and unfettered control of the Company. In our opinion, the terms of the Convertible Notes reflect the substantial but non-controlling interest acquired by Oaktree upon conversion.

[15] Refer to Section 1 for details.

- As noted in the 2018 annual report, in the days following the release of the Glaucus Report, three legal firms commenced advertising for class action participants. Blue Sky has confirmed that it has not received any communications from these three firms and no claims have been served. Nonetheless, it remains the risk that such class-actions may be brought in the future and the underlying risk may be factored into the trading prices.

- In the period before the release of the Glaucus Report, BLA was trading at a significant premium to underlying NTA. We note that the underlying NTA reflects the fair market value of BLA investments, unrealised performance fees and other working capital but it does not reflect the fair market value of the funds management business and ability of Blue Sky to continue to generate recurring and non-recurring fees from the pools of assets it manages. Following the release of the Glaucus Report, the premium to NTA started to quickly dissipate until BLA began trading at a discount to NTA on 7 June 2018. This clearly indicates that the market was only attributing limited value to the funds management platform and BLA was trading at a discount to even the carrying value of the assets on the balance sheet which we do not believe to be unreasonable (refer to section 6.2 for details).

Reasonableness Assessment

RG111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, there are sufficient reasons for the security holders to accept the offer in the absence of any superior proposal. In assessing the reasonableness of approving the Proposed Issue, we have considered the following advantages, disadvantages and other factors.

Advantages

The Proposed Issue provides new capital that is essential for BLA to return to a business as usual state

Like all other fund managers, BLA’s rapid success was connected to the growth in FEAUM which was driven by significant and numerous capital raisings undertaken for sophisticated investors at funds level (closed-ended funds) and for institutional investors via the Blue Sky Water Fund and institutional mandates with capital available at short notice.

In order to ensure a prosperous future for its shareholders and investors, BLA needs to be able to retain and grow its sophisticated and institutional investor base in open-ended funds, institutional mandates and closed-ended funds.

The release of the Glaucus Report and the events and changes that unfolded afterwards have had the following adverse effects on the Company:

- BLA decided to defer nearly all new capital raises at Funds Investments level which had a material adverse impact on the FY18 financial performance.

- The reputation of the Company and the strong momentum behind the share price before the Glaucus Report were adversely affected.

- The Company implemented a number of changes to the Board, Senior Management and modus operandi in an attempt to restore the trust of sophisticated and institutional investors.

- Investee companies across all business divisions have found it increasingly difficult to raise debt and equity capital regardless of their underlying performance and market positioning, due to the negative press around Blue Sky.
- BLA incurred large one-off restructuring costs to reduce its fixed cost base, retain talent and refund fees to investors[16].
- Whilst BLA continues to invest, its ability to invest and its cash available for investments are currently significantly constrained.

In order to rectify the above issues, the Company had two alternatives:

- Implement the changes to Senior Management, disclosure and structure announced after the Glaucus Report and continue to trade on a stand-alone basis with a view that in the medium term the underlying performance of its business would have assisted in restoring investors' trust and momentum behind the share price. Whilst this may have been a possibility, in our opinion, it would have carried too much risk for BLA Shareholders. This strategy may have taken a long time to provide the expected benefits and all the stakeholders involved (BLA key employees and investors) may not have had an appetite for it. In our opinion, asset management businesses such as Blue Sky are typically people-driven businesses and their success is intrinsically linked to their ability to retain the senior employees in every division. These people hold key relationships with the investors and drive high investment returns based on their experience and market knowledge. Defections of key senior employees in the various divisions are likely to trigger an adverse effect on the investors which accordingly may jeopardise the future of Blue Sky.
- Obtain an external validation of its business model and its sustainability going forward via an investment by a reputable and well-known alternative assets funds management business like Oaktree that would help in accelerating the healing process with all stakeholders and assist to restore growth prospects. Before execution of the Convertible Notes documents, Oaktree has undertaken an extensive and fulsome financial, tax, legal and commercial due diligence process via the use of professional advisers over a period of approximately 3 months. The thoroughness of the process undertaken by Oaktree and its willingness to invest equity (subject to shareholder approval being received and the Convertible Notes being converted) at a premium to the current reported net tangible assets after the AASB15 adjustment and the current trading price provides confidence in relation to the sustainability of the business and its growth prospects.

If the conversion of the Convertible Notes is approved, and Oaktree decides to convert, Oaktree will become a cornerstone/strategic investor in BLA and it will provide further operational support going forward. Only upon conversion, the interests of Oaktree will be fully aligned with those of the Non-Associated Shareholders, otherwise Oaktree will only remain an external debt provider to the Company. There are numerous benefits accruing to BLA Shareholders if the Proposed Issue is approved as outlined below:

- One of the key strategic imperatives of BLA going forward is to change the mix of its investors' base more towards institutional investors (42% of total FEAUM as at 30 June 2018). BLA aims to retain the current sophisticated investor base and significantly grow its institutional investors. If the Proposed Issue is approved, Oaktree will be incentivised to assist the Company in pursuing this strategic initiative. Oaktree currently has US$122[17] billion of assets under management and mostly from institutional investors.

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[16] In conjunction with certain abandoned investments in retirement living and student accommodation.
[17] As reported in Blue Sky's announcement on the ASX

Accordingly, Oaktree should be able to introduce a large number of new opportunities to BLA and assist in significantly growing the existing institutional investor base.

- Oaktree, as an experienced global alternative assets manager, will provide operational experience and support at the Board, Management and business unit levels. We note that Oaktree will be entitled to nominate one person to be appointed on the Board of BLA as non-executive director[18] and Oaktree has the right to nominate two individuals for appointment as non-voting observers to the Group Investment Committee[19].
- Oaktree has the financial capacity to support, if they decide to do so, future capital raisings of BLA at both the listed company and fund level. In addition, Oaktree will also investigate co-investment opportunities.
- BLA will be able to draw upon Oaktree's reputation to attract and retain talent which are critical for the future success of the business.

If the Proposed Issue is not approved, Oaktree will remain as a mere debt provider and it will have limited incentive to work and collaborate with BLA to pursue the aforementioned strategic benefits.

Competitive process and no superior proposal

Based on discussions and enquiries with the Directors of the Company, we understand that the Directors have investigated and evaluated a number of alternative transactions to the Proposed Issue over the last six months as summarised below:

- *Alternative private placement with one or more strategic investors:* We note that before entering into exclusive negotiations with Oaktree, the Directors received expressions of interest from a number of reputable parties of which three were non-binding proposals for investment into the Company (including the proposal from Oaktree). The Oaktree proposal was considered the most attractive for BLA Shareholders after having considered all the proposals received from a financial and strategic perspective.
- *Alternative entitlement offer to existing investors:* The Directors of BLA considered that the appetite of BLA Shareholders for an entitlement offer was limited given that BLA tapped the equity market in March 2018 to raise $100 million at $11.50 per share from institutional, sophisticated and professional investors[20].
- *Enquiries with brokers:* The Company's advisers also made enquiries with a reputable broker regarding investor appetite for an equity raising by way of an entitlement offer.

Premium to the trading price

The Conversion Price represents a premium to BLA's trading price before the announcement of the Proposed Issue as summarised below:

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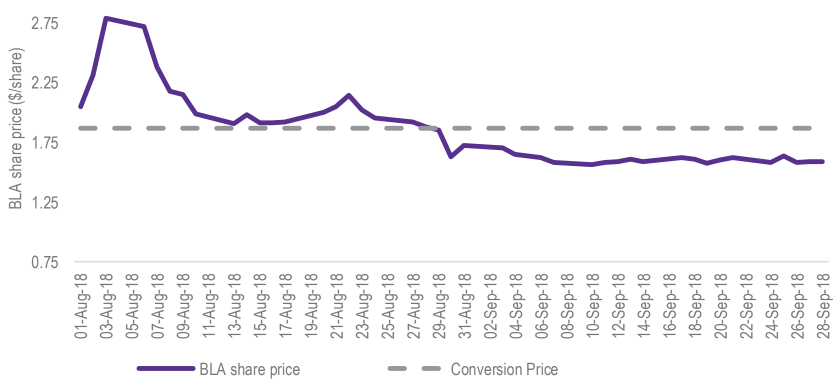
[18] If the Board is comprised of four or less Directors, otherwise Oaktree can nominate two people to be appointed to the Board as non-executive directors, Please refer to Section 1 for more details.
[19] Under the new BLA structure, Investment committees at the BLA level will be known as Group Investment Committees whilst Investment Committees within the business divisions will be known as Management Investment Committees.
[20] BLA also intended to raise up to $25 million via a share purchase plan ("SPP"). However, the SPP was subsequently cancelled as a result of the Glaucus Report.

- 17.9% compared with the closing price of BLA on 28 September 2018.
- 16.7% compared with the 1 week VWAP of BLA on 28 September 2018.
- 11.9% compared with VWAP between 28 August 2018 (release of the FY18 financial results) and 28 September 2018.

We have set out below a comparison between the recent trading prices and the Conversion Price.

Blue Sky share price and Conversion Price



Source: S&P Global

Valuation assessment of BLA on a full control basis

Our valuation assessment of BLA before the Proposed Issue is on a 100% basis and incorporates the application of a full premium for control in accordance with the requirements of RG111.

However, upon conversion of the Convertible Notes, Oaktree will increase its interest in the Company up to a maximum of 30% of the enlarged share capital. This represents a substantial interest, although Oaktree will not have full control of the Company.

Significantly reduced cash outflow for the redemption of the Convertible Notes

Based on the terms of the Convertible Notes, if the approval of the Non-Associated Shareholders in relation to the Proposed Issue is not obtained before the maturity date and BLA does not elect to repay the Convertible Notes before maturity, BLA will be required to redeem the Convertible Notes plus PIK interest for a total amount of c. $99.82 million[21]. If Oaktree elects to convert, the approval of the Proposed Issue will lead to a significant reduction in the expected cash outflow at maturity to repay the Convertible Notes as the Company will only be required to pay c. $37.69 million[22] instead of c. $99.82 million in the event the Proposed Issue is not approved.

[21] Assuming quarterly capitalisation of the PIK Interest at 10% per annum.
[22] If Oaktree elects to convert. We note that if BLA elects to convert after 5 year, the outstanding liability is reduced to $19.8 million.

We note that even if BLA elects to repay the Convertible Notes earlier and Oaktree cannot elect to convert (if Non-Associates Shareholders approval has not been obtained), the minimum amount that BLA will be required to repay is $81.93 million as the make whole provision ensures that interest is paid until year 5 after the issue of the Convertible Notes even if they are repaid earlier by BLA.

If Non-Associated Shareholders' approval in relation to the Proposed Issue is not obtained and Oaktree is unable to convert the Convertible Notes, BLA is likely to be required to raise capital in order to redeem the Convertible Notes. Based on the current market capitalisation of the Company of $122.89 million, BLA may find it challenging to raise the required capital to redeem the Convertible Notes in particular if market conditions are not favourable. In our opinion, if the Proposed Issue is not approved, existing shareholders will be adversely affected by the looming dilution risks from any future capital raising to repay the Convertible Notes.

Disadvantages

Higher dilution if the Convertible Notes are converted at maturity

In our fairness assessment, we have assumed immediate conversion of the Convertible Notes[23]. However, rational investors may wait until maturity to exercise the conversion right in order to maximise the time value of the conversion option and the payment of the interest on the Convertible Notes[24]. Under those circumstances, based on the current issued capital of BLA and our valuation assessment before the Proposed Issue, the Non-Associated Shareholders will suffer higher dilution compared with the immediate conversion assumed in our fairness assessment as outlined in the table below. However, we note that this case is for illustrative purposes only as the actual dilution suffered by the Non-Associated Shareholders will depend on the BLA trading prices at the time of conversion. In our table below, we have simplistically assumed that the trading price of BLA at maturity (7 year) remain in line with our valuation assessment before the Proposed Issue on a minority basis.

Valuation summary after the Proposed Issue - Conversion at maturity $000	*Ref*	Low	High
Equity value of BLA before the Proposed Issue	*Section 6.1*	198,731	237,534
Minority discount[1]		23.1%	23.1%
Equity value of Blue Sky on a minority basis		152,870	182,718
Cash inflow from the Convertible Notes[2]		49,000	49,000
Outstanding Convertible Notes[3]		(37,689)	(37,689)
Adjusted equity value of Blue Sky on a minority basis		164,181	194,029
Total number of shares outstanding	*Section 7.2*	110,760	110,760
Value per share on a minority basis ($/share)		**1.48**	**1.75**

Source: GTCF Calculations
Note 1: Minority discount is calculated as follows: 1 - (1/(1+control premium)). For the purpose of the valuation assessment, we have assumed a control premium of 30%
Note 2: The cash inflows from the convertible loan facility value is net of the establishment fee of 2% of the face value of the loan facility.
Note 3: The value of the outstanding debt represents the portion of the debt which cannot be satisfied by issue of shares due to the Conversion Cap.

[23] We note that we could have also valued the convertible notes having regard to the terms of the loan component and the embedded option element (refer to Appendix F for details).
[24] BLA can elect to repay the Convertible Notes before the maturity date by providing not less than 20 business day notice, subject to the call protection provision (i.e. interest payable in any case until year 5). However, the repayment of the Convertible Notes can only occur if Oaktree does not elect to convert. Oaktree's right to convert prevails on BLA's right to repay.

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The Proposed Issue is not fair

We have concluded that the Proposed Issue is not fair based on our valuation assessment of BLA on a 100% and control basis. The conversion price of the Convertible Notes is based on an NTA valuation of BLA as at 30 June 2018 after AASB 15 adjustments plus a premium of 10%. Whilst this valuation approach recognises the full market value of the investments carried on the balance sheet it only attributes limited value to the following:

- Most of BLA's funds management business is off-balance sheet. BLA currently manages $3.4 billion of FEAUM, however only c. 5.1%[25] of FUM is on balance sheet.
- The underlying NTA of Blue Sky adopted by Oaktree is after the AASB 15[26] adjustment which has the effect of reducing BLA's underlying NTA by $20.9 million. Most of the reduction in the NTA under AASB15 is driven by the fact that, from 1 July 2018, Blue Sky will only be able to recognise unrealised performance fees for the closed-ended funds when the risk of reversal is no longer highly probable which has a significant impact on the timing of the performance fees for closed-end funds. However the timing of the cash flows for Blue Sky will not change. In our opinion, the fact that the carrying value of BLA's performance fees recognised on the balance sheet is reduced by $20.9 million is not necessarily an indication that the fair market value of those performance fees is nil.
- BLA has $28.8 million of gross accumulated tax losses that can be utilised to offset against future taxable income which is not recognised as an asset on the 30 June 2018 balance sheet.

Likelihood of receiving a takeover offer in the future

In our opinion, if the Proposed Issue is approved, the likelihood of the Company receiving a takeover offer without the agreement of Oaktree will diminish as Oaktree, upon conversion, will hold a relevant interest of up to 30% of the enlarged issued capital of the Company plus potentially an outstanding liability in relation to the Convertible Notes.

Other factors

Impact on the BLA's trading price if the Proposed Issue is not approved

It is difficult to predict the performance of BLA's trading price if the Proposed Issue is not approved given the volatility that has been observed in the share price in the last few months. On 26 July 2018, BLA announced that it was in discussions with Oaktree in relation to a possible investment in BLA, however it did not provide any information on the terms of the investment. BLA also confirmed that it had considered proposals for a strategic platform investment from a significant global investment manager to strengthen Blue Sky's business model.

Following this announcement, the trading price increased from $1.68 on 25 July 2018 to $2.79 on 3 August 2018[27], an increase of c. 66%. Since then, it has decreased materially and it has traded between $1.50 and $1.60 from 1 September 2018. In our opinion, the sharp decline in the trading prices since the peak achieved at the beginning of August 2018 is mainly driven by the release of the financial results on 30 August 2018 where

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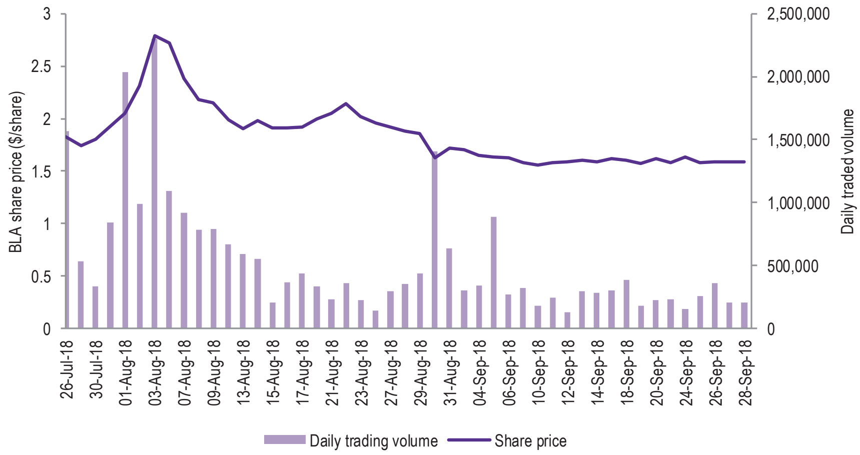
[25] Calculated as the underlying fair value of the investments through P&L ($41.1 million), the equity accounted joint ventures ($19.7 million), the total performance fee receivable ($33.3 million) and total working capital, bridging finance and other loans ($49.7 million) divided by the 30 June 2018 FUM of $2,792.2 million.
[26] Related to revenue derived from contracts with customers, which is in effect since 1st January 2018.
[27] We note that the increase in the trading prices was also affected by the announcement on 30 July 2018 that Macquarie Capital had become a substantial shareholder, however this was on behalf of its clients.

BLA reported an NTA of $1.70 per share (after the impact of AASB15) which was significantly lower than the pro-forma NTA $2.06 per share (after the impact of AASB15) indicated to the market on 12 June 2018.

We have set out below the trading price of BLA since 26 July 2018 when BLA announced that it was in discussion with Oaktree in relation to a possible investment.

Blue Sky share price since first reported Oaktree Interest



Source: S&P Global
Note 1: In response to articles reported in the press, the Company announced to the market on 26 July 2018 that it was in discussions with Oaktree regarding a potential investment.

In our opinion, if the Proposed Issue is not approved, the trading price of BLA is likely to fall. In the absence of the approval of the Proposed Issue, the benefits expected to accrue to the Non-Associated Shareholders as a result of the equity investment by Oaktree will disappear. Oaktree will only be a debt provider and it will have a more limited interest in helping to restore the momentum and growth prospects supporting the business before the release of the Glaucus Report. In addition, the risk of the Company requiring a large capital raise at a discounted price to redeem the Convertible Notes at maturity will increase and affect the trading price.

Prospect of a superior offer or alternative transaction

The drawdown of the Convertible Notes is expected to occur during October 2018 following the announcement of the execution of the Subscription Agreement on 28 September 2018. The approval of the Non-Associated Shareholders is only sought in relation to the conversion of the Convertible Notes into BLA Shares.

If the conversion attached to the Proposed Issue is not approved, the Convertible Notes will remain in place as a debt instrument. Accordingly, there are limited prospects of a superior proposal. We also note that BLA has run a competitive process before entering into exclusive discussions with Oaktree and no-superior proposal has emerged.

Directors' recommendations and intentions

In the absence of a superior proposal and subject to the Independent Expert opinion that the Proposed Issue is reasonable to Non-Associated Shareholders, the BLA Directors (other than any Oaktree nominee director) unanimously recommend that all Non-Associated Shareholders vote in favour of the Proposed Issue.

All BLA Directors intend to vote or procure to vote in favour of the Proposed Issue in respect of the BLA Shares that they own or control in the absence of a superior proposal.

Reasonableness conclusion

In our opinion, the advantages outweigh the disadvantages as set out above and on this basis, it is our opinion that the Proposed Issue is **REASONABLE** to the Non-Associated Shareholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Proposed Issue is **NOT FAIR BUT REASONABLE** to the Non-Associated Shareholders.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to vote in favour of the Proposed Issue is a matter for each BLA Shareholder to decide based on their own views of the value of BLA and expectations about future market conditions, BLA's performance, risk profile and investment strategy. If BLA Shareholders are in doubt about the action they should take in relation to the Proposed Issue, they should seek their own professional advice.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN
Director

JANNAYA JAMES
Authorised Representative

16 October 2018

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by BLA to provide general financial product advice in the form of an independent expert's report in relation to the Proposed Issue. This report is included in BLA's Notice of Meeting and Explanatory Memorandum.

2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from BLA a fixed fee of $120,000 (plus GST), which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of BLA in order to provide this report. The guidelines for independence in the preparation of independent expert's reports are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with BLA *(and associated entities)*

that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Proposed Issue.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

Financial Ombudsman Service Limited
GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 367 287

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

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Contents

1 Outline of the Proposed Issue

1.1 Terms of the Convertible Facility

We have set out below some additional detailed terms of the Convertible Notes.

Terms of the Convertible Notes	Comments
Face value	$50 million. Oaktree may assign their interest in the Convertible Notes subject to certain restrictions.
Establishment fee	An establishment fee of 2% of the face value of the loan is payable upfront.
Type loan	Senior secured term loan facility convertible into ordinary shares subject to certain conditions.
Use of proceeds	To fund co-investment, working capital requirements and general corporate purposes
Security	Senior secured debt with first lien priority of all the assets and shares of the Issuer and all material wholly owned subsidiaries
Coupon	15% p.a., calculated on the average daily outstanding Convertible Notes. Cash interest of 5% p.a. to be paid monthly plus PIK Interest rate of 10% p.a. The PIK Interest will be capitalised quarterly into the Convertible Notes balance.
Maturity	7 years from financial close[28]
Repayment	If not converted earlier, the Convertible Notes plus capitalised interest will be redeemed at maturity. BLA cannot seek/force a conversion of the Convertible Notes. BLA can elect to repay the Convertible Notes before the maturity date by providing not less than 20 business day notice, subject to the call protection provision, which has been discussed below. However, Oaktree's right to convert prevails on BLA's right of repay the Convertible Notes.
Call protection	The Convertible Notes include a non-call period of 5 years from financial close. If the facility is prepaid voluntarily during the non-call period, a make whole amount[29] 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 (and taking into account any capitalisation of PIK interest that would have occurred on the amount prepaid during such period).
Conversion	Oaktree is entitled to convert the Convertible Notes into ordinary shares at any time during the term, subject only to the shareholder approval of the conversion being obtained. The number of BLA Shares to be issued to Oaktree is determined by dividing the face value plus capitalised PIK Interest by the Conversion Price

[28] Financial close is defined as the date on which conditions precedent to the subscription agreement are satisfied or waived by the lender.
[29] A make-whole provision is attached to a bond whereby the borrower must make a payment to the lender of an amount that is equal to the net present value of the coupon payments that the lender will forgo if the borrower pays the bond early.

