2018 Annual General Meeting

19 November 2018

Chairman's address

Today marks the beginning of a new chapter in Blue Sky's history.

We draw a line under our recent past and go forward with a new Chair, new stakeholders and strengthened foundations.

Since April, the Board and management have worked tirelessly to 're-set' our business to allow us to restore confidence and build on our strengths.

As a part of this process we deliberately chose to engage a new strategic stakeholder in our business. We've elected to partner with one of the world's leading alternative investment managers, and we're pleased they've chosen to partner with us. Today we will vote on permitting Oaktree Capital Management the right to convert its loan to a Blue Sky shareholding – essentially to align its interests with your own as shareholders.

We also announce the decision to appoint Andrew Day, former CEO of Hastings Funds Management, as our new Chair and Byron Beath as Oaktree's representative non-executive director. Andrew, together with a new Board and executive team will capably lead Blue Sky into the future.

Before we focus on the future, it is my role today to provide an account of the recent past.

<u>Year in review</u>

Blue Sky's FY18 performance was principally affected by three factors.

- A rapid and contagious loss of market confidence in our business;
- A resulting stall in growth and a need to reconfigure our resources accordingly; and
- A change in market conditions impacting the business case, and in some cases viability, of a number of existing and planned investments.

These events had a devastating impact on our FY18 results. Our FY18 loss of $85.6 million included:

- $73.8 million of abnormal items; and
- more than $10 million of fixed annualised operating costs which will be removed from the business by the second half of FY19.

The Board revised our business strategy and announced that to the market on 7 May. That strategy focuses on three initiatives:

- Each business unit to be profitable, scalable, institutional grade and based upon deep expertise with a competitive advantage;
- Recurring management fees to exceed fixed operating costs; and
- Enhancing governance, valuation, compliance and risk management frameworks.

Material progress has been made in executing this strategy. In doing so, we have been mindful of the need to re-establish confidence with our investor clients.

Despite the challenges faced since March, our three core businesses (Real Assets, Private Equity and Private Real Estate) have continued to successfully execute on their various investment strategies, with the support and confidence of our institutional investor clients.

Public commentary

There has been an extraordinary amount of commentary about Blue Sky this year following an activist short-seller campaign launched in March. Much of that commentary centred on three propositions. This Annual General Meeting provides the opportunity to clearly address these contentions directly with you, our shareholders.

*Fee earning assets under management ('**FEAUM**')*

It has been claimed that Blue Sky overstates its FEAUM, with it being suggested that FEAUM at March 2018 was as low as $1.5 billion. A detailed breakdown of our FEAUM was given on 7 May 2018. That breakdown clearly explains the composition of FEAUM as being $4 billion at 31 March 2018.

This FEAUM calculation and disclosure is entirely consistent with Blue Sky's 2011 prospectus disclosures, which specifically distinguished between AUM and funds under management, or FUM. In the prospectus, AUM was defined to be:

- For funds other than property funds, the debt and equity capital committed to that fund.
- For property funds, the gross realisable value of the fund, which was specifically defined as '*… the estimated end value of the properties in each project … including for projects which may be relatively early in their development cycle* …[1] '

All FEAUM disclosures since listing have been calculated and disclosed consistently with that definition.

Any suggestion that debt should be excluded from the AUM calculation for property funds would be contrary to both market practice and to the calculation methodology we have repeatedly disclosed and consistently applied since IPO.

[1] Page 3 of Blue Sky Supplementary Prospectus dated 7 December 2011.

Blue Sky's purpose is to manage investments in alternative assets. At 30 June 2018, over 40% of our FEAUM was invested via bespoke mandates on behalf of institutional investors. Those investors typically prefer not to publicise these investments to a wider audience. We respect this, and don't disclose this information publicly.

As an example, since June 2017 our Real Assets business has increased its FEAUM by more than $500 million, comprising new deployments for institutional clients across a diverse range of agricultural assets and associated water rights. Of these investments, the media has reported only two investments totalling $65 million.