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Terms of the Convertible Notes	Comments
	($1.87) subject to the 30% Conversion Cap. The conversion price is subject to customary anti-dilution provisions. Any amount of the total face value of the loan plus the PIK interest that cannot be satisfied by issue of shares because the Conversion Cap would be exceeded, will remain as outstanding debt. The conversion can be completed during the 30 day period following the release of the Company's annual and half-yearly results 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). Upon the occurrence of an Exit Event[30] such conversion is for the full amount outstanding under the loan notes at the relevant time.
Shareholder approval of conversion	Blue Sky must obtain shareholders' approval for the conversion as soon as practicable after the date of public announcement of the Convertible Notes.
Covenants – Financial and others & Permitted distributions	The Convertible Notes have financial covenants in relation to minimum cash balance, minimum recurring operating cash and minimum NTA customary for a transaction of this type. During the terms of the Convertible Notes, BLA will be permitted to make distributions of up to 50% of Adjusted NPAT[31] in any financial year (capped at $10 million per financial year) subject to the following being satisfied at the time of making the distribution: • Minimum Recurring Cash EBITDA[32] of at least $15 million for the previous four quarterly testing dates • Minimum Adjusted NPAT of at least $10 million for the relevant financial year. • No Default or Review Event continuing or which would result from the distribution. • Evidence of pro forma compliance with the financial covenants taking into account the distribution.
Transferability	The Company may assign and/or transfer their rights and/or obligations in respect of the loan notes to a financial institution or other entity regularly engaged in or established for the purposes of making or investing in loans, securities or other financing assets, subject to certain prohibitions.
Board and investment committee nominations	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. 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.

30 An Exit Event includes a change of control, amalgamation, demerger, delisting or disposal of substantially all the assets of Blue Sky.
31 Net Profit After Tax
32 Earnings before interest, tax, depreciation and amortisation

2 Purpose and scope of the report

2.1 Purpose

Section 606 of the Corporations Act prohibits the acquisition of a relevant interest in the issued voting shares of a company if the acquisition results in the person's voting power in the company increasing from either below 20% to more than 20%, or from a starting point between 20% and 90%, without making an offer to all shareholders of the company.

Item 7 of Section 611 of the Corporations Act allows the shareholders not associated with the acquiring company (i.e. the Non-Associated Shareholders) to waive this prohibition by passing a resolution at a general meeting. Regulatory Guide 74 "Acquisitions agreed to by shareholders" ("RG 74") and Regulatory Guide 111 "Content of expert reports" ("RG 111") issued by ASIC set out the view of ASIC on the operation of Item 7 of Section 611 of the Corporations Act.

RG 74 requires that shareholders approving a resolution pursuant to Item 7 of Section 611 of the Corporations Act be provided with a comprehensive analysis of the proposal, including whether or not the proposal is fair and reasonable to the Non-Associated Shareholders. The Directors may satisfy their obligations to provide such an analysis by either:

- Commissioning an independent expert's report; or
- Undertaking a detailed examination of the proposal themselves and preparing a report for the Non-Associated Shareholders.

If the Proposed Issue is approved, upon conversion, Oaktree will obtain an interest in the Company of 25.64% upon immediate conversion of the Convertible Notes up to a maximum of 30% pursuant to the Conversion Cap.

Accordingly, the Directors have engaged Grant Thornton Corporate Finance to prepare an independent expert's report stating whether, in its opinion, the Proposed Issue is fair and reasonable to the Non-Associated Shareholders for the purposes of Item 7 of Section 611 of the Corporations Act.

2.2 Basis of assessment

In preparing our report, Grant Thornton Corporate Finance has had regard to the Regulatory Guides issued by ASIC, particularly RG 111, which states that an issue of shares requiring approval under Item 7 of Section 611 of the Corporations Act should be analysed as if it were a takeover bid. Accordingly, we have assessed the Proposed Issue with reference to Section 640 of the Corporations Act. RG 111 states that:

- An offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison should be made assuming 100% ownership of the target company irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company.

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- An offer is considered reasonable if it is fair. If the offer is not fair it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a higher bid. ASIC has identified the following factors which an expert might consider when determining whether an offer is reasonable:
  - The offeror's pre-existing entitlement, if any, in the shares of the target company.
  - Other significant shareholding blocks in the target company.
  - The liquidity of the market in the target company's securities.
  - Taxation losses, cash flow or other benefits through achieving 100% ownership of the target company.
  - Any special value of the target company to the offeror.
  - The likely market price if the offer is unsuccessful.
  - The value to an alternative offeror and likelihood of an alternative offer being made.

Grant Thornton Corporate Finance has determined whether the Proposed Issue is fair to the Non-Associated Shareholders by comparing the fair market value of BLA Shares before the Proposed Issue on a 100% control basis with the fair market value of BLA Shares after approval of the Proposed Issue on a fully diluted and minority basis.

In considering whether the Proposed Issue is reasonable to the Non-Associated Shareholders, we have considered a number of factors, including:

- Whether the Proposed Issue is fair.
- The implications to BLA and the Non-Associated Shareholders if the Proposed Issue is not approved.
- Other likely advantages and disadvantages associated with the Proposed Issue as required by RG111.
- Other costs and risks associated with the Proposed Issue that could potentially affect the Non-Associated Shareholders.

2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance (a 100% subsidiary of Grant Thornton Australia Limited) considered its independence with respect to the Proposed Issue with reference to the ASIC Regulatory Guide 112 "Independence of Expert's Reports" ("RG 112").

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Issue other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Issue.

2.4 Consent and other matters

Our report is to be read in conjunction with the Notice of Annual General Meeting and Explanatory Memorandum dated on or around 16 October 2018 in which this report is included, and is prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Proposed Issue. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Extraordinary General Meeting and Explanatory Memorandum.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Issue to the Non-Associated Shareholders as a whole. We have not considered the potential impact of the Proposed Issue on individual Non-Associated Shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Issue on individual shareholders.

The decision of whether or not to approve the Proposed Issue is a matter for each Non-Associated Shareholder based on their own views of value of BLA and expectations about future market conditions, BLA's performance, risk profile and investment strategy. If the Non-Associated Shareholders are in doubt about the action they should take in relation to the Proposed Issue, they should seek their own professional advice.

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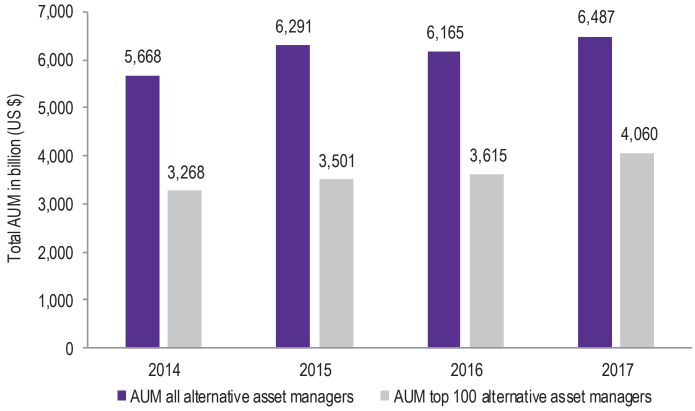
3 *Profile of the industry*

Blue Sky is an alternative asset manager listed on the ASX. Traditional assets classes include stocks, bonds and currencies whereas alternative investments refers to direct infrastructure, real estate, hedge fund, private equity, real assets and others ("Alternatives"). Alternatives are well appreciated by institutional investors as they perform well in volatile market conditions and assist to smooth portfolios' returns. The graph below shows an increase in assets under management of all (including the top 100) global alternative asset managers over the past four years

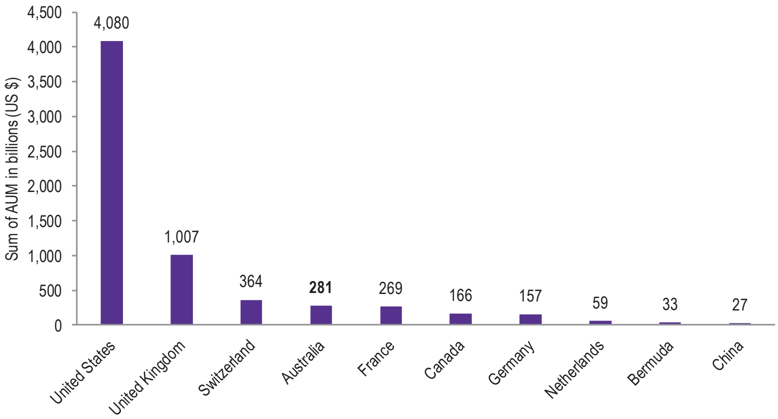
Total AUM top alternative asset managers



Source: Willis Towers Watson, Global Alternatives Survey 2015-2017

Collectively, Australia's alternative investment assets were ranked as the fourth largest in the world totalling US$281 billion at the end of 2017. A breakdown of the Alternatives assets allocations by geography is outlined below. On the following page, we also provided a breakdown per asset allocation segment of the Australian alternative asset management industry.

Top alternative asset managing countries - by AUM 2017



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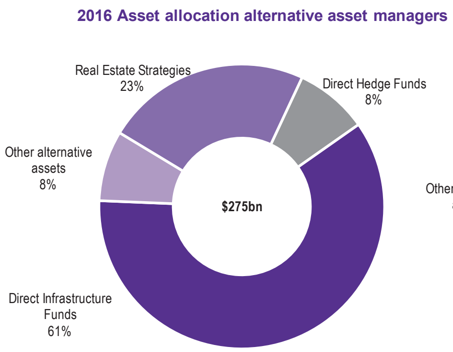
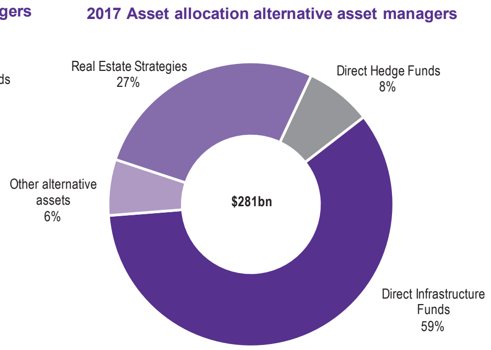




Source: Willis Towers Watson, Global Alternatives Survey 2016 and 2017
Note: Other alternative assets includes the following: direct private equity (1.0%), illiquid credit (1.8%), natural resources (2.0%) and private equity FOF (1.6%) as of 2017.

The overall outlook for the Alternative asset management industry is positive. The broader Funds Management industry in Australia is expected to grow at a compound annual growth rate of 0.8%[33] from FY18 to FY23. The Global Alternative asset industry is expected to grow funds under management from c. US$10 trillion in 2016 to US$14 trillion by 2020 and to US$21 trillion by 2025.[34]

We note that the industry players adopt a number of different acronyms for the description of the funds they managed. We have outlined below the definitions adopted for the purpose of this report:

- *Fee-earning assets under management ("FEAUM")* – refers to the assets of the investments funds, joint ventures, and investment management accounts ("mandates") to which Blue Sky/alternative assets manager provide investment management services and on which they earn recurring revenues in the form of management fees and one-off revenues including but not limited to performance fees, transaction fees etc. It includes any fee earning capital commitments that those funds, joint ventures, and mandates have the right to call from investors. Blue Sky's FEAUM is comprised of either of the following:

    - The par value of invested capital of private equity, venture capital, real asset funds and mandates that they manage, plus the capital that those funds are entitled to call from investors pursuant to fee earning capital commitments. In some instances, the FEAUM is based on the valuations completed by the respective business divisions. These valuations are typically reviewed by independent financial advisors.

    - The net asset value ("NAV") or gross asset value ("GAV") of open-ended funds which are valued to market (for Blue Sky it includes hedge funds, Blue Sky Water Fund, and the Alternatives Access Fund, and the NAV of certain institutional investment mandates investing in real asset investments);

[33] IBISWorld Funds Management Services in Australia, June 2018
[34] According to the KKR Investor Day Presentation July 2018,

- The gross asset value ("GAV") or gross realisable value ("GRV") of the private real estate development funds and projects they manage, which includes the leverage used by such portfolio investments. The GRV is measured on an "as complete" basis;

- Blue Sky's proportionate share of FEAUM based on equity interest.

- *Funds under management ("FUM")* - FUM is based on the same principles that have been applied for FEAUM for all asset classes with the exception of Private Real Estate, which is based on equity plus drawn debt and excludes net development margins and undrawn debt.

3.1 Specific alternative asset classes

3.1.1 Water entitlements and allocations

Water is a scarce resource and is a key input for the agricultural sector. There is large demand for Australian agricultural produce, particularly from China and more generally South-East Asia. In order to optimise the use of water, the Australian Federal Government permits the trading of water entitlements and water allocations (collectively "Water Rights").

It is important to make a distinction between water allocations and water entitlements. Water allocations are the volumes of water allocated to water entitlement holders during the water year (1 July to 30 June), based on the availability of water in the respective water body. Their value per unit varies within and between years and is influenced by the demand for water, which in turn is driven by the climatic conditions. Water allocation trades involve the buying and selling of allocated water during a particular year.

Water entitlements are ongoing legal property rights and grant the holder access to an annual capacity of a particular water source (also called "consumptive pool") granted under relevant state legislation typically in perpetuity. The holder of this entitlement will receive water allocations, subject to rainfall, inflows, water held in storage and other factors. A water entitlement is a property right that can be transferred independently of a water allocation. The transfer of a water entitlement is commonly referred to as 'permanent' trade, although water entitlements are transferable and hence can be bought, sold or leased for a defined period within the geographic defined water markets.

Key value drivers

The key drivers for the Water Rights are as follows:

- *Climate conditions* – The value of the water allocation is inversely related to the amount of rainfall i.e. the value is high when rainfall is low and value is low when rainfall is high. The outlook for water allocation prices is therefore dependent on the expected climatic conditions. For instance, during 2017 water allocation prices declined sharply due to very wet climatic conditions during the 2016 winter and spring 2017 resulting in high supply and reduced irrigation demand. In 2018, due to the severe drought in place, water allocation prices have increased materially.

- *Characteristics of each entitlement class* - The value (and price) of water entitlements is largely determined by their reliability characteristics, which might differ between each entitlement class. Higher reliability entitlements provide a larger frequency with which full seasonal water allocations are expected to be available, provide more security over water supply and hence command a premium.

The geographic location of the water basin, on which the water entitlements are based, also influences price.

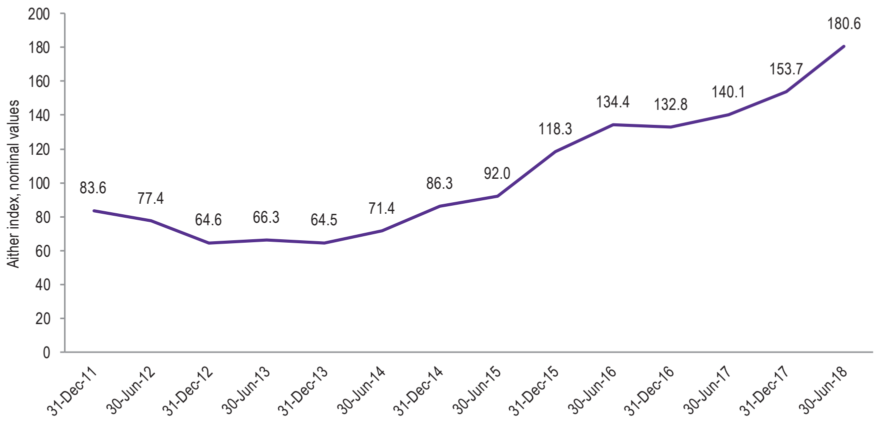
- *Investor appetite* – Water entitlement prices are impacted by structural changes to farming enterprises and the expected available water for the entitlement holder (long-term yield). Higher allocation prices will increase financial returns to entitlements, increase investor confidence and sustain current entitlement prices. The demand for water entitlements is also driven by interest from investors and corporate agricultural enterprises resulting from opportunities for land use change particularly in the cotton and nut farms, given their heavy dependence on water. When combined with traditional agricultural assets such as producing farms, the water entitlements can be used to hedge the impact of climate change on the traditional agricultural assets.

Prices

In 2014-15, many high security entitlements benefited from a sharp increase in price, reflecting decreasing water availability with dry conditions. There has been a modest average price increase of approximately 8 per cent between 2015-16 and 2016-17, returning to price levels of 2009-11, as a result of low water availability at end of dry conditions as well as irrigators trying to secure water given a dry weather outlook. However, in the first half 2016-17, wet climatic conditions prevailed with higher water availability resulting in rather flat prices. Growth returned in FY18 driven by strong demand by a broad range of market participants seeking security of water supply due to progressively lower than average rainfall. Relative to water allocations, the value of water entitlements tends to be relatively more stable.

The below graph shows the strong upward price movement after 31 December 2013 of water entitlements in the Southern Murray-Darling-Basin ("MDB"), an index constructed by independent water market advisory firm Aither. This only covers the water entitlements in the southern part of the MDB, where Blue Sky operates, which is the largest and most liquid market in Australia.

Aither Southern MDB Entitlement index



Source: Aither Pty Ltd, nominal AEI Index

Key characteristics of the Australian market

Water markets in Australia have developed significantly over the past two decades. Australia's water market consists of two different, but related markets, the entitlement and the allocation market as described earlier. There is no single national platform available for trading these assets. Instead there are a number of individual regional markets, due to "hydrological connectivity[35]" constraints.

The majority of trading in entitlements is concentrated around the (southern) MDB, Australia's largest and most well-known river system, and is one of the biggest water systems in the world. Markets outside the southern Murray-Darling Basin have lower hydrological connectivity and as a result they are more isolated trading markets with different trading rules and low liquidity.

Participants

Key participants include the farmers that require water for cultivation, domestic investors such as Duxton Waters Limited or institutional investors such as superannuation funds (VicSuper) or alternative asset managers such as Blue Sky.

3.1.2 Purpose Built Student Accommodation

Purpose Build Student Accommodation ("PBSA") is an apartment community designed for residents in higher education and designed specifically to meet the needs of college students. These differ from standard student accommodation, which are typically located in University campuses, as they tend to offer study areas, shared social spaces, sports facilities, fully furnished units, laundry facilities, other utilities, roommate matching and other additional amenities. They are typically located at or near a college campus or at least near transport hubs that allows for convenient travel to the university. PBSA's typically adopt a leasing model, comprising non-standard individual leases allowing students to "lease by the bed" with options tailored to the tenure of their respective courses at the universities they attend.

Key characteristics of the Australian market

The table below provides a breakdown of the sourcing of international students by foreign countries and destination by state in Australia. The majority (40%) of the international students originate from China and India. The majority (85%) of the international students are living in New South Wales, Victoria and Queensland.

[35] Hydrological connectivity is defined as the connectivity of the source of water to the location for its end use.

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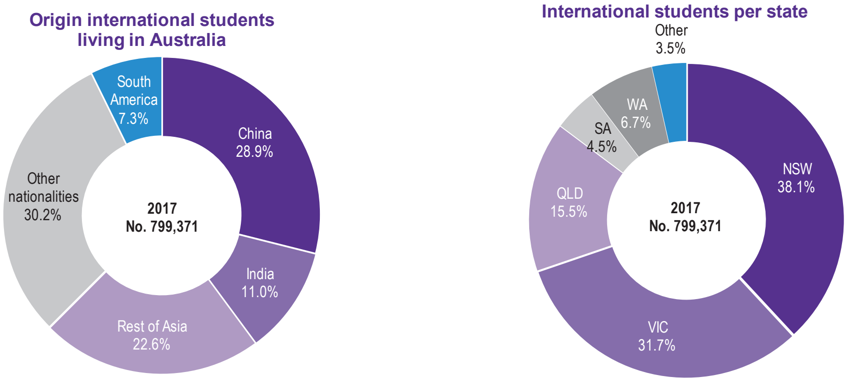


Source: Australian Government Department of Education and Training, as of December 2017
Note 1: Rest of Asia comprises Nepal, Thailand, Indonesia, Vietnam, South Korea and Malaysia. South America comprises Brazil and Colombia
Note 2: "Other" segment (3.5%) consists of the state of TAS (1.1%), NT (0.3%) and ACT (2.1%)

Supply

Savills reported in their 2017 Australian student accommodation report that in Australia's eight capital cities there are currently 71,645 beds of PBSA. They also report that the total number of operational beds currently owned by companies is 42,133 (c. 58%), which means that the remainder is being provided by the universities themselves. Australia's universities are expected to be remain significant participants within the market, in particular the universities based in Sydney and Melbourne.

The total future supply in each of Australia's capital cities (except for Canberra), consisting of existing supply and proposed development pipeline, only represents between 9 – 16% of students demanding PBSA. The penetration rate in Australia is significant lower than in the UK and US markets, considered to be more mature, which have penetration rates in excess of 30 percent.

The number of existing beds owned and under management, together with the development pipeline for the top private sector providers in Australia, consists of 66,431 beds as of May 2018[36]. Supply is ramping-up, it is expected that in the long-term, the penetration rates will move more in line with mature markets such the UK and US.