Fees

It has also been claimed that Blue Sky's fees are too high.

All Blue Sky fees are fully disclosed to, and accepted by, investor clients.

Our rates are customised to account for the hands on nature of the private market investments we manage and the effort that requires. By its nature our investment management activity is very 'active'. Accordingly, those rates cannot be compared to the rates charged by public equity fund managers.

It is worth noting that for wholesale funds, fees are raised in advance and held by the independent trust on behalf of the unitholders. Fees are released once they have been earnt by Blue Sky. If the forecast hold period of the asset is longer or shorter than anticipated, further funds may be sought from investors, or refunded to investors. Any reference to our fee rates that doesn't recognise this process, grossly overstates our annualised fees.

Valuations

Finally, it has been claimed that Blue Sky unjustifiably marks up the value of its unrealised assets.

There is a great difference in price discovery for privately held assets and publicly traded equities, bonds, currencies or commodities. By definition, a point in time valuation of illiquid and privately held assets will be subjective – it is an opinion at that point in time. A definitive value can only be determined at the point of sale. All assets which we manage are illiquid, private market assets. Consequently, their valuations are subjective. Recognising this we of course seek independent third-party advice and written opinions as to our asset valuations from valuation firms with requisite experience in each sector in which we invest.

In the June quarter, the valuations of every asset managed by Blue Sky were independently reviewed by such experts. Subsequently, those valuations were also independently reviewed by our auditor.

The results of those valuations were not necessarily 'like for like' – as we are comparing the June quarter valuations for assets with a March carrying value which were assessed at an earlier date, typically either at 30 June 2017 or 31 December 2017. Movements in those asset values, were driven by a range of factors across these different points in time, including:

- progress in the development of the underlying investment projects (eg the scale of farmland development achieved between FY17 and FY18);

- changes in the performance of operating assets or market conditions (eg retail conditions between FY17 and FY18); and

- changes to underlying valuation assumptions applied by independent third party valuers (perhaps caused by additional comparable transactions in private markets, changing asset utilisation rates, occupancy rates, interest rates etc.).

Nonetheless, the outcome of these June quarter valuations across the entire portfolio, as compared to the carrying values at 31 March 2018, was that:

- 19% of assets were valued ***upward*** by more than 10%;

- 50% of the assets, did not move or moved by less than 10%; and

- 31% of assets were valued ***downward*** by more than 10%.

The net effect of all of these valuation movements on our aggregate investment portfolio was an ***increase*** in value of ~9.4%.

Ultimately, for illiquid privately traded assets, the only conclusive determination of value can be made on disposal of the asset. And on that measure, over the five years to 31 October 2018, we have realised a total of 35 assets, with an equity return to our investor clients of 17.9% per annum net of fees. Of these 35 assets, 27 have been realised at or above their carrying value. This is the measure upon which the accuracy of our valuations are best judged.

It is pleasing to see that, through these realised returns, our team has continued its successful investment track record, delivering investors good risk adjusted returns across all strategies.

In aggregate the investment track record is impressive. Blue Sky has repeatedly aimed to achieve high returns in order to justify the illiquidity of private market investments. There are risks in all investments; our role is to manage them to the best of our ability. Patient capital is required, and yet despite our best efforts, some investments fail to achieve business case.

Historically our sophisticated investor clients have insisted on investing with us in single asset trusts rather than diversified portfolio funds. Prior to investing they wanted to know what is the deal; what is the project; what is the forecast business plan; who is the management team; what is the sector etc. Our clients sought to diversify their own investment portfolios by selecting from a range of our single asset trust offerings over the years, each with different risk return profiles.

During FY18 Blue Sky was managing over 90 different funds and assets. Approximately 20 of those were very challenging and not meeting investment case. Most investors acknowledge a ratio of 25% portfolio underperformance is not so unusual.

As investment managers of closed end funds we are patient, but we are also active. Our investment teams are actively engaged with the underlying investee companies and development projects. We are growth capital investors. We invest in companies to help them grow, or assets to develop for a more valuable purpose. That takes time. It is not always immediately profitable.