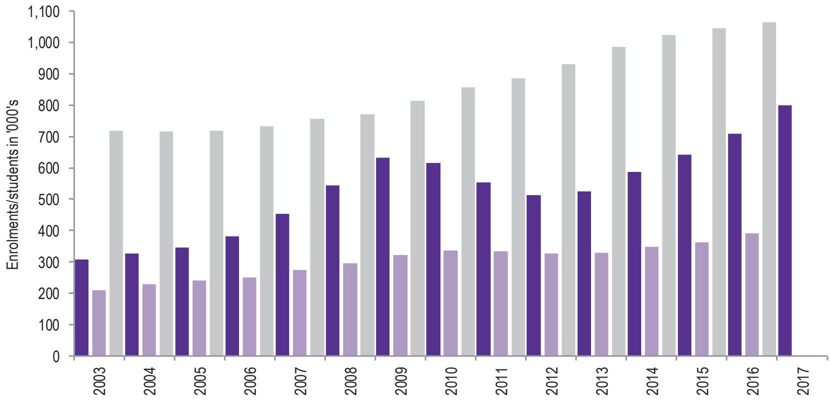
The market is quite fragmented with many new players entering the market. Providers such as Scape, Wee Hur, Global Student Accommodation (GSA) and Redefine have all recently entered the market and have established substantial pipelines of development.

Demand

As set out in the graph below, the international student enrolment has been growing substantially since 2012.

[36] Savills Australian Student Accommodation report, 2017

International student in Australia



Source: Australian Government Department of Education and Training, as of January 2018. uCube only provides numbers until 2016.
Note 1: The light purple bars show the development of international enrolments. There are more enrolments than students since a student can study in more than one course in one calendar year. The Australian Government DET only started publishing the actual international student number in 2017.
Note 2: We note that the same Australian Department of Education and Training also published numbers on the uCube website. These numbers provide the higher education segment, which represents 44% of total international students.

The student population in general, and international students in particular, are the most important driver of PBSA. There are several factors that affect the international student population:

- The ability to attract foreign students through the competitiveness of Australia as a place to study, proven through global university rankings. Australian universities feature prominently in various world university ranking lists. In 2012, all universities received lower global rankings relative to previous years (based on QS World University Ranking) which resulted in a significant decrease in the overseas student population (reduction of 2.6%). In 2017, most universities were strongly positioned and retained higher or the same rankings (with the exception of University of Melbourne), resulting in an increase in international students.

- Australia is considered as the third most popular destination for international students abroad globally.

- Fees charged by universities and potential impact on the fees from movements in the Australian dollar.

- Stricter immigration rules have an impact on the student population. However, education is now Australia's second biggest export industry (behind mining) and the Australian government is expected to ensure that it can continue providing opportunities to attract international students.

- Overall cost of living in major Australian Capital cities. Rent expenses, which may be impacted by rising construction and land costs in particular in Sydney and Melbourne, are a key component of the cost of living.

- PBSA's have limited alternative use. The sites consists of relatively small apartments, limited parking and specialist designs which do not typically appeal to other tenants.

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Key participants

PBSA is provided by both universities and commercial PBSA providers. Some universities, such as in Sydney and Melbourne, have been quite active in providing accommodation themselves. The market is fragmented, and only a few participants have managed to establish scale. There will be an increase in competition in the near term, with a significant number of investors currently assessing the Australian student accommodation market, according to Savills. Key participants include Unilodge, CLV, H.R.L Morrison & Co. Ltd, Urbanest, Scape and Atira (which is a joint venture between Goldman Sachs and Blue Sky).

3.1.3 Private Equity

Private Equity comprises investments in the private market and are typically based on the concepts of limited partners[37] and general partners[38]. The funds are typically sourced from High-Net-Worth ("HNW") individual or family offices or Institutional investors such as large pension and superannuation funds. Private Equity investments can be of three types:

- *Buyouts* – these are typically classified either as management buyouts or leveraged buyouts. In management buyouts, the management team of a company agrees to take control of a corporation by acquiring it from the existing shareholders. Another form is known as a leveraged buyout, where the buyer is a private equity firm which uses a large amount of debt to finance the acquisition. Typically, this form of private equity is adopted where the companies are relatively mature companies but with certain operational inefficiencies which are addressed by the private equity firms expertise.

- *Growth Capital* – this is also called expansion capital and is being provided to relatively mature companies that require funds to accelerate growth by means of expanding into new product or geographical markets or by means of operational improvements. Growth equity investors tend to invest in companies in established markets (i.e. food and beverage) with proven cash flow generating capacity, even if their track record is relatively short.

- *Venture Capital* – these are early stage companies or companies in the start-up phase. A common characteristic across these companies is negative operating cash flows and potentially an unproven business model or technology. These companies therefore require continue support from an operational and financial perspectives.

Private Equity returns for large global alternative asset managers have continued to outperform the traditional equities market. For instance, KKR's gross return since inception of 25.6%[39] is significantly higher than S&P 500's return of c. 11.8% over the same period.

Private market investments are typically characterised by longer holding period relative to traditional assets. They also involve improvements to the existing business operations in order to realise an increase in the overall value.

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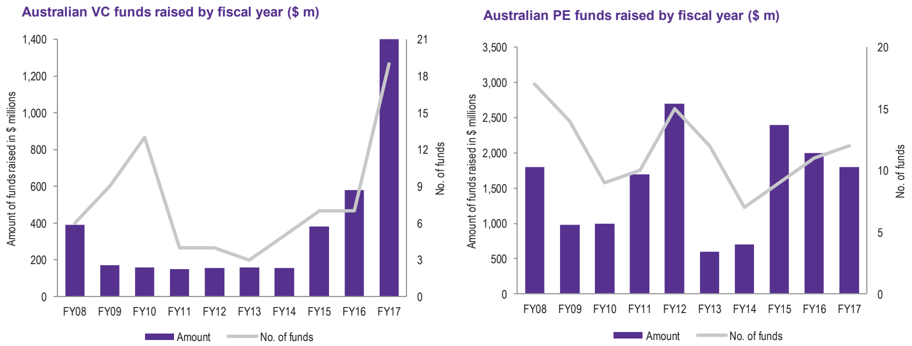
[37] Limited Partners are primarily those that contribute to the funds and their liability is limited to the funds they have contributed.
[38] General Partners are those that actively manage the fund for which they are compensated in the form of management fees, performance fees and carried interest.
[39] KKR Investor Day Presentation July 2018

Total fundraising across private equity and venture capital in Australia reached a ten-year high in 2017 with a total of $3.35 billion raised as outlined in the graph below:



Source:
Australian Private Equity and Venture Capital Association Limited 2017 Yearbook

Superannuation funds increased their allocation to VC considerably and they now accounts for c. one third of the funds raised. Government policies also assisted the VC sector with the Australian Government launching the $500 million Biomedical Translation Fund to be deployed to develop and commercialise biomedical discoveries in Australia.

Most of the capital raised in 2017 was supported by domestic investors. Superannuation funds, pension funds and fund of funds accounted for c. 60% of the total capital raised.

In 2017, a total of 156 investments were completed receiving an aggregate investment value of $3.8 billion. The total un-deployed capital is estimated at c. $7.7 billion at the end of 2017. From a sector perspective, VC mainly focused on technology, healthcare and life science whilst Growth PE deployed the largest amount of cash in consumer products (services and retail) and industrial products and services.

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4 Profile of Blue Sky

4.1 Overview

Blue Sky is a diversified alternative asset manager which managed 85 separate funds across three major asset classes being real assets, private equity and private real estate as of 30 June 2018. In all these asset classes the Company is focussed on undertaking long term investments driven by essential needs of consumers being food, water, education, affordable housing, healthcare and technology. Blue Sky has historically also invested in hedge funds, however the Company has recently made the decision to exit this asset class[40] in the domestic markets.

The high-level operational structure of Blue Sky is outlined below:

- *Real Assets Division* ($991 million FEAUM as at 30 June 2018) – The Company's real assets division manages investments in water entitlements, horticultural assets and farmland developments on behalf of institutional clients, including superannuation funds, and the Blue Sky Strategic Agriculture Fund. The Company manages investments for the Blue Sky Water Fund and bespoke mandates for domestic and international institutional investors. This division has a history of strong profitability and it is led by an experienced and market leading management team which has a first mover advantage in investing in water entitlements rights. All the funds managed are in opened-ended funds, closed-ended funds or part of institutional mandates with capital available at short notice.

- *Private Equity Division* ($543 million FEAUM as at 30 June 2018) – The Company's private equity business comprises two distinct sub-units – Growth Capital and Venture Capital. The Company has the strategic objective to develop an institutional, scalable platform investing in late stage venture / expansion opportunities in Asia Pacific and USA. However, currently, the majority of the capital is provided by family office and HNW. Over the last five years, BLA has deployed c. $350 million across 15 investments with four exits returning $204 million to investors.

  The capital is deployed via closed-ended funds with a combination of portfolio-style investments (EC2010, VC2012 and VC2017) funds and single-asset investment funds with a typical maturity of five years.

- *Private Real Estate Division* ($1.3 billion FEAUM as at 30 June 2018[41]) – The Company's private real estate business unit primarily focuses on the delivery and operation of its national student accommodation platform which currently manages 6 sites (4 operational and two expected to commence operations in 2019). Atira, which is 50% owned by Blue Sky[42], is the operator of each student accommodation site that Blue Sky has developed or is developing. In addition, this division manages investments in commercial, industrial and residential developments.

  On 24 August 2018, the Company announced that it had entered into a binding agreement with offshore investors to sell the wholesale funds' interests in the Company's six retirement living funds and its 50% interest in retirement living operator Aura[43]. The sale is yet to be completed and it is

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[40] As at 30 June 2018, the exit from hedge funds is yet to be completed.
[41] This amount is expected to reduce by $331.2 million if the sale of the retirement village portfolio is completed.
[42] Goldman Sachs is the other joint venture partner.
[43] This transaction completed on 12 October 2018.

subject to FIRB approval and the satisfaction of other conditions precedent. If the sale is completed it will result in a reduction of FEAUM of $331.2 million and of FUM of $75.8 million.

- *US Joint Ventures* ($472 million FEAUM as at 30 June 2018) –mainly comprises three investment as outlined below:
  - 38% investment in Cove which is a New York based commercial real estate developer.
  - 60% interest in Student Quarters, a specialist student housing platform.
  - Asset management rights for esVolta[44], an energy storage developer in the US.

We have set out below a breakdown of the FEAUM[45] and FUM[46] as at 30 June 2018.

in $ million	FEAUM	FUM
Growth Capital	318	318
Venture Capital	225	225
Total Private Equity	**543**	**543**
Water Fund	195	195
Other Agriculture - wholesale	54	54
Institutional mandates	742	742
Total Real Assets	**991**	**991**
Student Accommodation	629	486
Retirement Living	331	76
Residential Development	316	95
Commercial property and MLR	37	37
Total Private Real Estate	**1,313**	**693**
Cove	398	398
Student Quarters	74	74
Total US Joint Venture Platforms	**472**	**472**
Hedge Funds	64	64
BAF (uncommitted)	29	29
Total	**3,412**	**2,792**

Source: Investor presentation 2018
Note 1: FEAUM and FUM as of 30 June 2018

FEAUM refers to the assets on which Blue Sky earns management fees and other investment related fees based on the terms of the investment management agreements. It includes any uncalled capital commitments upon which Blue Sky has the right to charge fees. As outlined in the table above, the Private Real Estate Division is the only one where there is a difference between FEAUM and FUM. FEAUM includes the drawn and undrawn debt on which Blue Sky is able to levy a fee based on its role as a property development management business. In this case fees are levied on the basis of the development costs of the specific property projects under management, which are funded by equity and debt.

[44] Blue Sky Energy Storage HoldCo. directly owns a 70% interest in esVolta. Blue Sky is the fund manager for Blue Sky Energy Storage HoldCo.
[45] FEAUM definitions consistent with those disclosed in the investor presentation on 7th May 2018, available on the ASX website.
[46] Funds under Management ("FUM") is based on the same principles that have been applied for FEAUM for all asset classes with the exception of Private Real Estate, which is based on equity plus drawn debt and excludes net development margins.

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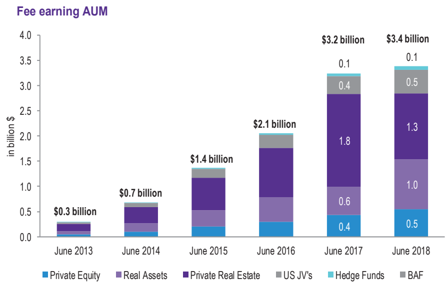
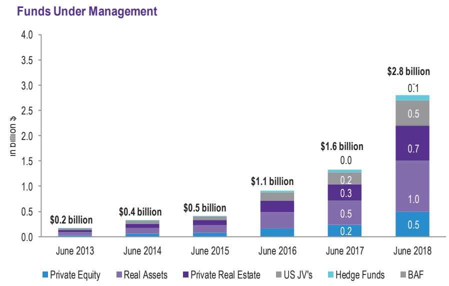
As outlined in the graph below, the Company has experienced significant growth in FEAUM and FUM over the years mainly driven by strong investment returns, favourable market conditions and established and new relationships with institutional and sophisticated investors.



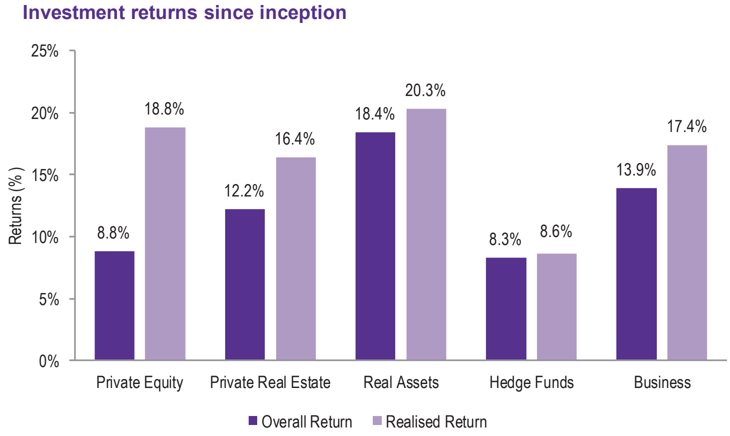


Source: ASX announcements

FEAUM peaked in March 2018 at c. $4.1 billion. The reduction to 30 June 2018 is driven by the decision of the Company to defer two student accommodation projects, cancellation of the proposed development of three retirement living projects and cancellation of one further student accommodation project, totalling $686.5 million FEAUM[47].

Presently, the Company sources its funds from a mix of high net worth individuals and family offices (c. 51%), retail investors (c. 7%) and institutional investors (c. 42%).

We have set out in the graph below the historical returns achieved by Company across the different asset classes.



Source: ASX announcements

[47] Post 30 June 2018, the pro-forma FEAUM reduced further to $2.7 billion mainly driven by the sale of the retirement living and certain residential projects (refer to section 6.1.2 for details).

As at 30 June 2018, Blue Sky achieved an equity weighted return of 13.9% per annum net of fees across its entire portfolio of investments, realised and unrealised since inception. This is a decline compared with the 15.9% return achieved as at 30 June 2017 mainly due to the following:

- Reduction in the value of the student accommodation investments.
- Decision of either delay or wind-up projects which were previously valued on a "as if complete" basis.
- Deterioration of the operating performance of certain assets in the Private Equity Division.
- A large number of investments (8[48]) which, as at 30 June 2018, were being held below cost, particularly impacting the performance of the Private Equity Division.

4.2 Strategic review

On 28 March 2018, the Glaucus Report was published which made a number of assertions about the financial information reported by Blue Sky in particular in relation to how the FEAUM, performance fees, management fees and carrying value of the investments were calculated. Trading in the shares of the Company was suspended and trading only resumed on 3 April 2018 after the release of Blue Sky's response to the Glaucus Report. Over the following period, the share price of Blue Sky reduced from $11.43 on 27 March 2018 to $1.40 on 12 July 2018.

As a result of Glaucus Report, there was intense pressure on the Company to provide greater disclosure and transparency on its investments and as a consequence the Company made a number of decisions/changes to try to rebuild investors' trust:

- Commissioned an independent review with the objective of enhancing the disclosure around financial reporting and valuations. The company also committed to provide greater transparency to shareholders in relation to FEAUM, separately reporting up-front fees from on-going management fees and to provide greater transparency on the performance of its investment performance.
- Commissioned an independent valuation review of every asset managed by the Company.
- Undertook a strategic review of the business.
- On 23 April 2018, the Company announced that Mr Robert Shand resigned as Managing Director and Mr. Alex McNab resigned as Chief Investment Officer. Mr Kim Morrison was appointed as interim Managing Director. In addition, Ms Elaine Stead and Mr Nicholas Dignam stepped down from the Board and but continue in their executive roles in the business. They will be replaced by Non-Executive Directors.
- Due to the lack of confidence by investors and the strategic review underway, Blue Sky decided to defer nearly all new wholesale investment fund capital raises.

Following completion of the independent and strategic reviews outlined above, the Company announced the following changes:

[48] Comprising 4 investments each in Growth Capital and Venture Capital.

- *Changes to the business strategy* – Blue Sky to focus on its core competencies in Private Equity, Private Real Estate and Real Assets and as a result progressively close down the domestic hedge fund business, winding-up regional real estate projects, the sale of the retirement village platform and the termination[49] and delay of certain student accommodation projects. Blue Sky will also accelerate the process around its strategic objective of shifting its investor's base more towards institutional rather than wholesale funds. As a result, contribution of up-front transaction fees to future revenue will reduce and the fee structure will be re-weighted towards on-going management fees. We have set out below the basis upon which fees are currently charged and are expected to be charged going forward. The Private Real Estate Division is largely a developer of real estate assets and the difference between the FEAUM and FUM reflects the debt funding which is used in the development of real estate projects[50]. The Private Real Estate Division charges management fees based on the development cost of the underlying project. Where it is an investment manager of existing developed projects, it charges management fees based on the Gross Asset Value of the property. We have set out a summary of the basis on which the fees are expected to be charged by Blue Sky going forward.

Basis of fees in $ million	FEAUM	FUM	Typical Management fees basis	Typical performance fees basis
Growth Capital	318	318	C. 2% p.a. of equity raised paid annually	20% of returns above 8% hurdle rate paid on wind-up.
Venture Capital	225	225	C. 2% p.a. of equity raised paid annually	20% of returns above 8% hurdle rate paid on wind-up.
Total Private Equity	**543**	**543**		
Water Fund	195	195	C. 1.9% of the Gross Asset Value paid monthly.	17.5% return above 8% hurdle rate paid annually with high watermark.
Other Agriculture - wholesale	54	54	C. 2% of the par value of equity paid annually.	20% of returns above 8% hurdle rate paid on wind-up.
Institutional mandates	742	742	Cannot be disclosed due to confidentiality. Broadly, the base to which Management fee is dictated by the specific mandates.	Confidential.
Total Real Assets	**991**	**991**		
Student Accommodation	629	486	Asset management fee of 0.5% p.a. of the Gross Asset Value paid quarterly.	20% of returns above 8% hurdle rate paid on wind-up.
Retirement Living	331	76	C. 4% of the total development cost paid throughout the development period.	20% of returns above 8% hurdle rate paid on wind-up.
Residential Development	316	95	C. 1% to 2% of the Gross Realisable Value paid at stages throughout the development period.	20% of returns above 8% hurdle rate paid on wind-up.
Commercial property and MLR	37	37	Industrial - 0.5% to 0.7% of the Gross Asset Value paid quarterly; MLR - $30,000 paid annually.	20% of returns above 8% hurdle rate paid on wind-up.
Total Private Real Estate	**1,313**	**693**		
Cove	398	398	Cannot be disclosed due to confidentiality. Broadly, the base to which Management fee is applied to comprises a proportion of equity and debt.	Confidential.
Student Quarters	74	74	Cannot be disclosed due to confidentiality. Broadly, the base to which Management fee is applied to is the Gross Asset Value.	Confidential.
Total US Joint Venture Platforms	**472**	**472**		
Hedge Funds	64	64	0.9% to 1.1% of Net Asset Value paid monthly.	20.5% above the daily-weighted RBA cash rate paid quarterly with a high watermark.
BAF (uncommitted)	29	29	1.2% p.a. of Net Asset Value paid monthly.	17.5% return above 8% hurdle rate paid annually with high watermark.
Total	**3,412**	**2,792**		

Source: ASX announcement dated 12 June 2018
Note 1: Fee arrangements for institutional mandates, joint ventures and institutional funds are confidential and subject to commercially negotiated terms.
Note 2: Basis of management fees and performance fees are indicative only and fee terms of individual funds may differ from those presented above.

49 One student accommodation project has been terminated.
50 The other divisions do not use leverage and accordingly FUM and FEAUM coincide.

- *Cost management initiatives* – Blue Sky announced in May 2018 that it intends to reduce its fixed cost base[51] in line with the recurring management fees. In the full year accounts announced on 28 August, it disclosed that it had already realised $5 million in annualised fixed cost savings with further cost reduction planned in the second half of FY19.

- *Remuneration structure* – as a result of the strategic review undertaken and in order to achieve greater alignment between bonus paid to the investment teams and the return to investors, the Company has recently announced a change to the remuneration structure from FY19. Going forward, the Investment teams will receive (through a combination of fixed remuneration and bonus profit share) 50% of the cash EBITDA of the business unit rather than 25% of realised performance fees. Blue Sky believes that this change will drive the required behaviours to allow the Company to achieve top quartile investment returns, whilst managing profitability of each division.

- *Board and executive changes* – Blue Sky is seeking to appoint a new Chairman, a new Group Managing Director and Non-executive directors. Further, the Company has created a new position of Chief Risk Officer ("CRO") to ensure consistency of investment approach, risk management, adherence to mandate terms and to perform internal audit. Mr. Andrew Werro has commenced in this role.

- *Risk and compliance* – the Company has evolved corporate governance by establishing an institutional grade risk, compliance and investment governance framework including revising the valuation policy. Blue Sky has also commissioned an independent review of the risk, valuation and financial systems which is on-going as at the date of this report.

- *Establishment of Group Investment Committee* – In order to enhance team autonomy, alignment and oversight, the Company intends to form Group Investment Committees, which will be responsible for overarching investment mandate and Business Unit Investment Committee Charter for each business and authorisation of capital investment using Blue Sky's balance sheet where required.

  At the business division level, the investment committees ("Management Investment Committees") will be responsible for maintaining investment discretion within set strategies.

4.3 Business Units

4.3.1 Real Assets Division

The Real Assets Division's FEAUM over the last three reporting dates and the realised and overall returns since inception are as follows:

[51] These include reduction in employee head count, realising savings in the administrative divisions etc.

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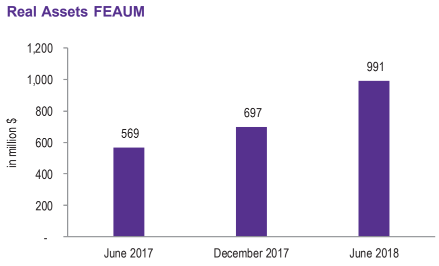

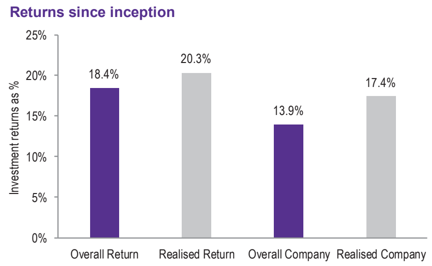

Source: Investor presentation 2018
Note 1: Overall returns since inception include both realised and unrealised investments.
Note 2: Realised returns are equity weighted, pre-tax and net of fees as at 30 June 2018. Realised returns include returns on open-ended funds (i.e. where investors have redemption rights)

We have outlined below the key mandates and funds managed by this division:

- The Blue Sky Water Fund was established in 2012 to invest in a portfolio of water entitlements and generate an income from the sale of the water entitlements allocated each year or to lease water entitlements to farmers over the medium term. The Blue Sky Water Fund, which is an open-ended, evergreen active fund, primarily invests in the water entitlements in the southern MDB. The Blue Sky Water Fund is managed by Blue Sky Water Partners Pty Ltd ("BSWP"). Investors can subscribe for new units or redeem existing ones on a quarterly basis. In November 2017, BSWP elected to temporarily close the Water Fund to new investors given the significant unfulfilled institutional demand for this asset class. Water entitlements and water allocations held by the Blue Sky Water Fund are independently valued each month.

- Investment Management Agreements ("IMAs") to manage a portfolio of Agricultural & Water Assets on behalf of a large Australian superannuation fund and a Canadian pension fund. One of the IMAs has co-investment obligations and they both can be terminated at short notice.

- Club-style[52] investment fund known as the Blue Sky Strategic Australian Agriculture Fund.

- Several Blue Sky Agriculture Funds – single-asset, closed-ended funds.

During FY18, the key developments in this division include:

- The various water entitlements held by the Blue Sky Water Fund continued to appreciate supported by strong demand and limited supply driven by measures implemented by the Commonwealth's MDB buy-back program[53].

- The Company achieved a second strategic close of c. $210 million of the Blue Sky Strategic Australian Agriculture Club. The funds are expected to be deployed towards water entitlements, private equity farmland developments and agricultural supply chain infrastructure.

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[52] An investment club comprises a group of people who after studying different investments, decides to buy or sell based on a majority vote of the members
[53] Under the Sustainable Rural Water Use of Infrastructure Program, the Australian Government has committed $3.1 billion to purchase water to assist with bridging the gap to the sustainable diversion limits in the MDB Plan 2012.

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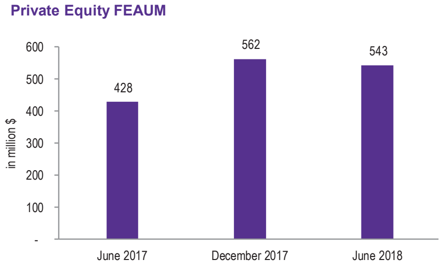
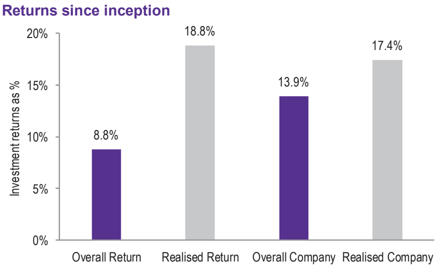
- Securing an investment mandate with a North American pension fund.

4.3.2 Private Equity Division

The FEAUM of the Private Equity Division over the last three years and the total and realised returns of Blue Sky and of the division are set out in the graphs on the following page:





Source: Investor presentation 2018
Note 1: Overall returns since inception include both realised and unrealised investments.
Note 2: Realised returns are equity weighted, pre-tax and net of fees as at 30 June 2018.

Blue Sky Private Equity comprises Blue Sky Growth Capital and Blue Sky Venture Capital. Blue Sky Growth Capital focuses on healthcare, food and education (9 out of the last 15 investments) in Australia and New Zealand. Blue Sky Venture Capital has four venture capital funds (VC2012, VC2014, VC2017 and South Australian Venture Capital Fund) which are all closed-ended funds.

We have set out below a summary of the key highlights of FY18

- The Private Equity Division completed eight new investments including its largest investment to date into Birch & Waite, a manufacturer of premium sauces and condiments and an investment in an IT consulting business.

- This division made its first two investments under the 15-year South Australian Venture Capital Fund mandate awarded last year. One of the investee companies is engaged in the development of remote sensing equipment and the other one is engaged in providing occupational therapy services to children.

- The Private Equity team has continued to progress the sale of early investments, including the sale of Lenard's to its management team in July 2018. The sale of three of the four remaining early investments are expected to be finalised over the coming months. Venture Capital investment Shoes of Prey ceased trading after 30 June 2018.

- Two investments were made in FY18 in North America into esVolta, an energy storage business, and Lord Hobo Brewing Co, a premium brewer.

4.3.3 Private Real Estate Division

Blue Sky Private Real Estate Division is an alternative real estate developer and investor and it focuses on the development and management of the following asset classes:

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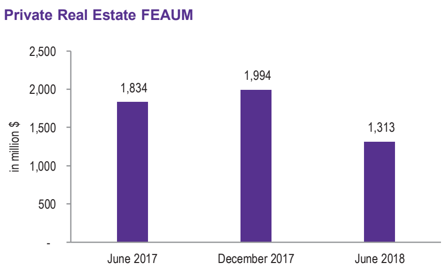
- *Student accommodation* – since 2015, Blue Sky has invested in more than 3,500 beds at eight different sites with four[54] currently operating and four in development. Two of the development sites are based in Melbourne and they are due for completion in 2019. Other two pipeline projects in Perth and Melbourne have experienced delays during FY18. Blue Sky owns 50% of Atira, a joint venture with Goldman Sachs, which is the operator of each student accommodation.

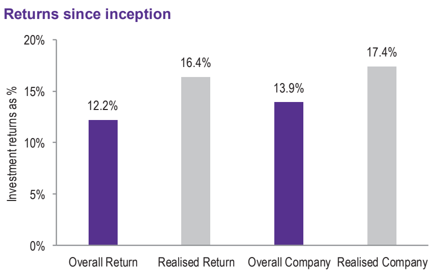
- *Retirement villages* – as discussed before, on 24 August 2018, Blue Sky announced the sale of the six retirement villages and its 50% interest in Aura which is yet to complete subject to FIRB approval.

- *Residential properties* – Blue Sky is progressively exiting management rights assets and regional real estate development projects. Certain development projects in the Brisbane area have been delayed due to challenging market conditions.

- *Industrial properties* – in FY18 Blue Sky completed the settlement of Revesby specialty industrial facility which has been leased to Blue Sky Private Equity's investee company Birch & Waite at arm's length commercial terms.

The following charts set out the FEAUM[55] [56] [57] at the last three reporting dates and the total and realised returns since inception for the Private Real Estate.





Source: Investor presentation 2018
Note 1: Overall returns since inception include both realised and unrealised investments.
Note 2: Realised returns are equity weighted, pre-tax and net of fees as at 30 June 2018. Realised returns include returns on open-ended funds (i.e. where investors have redemption rights)

The Student accommodation business is expected to be a key focus area for this division going forward.

4.3.4 Hedge Funds

The FEAUM of the hedge fund business as at 30 June 2018 was c. A$64 million. Since inception, the total returns of this division were c. 8.3% and realised returns were c. 8.6%. The following charts set out the FEAUM at the last three reporting dates and the total and realised returns since inception for the Hedge

[54] Woolloongabba (309 beds opened in July 2016), South Brisbane (800 beds opened in February 2017), Adelaide (428 beds opened in February 2018) and Toowong (576 beds opened in February 2018)
[55] The Private Real Estate FEAUM includes the FEAUM attributable to the US joint venture businesses of Cove and Student Quarters. The FEAUM balances for these businesses at the last three reporting dates was as follows – 30 June 2017 – A$360 million, 31 December 2017 - A$513 million and 30 June 2018 – A$472 million.
[56] The FEAUM balance as at 30 June 2018 includes the FEAUM of c. A$331.2 million attributable to the retirement living business. The reduction in FEAUM due to exit from the retirement living business will be reflected in FY19.
[57] In the Private Real Estate unit, the FEAUM comprises the gross asset value of underlying property. This definition is consistent with the investment policy of Blue Sky.

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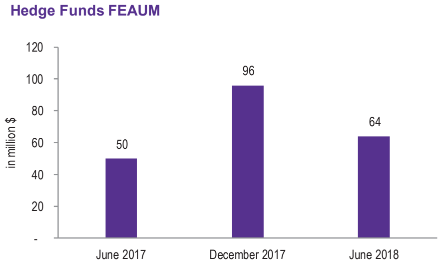
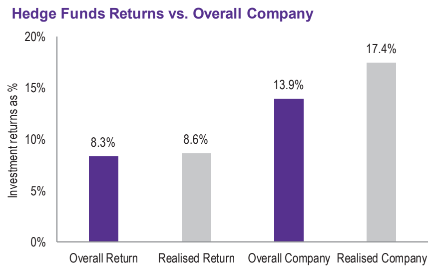
Funds business. The Company has stated that it intends to the progressively exit the hedge fund business over the next 12 months.





Source: Investor presentation 2018
Note 1: Overall returns since inception include both realised and unrealised investments.
Note 2: Realised returns are equity weighted, pre-tax and net of fees as at 30 June 2018. Realised returns include returns on open-ended funds (i.e. where investors have redemption rights)

4.3.5 Blue Sky Alternative Access Fund

To provide retail investors opportunities to invest in the alternative assets class, Blue Sky set up ASX listed Blue Sky Alternative Access Fund ("BAF") in 2014. BAF is managed by BSAAF Management Pty Ltd, a wholly owned subsidiary of Blue Sky. All the investments made by the manager on behalf of BAF are directly managed by subsidiaries of Blue Sky.

Under the management agreement, the manager will manage the investment portfolio and it will also provide or procure the provision of administrative support services. BAF pays to the manager a management fee equal to 1.2% per annum (plus GST) of the net asset value of the investment portfolio plus a performance fee equal to 17.5% (plus GST) of the investment portfolio outperformance above the hurdle rate of 8%.

BAF has been granted the first right to invest in any authorised investment opportunity of Blue Sky. As at 31 August 2018, BAF's sector weighting was as follows — Blue Sky Water Fund (19.5%), Other Real assets (12.3%), Growth capital (20.6%), Venture Capital (5.5%), Student accommodation (13.9%), Other Private Real Estate ventures (15.4%) and cash (12.8%).

In FY18, BAF deployed $57.5 million of capital increasing the total number of investments in the portfolio to 49. In April 2018, the Company announced and commenced an on-market share buyback program. As at 29 August 2018, 5.1 million shares had been bought back at a weighted average price of $0.8132 per share.

Since inception in 2014, BAF generated an annualised post-tax return of 7.74% and a compounded post-tax return of 36.89%.

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4.4 Financial information

4.4.1 Underlying and statutory financial information

Under AASB10 Consolidated Financial Statements accounting standard (“”AASB10”), Blue Sky is required to either consolidate or equity account the funds it manages given that it is able to exert a degree of control via its direct equity investment and/or the management agreements. As a result, seven entities are consolidated and a further 30 funds and fund related entities are accounted for using the equity method (“Statutory Financial Information”). This accounting requirement brings some anomalies in the statutory accounts of Blue Sky due to the following:

- The fees that Blue Sky earns from the seven entities which are consolidated are eliminated on consolidation.
- The assets and liabilities of the seven consolidated entities, which are held by each fund on behalf of investors in those funds, are showed on the Blue Sky balance sheet. Typically, BLA’s rights to the assets and liabilities is restricted to the share of its co-investment in the fund.
- The funds and related entities which are accounted for by using the equity method, only a share of the profit/loss of those entities appears in the consolidated accounts which is different from the underlying fair market value.

Based on the above and in order to provide all stakeholders with a greater transparency and more informative financial results, Blue Sky also present the account on an underlying basis where all balance sheet investments in funds that Blue Sky manages are reported at fair value (“Underlying Financial Information”). The Underlying Financial Information are non-IFRS compliance and they are reviewed by Blue Sky’s auditors.

4.4.2 Financial Performance

The following table sets out the Underlying Financial Performance of the Company for the years ended 30 June 2016 (“FY16”), 30 June 2017 (“FY17”) and 30 June 2018 (“FY18”). Given the significant disruptions to the business in FY18 and the amount of one-off expenses, we have also provided FY18 performance after normalisation adjustments.

Refer Appendix C for financial performance reported on a statutory basis.

Consolidated underlying financial performance $m	Actual Reviewed FY16	Actual Reviewed FY17	Actual Reviewed FY18
Management fees	31.5	21.9	13.6
Transaction fees	-	15.7	4.1
Responsible entity fees	-	1.3	0.2
Performance fees	18.7	22.3	2.8
Other income	4.6	6.8	4.1
Total operating revenue	54.8	68.0	24.8
Investment income / (loss)	6.9	7.6	(19.8)
Share of profit / (loss) of assoicates	1.1	9.4	(5.1)
Total income	62.8	85.0	(0.1)
Employee benefit expense	(19.2)	(24.8)	(33.5)
Occupancy	(1.9)	(2.0)	(2.3)
Consultancy	-	(1.2)	(3.9)
External service providers	(4.2)	(2.7)	(7.5)
External capital raising expenses	(2.1)	(2.4)	(4.4)
Fee rebates to BAF	(5.6)	(5.9)	(2.7)
Other operating costs	(5.3)	(7.1)	(12.4)
Provisions and impairments	-	-	(31.5)
Total operating expenses	(38.3)	(46.1)	(98.2)
EBITDA	**24.5**	**38.9**	**(98.3)**
EBITDA margin (%)	*39.0%*	*45.8%*	*NM*
Depreciation and amortisation	(0.5)	(0.4)	(0.4)
EBIT	24.0	38.5	(98.7)
EBIT margin (%)	*38.2%*	*45.3%*	*NM*
Finance costs	(0.8)	(1.0)	(1.7)
Net profit / (loss) before tax	23.2	37.5	(100.4)
Tax (expense) / benefit	(6.9)	(12.0)	14.7
Net profit / (loss) after tax	**16.3**	**25.5**	**(85.7)**
Margin (%)	*26.0%*	*30.0%*	*NM*

Source: Company annual reports, FY18 investor presentation
Note: Numbers may not add up due to rounding

In relation to the FY18 underlying financial performance, we note the following:

- *Management fees* – The Company's management fees declined from c. $21.9 million in FY17 to $13.6 million in FY18 due to deferral of the student accommodation projects and the exit of the retirement living business. During FY18, the Company recorded management fee reversals of $9.5 million comprising $7.6 million attributable to the retirement living business and the deferred student accommodation projects and the remaining $1.9 million relate to residential development projects undertaken by the Company.

- *Transaction fees* – They are usually charged to compensate Blue Sky for the costs associated with establishing a new fund and acquiring the underlying assets. The transaction fees reduced from $15.7 million in FY17 to $4.1 million in FY18 as the Company deferred most of the new fund raisings activities from April 2018 onwards after the release of the Glaucus Report.

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During FY18, the Company recorded transaction fees reversal of $8.6 million comprising $7.1 million attributable to the retirement living business and the deferred student accommodation projects and the remaining $1.5 million relates to certain under-performing investments/funds in the venture capital and growth capital portfolio.

- *Performance fees* – The Company typically earns performance fees when it achieves returns over certain hurdle rates which are determined in accordance with specific mandates. Out of the performance fees recorded in FY18, c. $6.8 million of performance fees have crystallised and $6.6 million have been accrued based on independent valuations. $10.6 million of performance fee has been reversed of which c. $8.4 million relates to existing and deferred student accommodation fund while the balance pertain to certain growth and venture capital investments made by the Company.

- *Investment income / (loss)* – The Investment loss is primarily driven by the write-downs suffered in the student accommodation and retirement living businesses. The unrealised losses due to revision in carrying value of investments of $19.8 million comprises a net loss of $17.2 million in the Atira and Aura investment platforms and the remaining $2.6 million attributable to the various Blue Sky funds.

- *Employee benefit expenses* - The employee benefit expenses of c. $33.5 million includes one-off costs associated with the redundancies and retention of the workforce of $6.5 million.

- *Provision and impairment* - The impairment provision of c. $31.5 million is mainly in relation to the write down of loans to related investee companies to the recoverable amount. It comprises c. $29.8 million in relation to loans provisions & loan write-offs and goodwill impairment and other impairment charge of c. $1.7 million.

4.4.3 Financial Position

We have set out below the financial position as at 30 June 2017, 31 December 2017 and 30 June 2018 based on the Underlying Financial Information and before AASB15 adjustments which become applicable from 1 July 2018. Refer to Appendix B for the Statutory Financial Information.

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Consolidated underlying financial position $millions	30-Jun-17 Audited	31-Dec-17 Audited	30-Jun-18 Audited
Cash	70.6	51.0	40.0
Trade and other receivables	38.0	37.3	46.4
Other current assets	4.6	5.2	7.0
Total current assets	**113.2**	**93.5**	**93.4**
Investments in associates and joint ventures	11.5	12.8	19.7
Financial assets at fair value through profit and loss	63.4	68.3	41.1
Trade and other receivables	52.8	66.7	41.7
Property, plant and equipment	3.2	3.2	3.0
Intangible assets	5.6	5.8	4.9
Total non-current assets	**136.5**	**156.8**	**110.4**
Total assets	**249.7**	**250.3**	203.8
Trade and other payables	(36.6)	(26.0)	(17.7)
Borrowings	(8.4)	(6.5)	(0.7)
Other current liabilities	(14.0)	(14.6)	(13.3)
Total current liabilities	(59.0)	(47.1)	(31.7)
Other non-current liabilities	(34.5)	(43.8)	(14.8)
Total non-current liabilities	(34.5)	(43.8)	(14.8)
Total liabilities	(93.5)	(90.9)	(46.5)
Net assets	**156.2**	**159.4**	**157.3**
Net tangible assets	**150.6**	**153.6**	**152.4**

Source: Company annual reports

We note the following in relation to the statements of financial position:

- *Cash position* – the Company's cash position was adversely affected by $23.1 million of abnormal operating cash flows and $20.6 million of unanticipated bridging finance loans as a result of the Company's decision to defer the wholesale capital raising since April 2018 due to lack of investors' confidence.

- *Current trade and other receivables* – it includes the following key items:

  - Performance fee of $8.3 million relating to the Real Assets Division for c. $6.3 million, Private Equity Division for c. $1.2 million and Private Real Estate of c. $0.9 million. Performance fees are accrued when there is evidence that the stated hurdle rate has been exceeded. The performance fees in relation to the unrealised closed-end funds are recognised after Blue Sky's valuations have been reviewed by an independent expert or valuer, when material. Performance hurdles and participation rates are set out in each investment management agreements. The open-ended funds may be subject to high water mark[58] clause.

  - Bridging finance and working capital loans totalling $21.5 million ($8 million Private Equity assets and $13.5 million Private Real Estate assets) and $7 million respectively. Some of these bridging finance loans have been provided to investees companies in financial difficulties. We have tested the market value of these loans in our valuation assessment.

- Investments in associates and joint ventures comprise the investment in Cove ($7.5 million) and

[58] The previous peak in value needs to be exceeded before the performance fee is payable again.

Student Quarters ($12.1 million).

- The movement in the financial assets at fair value through profit and loss is set out in the table below:

Financial assets at fair value through profit and loss $m	Audited 30-Jun-17	Audited 30-Jun-18	Comments
Real Assets	7.1	9.7	The net increase is on account of additional investments of c. $3.5 million made by the various agricultural and water funds. This was offset by the closure of some water funds and a decline in the value of the Premium Beef Development Fund.
Private Equity	14.1	7.9	The movement was primarily due to realisation of one of the venture capital investment and impairment of the carrying value of existing investments held in EC2010, VC2012 and Vinomofo.
Private Real Estate	42.2	23.6	The movement was primarily due to write downs in the student accommodation business (c. $10.9 million) and write-down of c. $8.4 million in the retirement living business to its recoverable value.
Total current trade and other receivables	**63.4**	**41.1**	

Source: Investor presentation, BAF NTA Report, GTCF analysis
Note 1: Numbers may not add up due to rounding

- The movement in the non-current trade and other receivables is as follows:

Non-current trade and other receivables $m	Audited 30-Jun-17	Audited 30-Jun-18	
Performance fee receivable	28.9	25.0	The FY18 performance fees attributable to the units is as follows – Real Assets (A$6.3 million), Private Equity (A$5.4 million), Private Real Estate (A$13.2 million)
Staff loans	1.8	2.9	These represent the arms' length commercial loans made by the Company to staff for the sole purpose of matching funding to staff for investing in Blue Sky funds as disclosed in the annual remuneration report.
Working capital loans	15.1	12.1	The FY18 working capital loans attributable to the units is as follows – Private Equity (A$7.4 million) and Private Real Estate (A$4.5 million)
Accrued, invoiced and unpaid fees	6.3	1.7	
Other receivable	0.7	-	
Total non-current trade and other receivables	**52.8**	**41.7**	

Source: Investor presentation, GTCF analysis
Note: Numbers may not add up due to rounding

BLA has not recognised a deferred tax asset ("DTA") in relation to $28.8 million of accumulated Australian tax losses in the balance sheet as of 30 June 2018. The Company has conservatively assumed that going forward it will only earn recurring management fees which are expected to match the fixed cost structure and accordingly the Company will not generate taxable income to offset against accumulated tax losses. This is a conservative assumption as BLA is expected to continue to generate transaction fees, performance fees and investment income.

4.4.4 Financial Position post AASB 15

From 1 July 2018, Blue Sky is required to comply with accounting standard AASB 15 "Revenue from contracts with customers" which will replace AASB 118 and AASB 111 which will bring significant changes to the balance sheet of the Company.