When things don't go to plan we change course; we make decisions; we endeavour to turn investments around and exit positively for investors. Sometimes that is just not possible.

Regrettably we have some clients who, by their own election, are only invested in one or two of these underperforming funds and not in the 75% of funds which are achieving above average risk-adjusted returns.

Challenges of complexity and rapid growth

Between our IPO in January 2012 and March this year, our FEAUM increased by more than 20x; the number of group and fund entities increased by more than 10x; and our staff and the number of funds we managed each increased by about 5x.

That rapid growth and corresponding business complexity presented challenges and put pressure on our governance regime, our executive team and management structures, and our risk and compliance framework.

In recognising those challenges, the Board and management have, over the last eight months, taken significant steps to reset all of those elements of our business.

As part of that process, since April every part of our business has been carefully reviewed with:

- our Board reviewing strategy;
- independent third party valuers reviewing every asset valuation;
- an independent external review of our risk framework and our valuation governance and processes; and
- our Risk & Compliance team (overseen by external independent legal and accounting experts) reviewing historical fund compliance.

In addition, prior to investing in Blue Sky, Oaktree and its advisers conducted three months of exhaustive diligence comprising reviews of every part of our business, including every fund and every fund asset, generating many hundreds of pages of diligence reports.

We are confident that, with the internal reviews, external reviews and external due diligence conducted over the last eight months, we have identified all areas of our business requiring improvement and have either addressed them or are in the process of doing so.

Progress on business strategy

Enormous progress has been made to date in the implementation of the strategic initiatives I mentioned in the opening.

1. Personnel

Changes have been made at Board, Executive and staff level. Importantly, none of the staff reductions has had a material impact on our investment management capability in the business units and investment strategies upon which we are focused.

2. Governance, risk & compliance

By December the Board transition will be complete.

The new executive team and structure are providing strong leadership, with improved information flows between the Board, executive and the team.

A Group Investment Committee has been established, replacing the former Balance Sheet Committee, to provide a forum to ensure consistency of investment discipline across each asset class. This Committee is providing greater rigour and structure in investment decision making and the deployment of company capital.

In June we appointed an independent chair to our trustee entity, Blue Sky Private Equity Limited, which holds our Australian Financial Services Licence and represents the interests of unitholders.

In August we appointed a Chief Risk Officer, who is well advanced in implementing a range of enhancements to existing risk, valuation and compliance policies, procedures and frameworks.

3. Financial model

By 31 December, we anticipate having removed more than $10 million from our annualised fixed operating costs, including through reducing our staff numbers, and focusing on our most profitable and scalable business units.

When complete, this cost reduction will allow fixed operating costs to be covered by annual management fees. It will also facilitate changes to our remuneration structure to better align investment teams, investor outcomes and shareholders. These arrangements were explained in our Annual Report and will apply from 1 July 2019.

4. Blue Sky Alternatives Access Fund Limited ('**BAF**') exit

BAF is a retail product and is not consistent with Blue Sky's move to institutional capital. Further, with the announced changes to Blue Sky's business model, both Blue Sky and BAF recognise that Blue Sky will, in future, offer a narrower opportunity set in which BAF may invest.

Accordingly, we have agreed to support BAF's decision to reposition itself as a multi-manager platform. To do that, we have agreed to terminate the Management Services Agreement between Blue Sky and BAF, subject to BAF shareholder approval. In doing that we have supported the appointment of a new manager associated with the Pinnacle Group.

There has been recent public interest expressed by Wilson Asset Management ('**WAM'**) in assuming the management of BAF. Under the terms of the existing management agreement and BAF's ASX listing conditions no new manager can be appointed to BAF without the consent of the BAF board, the BAF shareholders and Blue Sky. For Blue Sky's part, any decision as to new management has been, and will always be, made solely on the basis of what is in the best interest of the unit holders in those Blue Sky funds in which BAF is invested. We shall continue to support the Pinnacle proposal for so long as it retains the support of BAF's independent directors and BAF shareholders. Should it cease to have that support, we will consider any other proposal on its merits, having regard to the best interest of the unit holders in the relevant Blue Sky funds.