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As a result of AASB15, Blue Sky will only be able to recognise unrealised performance fees for the closed-ended funds when the risk of reversal is no longer highly probable which will have a significant impact on the timing of the performance fees for closed-ended funds. However the timing of the cash-flows for Blue Sky will not change. As a result, performance fee revenue recognition is expected to align with the realisation of the closed-ended funds or contracted performance fees for the open-ended funds and institutional mandates. In addition, development management fees will be recognised evenly over the development period.

The Company has completed a preliminary estimate of the impact of AASB15 on the 30 June 2018 balance sheet, which is outlined below.

Financial position after considering impact of AASB 15 $million	FY18 Underlying	AASB15 Impact	FY18 Restated
Cash and cash equivalents	40.0	-	40.0
Trade and other receivables	46.4	(1.1)	45.3
Inventory - residential developments	0.0	-	0.0
Income tax receivable	4.2	-	4.2
Other assets	2.8	0.2	3.0
Current assets	**93.4**	**(0.9)**	**92.5**
Trade and other receivables	41.7	(19.9)	21.9
Financial assets held at fair value through profit or loss	41.1	-	41.1
Investments in associates and joint ventures	19.7	(5.8)	13.9
Property, plant and equipment	3.0	-	3.0
Intangible assets	4.9	-	4.9
Non-current assets	**110.4**	**(25.6)**	**84.8**
Total assets	**203.8**	**(26.6)**	**177.2**
Trade and other payables	17.7	-	17.7
Borrowings	0.7	-	0.7
Deferred revenue	6.3	0.5	6.8
Employee benefits	7.0	-	7.0
Resident loans – retirement villages	0.0	-	0.0
Current liabilities	**31.7**	**0.5**	**32.2**
Deferred revenue	1.0	-	1.0
Employee benefits	4.1	-	4.1
Other liabilities	4.4	(5.0)	(0.6)
Deferred tax liabilities	1.0	(1.1)	(0.1)
Provision for income tax	4.1	-	4.1
Non-current liabilities	**14.8**	**(6.1)**	**8.7**
Total liabilities	**46.5**	**(5.6)**	**40.9**
Net assets	**157.3**	**(20.9)**	**136.4**

Source: Appendix 4E Preliminary financial report for the year ended 30 June 2018

We note that notwithstanding the reduction of the carrying value of performance fee accruals based on the preliminary application of AASB15, it does not necessarily mean that the fair market value has reduced accordingly.

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4.5 Capital structure

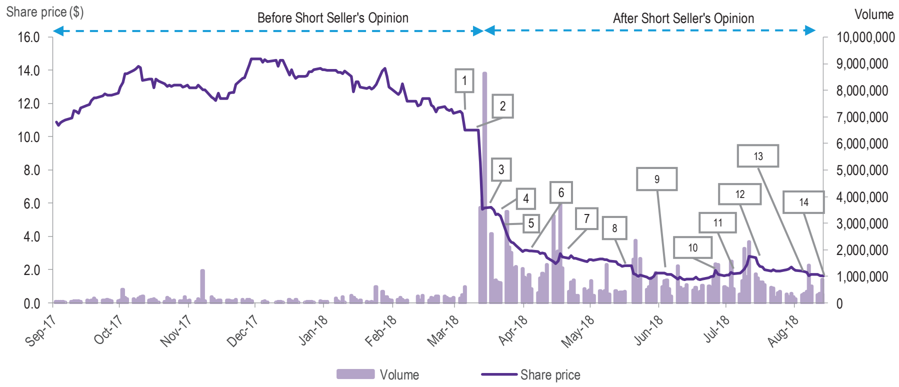
The Company has the following securities on issue as at the valuation date:

- 77,531,678 ordinary shares.
- 6,731,000 options with various exercise prices ranging between $2.50 and $13.14 per share and a weighted average remaining life of 4.61 years as at 30 June 2018. Of the options, only 683,750 have an exercise price below $5.

4.5.1 Share price

Our analysis of the daily movements in Blue Sky's trading share prices and volume for the period from September 2017 to September 2018 is set out below

Historical share trading prices and volume for BLA



Source: S&P Global and GTCF analysis

The following table describes the key events which may have impacted the share price and volume movements shown above. There have been a significant number of events that have influenced the trading volume and/or share price, but we have only included the price catalyst events.

Event	Date	Share price ($)	Comment
1	28-Mar-18	10.40	Blue Sky became aware of the Glaucus Report and accordingly requested the ASX to put the shares into trading halt as the Company prepared responses to the Glaucus Report to release to the market.
2	04-Apr-18	8.47	The trading halt was lifted and the Company organised a conference call with analysts in order to explain the Company's responses to the Glaucus Report.
3	05-Apr-18	5.62	Following receipt of the Company's responses, Glaucus responded to the questions posed by BLA to it. BLA reported to the market that it had received Glaucus' second opinion paper and that the second opinion paper: • Did not raise any new allegations • Did not report any information that was not previously disclosed to the market • The Company maintained its invitation to the Short Seller to have a discussion on the Company's business model and any other concerns they may have

Event	Date	Share price ($)	Comment
4	09-Apr-18	5.75	The market was notified of the following: • BLA's Strategic Agriculture Fund had finished a second close with total commitments of $210 million from a range of Australia and offshore institutional investors • The Private Equity Division made a new investment into Birch & Waite Food, a Sydney-based provider of condiments, sauces, dressings and desserts.
5	16-Apr-18	4.08	Blue Sky announced to the market the following: • Commissioning an independent review of the carrying value of all assets, • A breakdown of fee-earning AUM as well as an exit register and • Revised fee-earning AUM guidance for FY18 from $4.25-4.75 to $4.0-$4.25 billion and underlying NPAT guidance for FY18 from $34-$36 million to $20-$25 million.
6	23-Apr-18	3.10	BLA announced changes to the Board with Mr. Robert Shand resigning. Mr. Kim Morrison replaced him as interim MD.
7	07-May-18	2.50	As the share price of Blue Sky continued to decline, the Company made the following announcement: • Withdrawal of NPAT guidance for FY18 and FEAUM guidance for FY18 and FY19, • Restructuring the business with review of business units and changes in management structure. • A more detailed breakdown of FEAUM is provided as well as the possibility that there might be significant impact from the AASB15 standard.
8	12-Jun-18	1.77	The Company announced to the market that the business review outcomes including closure of the domestic hedge funds business and terminate three retirement living projects and one student accommodation project. Fee-earning AUM is $3.4 billion as of 31 May 2018. Estimated unaudited $59.4 million negative impact NPAT FY18, Pro-forma NTA of $2.06 per share.
9	02-Jul-18	1.45	The Company received a notice from ASIC pursuant to section 33. The notice was a request for information in relation to the Company's compliance with section 674.
10	26-Jul-18	1.83	Blue Sky responded to media speculation regarding a potential transaction with Oaktree stating that the transaction with Oaktree was being discussed and that more information would be disclosed to the market when the terms had been finalised.
11	30-Jul-18	1.8	Macquarie Group Limited announced a substantial shareholding in Blue Sky on behalf of its clients. This boosted the market sentiment towards the Company resulting in an increase in share price.
12	10-Aug-18	1.99	Macquarie Group Limited advised that it no longer held a substantial shareholding in Blue Sky which it had acquired on behalf of its clients.
13	30-Aug-18	1.63	The Company announced FY18 financial results. The financial statements included a greater level of detail and a further update on the Oaktree Convertible notes.
14	28-Sept-18	1.59	The Company's shares were placed in a trading halt. The Company provided an update on legal and regulatory matters • Breaches have been identified in relation to revenues charged to the funds. Pursuant to this enquiry, the Company is required to reimburse c. $4.1 million to the funds. Whilst no provision for this was made in the financial statements, BLA had provided disclosures in its contingent liabilities notes. The Company has stated it intends to repay all monies by 31 October 2018. • Blue Sky Private Equity Limited has an external custodian, Australian Executor Trustee Limited ("AET") for seven of its managed investment

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Event	Date	Share price ($)	Comment
			schemes. AET informed its clients that it did not meet the NTA requirements under the AFSL[59] held by AET. However, AET has subsequently rectified the NTA breach of its own AFSL.

The monthly share price performance of Blue Sky since September 2017 and the weekly share price performance of Blue Sky over the last 16 weeks is summarised below:

Blue Sky Alternative Investments Limited	Share Price			Average
	High	Low	Close	weekly volume
	$	$	$	000'
Month ended				
Aug 2017	11.040	9.050	10.620	513
Sep 2017	11.070	10.420	11.000	373
Oct 2017	14.440	10.980	14.080	602
Nov 2017	14.990	12.760	12.840	870
Dec 2017	14.900	12.050	14.540	433
Jan 2018	14.650	13.460	13.880	262
Feb 2018	14.350	12.250	13.200	822
Mar 2018	13.200	9.610	10.400	869
Apr 2018	8.950	3.060	3.080	8,632
May 2018	3.130	2.190	2.600	5,121
Jun 2018	2.600	1.460	1.705	3,733
Jul 2018	1.975	1.365	1.930	3,665
Aug 2018	2.900	1.580	1.720	3,512
Week ended				
8 Jun 2018	2.580	2.140	2.240	2,080
15 Jun 2018	2.190	1.490	1.660	6,484
22 Jun 2018	1.830	1.460	1.785	3,695
29 Jun 2018	1.860	1.630	1.705	3,093
6 Jul 2018	1.725	1.365	1.430	3,683
13 Jul 2018	1.590	1.395	1.415	2,476
20 Jul 2018	1.975	1.420	1.710	5,018
27 Jul 2018	1.950	1.620	1.740	3,770
3 Aug 2018	2.790	1.690	2.790	6,503
10 Aug 2018	2.900	1.960	1.990	4,257
17 Aug 2018	2.070	1.880	1.920	2,150
24 Aug 2018	2.210	1.905	1.955	1,295
31 Aug 2018	2.000	1.580	1.720	3,133
7 Sep 2018	1.840	1.540	1.580	2,128
14 Sep 2018	1.635	1.540	1.585	1,128
21 Sep 2018	1.630	1.560	1.620	1,324

Source: S&P Global

[59] Australian Financial Services Licence. In order to act as custodian, the entity is required to hold an AFSL licence.

4.5.2 Top ten shareholders

The top ten shareholders of Blue Sky as at 11 September 2018 are set out below:

Top 10 shareholders	% of total	No. shares
FIL Limited	9.6%	7,430,320
FMR LLC	9.0%	6,996,578
Mark Sowerby	5.7%	4,400,000
The Vanguard Group Inc.	2.9%	2,211,847
Private Clients of Mason Steves Pty Ltd	2.3%	1,747,439
Timothy Wilson	2.0%	1,555,480
John Kain	1.8%	1,360,477
Chapman Family	1.4%	1,090,000
Kim Morison	1.2%	896,815
Top 10 shareholders	35.7%	27,688,956
Other shareholders	64.3%	49,842,722
Total shareholding	**100.0%**	**77,531,678**

Source: Management information
Note 1: Mr. Sowerby is a former managing director of the Company
Note 2: Mr. Wilson, Mr. Kain and Mr. Morison are directors of the Company

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5 Valuation methodologies

5.1 Introduction

As part of assessing whether or not the Proposed Issue is fair to the Non-Associated Shareholders, Grant Thornton Corporate Finance has compared the fair market value of BLA Shares before the Proposed Issue on a control basis to the fair market value of BLA Shares after approval of the Proposed Issue on a fully diluted and minority basis.

In each case, Grant Thornton Corporate Finance has assessed value using the concept of fair market value. Fair market value is commonly defined as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

We note, RG111 requires the fairness assessment to be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company.

5.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, approval of an issue of shares using item 7 of s611 of the Corporations Act, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets.
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- Amount available for distribution to security holders on an orderly realisation of assets.
- Quoted price for listed securities, when there is a liquid and active market.
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

5.3 Selected valuation methods

5.3.1 Sum of Parts approach ("SOP")

Grant Thornton Corporate Finance has selected the SOP approach as the primary method to assess the fair market value of BLA on a full control and 100% basis.

In our valuation assessment, we have aggregated the following:

- Underlying NTA of BLA as at 30 June 2018 which is reported at fair value in accordance with the requirements of the accounting standard.

- The fair market value of the funds management business and platform which is not captured into the underlying value of the NTA. We have relied on the price earning multiple ("PE Multiple") methodology which is commonly applied for funds management business given that they are asset and capital light and usually they do not bear any external debt.

- Other assets and liabilities, including the restructuring costs yet to be incurred by BLA in relation to right-sizing the fixed cost structure of the Company.

We note that we have also considered the DCF approach to value BLA on a control basis, however the Directors have not approved/prepared any long-term forecast which, considering the current circumstances of BLA, would have necessarily been based on hypothetical assumptions rather than best estimates. We note that we have only reviewed a high level internal projections prepared by Management but we have considered it more an aspirational goal rather than the result of a detailed and bottom-up budgeting approach and accordingly, we have not adopted them for the purpose of our valuation.

5.3.2 Cross-check

Prior to reaching our valuation conclusions, we have considered the reasonableness of our valuation of BLA's shares having regard to the trading prices of BLA and the price to underlying NTA[60] ("P/NTA Multiple" or "P/Underlying NTA Multiple"), the enterprise value as a % of FUM ("EV as a % FUM Multiple") and enterprise value as a % of FEAUM ("EV as a % of FEAUM Multiple") implied in our valuation assessment which we have compared with listed peers.

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[60] Underlying NTA for the comparable companies has been assessed in a manner to be consistent with the underlying NTA as reported by BLA. Refer to the Appendices for the key definitions.

6 Valuation assessment of BLA before the Proposed Issue

6.1 Sum-of-the-parts valuation

Set out below is a summary of our valuation assessment of BLA before the Proposed Issue on a control basis having regard to the SOP approach by aggregating the Grant Thornton's assessment of the pro-forma underlying NTA as at 30 June 2018 plus the assessed fair market value of the funds management business and other one-off costs.

Valuation summary before the Proposed Issue $000	Ref	Low	High
GT assessed value of the adjusted underlying NTA of Blue Sky	*Section 6.1.1*	131,482	152,447
Value of the funds management business	*Section 6.1.2*	71,350	89,187
Refundable fees and third party expenses	*Section 6.1.3*	(4,100)	(4,100)
Equity value of Blue Sky on a control basis		198,731	237,534
Number of shares outstanding	*Section 4.5*	77,532	77,532
Value per share on a control basis ($/share)		**2.56**	**3.06**

Source: GTCF calculations

6.1.1 Adjusted underlying net tangible asset value after AASB 15

In our valuation assessment, we have considered the underlying net tangible asset value as at 30 June 2018 whose components are represented at fair value in accordance with the accounting standards. The key balances have been set out in the table below:

Valuation assessment of the underlying adjusted net tangible assets $000	Ref	Low	High
Cash and cash equivalents	*Note 1*	40,029	40,029
Fair value of the investments	*Note 2*	41,133	41,133
Value of the equity accounted investments	*Note 2*	19,747	19,747
Total performance fees receivable	*Note 2*	33,351	33,351
Total working capital, bridging finance and other loans	*Note 2*	49,772	49,772
Other tangible liabilities (net)		(20,443)	(20,443)
Fee rebates, reimbursements & refunds		(10,423)	(10,423)
Net debt		(719)	(719)
Adjusted net tangible asset value of Blue Sky (before AASB 15)		152,447	152,447
Grant Thornton's assessed range of AASB 15 impact	*Note 3*	(20,965)	-
Adjusted underlying net tangible asset value of Blue Sky	***Note 4***	**131,482**	**152,447**

Source: Company filings, GTCF analysis

Note 1 – Cash balance

As set out above, we have adopted the cash balance as at 30 June 2018 of c. $40 million in our valuation assessment. We note the following in relation to the cash balance:

- *Cash balance as at 31 August 2018* – BLA has announced that the cash balance as at 31 August 2018 is c. $31 million. Based on discussions with Management and a review of the year to date cash flows, we have not updated the 30 June cash balance as the cash outflows are either in relation to increase in the value of other assets on the balance sheet or incurred for one-off restructuring costs which are considered already provided on the balance sheet as discussed in section 6.1.3.

- *Convertible Notes* – As discussed before, the Convertible Notes are expected to be drawn down during October 2018. However, we have not increased the underlying cash balance and Convertible Note liability as they offset each other.

Note 2 – Fair value of the investments, working capital loans and bridging loans

The fair value of the investments on the balance sheet, including working capital loans and bridge financing, is the result of a rigorous and independent review process based on market best practice adopted by private asset managers which comprises the following:

- *Closed-ended Funds* – the value of closed-ended funds or assets which are material to Blue Sky's financial performance in terms of generating performance fees and investment income are independently reviewed by an external consultant at least once a year.

- *Water Fund, institutional mandates and hedge funds* – independent market prices determined by a global real estate firm on a monthly basis based on recent trades of similar or equivalent assets in the water market. The Water Fund is also audited by a global accounting firm at a fund level.

- *Funds' Investments* – valuation methodologies and all key valuation inputs are reviewed by independent valuers.

- BLA's auditors independently review the valuation of the Funds' investments every reporting period.

- Valuations are reviewed and adopted by the Audit Committee and the Board of BLA.

We note that in April 2018, BLA commissioned independent valuation reviews of all the carrying values (excluding Water Fund, institutional mandates and hedge funds) which resulted in a $1.6 million impairment and $29.9 million provisions against loans to investments funds for working capital or bridging loans purposes.

As part of our valuation assessment, we have been provided access to all the independent valuations commissioned by BLA and we have undertaken detailed enquiries with the Management team and their advisers, including any updates on any relevant material changes to the underlying performance of the assets intervened in the period between the independent valuations commissioned in April and the date of this report. Clearly, assessing a value range of certain early stage assets in start-up/ramp-up phases and/or in turnaround situations is challenging and underpinned by assumptions which are necessarily hypothetical and subjective. A wide range of assumptions could credibly be adopted by independent valuers for these investments, which could impact the assessed fair values either positively or negatively. Depending upon the views taken in relation to these assumptions, it is possible we could reach a different conclusion of the value range for individual investments. However, we note that the carrying value of some of the more challenging investments are quite small and immaterial (the threshold established by BLA's auditors for balance sheet items was less than 1% of the net assets as at 30 June 2018).

Note 3 – Impact of AASB 15

The following table provides a breakdown of the impact of AASB 15 attributable to performance fee-related income and management fee-related income.

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Break-down of performance fee and management fee $000	
Underlying net tangible assets before impact of AASB 15	152,447
Net impact of AASB 15 on performance fee-related income	(20,089)
Net impact of AASB 15 on management fee-related income	(876)
Net underlying assets after impact of AASB 15	**131,482**

Source: Management information
Note: Difference in value with the table above is due to rounding.

Most of the reduction in the underlying NTA under AASB 15 is driven by the fact that Blue Sky will only be able to recognise unrealised performance fee for the closed-ended funds when the risk of reversal is no longer highly probable which has a significant impact on the timing of the performance fees for closed-end funds. However the timing of the cash-flows for Blue Sky will not change. In our opinion, the fact that the carrying value of BLA's performance fees recognised on the balance sheet is reduced by c. $20.1 million as result of the application of AASB 15 is not necessarily an indication that the market value of those performance fees is nil. We have reviewed the calculation of the fair market value of the performance fees before AASB15 adjustment and it is not unconceivable that BLA may be able to realise the full value of the performance fee before AASB15 adjustment.

Accordingly, at the high-end of our valuation assessment, we have considered the underlying net tangible assets before the adjustment for AASB 15.

Note 4 – Total value of the adjusted underlying NTA after AASB15 adjustment

Overall, we have concluded that nothing has come to our attention that would lead us to believe that the total value of the adjusted underlying NTA is not an appropriate representation of fair value for the purpose of our valuation assessment.

We also note that, in our opinion, there is some latent value on the balance sheet which may offset any potential deterioration in the value of the reported assets as set out below:

- The low-end of our assessed valuation range attributes nil value to the performance fee adjusted for the implications of AASB15.
- BLA has $28.8 million of gross accumulated tax losses that can be utilised to offset against future taxable income which are not recognised as an asset on the 30 June 2018 balance sheet (refer to the executive summary for details) and accordingly not captured in our valuation assessment.

6.1.2 Funds Management Business

The adjusted underlying net tangible asset value reflects the value of the ventures that the Company has co-invested in (equity, working capital and bridging loans) and the performance fees generated by the funds management business. However, similar to other alternative asset managers, the Company generates most of its fees on capital deployed on behalf of its investors which is not reflected on its underlying balance sheet[61].

[61] With the exclusion of $4.2 million goodwill in relation to the Real Assets Division.

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In considering whether any separate additional value should be attributed to the Company's funds management business, we make the following observations:

- During FY17[62], the Company generated a total revenue of c. $85 million, with performance fees (c. $22.3 million), Management fees (c. $21.9 million) and transaction fees (c. $15.7 million) comprising the majority of the total revenue. All these fees arise from the funds management business.
- The Company manages investment mandates on behalf of certain institutional investors. Based on discussions with Management, we understand that none of the mandates have been lost and interest in some of the real asset funds remains high. In our opinion, this demonstrates the Company's ability to manage existing funds, grow them and generate returns for its investor in spite of the reputational damage suffered by the Company following the Glaucus Report.
- A key driver of funds management business is the senior people in the investment teams that manage the funds. Based on discussions with Management, we understand that the Company, through various incentives, has managed to retain key investment team personnel across all its business units. In our opinion, this demonstrates that there is likely to be continuing value from the Company's funds management activities.

We have assessed the value of the funds management business using a price-to-earnings multiple ("PE Multiple"). However, given the significant one-off items that have affected FY18 earnings of Blue Sky, in our valuation assessment of the normalised NPAT, we have relied on peers' benchmark which we have analysed in the context of the historical financial performance of Blue Sky. Our calculations are set out in the table below.

Value of the funds management business $000	Ref	Low	High
Funds under management	*Note 1*	2,548,200	2,548,200
Total revenue as a % of FUM benchmarked to peers	*Note 2*	1.50%	2.00%
Total cost as a % of FUM benchmarked to peers	*Note 2*	1.00%	1.50%
Total revenue		38,223	50,964
Total cost		(25,482)	(38,223)
Total earnings before tax		12,741	12,741
Tax	*Note 3*	(3,822)	(3,822)
Net profit after tax		8,919	8,919
P/E multiple (times)	*Note 4*	8.0x	10.0x
Value of the funds management business		**71,350**	**89,187**

Source: GTCF Calculations

Note 1 – Funds under management

The funds under management adopted for the purpose of our valuation are based on the 30 June 2018 FUM of c. $2.79 billion less the FUM of c. $244 million attributable to the exited/to-be-exited businesses as set out in the table below.