Regardless of who BAF appoints as its new investment manager, it will continue to hold investments in various Blue Sky closed-end managed funds. Blue Sky will continue to earn management and performance fees on the capital subscribed to those funds until Blue Sky realises the underlying assets and winds up the underlying funds. Each of BAF, Pinnacle and WAM have indicated that they see BAF's investment in the open ended Water Fund as a unique cornerstone asset for BAF, which they intend to retain.

In ceasing to operate BAF, Blue Sky will reduce its costs by more than $1 million per annum and accelerate our exit from all retail funds by 30 June 2019.

5. Exit of several business units and our focus on scalable opportunities

   In June 2018 an offshore institutional investor with experience in the retirement sector made an attractive offer to acquire our development portfolio of retirement living assets and our associated interest in the retirement living operating company, Aura. In October we finalised the sale achieving a return for our fund investors averaging 13.8% per annum (net of fees).

   Having grown our hedge funds business modestly over four years, we did not see a path to growing to scale in the foreseeable future. Accordingly, the retail hedge fund business was closed in June. The institutional hedge fund business will be exited in December.

   We presently have seven remaining residential development projects in Brisbane and three in Townsville. Given market cycles and scale, we intend to complete the exit of seven projects during 2019, leaving only three residential construction projects to be completed in the normal course.

   Furthermore, given the lack of scale and disappointing returns in our property management rights business, we have commenced a formal sale process and expect to exit this business in 2019.

   Finally, we have commenced a process to source a new institutional investor for student accommodation in Australia. This process remains confidential between Blue Sky and our joint venture partner. We look forward to being able to say more in due course.

<u>FY2018 financial performance</u>

Clearly, there was a significant deterioration in our financial position from 31 December to 30 June. There were three key factors which principally contributed to that deterioration:

1. First, the collapse in market sentiment. This had an adverse impact of ~$23.5 million, being:

   a. Unbudgeted costs of ~$9.8 million, including restructure costs and costs of addressing issues arising from the short attack.

   b. Budgeted revenue of ~$13.7 million which was not realised in Q4, due to adverse market sentiment disrupting our normal June quarter transaction cycle.

2. Secondly, a change in market conditions in both the retirement and student accommodation markets, which had an adverse impact of ~$33.1 million (~$14.9 million in retirement and ~$18.2 million in student accommodation).

   a. Upon learning of increasing challenges with zoning and development approvals in Brisbane and the Gold Coast, including changes to zoning policies in late May, in June the Board decided to:

      i. terminate three of our eight retirement living projects;

      ii. make whole investors in those terminated projects, including by reversing ~$9.6 million in transaction, development and management fees for those projects; and

      iii. with the diminished scale of the portfolio, write down the value of the retirement living operating platform (Aura) by ~$5.3 million.

   b. In April, it became apparent that the supply and demand equilibrium in student accommodation had changed significantly from the 2017 year. Further, in April and May, site issues specific to two projects altered the risk/return profile to investors in those projects from the original business case. Accordingly, in June the Board decided to:

      i. terminate one, and defer two, of our nine Australian student accommodation projects;

      ii. reverse ~$6.2 million in transaction, development and management fees for those three projects, until such time as the projects progressed; and

      iii. with the diminished scale of the portfolio, and an increasingly competitive student accommodation market, write down the value of the operating platform (Atira) by ~$12 million.

3. Finally, our results were impacted by impairments of ~$31.50 million, which included:

   a. ~$12.4 million in write downs to bridging or other working capital loans to funds or underlying assets, particularly in respect of 13 assets whose values were most heavily written down in the June quarter revaluations; and

   b. ~$9.7 million arising from our election in June to subordinate various loan positions to the equity position of unit holders in funds (eg residential development and management rights funds) where, as a result of our May strategy review, we chose to exit certain business lines and realise the funds rather than continue them.

Consequently, much of the $100 million capital raised in March was deployed to uses other than the co-investment intended in March, and our cash position deteriorated from ~$51m at 31 December to ~$40m at 30 June, after allowing for those raise proceeds.

Oaktree

Asset management is a confidence business. It is critical for managers to win and retain the confidence of their investors and investees. With the collapse in confidence in Blue Sky this year, we were faced with two options: to continue business as usual and slowly seek to rebuild that confidence; or to secure third party support to accelerate that process.

Having carefully considered all options, the Board decided that, upon the right terms and with the right partner, the latter course presented the lowest risk to, and consequently was in the best interests of, the company and shareholders.

We judged that it was paramount to rebuild our reputation as quickly as possible to maintain the engagement of our staff, our investors and our shareholders.

We considered a range of inbound expressions of interest for investment in our company and its businesses. We undertook a limited, confidential and competitive process to confirm a suitable strategic capital partner. In doing that we sought a partner and terms which would:

- Restore our ability to retain and attract high calibre investment management personnel;
- Invest capital to fund further co-investments and working capital requirements;
- Deepen our expertise in the management of alternative asset investments; and
- Assist in retaining existing, and attracting new, institutional investment capital into underlying funds and strategies.

As a Board we are pleased to have partnered with Oaktree. The terms of the capital facility have been explained. However, it is important for shareholders to understand the benefits the Board sees in this arrangement.

Oaktree is one of the world's leading private market asset managers, with its 23 year track record earning it the right to manage more than USD 120 billion. Its clients include 73 of the 100 largest U.S. pension plans, 38 of the 50 primary state retirement plans in the U.S. and over 15 sovereign wealth funds. It listed on the NYSE in 2012, and has successfully managed the challenges of managing private market assets as a public company. This experience will be invaluable to us as we continue to improve our business.

Our institutional clients typically require us to co-invest at between 2.5% and 5.0% of their capital invested. With our cash position having deteriorated, at its simplest, the Oaktree facility allows us to co-invest more with our institutional clients. At a co-investment rate of 5.0%, $50 million facilitates a further $1 billion deployment in FEAUM. At a co-investment rate of 2.5%, $50 million facilitates deployment of an additional $2 billion in FEAUM. Importantly, this co-investment will generate earnings shoulder to shoulder with our institutional clients. Those investment earnings will help to meet the 15% coupon on the facility. In the five years to 31 October 2018, our realised investments generated returns of 17.9% per annum, net of fees. If comparable returns can be met from this co-investment, there will be no net cost to the company of this facility. In addition, it will allow us to generate further management and performance fees.

Oaktree has already been assisting us to attract new high calibre candidates for the Board and executive roles; providing reassurance to institutional clients following its own due diligence process; and contributing its knowledge and discipline as observers on our Group Investment Committee.

Finally, and most importantly, if shareholders approve the Oaktree conversion rights today, Oaktree and our shareholders will be closely aligned. Put simply, the structure of the facility ensures that, the higher our share price the greater the return to Oaktree. Accordingly, Oaktree is incentivised to actively work with us to ensure that we attract additional investment capital and invest that capital well. And by doing that, we will grow our profitability and improve shareholder returns – for you and for Oaktree.

FY2019 and beyond

FY19 is the year in which we stabilise our business and complete the restructure announced in May. That restructure will reinforce a base from which we can grow our core businesses in a sustainable manner.

There are four key initiatives to be completed this year.

Board

The first of them is to complete the process of Board renewal. As part of that process, the Board has today resolved to appoint Andrew Day as Executive Chair commencing 26 November 2018 and Byron Beath as a non-executive Director commencing 7 December 2018. Andrew will resume a role as non-executive Chair upon the commencement of the new Group CEO.

Andrew has vast experience in full time executive roles over 25 years in a range of sectors and geographies. He has held Director, Chief Executive and Managing Director roles in the financial services, telecommunications and infrastructure sectors across Australia, New Zealand, South Africa and Europe. Most recently he was Chief Executive and Executive Director of Hastings Funds Management between 2011 and 2017. During this time, Andrew oversaw significant growth in Hastings' AUM.