[62] We have not made reference to FY18 as it has been affected by large one-off expenses and fee reimbursements.

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Breakdown of the exited/to-be-exited businesses $millions	FEAUM as at 30 June 2018	FUM as at 30 June 2018
Reported	3,412	2,792
Exited/to-be-exited businesses:		
Hedge Funds	(64)	(64)
Residential (excluding 19 Railway Tce, Milton)	(269)	(84)
Retirement Living	(331)	(79)
Management Rights	(18)	(18)
Total adjusted balance	**2,730**	**2,548**

Source: Management information
Note: The exited/to-be-exited Hedge Funds businesses are only in relation to domestic markets

We are of the opinion that it is not unreasonable to adopt this level of FUM for the purpose of our valuation given that investments in the closed-ended funds cannot be redeemed until exit and the Company continues to benefit from the support from the institutional investors and other investors in the open-ended funds.

Note 2 – Benchmark analysis on the revenue and cost structure

Given the recent challenges faced by the business, the significant restructuring underway to reduce the fixed operating costs to the level of future recurring management fees and the strategic objective to increase the funds managed on behalf of institutional investors, it is challenging to assess the future performance of the business based on the FY18 results. In addition, the Company has withdrawn guidance in relation to FEAUM and NPAT and long-term forecast.

Accordingly, in order to assess a normalised revenue base and cost structure, we have considered the following:

- The FY16, FY17 and FY18 total revenue and cost as percentage of FUM as set out in the table below.

Historical performance of BLA on a statutory basis $000	Audited FY16	Audited FY17	Audited FY18
Reported FUM	1,100	1,600	2,792
Total revenue	71	84	29
Total costs	55	55	132
Total revenue as a % of FUM	6.4%	5.3%	1.0%
Total costs as a % of FUM	5.0%	3.4%	NM
Spread between revenue and costs (%)	**1.4%**	**1.9%**	**NM**

Source: Company filings
Note 1: The financial information included in the table above is based on statutory accounts.
Note 2: The reported FUM numbers for FY16 and FY17 are rounded.
Note 3: Total costs have been calculated as total revenue – profit before tax.

However, we note the following in relation to the table above:

  - We have placed no reliance on the FY18 information given the large one-off cost items included in the revenue (refund of previously paid fees) and cost restructures. The total revenue as % of FUM in FY16 and FY17 was largely driven by one-off incomes such as performance fees and

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transaction fees (FY17 – 45%[63] of total revenue). Accordingly, the same level of revenue as % of FUM may not be achievable going forward due to the strategic objective to target more institutional capital.

- The Company grew its FUM by $0.6 billion in FY16 and $0.5 billion in FY17 which accordingly generated significant up-front transaction fees. This type of FUM growth is not factored into our valuation assessment.

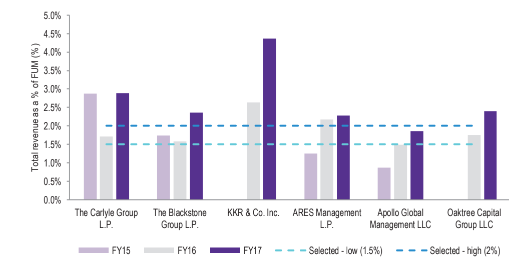
- The Company intends to create an institutional grade platform and co-mingled funds with revenue largely driven by recurring management fees and reducing reliance on transaction fees. The percentage of FUM paid by large institutional investors is lower than the percentage paid by sophisticated investors however over a larger funds base. In addition, BLA will continue to accrue fees based on the current terms for the closed-ended funds, Water Fund and institutional mandates. We note that more than 50% of the closed-ended funds were established between 2016 and 2018 which indicates that an exit may not occur in the short term for most of them.

- High level projections prepared by Management which provide an aspirational view of the business if all the strategic objectives are achieved.

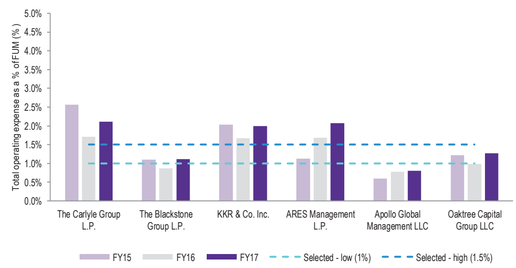
- The FY17 underlying operating expenses for Blue Sky were c. A$46.1 million. After adjusting for abnormal items such as restructure costs and provisions and impairments, the FY18 operating costs are c. $52.7 million. By December 2018, Blue Sky expects to have reduced its fixed cost base so that fixed operating expenses will be met from recurring management fee revenues.

- As set out in the graphs below, we have benchmarked[64] the total revenue and cost as a % of FUM for the global alternative asset managers[65].

Historical total revenue as a % of FUM



Historical total operating cost as a % of FUM



Source: Company filings, GTCF analysis

Based on the above analysis of Blue Sky's historical performance, future strategic objectives and the benchmark with peers, we have selected a revenue and cost percentages of FUM between 1.50% and 2.00% and 1.00% and 1.50% respectively.

[63] Calculated as Performance fee of c. $22.3 million and net transaction fee of c. $15.7 million divided by the total revenue (operating revenue of $69.0 million, investment income of $7.6 million and share of profit of associates of $9.4 million)
[64] We note that FY17 is the latest available full year information for the peers given that their year-end is 31 December.
[65] In determining the total revenue and costs as a % of FUM, we have considered the consolidated financial performance of the comparable companies since underlying financial performance is not reported for the profit and loss.

Note 4 – Tax rate

We have considered the Australian corporate tax rate of 30% in our valuation. We note that BLA has c. $28.8 million of gross accumulated tax losses as at 30 June 2018. However, we have considered that under the fair market value concept, a pool of potential purchasers may attribute limited value to them given the uncertainties of passing the strict requirements established by the Australian Taxation Office and the significant loss incurred in FY18.

Note 5 – Price-to-earnings multiple

The selection of the appropriate PE Multiple to apply is a matter of professional judgement and involve consideration of a number of factors including: the stability and quality of earnings; the nature and size of the FUM; the financial structure of the company and gearing level; future prospects of the business; and the asset backing of the underlying business of the company and the quality of the portfolio.

For the purpose of assessing an appropriate PE Multiple range to value the funds management business, we have considered the trading multiples of listed comparable companies involving global alternative asset managers ("Tier 1 Companies") and Australian financial and alternative assets managers ("Tier 2 Companies").

We consider the Tier 1 Companies operationally more comparable to Blue Sky. However, they have significantly larger scale and have been operating for a longer period than Blue Sky (operating for 12 years). Relative to Blue Sky, these companies represent proven performers. Accordingly, for completeness, we have also included Tier 2 Companies.

Whilst, we have mainly relied on Tier 1 Companies for the purpose of assessing the PE Multiple, we note that our conclusions are also supported by the Tier 2 Companies.

Tier 1 - Global alternative asset managers

The price-to-earnings multiple for the global alternative asset managers are set out below.

Peer analysis Company	Country	Year-end	FEAUM US$ billions	FUM US$ billions	Mkt cap A$ millions	EV US$ billions	FY2018 P/E ratio Forecast	FY2019 P/E ratio Forecast	FY2020 P/E ratio Forecast	P/NTA 30-Jun-18
Global alternative asset managers										
The Carlyle Group L.P.	United States	31-Dec-17	210	147	11,381	10,265	9.3x	7.3x	7.1x	2.7x
The Blackstone Group L.P.	United States	31-Dec-17	439	333	65,564	47,735	12.0x	11.2x	10.5x	4.2x
KKR & Co. Inc.	United States	31-Dec-17	191	139	32,199	26,756	15.9x	13.1x	12.5x	3.1x
ARES Management L.P.	United States	31-Dec-17	121	77	6,993	5,761	13.5x	10.4x	9.1x	6.5x
Apollo Global Management LLC	United States	31-Dec-17	269	202	20,040	16,504	22.4x	10.6x	9.4x	5.9x
Oaktree Capital Group LLC	United States	31-Dec-17	122	101	9,012	7,481	15.0x	11.3x	9.9x	3.7x
Average							**14.7x**	**10.6x**	**9.8x**	**4.4x**
Median							**14.2x**	**10.9x**	**9.7x**	**4.0x**

Peer analysis Company	FUM mix (%) Private Equity	Real Assets	Leveraged Cr.	Alternative Cr.	Hedgefunds	Other	Investor mix (%) Institutional	Retail	EV as a % of FEAUM (%)	EV as a % of FUM (%)
Global alternative asset managers										
The Carlyle Group L.P.	39%	21%		17%		23%	76%	24%	4.9%	7.0%
The Blackstone Group L.P.	27%	27%		28%	18%		84%	16%	10.9%	14.3%
KKR & Co. Inc.	54%		14%	9%	15%	9%	84%	16%	14.0%	19.3%
ARES Management L.P.	19%	9%				72%	95%	5%	4.7%	7.5%
Apollo Global Management LLC	22%	22%				56%	89%	11%	6.1%	8.2%
Oaktree Capital Group LLC	9%	10%				71%	76%	24%	6.2%	7.4%
Average	**28%**	**18%**	**14%**	**18%**	**16%**	**46%**	**84%**	**16%**	**7.8%**	**10.6%**
Median	**25%**	**21%**	**14%**	**17%**	**16%**	**56%**	**84%**	**16%**	**6.1%**	**7.8%**

Source: Company filings, S&P Global, GTCF analysis
Note 1: The forward PE Multiples have been determined based on the consolidated financial statements based on the consensus estimates of analysts.
Note 2: The PE Multiples are calculated based on the market capitalisation as at 17 September 2018 and are reported on a minority basis
Note 3: The EV as a % of FUM & EV as a % of FEAUM multiples reported above are on a minority basis and based on the market capitalisation as at 21 September 2018.
Note 4: The market capitalisation reported in the table above is based on the share prices as at 21 September 2018.

In determining an appropriate P/E multiple, we had regard to the following:

- The P/E multiples set out above are on a minority basis whereas our valuation assessment of Blue Sky is on a 100% and control basis. Typically the control premiums observed in the market ranges from 20% to 40% (Refer to Appendix E for details).
- In relation to the FUM mix, we can broadly divide the above companies into two sets – those where the FUM is weighted towards Private Equity and those where the FUM is weighted towards other alternative asset classes. Companies with a similar FUM mix trade at PE Multiples within a similar range. We note that Carlyle Group L.P. ("Carlyle"), Blackstone Group ("L.P") and KKR Co. & Inc. ("KKR") have a FUM mix which is more weighted towards Private Market and Real Assets which is similar to BLA.
- Qualitative factors included but were not limited to the investment philosophy, vintage which demonstrates maturity of the portfolio and average investment holding period.
- Quantitative metrics such as returns generated across all its segments, multiple of invested capital, available un-deployed capital, etc.

Acknowledging the smaller size, more limited track record, the differences in the portfolio, style of investment and business model, we are of the opinion that Blue Sky is relatively more comparable to KKR and Blackstone (see discussion below for more details)[66].

Tier 2 – Australian financial and alternative assets managers

The PE Multiples, EV as a % FUM multiples for the Tier 2 companies has been set out in the table below:

[66] Companies such as Apollo Global Management, Ares Management L.P and Oaktree Capital Group LLC are focused on distressed assets, credit and hedge funds businesses reducing its comparability to Blue Sky. Carlyle's FUM mix can be considered comparable to Blue Sky, however it follows a low beta investment approach. Carlyle's industry expertise includes but is not limited to Aerospace, Defense, Government, Energy & Power, Industrial and Transportation which Blue Sky has limited exposure to.

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Peer analysis			FUM	Mkt cap	EV	FY2018	FY2019	FY2020	P/NTA	EV as a % of FUM
Company	Country	Year-end	Local currency billions	Local currency millions	Local currency millions	P/E ratio Actual/Forecast	P/E ratio Forecast	P/E ratio Forecast	30-Jun-18	(%)
Australian financial and alternative asset managers										
Magellan Financial Group	Australia	30-Jun-18	70	4,917	4,917	23.2x	16.7x	15.5x	N/A	7.1%
Folkestone Limited	Australia	30-Jun-18	2	204	224	14.7x	NA	NA	1.3x	14.0%
Platinum Asset Management Ltd	Australia	30-Jun-18	26	3,115	3,115	16.3x	17.3x	16.3x	N/A	11.8%
AMP Limited	Australia	31-Dec-17	189	9,397	9,397	10.8x	9.8x	9.8x	N/A	5.0%
Pendal Group Limited	Australia	30-Sep-17	99	2,763	2,763	18.7x	13.5x	12.1x	N/A	2.8%
Centuria Capital Group	Australia	30-Jun-18	5	424	563	7.7x	12.2x	11.3x	1.8x	11.5%
Other financial and alternative asset managers										
Janus Henderson Group plc	United States	31-Dec-17	370	7,466	5,775	11.3x	12.5x	12.2x	NA	1.6%
Average						**14.7x**	**13.7x**	**12.9x**	**1.5x**	**7.7%**
Median						**14.7x**	**13.0x**	**12.1x**	**1.5x**	**7.1%**

Source: S&P Global, GTCF Calculations, Company filings
Note 1: The PE Multiples, EV as a % of FUM multiples and the P/NTA multiples reported in the table above are on a minority basis
Note 2: The market capitalisation above is based on the closing share price as at 21 September 2018 and has not been adjusted for a control premium.
Note 3: The comparable companies above do not report underlying financial position and financial performance in a manner consistent with Blue Sky. We have therefore calculated the above ratios based on the reported information available.
Note 4: In our assessment of enterprise value we have not deducted the cash as we have assumed that the cash on the balance sheet of these companies is not surplus. This approach is consistent with our assessment of Blue Sky.
Note 5: In relation to Centuria Capital Group, we have only considered the corporate & co-investment debt of c. $139 million and have excluded the debt attributable to the controlled funds.
Note 6: Local currency for the Australian companies is Australian dollar whilst the local currency for the Janus Henderson Group plc is US$.

In our assessment of the applicable PE Multiple, we have placed limited reliance on the Tier 2 Companies due to the following:

- Folkestone and Centuria Capital Group are diversified property development and management companies. These companies may be considered more comparable to the Private Real Estate division of Blue Sky, however they are different from Blue Sky as a whole. We note that Folkestone is subject to an acquisition offer from Charter Hall Group announced on 22 August 2018 and accordingly the multiple reflects a control value of the business. Centuria Capital Group's FY18 performance was impacted by large performance fee of $18.1 million (after-tax) on the sale of one of its properties.

- Companies such as Platinum Asset Management Limited and Magellan Financial Group have relatively limited focus on alternative assets. Further, these companies are larger and relatively more mature, so not particularly relevant for Blue Sky.

- Companies such as AMP Limited and Pendal Group Limited are diversified financial institutions with primarily a wealth management focus.

- Janus Henderson Group plc invests across various asset classes including alternatives. However, the share of alternatives is less than 5%.

Conclusion on the selected multiples

In our valuation assessment of the FUM business, we have selected a PE Multiple in the range of 8 times to 10 times on a control basis. We have primarily relied on the FY18 (forecast multiples for the year-ended 31 December 2018) multiples of the Tier 1 Companies. The average FY18 PE Multiple for KKR and Blackstone is c. 14 times on a minority basis. In our opinion, this level of discount is not unreasonable having regard to the following:

- We have assessed Blue Sky's NPAT for the FUM business on a normalised basis as currently the Company is still in the process of reducing the fixed cost structure in line with the recurring management fee. Conversely, the Tier 1 peers have an established and continuing history of profitability. As a result, there is significant greater risk in the BLA NPAT adopted in our valuation assessment compared with the significant loss incurred in FY18 which is reflected in the PE Multiple applied. If BLA's profitability consolidates in line with the adopted NPAT for the purpose of our valuation, we would expect the PE Multiple applicable to the fund management business to increase materially.

- We have separately assessed the fair value of the balance sheet investments and performance fees whereas a component of this value is implicitly captured in the earnings multiples of the Tier 1 peers as their NPAT would include the fair value adjustment of their investments through the profit and loss and the annual performance fees.

- We note the following in relation to Blackstone and KKR which we have considered to be relatively more comparable companies:

  - *Blackstone* – In 2017, it realised record cash distributions of c. US$3.3 billion and an 18% increase in total assets under management from c. US$335.3 billion to US$434.1 billion as at 31 December 2017. The Private Equity division which is the largest contributor of FUM for Blackstone has generated since inception total returns of c. 17% and realised returns of c. 15% as at 31 December 2017. Blue Sky's overall returns in the Private Equity division since inception as at 31 December was c. 13.9%[67]. Further, the un-deployed capital available to Blackstone has ranged from c. US$75 billion to US$100 billion over the last three years.

  - *KKR* – The Company's AUM increased year-on-year by c. 29% from US$130 billion as at 31 December 2016 to US$168 billion as at 31 December 2017. KKR's Private Equity division which is the largest contributor to FUM, reported net IRR since inception of c. 18.9% up to 31 March 2018. To align its interests with the limited partners, KKR emphasises on co-investment. In our opinion, the value on the balance sheet of KKR represents a key driver of the overall valuation of the company. The company had total cash and investments of c. US$11.7 billion as at 31 December 2017 which was significantly higher than Blue Sky's available cash.

- Dividend distributions and dividend yield is a key matrix in the valuation of the Tier 1 peer group. However, we note that Blue Sky did not declare any dividend in FY18 and future distributions are likely to be lower than historically reported distributions due to financial covenants in place under the Convertible Notes.

Our valuation assessment of the FUM business is between $71.35 million and $89.19 million. In our opinion, this value is not unreasonable considering the following:

- A key driver of the value of the funds management business is Blue Sky's Real Assets Division, which has demonstrated strong growth and has been least impacted by the reputational matters affecting the Company. There are few companies in Australia that manage agricultural investments and this relative early-mover advantage in our opinion provides Blue Sky a competitive edge.

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[67] This was before the impact of the strategic review undertaken by the Company following the release of the Glaucus Report. The overall returns for Private Equity division since inception are c. 8.8%.

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- Blue Sky's FUM mix relative to typical Australian asset managers and global alternative asset managers is distinct. In particular, we note that Blue Sky provides its investors with access to agricultural investments and this business has been outperforming the other divisions and continues to generate significant interest from investors. The returns from this division can be considered comparable to the returns being realised by the global alternative asset managers.

- The existing institutional clients of the Real Assets Division have performed extensive due diligence on the financial information associated with agricultural assets division and continue to maintain their faith in Blue Sky's fund management capabilities, in spite of the events of the last six months.

- BLA will continue to accrue fees based on the current terms for the closed-ended funds, Water Fund and institutional mandates. We note that more than 50% of the closed-ended funds were established between 2016 and 2018 which indicates that an exit may not occur in the short term for most of them.

- A large portion of the institutional mandates held by Blue Sky are under the agricultural assets portfolio (c. $742[68] million). In our opinion, this suggests that the agricultural assets division may be closest to the institutional grade investment platform the Company is aspiring to work towards. The institutional mandates represents c. 75%[69] of the total FUM of the Real Assets Division.

- Blue Sky carries $4.2 million of goodwill on the balance sheet in relation to the Real Assets Division. This amount was tested for impairment in the FY18 audited accounts and the recoverable amount has been assessed at $25.6 million. This suggests that the Real Assets division has not suffered a decline in value.

- Prior to the release of the Glaucus Report, Blue Sky EV as a % of FUM (c. 21%[70]) was at a significant premium to the global alternative asset managers multiples that are included earlier in this section. Our current valuation implies an EV as a % of FUM in the range of c. 7.8% to 9.3%, which, whilst towards the high-end of most of the comparable companies, is at a significant discount to Blackstone (14.3%) and KKR (19.3%). Refer to section 6.3.2 for details.

6.1.3 Other one-off costs

Based on discussions with Management and a review of the publicly available information, we understand that Blue Sky is expected to incur additional one-off costs of c. $7 million in order to complete the right sizing of its cost structure and other non-recurring items having regard to the cash balance as at 30 June 2018. This amount has already been fully provided in 30 June 2018 balance sheet and accordingly we have not accounted for it separately.

BLA announced on 28 September 2018 that it has identified that it incorrectly charged fees and expenses to Funds totalling $4.1 million. These expenses were not provided in the 30 June 2018 balance and they are expected to be refunded by the end of October 2018 and accordingly we have accounted for them separately in our valuation assessment.

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68 As at 30 June 2018.
69 Calculated as $742.3 million as a percentage of $990.9 million.
70 Enterprise value = Market capitalisation of c. $805 million as at 28 March 2018 and Debt of $6.5 million as at 31 December 2017. FEAUM of c. $3.9 billion as reported in the 31 December 2017 Investor presentation.

6.2 Quoted price of securities

As a cross-check we had regard to the trading prices of the listed securities on the ASX in the period prior to and after the release of the Glaucus Report at the end of March 2018.

The adopted value of Blue Sky based on the trading prices is an exercise of professional judgement that takes into consideration the depth of the market for the listed securities, volatility of the market price, and whether or not the trading price are likely to represent the underlying value of Blue Sky.

6.2.1 Liquidity analysis

In accordance with the requirements of RG111, we have analysed the liquidity of Blue Sky's shares before relying on them for the purpose of our valuation assessment. The liquidity of Blue Sky shares changed significantly in the aftermath of the release of the Glaucus Report. Accordingly, we have considered the trading volume for a 12 month period prior to April 2018 and for the 12 month period prior to August 2018 as a percentage of the total shares outstanding as well as free float shares outstanding, as outlined in the table below.

Month end	Volume traded ('000)	Monthly VWAP ($)	Total value of shares traded ($'000)	Volume traded as % of total shares	Volume traded as % of free float shares
Mar 2017	1,697	7.88	13,379	2.5%	2.9%
Apr 2017	769	7.84	6,032	1.1%	1.3%
May 2017	1,582	8.03	12,707	2.3%	2.7%
Jun 2017	1,436	8.94	12,836	2.1%	2.5%
Jul 2017	1,020	9.54	9,730	1.5%	1.8%
Aug 2017	2,358	10.18	24,001	3.5%	4.1%
Sep 2017	1,569	10.68	16,756	2.3%	2.7%
Oct 2017	2,647	12.74	33,731	3.9%	4.5%
Nov 2017	3,829	13.20	50,563	5.6%	6.5%
Dec 2017	1,821	13.06	23,774	2.6%	3.1%
Jan 2018	1,154	13.94	16,081	1.7%	2.0%
Feb 2018	3,287	13.30	43,714	4.8%	5.6%
Mar 2018	3,824	11.64	44,519	5.6%	6.5%
Apr 2018	36,255	5.17	187,273	46.8%	54.8%
May 2018	23,558	2.66	62,617	30.4%	35.6%
Jun 2018	15,678	1.80	28,226	20.2%	23.7%
Jul 2018	16,128	1.64	26,378	20.8%	24.4%
Aug 2018	16,157	2.16	34,966	20.8%	24.4%
Before April 2018					
Min				**1.1%**	**1.3%**
Average				**3.0%**	**3.6%**
Median				**2.5%**	**2.9%**
Max				**5.6%**	**6.5%**
Last 12 months - August 2018					
Min				**1.7%**	**2.0%**
Average				**13.8%**	**16.1%**
Median				**5.6%**	**6.5%**
Max				**46.8%**	**54.8%**

Source: S&P Global

With regard to the above analysis, we note that:

- Blue Sky's average free float is 79.6%[71], which is high and comparable with several companies in the ASX200 Index. As set out in the table above, the monthly average volume increased from 3.6% before

[71] Calculated as the simple average of the free float since 1 September 2017.

the release of the Glaucus Report to 16.1% after the release of the Glaucus report. The average monthly trading volume since the release of the Glaucus Report has been 32.6%.

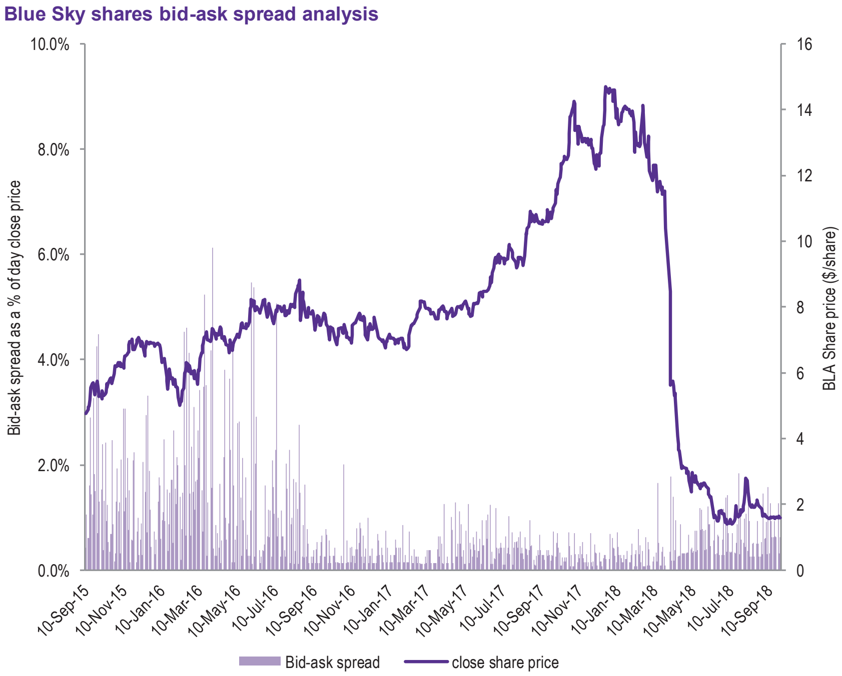
- In the absence of a takeover or alternative transactions, the trading prices represent the value at which minority shareholders could realise their portfolio investment.
- Blue Sky complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the performance of Blue Sky.
- Blue Sky is covered by a number of investment analysts who provide updates to the market on a regular basis. As a result, extensive analysis is provided to the market about the Company's performance and industry trends.
- As set out in the table below, the free float of Blue Sky's shares is at the low-end of the free float of global larger alternatives assets managers.

Liquidity analysis			Average daily volume traded as a % of	
Company name	Country	Average Free float[1]	total shares	free float shares
Blue Sky Alternative Investments Limited	Australia	79.6%	0.66%	0.81%
KKR & Co. Inc.	United States	90.2%	0.73%	0.80%
The Blackstone Group L.P.	United States	99.4%	0.62%	0.62%
The Carlyle Group L.P.	United States	99.2%	0.67%	0.68%
Partners Group Holding AG	Switzerland	62.3%	0.22%	0.35%
Apollo Global Management, LLC	United States	72.8%	0.44%	0.61%
Ares Management, L.P.	United States	90.5%	0.33%	0.38%
Oaktree Capital Group, LLC	United States	98.4%	0.39%	0.40%
Average (excluding Blue Sky)		**87.5%**	**0.49%**	**0.55%**
Median (excluding Blue Sky)		**90.5%**	**0.44%**	**0.61%**

Source: S&P Global

Note 1: Average volume traded as % free float shares measured over the period from 1 September 2017 to 21 September 2018

Where a company's stock is not heavily traded or is relatively illiquid, the market typically observes a difference between the 'bid' and 'ask' price for the stock as there may be a difference in opinion between the buyer and seller on the value of the stock. There is a significant difference between the historical bid-ask spread (before the Glaucus Report) and the bid-ask spread over the last 6 months. A brief analysis of the bid-ask spread is set out below.



Source: S&P Global, GTCF analysis

The bid-ask spread has been substantially narrowed. The bid-ask spread remained low during the period when the Company demonstrated strong performance with limited volatility in the spread during 2017. Following the release of the Glaucus report, the Company's spread increased significantly but it remained low in absolute terms. This seems to indicate a marked differences between investors and the underlying value of BLA Shares given the challenges for investors to form a view in relation to the impact on the recent events on the trading prices.

Based on the analysis above, we conclude that there is sufficient liquidity in Blue Sky's trading price for the utilisation of the Quoted Security Price Method as required pursuant to RG111.

6.2.2 Valuation assessment of Blue Sky based on the trading prices

The following is the share price graph for Blue Sky over the last 12 months.

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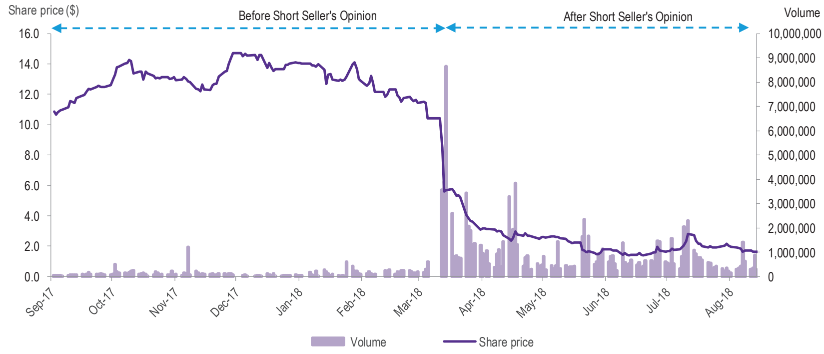
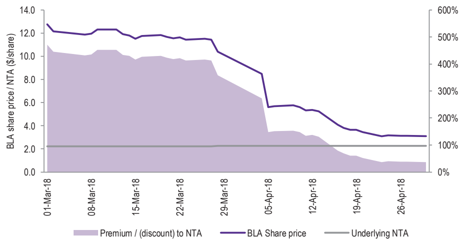
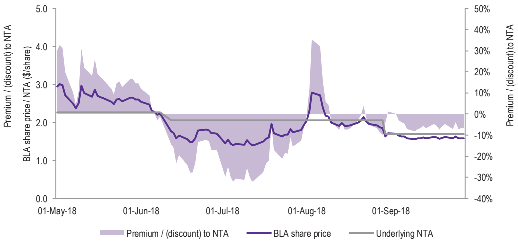
Historical share trading prices and volume for BLA



Source: S&P Global, GTCF analysis

As outlined in the graph above and discussed in other parts of the IER, the market valuation of BLA changed materially after the release of the Glaucus Report. Accordingly, we have also set out below a snapshot of the trading prices since 1 May 2018 and a comparison with the rolling NTA before and after the release of the Glaucus Report.





Source: S&P Global, GTCF analysis
Note 1: The NTA included in the graphs above is the underlying NTA as reported by BLA

As outlined in the graph above, in the period before the release of the Glaucus Report, BLA was trading at a significant premium to underlying NTA. We note that the underlying NTA reflects the fair market value of BLA investments, unrealised performance fees and other working capital but it does not reflect the fair market value of the funds management business and ability of Blue Sky to continue to generate recurring and non-recurring fees from the pools of assets it manages.

Accordingly, before the release of the Glaucus Report, the market was attributing a large component of BLA's value to the off-balance sheet funds management business.

This valuation and premium to the underlying NTA of BLA before the release of the Glaucus Report was at the high-end of the premium to the underlying NTA of global alternative assets managers as set out below.

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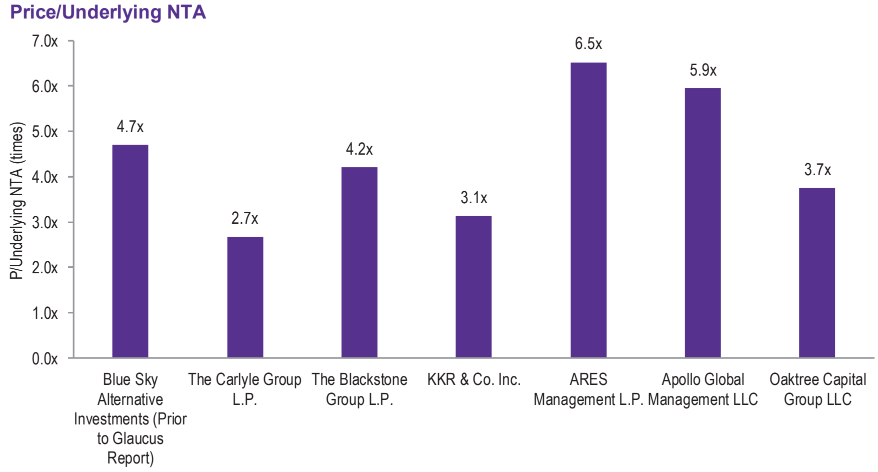

Source: GTCF Calculations, S&P Global
Note 1: The P/Underlying NTA for the comparable companies is based on the share price as at 20 September 2018 and the Underlying NTA as at 30 June 2018
Note 2: The P/Underlying NTA for BLA is based on the share price as at 28 March 2018 and the Underling NTA of $2.23 as at 31 December 2017.

Following the release of the Glaucus Report, the premium to NTA started to quickly dissipate until BLA began trading at a discount to NTA on 7 June 2018. This clearly indicates that the market was not attributing any value to the funds management platform and BLA was trading at a discount to even the carrying value of the assets on the balance sheet. We are of the opinion that this is not unreasonable due to the following:

- Due to the lack of investors' trust and confidence, BLA announced that it was deferring funds raising to pursue new investment opportunities or follow-on investments.
- Most of the FEAUM in the Real Asset Division ($991 million) are in relation to open-ended funds and bespoke investment mandates with institutional investors with short notice/redemption periods. This division's FEAUM can be considered the most valuable[72] among BLA FEAUM and the one where BLA has a clear competitive advantage and leadership market position.
- Following the release of the Glaucus Report, as a result of the sharp decline in the trading prices and the damage to the reputation of the Company, there was the risk that the key people and senior management in the various divisions would leave, which would have adversely affected the sophisticated and institutional investors base.
- The FEAUM significantly reduced from the peak in March 2018 as a result of decision made by BLA not to pursue certain investments (retirement village exit).
- The Company incurred abnormal operating cash flows of $23.1 million including fees repaid in relation to terminated or deferred student accommodation and retirement living projects and restructure costs. The cash reduced from $96.7 million on 7 March 2018 after the proceeds of the capital raising to $40 million at 30 June 2018. It has since reduced to $31 million at the end of August 2018. We note that in

[72] This is due to the relatively high % of institutional mandates (c. 74.9%) and the relatively strong market position in this sector

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March 2018, BLA undertook a fully underwritten placement to raise $100 million when the cash balance as at 31 December 2017 was $51 million. The additional capital was required for ongoing co-investments and to provide balance sheet support for new funds, investment platform and/or joint ventures. Blue Sky business model requires significant capital to continue to grow which can be derived either from the cash flows generated by the business or from tapping the capital markets. Clearly both those avenues have been challenging to pursue for the Company over the last few months.

Based on the analysis above, in our opinion, it is not unreasonable that BLA is trading below its NTA as the trading prices reflect an element of financial distress and the uncertainty in relation to the future of the funds management platforms which may not necessarily be consistent with our fair market value assessment before the Proposed Issue.

6.2.3 Conclusion on the trading price

In order to reach a conclusion on the trading prices of BLA for the purpose of our valuation assessment, we have analysed the VWAP of Blue Sky shares over two different periods as outlined below:

- Before 26 July 2018 when BLA announced that it was in discussion with Oaktree in relation to a possible investment in BLA, however it did not provide any information on the terms of the investments. BLA also confirmed that it had considered proposals for a strategic platform investment from significant global investment managers to strengthen Blue Sky's business model. Following the announcement, BLA's trading price increased from $1.68 on 25 July 2018 to $2.79 on 3 August 2018, an increase of c. 66%.

- Between 30 August 2018 and 28 September 2018 after the release of the financial results where BLA reported an NTA of $1.70 per share after the impact of AASB15 which was significantly lower than the pro-forma NTA $2.06 per share after the impact of AASB15 indicated to the market on 12 June 2018.

Set out below is a summary of the VWAP of Blue Sky over the two time periods.

VWAP $	Low	High	VWAP
Prior to 28 Sep 2018			
5 day	1.575	1.785	1.603
10 day	1.560	1.785	1.599
Upto 30 August 2018	1.540	1.840	1.620

VWAP $	Low	High	VWAP
Prior to 26 Jul 2018			
5 day	1.570	1.975	1.760
10 day	1.400	1.975	1.659
1 month	1.365	1.975	1.616
2 month	1.365	2.690	1.783

Source: S&P Global, GTCF analysis

Based on the analysis undertaken above, we have assessed the fair market value of Blue Sky Shares to be in the range of $1.60 and $1.70 on a minority basis based on the trading prices.

Our valuation assessment between $2.56 and $3.06 per share based on the SOP seems reasonable compared with the trading prices if the following is taken into account:

- A premium for control towards the high-end of the typical premium for control range of 20% to 40%

(Refer to Appendix E for details).

- The trading prices of BLA would incorporate some element of financial distress whereas our valuation assessment is based on the fair market value principle.

- The high-end of our assessed valuation range assumes that Blue Sky will be able to realise a value of the performance fee in line with the carrying value before AASB15 adjustment.

6.3 Other high level and indicative cross-checks

6.3.1 Price-to-Underlying NTA[73]

As discussed in section 5.3, we have also considered the reasonableness of our valuation assessment based on the SOP approach with reference to the P/Underlying NTA of global alternative asset managers.

We have set out below the P/NTA implied in our SOP valuation.

Valuation cross-check before the Proposed Issue - Price/Underlying NTA $/share	Ref	Low	High
Fair market value of the equity of Blue Sky	*Section 6.1*	2.56	3.06
Underlying NTA/share	*Note 1*	1.70	1.97
P/Underlying NTA (times)		**1.5x**	**1.6x**

Source: GTCF Calculations
Note 1: The Underlying NTA of $1.7/share is as reported in the FY18 Investor presentation. At the high end of our valuation, we have not considered the impact of AASB 15 of c. $0.27/share. Resultantly, the Underlying NTA before AASB 15 is $1.97/share, which is consistent with the Underlying NTA reported in the investor presentation.

The graph below sets out the P/Underlying NTA based on the mid-point of the above valuation range and the P/NTA for some of the most relevant comparable companies (on a relative basis).

[73] NTA as defined in the Appendices

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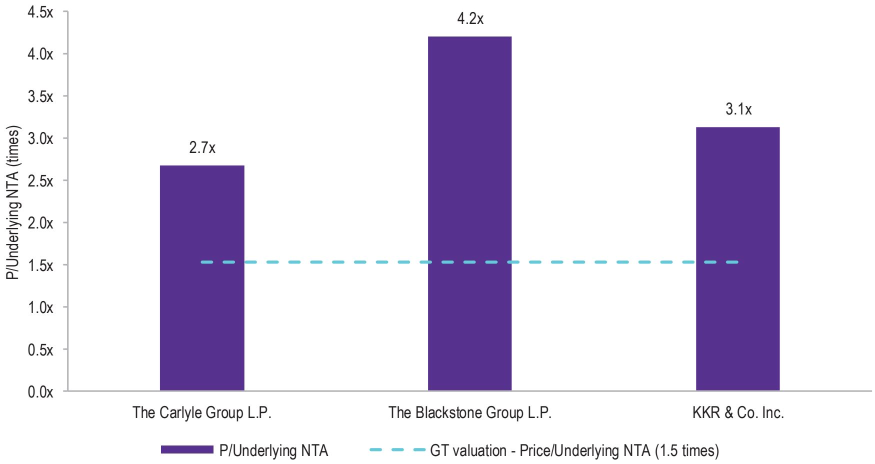
P/Underlying NTA multiple



Source: Company filings
Note 1: The Price/Underlying NTA assessed for Blue Sky is based on mid-point of the fair market value (c. $2.81/share) of Blue Sky as assessed by Grant Thornton and the underlying NTA of A$1.7/share announced to the market on 30 August 2018.

As set out in the table above, our valuation assessment of BLA implies a P/NTA multiple significantly lower than the global alternative asset managers. We do not believe this to be unreasonable as it indicates that the value of the fund management platform attributable to BLA is currently a fraction of the value reflected in the trading prices of its global peers. We note that in our assessment of the fund management platforms, we have adopted a NPAT for BLA which is on a normalised basis as currently the Company is still in the process of reducing the fixed cost structure in line with the recurring management fee. Conversely, the Tier 1 peers have an established and continuing history of profitability. Further, the comparable companies are larger with multiple products and scale of operations. Blue Sky is presently sub-scale and is taking measures to improve its scale which have been discussed in Section 4 of the report.

As stated in section 6.1, whilst we do not consider the Tier 2 companies to be specifically comparable, we note that the implied P/NTA multiple for Blue Sky can be considered comparable to P/NTA multiple for Folkestone (1.3 times) and Centuria (1.8 times).

6.3.2 EV[74] as a % FUM[75] and EV as a % of FEAUM[76]

Funds under management for the comparable companies means that portion of assets under management on which the company generates revenue. Different companies report FUM differently and acknowledge as part of their disclosures that the definition of FUM may differ from other alternative asset managers. For instance, Carlyle defines FUM as the portion of the assets under management on which it derives recurring fund management fees. Blackstone defines FUM as the portion of the assets under management on which the company derives management and/or performance fees. As a result, there are limitations in the comparability between the definition of FUM for the comparable companies and the

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[74] EV as defined in the appendices
[75] FUM as defined in the appendices
[76] FEAUM as defined in the appendices

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definition of FUM as reported by Blue Sky. Any multiple of FUM set out in this report should therefore be considered with caution.

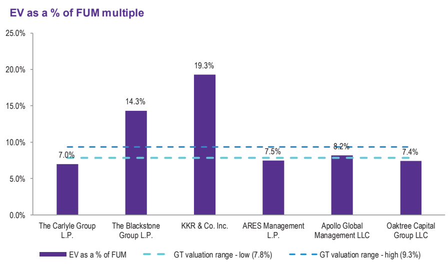
We have also considered FEAUM which represents the gross value of the asset for the comparable companies. However, given the diverse products of each of the comparable companies relative to Blue Sky, the FEAUM values are not necessarily comparable. Further, similar to FUM discussed above, there is no GAAP-complaint definition of FEAUM and therefore there are likely to be differences in disclosure of FEAUM numbers by comparable companies.

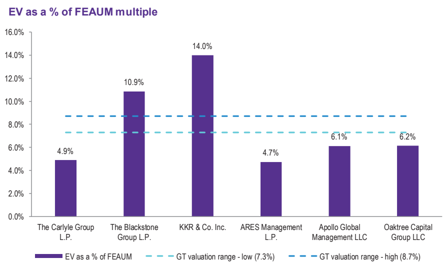
We have set out below the EV as a % FUM and EV as a % of FEAUM multiple implied by our valuation assessment:

Valuation cross-check before the Proposed Issue $000	Ref	As a % of FUM Low	 High	As a % of FEAUM Low	 High
Adjusted underlying net tangible asset value of Blue Sky	*Section 6.1.1*	131,482	152,447	131,482	152,447
Equity value of funds management business	*Section 6.1.2*	71,350	89,187	71,350	89,187
Refundable fees and third party expenses	*Section 6.1.3*	(4,100)	(4,100)	(4,100)	(4,100)
Borrowings	*Section 6.1.1*	719	719	719	719
Enterprise value of Blue Sky on a control basis		199,450	238,253	199,450	238,253
Adjusted fee earning assets under management	*Section 6.1.2*	2,548,200	2,548,200	2,730,100	2,730,100
EV as a % of FUM and EV as a % of FEAUM		**7.8%**	**9.3%**	**7.3%**	**8.7%**

Source: GTCF calculations
We note that in our assessment of the enterprise value, we have not adjusted for the cash balance as we do not consider it surplus.

We have set out below the EV as a % of FUM multiple for the comparable companies:





Source: GTCF Calculations, Company filings
Note: The enterprise value for the comparable companies has been assessed based on the unconsolidated accounts as presented in the 10-K filings. Refer to the appendices for the definition of enterprise value.

In spite of the limited comparability on how FUM and FEAUM are reported, we note that the EV as a % of FUM and EV as a % of FEAUM multiple implied by our valuation does not seem unreasonable when compared with the Tier 1 companies (refer to section 6.1.2 for our discussion on the appropriateness of the discount to Blackstone and KKR).

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7 Valuation assessment of BLA after approval of the Proposed Issue

In our assessment of the market value of BLA after the Proposed Issue, we have adjusted our valuation assessment set out in Section 6 based on the SOP in order to consider the following:

- The issue of BLA Shares to Oaktree upon conversion of the Convertible Notes from debt to equity and the cash raised from the subscription of the Convertible Notes. As discussed before, BLA intends to draw down the face value of the Convertible Notes (less establishment fee) during October 2018. However, in our valuation assessment before the Proposed Issue in section 6.1, we have not adjusted the underlying cash balance as the NTA of BLA remains substantially unchanged after the immediate draw down of the Convertible Notes[77]. Accordingly, in our valuation assessment after the Proposed Issue, we have increased the cash balance by the face value of the Convertible Notes of $50 million less establishment fee.

- The application of a minority discount in accordance with the requirements of RG 111.

The value of BLA Shares after the Proposed Issue will be dependent upon the number of BLA Shares to be issued to Oaktree upon conversion. We have assumed immediate conversion of the Convertible Notes and accordingly BLA will issue 26.74 million BLA Shares to Oaktree equivalent to 25.64% of the enlarged share capital (before considering any shares to be potentially issued upon conversion of the BLA Options)[78].

Set out below is a summary of our valuation assessment of BLA after the Proposed Issue on a minority basis and taking into account the dilution from the conversion of the Convertible Notes.

Valuation summary after the Proposed Issue $000	Ref	Low	High
Equity value of BLA before the Proposed Issue	Section 6.1	198,731	237,534
Minority discount[1]		23.1%	23.1%
Equity value of Blue Sky on a minority basis		152,870	182,718
Cash inflow from the Convertible Notes[2]		49,000	49,000
Adjusted equity value of Blue Sky on a minority basis		201,870	231,718
Total number of shares outstanding	Section 7.2	104,270	104,270
Value per share on a minority basis ($/share)		**1.94**	**2.22**

Source: GTCF Calculations
Note 1: Note 1: Minority discount is calculated as follows: 1 - (1/ (1+control premium)). For the purpose of the valuation assessment, we have assumed a control premium of 30%.
Note 2: The cash inflow from the convertible notes is net of establishment fees of 2% of the face value of the convertible notes.

7.1 Minority discount

As the Proposed Issue is considered a control transaction in accordance with RG 111, we have compared our assessment of BLA on a control basis before the Proposed Issue with our assessment of BLA on a minority basis following the approval of the Proposed Issue. Historical premium for control in the Australian market has averaged between 20% and 40% (Refer to Appendix E for details). Accordingly, we have applied a minority discount of 23% which is the inverse of the 30% premium for control.

[77] The increase in the cash balance is offset by the increase in the Convertible Notes liability.
[78] We note that we could have also valued the convertible notes having regard to the terms of the loan component and the embedded option element (refer to Appendix F for details).

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7.2 Shares on issue

Set out below is a summary of our calculation of the shares on issue in BLA following the Proposed Issue and upon immediate conversion of the Convertible Notes.

Calculation of new shares to be issued $000	
Time of conversion	Immediately
Total liability required to be satisfied by issue of shares	50,000
Conversion Price ($/share)	1.87
Number of shares required to be issued	26,738
Exisitng number of shares outstanding (excluding BLA Options)	77,532
Total shares outstanding after conversion	104,270
Oaktree's percentage holding (%)	**25.64%**

Source: GTCF Calculations
Note 1: Given the conversion is assumed, immediately no PIK interest has been considered.

8 Sources of information, disclaimer and consents

8.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Notice of Meeting and Explanatory Memorandum.
- Annual reports/ consolidated accounts of BLA for FY16, FY17, and FY18.
- Announcements made by BLA on the ASX.
- Independent valuation reports in relation to the underlying assets, investments.
- BLA's website.
- S&P Global.
- IBISWorld.
- Various broker's reports.
- Other publicly available information.
- Discussions with BLA Management and its adviser.
- Several other financial and legal documents included in the data-room.

8.2 Qualifications and independence

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to and all other parties involved in the Proposed Issue with reference to the ASIC Regulatory Guide 112 "Independence of expert" and APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to BLA, its shareholders and all other parties involved in Proposed Issue.

Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with BLA or its associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Issue.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Proposed Issue, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposed Issue. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

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8.3 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by BLA and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by BLA through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of BLA.

This report has been prepared to assist the Directors in advising the Non-Associated Shareholders in relation to the Proposed Issue. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Proposed Issue is fair and reasonable to the Non-Associated Shareholders.

BLA has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by BLA, which BLA knew or should have known to be false and/or reliance on information, which was material information BLA had in its possession and which BLA knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. BLA will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

8.4 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Notice of Meeting and Explanatory Memorandum to be sent to the Non-Associated Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

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8.5 Compliance with APES 225 Valuation services

This report has been prepared in accordance with the requirements of the professional standard APES 225 Valuation Services ("APES 225") as issued by the Accounting Professional & Ethical Standards Board. In accordance with the requirements of APES 225, we advise that this assignment is a Valuation Engagement as defined by that standard as follows:

"An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time."

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Appendix A – Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

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Appendix B – BLA's consolidated statement of financial position on a statutory basis

BLA's consolidated statement of financial position on a statutory basis $000	30-Jun-17 Audited	30-Jun-18 Audited
Cash and cash equivalents	40,922	72,187
Trade and other receivables	43,384	38,371
Inventory - residential developments	1,120	491
Income tax receivable	4,175	-
Other assets	3,403	4,651
Total current assets	**93,004**	**115,700**
Trade and other receivables	49,737	53,054
Inventory - residential developments	3,800	1,986
Financial assets held at fair value through profit or loss	226	-
Investment property - retirement villages	112,170	54,917
Investments in associates and joint ventures	46,301	46,994
Property, plant and equipment	9,768	4,783
Intangible assets	9,591	11,038
Total non-current assets	**231,593**	**172,772**
Total assets	**324,597**	**288,472**
Trade and other payables	18,602	35,667
Borrowings	6,179	16,726
Deferred revenue	7,506	9,061
Provision for income tax	-	1,345
Employee benefits	7,216	4,424
Resident loans - retirement villages	23,515	14,849
Total current liabilities	**63,018**	**82,072**
Deferred revenue	1,035	3,637
Employee benefits	4,141	4,692
Borrowings	86,138	37,164
Other liabilities	4,422	8,595
Deferred tax liabilities	1,031	10,875
Provision for income tax	4,129	-
Total non-current liabilities	**100,896**	**64,963**
Total liabilities	**163,914**	**147,035**
Net assets	**160,683**	**141,437**

Source: Company annual report

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Appendix C – BLA's consolidated statement of financial performance on a statutory basis

BLA's consolidated statement of profit and loss on a statutory basis $000	FY17 Audited	FY18 Audited
Operating revenue	30,147	69,138
Share of (loss)/profit of associates and joint ventures	(6,221)	8,081
Other income	4,795	7,179
Revenues	**28,721**	**84,398**
Employee benefits	(35,692)	(26,513)
Occupancy	(2,388)	(2,156)
External service providers	(7,621)	(2,888)
Consultancy	(3,884)	(1,240)
Marketing	(2,619)	(2,001)
Administrative	(1,493)	(1,691)
Travel and entertainment	(3,359)	(2,779)
Provisions and impairments	(30,467) -	
Other expenses	(15,707)	(12,722)
Finance costs	(1,860)	(1,250)
Depreciation and amortisation	(643)	(1,430)
(Loss)/profit before income tax	**(77,012)**	**29,728**
Income tax benefit/(expense)	9,413	(9,043)
(Loss)/profit before income tax	**(67,599)**	**20,685**

Source: Company annual report

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Appendix D – Key definitions

As part of our valuation assessment, we have considered the underlying financial information as reported by Blue Sky. In order to maintain consistency, we have considered and calculated the key components of the valuation ratios that may be considered comparable to Blue Sky's underlying financial information. A brief understanding of our approach to calculating these ratios have been set out as follows:

- *Fee-earning assets under management ("FEAUM")* – refers to the assets of the investments funds, joint ventures, and investment management accounts ("mandates") to which Blue Sky/alternative asset manager provide investment management services and on which they earn management fees, other investment. It includes any fee earning capital commitments that those funds, joint ventures, and mandates have the right to call from investors. Blue Sky's FEAUM is comprised of either of the following:
  - The par value of invested capital of private equity, venture capital, real asset funds and mandates that they manage, plus the capital that those funds are entitled to call from investors pursuant to fee earning capital commitments.
  - The net asset value ("NAV") or gross asset value ("GAV") of open-ended funds which are valued to market (for Blue Sky it includes hedge funds, Blue Sky Water Fund, and the Alternatives Access Fund, and the NAV of certain institutional investment mandates investing in real asset investments);
  - The gross asset value ("GAV") or gross realisable value (GRV) of the private real estate development funds and projects they manage, which includes the leverage used by such portfolio investments. The GRV is measured on an "as complete" basis;
  - Blue Sky's proportionate share of the economic benefits flowing to the company under the agreements with Joint Venture Partners.
- *Funds under management ("FUM")* - Funds under Management are to a limited extent referred to as Fee-earning assets under management by the comparable companies as part of their disclosures. To maintain consistency, we have adopted the definition of funds under management ("FUM") as being reference to the fee earning assets under management as reported by the comparable companies. To a limited extent, this can be considered to be comparable FUM as reported by Blue Sky.
- *Underlying net tangible assets* - We have calculated the underlying net tangible assets ("Underlying NTA") on a per share basis for the global comparable companies, in order to determine the ratios of their share price to their NTA. The underlying NTA is often presented in the supplemental presentation of the statements of financial condition for the comparable companies. The underlying NTA is determined as follows:
  - Net assets: also referred to as the total equity, as reported on the unconsolidated balance sheet, including the non-controlling interests.
  - Reduce any goodwill and intangible assets as reported on the unconsolidated balance sheet of the comparable companies.

  - Divided by the total number of shares, both the basic common units as well as any units attributable to comparable companies such as Blackstone or KKR that continue to operate a partnership at the holding company level.

  The above calculations result in the NTA for the comparable companies being consistent with the manner in which the underlying NTA for Blue Sky has been reported.

- *Enterprise value* - We have calculated the enterprise value for the comparable companies on an "underlying" basis i.e. excluding the assets and liabilities of the funds that are consolidated to comply with the relevant accounting standards. These values are typically reported as supplemental information in the financial statements that distinguishes between the consolidated balance sheet and the operating balance sheet (or "underlying" balance sheet). The underlying balance sheet has been determined to reflect the debt and cash that is comparable in the manner in which Blue Sky reports its underlying financial position. Enterprise value comprises the following:

  - Market capitalisation: calculated based on actual share price multiplied by the shares. Shares consists of the (basic) common units at the company level as well as any shares that are held by the unlisted general partnerships that act as holding companies. This is typically observed in case of Carlyle, KKR and Blackstone.

  - Net debt: consists of "underlying debt", often referred to as loans payable. This excludes the debt from the consolidated funds. We have excluded cash in our calculation of net debt, both the underlying cash as well as the cash from consolidated funds. The cash on the balance sheet not held with the funds is not considered surplus as it is likely to be required for investment. We have not deducted cash from consolidated funds as we are calculating enterprise value on an underlying basis.

  - Preferred stock: included.

  - Non-controlling interest: excluded, as this is already accounted for in the market capitalisation by way of the number of shares held by the non-controlling interests.

This is consistent with the calculation of the net tangible assets for Blue Sky in section 6.2

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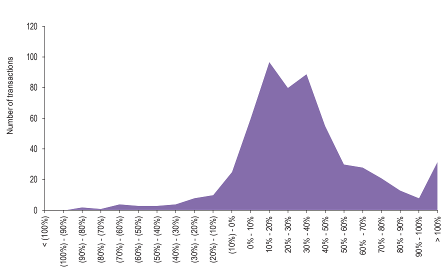
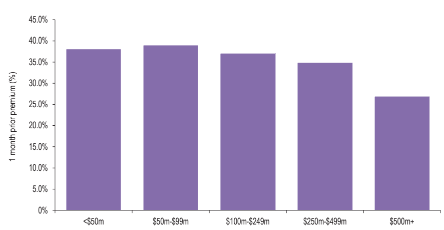
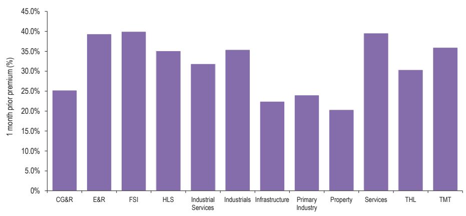
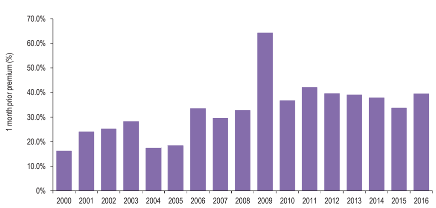
Appendix E – Premium for control study

Evidence from studies indicates that premia for control on successful takeovers has frequently been in the range of 20% to 40% in Australia, and that the premia vary significantly for each transaction.









	Control premium
Average	34.25%
Median	29.31%

Source: GTCF analysis

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Appendix F – Higher dilution scenario

As discussed in the Executive Summary, in our valuation assessment, we have assumed the immediate conversion of the Convertible Notes to show to the Non-Associated Shareholders the dilution impact of the BLA Shares to be issued to Oaktree upon conversion. However, we could have also valued the Convertible Notes having regard to the terms of the loan component and the embedded equity option and without considering the BLA Shares to be issued to Oaktree.

For completeness, we have outlined below the estimated market value of BLA after the Proposed Issue valuing the Convertible Notes using an equity value methodology.

Valuation summary after the Proposed Issue $000	*Ref*	Assuming conversion after 5 years Low	 High
Equity value of BLA before the Proposed Issue	*Section 6.1*	198,731	237,534
Minority discount[1]		23.1%	23.1%
Equity value of Blue Sky on a minority basis		152,870	182,718
Less: Net present value of Convertible Notes	*Appendix F*	(65,279)	(65,279)
Add: Cash inflow from the Convertible Notes[2]		49,000	49,000
Adjusted equity value of Blue Sky on a minority basis		136,591	166,439
Total number of shares outstanding	*Section 7.2*	77,532	77,532
Value per share on a minority basis ($/share)		**1.76**	**2.15**

Source: GTCF analysis
Note 1: Minority discount is calculated as follows: 1 - (1/ (1+control premium)). For the purpose of the valuation assessment, we have assumed a control premium of 30%
Note 2: The convertible loan facility value is net of the establishment fee of 2% of the face value of the loan facility

The value of the call option embedded in the Convertible Notes has been determined after considering the following assumptions:

- *Strike Price* – We have considered a strike price equal to the conversion price of $1.87/share
- *Spot Price* – We have considered the spot price based on the VWAP during the period 30 August 2018 to after the announcement of the Convertible Notes. This is consistent with our valuation assessment of BLA on a minority basis after the Proposed Issue. Refer to section 6.2 for details.
- *Volatility* – We have assessed the volatility at 30% based on the comparable companies, which have been set out in the table below:

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Assessed Volatility over multiple periods - global alternative assets managers	5-year	4-year	3-year	2-year	1-year
Blue Sky Alternative Investments Ltd	52.2%	53.7%	58.8%	65.5%	88.5%
The Carlyle Group L.P.	29.5%	29.3%	29.5%	36.1%	23.5%
The Blackstone Group L.P.	26.5%	26.3%	26.8%	32.8%	18.0%
KKR & Co. Inc.	27.3%	27.5%	28.6%	35.0%	22.2%
Ares Management, L.P.	28.1%	30.8%	32.3%	39.5%	26.9%
Apollo Global Management, LLC	27.3%	26.8%	26.6%	32.6%	24.2%
Oaktree Capital Group, LLC	19.9%	19.9%	19.6%	24.1%	15.8%
Min (excl. BLA)	**19.9%**	**19.9%**	**19.6%**	**24.1%**	**15.8%**
Average (excl. BLA)	**26.4%**	**26.8%**	**27.2%**	**33.4%**	**21.8%**
Median (excl. BLA)	**27.3%**	**27.2%**	**27.7%**	**33.9%**	**22.8%**
Max (excl. BLA)	**29.5%**	**30.8%**	**32.3%**	**39.5%**	**26.9%**

Source: S&P Global, GTCF analysis
Note: Volatilities have been assessed as at 24 September 2018

We have also considered the volatility of Australian and other asset managers which has been set out in the table below:

Assessed Volatility over multiple periods - Australian and other assets managers	5-year	4-year	3-year	2-year	1-year
Magellan Financial Group	31.2%	30.0%	29.1%	25.9%	28.7%
Folkestone Limited	30.4%	28.1%	24.6%	26.3%	30.9%
Platinum Asset Management	31.0%	32.5%	32.6%	32.3%	34.3%
AMP Limited	21.9%	22.3%	21.4%	20.8%	21.1%
Pendal Group Limited	31.8%	32.6%	33.4%	29.7%	27.0%
Centuria Capital Group	26.0%	25.8%	26.9%	23.8%	21.3%
Janus Henderson Group plc	12.5%	13.9%	16.1%	19.7%	22.4%
Min	**12.5%**	**13.9%**	**16.1%**	**19.7%**	**21.1%**
Average	**26.4%**	**26.5%**	**26.3%**	**25.5%**	**26.5%**
Median	**30.4%**	**28.1%**	**26.9%**	**25.9%**	**27.0%**
Max	**31.8%**	**32.6%**	**33.4%**	**32.3%**	**34.3%**

Source: S&P Global, GTCF analysis
Note: Volatilities have been assessed as at 24 September 2018

- We note that the volatility of Blue Sky has historically been higher than the comparable companies, however we note the following:
  - The volatility of BLA over the last six months has been affected by one-off events and the restructuring of the business that unfolded after the release of the Glaucus Report.
  - The volatility of BLA before the release of the Glaucus Report was affected by the exponential grow in the FEAUM which is not captured in our valuation assessment[79].
- *Risk-free rate* – We have adopted a risk-free rate that closely aligns to the tenure of the loan facility based on the capital market yield on government bonds as published by the RBA. Accordingly, we

[79] We have assessed the FEAUM for the purpose of the valuation of the fund management business based on the 30 June 2018 FEAUM reduced for the exited businesses or about to be exited.

have adopted a risk-free rate of 2.29% as at 4 October 2018 based on the 5-year RBA bond spot yield.

- *Tenure* – We have adopted a tenure of 5 years. Whilst the Convertible Notes expires 7 years after the issue date, from year five onwards, BLA can elect to repay the Convertible Notes without triggering the call protection mechanism. Accordingly in our opinion, a rationale investors will not attribute any value to the embedded derivative after year five. Also, considering the interest rate on the Convertible Notes, BLA will be incentivise to seek alternative cheaper funding options.

- *Dividend* – Due to existing covenants in place and the Company's current financial position, we have not assumed any distributions to impact the valuation of the embedded option.

Based on the above, we have assessed the value of the Convertible Notes to be approximately $65.28 million.

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Appendix G – Glossary

APES	Accounting Professional and Ethical Standards
$ or A$	Australian Dollar
AASB 10	Australian Accounting Standards Board - Consolidated Financial Statements
AASB 15	Australian Accounting Standards Board - Revenue from Contracts with Customers
APES 225	Valuation Services
APES110	Code of ethics for Professional Accounting
ASIC	Australian Securities Investment Commission
ASX	Australian Stock Exchange
AUM	Assets under management
BLA Shareholder	An individual/ entity beneficially holding BLA Share(s)
BLA, Blue Sky, the Company	Blue Sky Alternative Investments Limited
CAGR	Compounded Annual Growth Rate
Conversion Premium	Conversion Premium of 10% in accordance with the subscription agreement
Conversion Price	Initial Price x (1+Conversion Premium)
Convertible Notes	Convertible Notes to be issued to Oaktree
Corporations Act	Corporations Act 2001
EV	Enterprise Value
FEAUM	Fee-earning assets under management
FSG	Financial Services Guide
FUM	Funds under management
FY	Financial year ended 30 June
GTCF, Grant Thornton, or Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd
Initial Price	Underlying NTA as at 30 June 2018 of $1.7 per share
NSW	New South Wales
NTA	Net tangible assets
Oaktree	Oaktree Capital Management LLC and its associates
P/Underlying NTA or P/NTA	Price/Underlying NTA
Proposed Issue	Conversion of the already issued Convertible Notes
RG	Regulatory Guide
RG111	ASIC Regulatory Guide 111 “Contents of expert reports”
RG112	ASIC Regulatory Guide 112 “Independence of Experts”
RG74	ASIC Regulatory Guide 74 “Acquisitions agreed to by shareholders”
Sophisticated investors	High-Net-Worth individuals and family offices
Underlying NTA	Underlying net tangible assets
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital
Water Rights	Water allocations and water entitlements

BlueSky
Alternative Thinking

Blue Sky Alternative Investments Limited

www.blueskyfunds.com.au

BlueSky Alternative Thinking

Blue Sky Alternative Investments Limited
ACN 136 866 236

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

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Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138; or
Level 12, 680 George Street, Sydney NSW 2000

ALL ENQUIRIES TO
Telephone: +61 1300 554 474

X99999999999

PROXY FORM

I/We being a member(s) of Blue Sky Alternative Investments Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐ **the Chairman of the Meeting (mark box)**

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **10:00am** (**Brisbane time**) **on Monday, 19 November 2018 at the Christie Conference Centre, 320 Adelaide Street, Brisbane QLD** (the **Meeting**) and at any postponement or adjournment of the Meeting.

Important for Resolution 3: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 3 even though the resolution is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Resolutions	**For**	**Against**	**Abstain***
1 Approval of conversion right in respect of the convertible loan notes under the Facility			
2 Approval of Oaktree to obtain relevant interest greater than 20%			
3 Adoption of the Remuneration Report			
4 Re-election of John Kain as director			

ⓘ * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form, including where the Resolutions are connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" must be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (Brisbane time) on Saturday, 17 November 2018,** being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

ONLINE
www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).

BY MAIL
Blue Sky Alternative Investments Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

BY FAX
+61 2 9287 0309

BY HAND
delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

or

Level 12
680 George Street
Sydney NSW 2000

* During business hours (Monday to Friday, 9:00am–5:00pm)

IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU. THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.