Andrew has deep experience of stewarding companies through disruption and transformation. He also has considerable skills in business strategy, financial oversight, risk management and compliance, which we look forward to utilising. His executive background in private markets funds management at Hastings will be invaluable as he leads Blue Sky into its next chapter.

Byron has been Managing Director of Oaktree Capital since 2016, where he leads its Australian operations. Before joining Oaktree, Byron spent 15 years with Macquarie Bank, where he was responsible for assessing investments in private equity and senior, subordinated and mezzanine debt.

Byron offers market-leading expertise in asset management around real assets and infrastructure, and his addition will enable Blue Sky to further tap into Oaktree's networks as a global leader in private market asset management.

We see the appointment of Andrew and Byron as a further sign of confidence in Blue Sky's people, strategy and future.

In addition to these changes, it is intended that:

- Kim Morison, Tim Wilson and Phil Hennessy will retire as directors upon transition to the new Board;
- Kim and Tim will continue in their executive roles; and
- If re-elected at this AGM, I will retire as Chair at 26 November 2018 and remain on the Board as a non-executive director. I will not stand for re-election for another term.

The process of recruiting additional directors is well advanced – however, given the changes to the Board occurring next week, appointments to further casual vacancies are appropriately made by the incoming Board. This is expected to occur by early December. Once Andrew returns to a non-executive role, the Board will be entirely non-executive and majority independent and Blue Sky will satisfy all ASX Corporate Governance Council Principles & Recommendations.

Executive

The second initiative is to complete the appointments of a new Group CEO and permanent CFO and CRO. Each of these processes are well advanced. Again, it is appropriate that these appointments be made by the incoming Board. They are expected to be announced by 31 December 2018.

In the meantime, Kim Morison will step down from the Board, whilst continuing in the dual roles of Interim Group CEO and Managing Director of our Real Assets business. Upon the appointment of a new Group CEO, Kim will cease his role as Interim Group CEO and continue as Managing Director of Real Assets.

In announcing that change, it would be remiss of me not to thank Kim for the extraordinary role which he has played over the last seven months. Kim has shown outstanding dedication, professionalism and above all integrity. He has worked tirelessly for the benefit of our investors, our shareholders and our team, in extraordinarily challenging circumstances. And he deserves the thanks of us all.

Team

The third initiative is to look after our team.

Our team has been badly bruised by the events of this year. Pleasingly, despite these events, our investment teams remain largely whole. As we put the events of this year behind us, it will be critical to provide our team with all of the support they need to get back to business as usual as soon as possible.

Capital

Finally, we must continue to earn the ongoing support of our investor clients. It is a great tribute to our investment teams that our institutional investor clients have all continued to support us, despite the challenges of this year. As we put 2018 behind us we must work hard to continue to earn the right to retain existing, and win new, mandates.

In recent years, we have given earnings guidance at the AGM. Given the changes underway, both operationally, and to executive and Board personnel, it is not appropriate for the Board to give guidance on FY19 earnings at this time.

Conclusion

This year, our reputation has suffered dearly. We have taken the steps to rectify this and are confident that today marks the turning point, from which our reputation can begin to recover and we can focus on the future, rather than the past.

On behalf of the Board I wish to thank you, our shareholders, for your patience and for your support of Blue Sky, particularly through this difficult year.

Our shareholders have seen our share price fall 90% since March. Like you, all of the Board and many of our team are shareholders and fund investors. We have shared this painful journey with you and we understand your frustration.

Under new executive and non-executive leadership, we will complete the stabilisation of the business during FY19, to return the business to profitable and sustainable growth as quickly as possible.

The business will look different, with a lower profile and a sustainable growth path. However, whilst much has changed in our business, several things remains unchanged:

- We will continue to benefit from the dual structural tailwinds of growing pools of investment capital and growing allocations to private market assets.
- Our investment teams will continue to develop and deliver leading private market investment strategies.
- Delivering top quartile investment performance for our investor clients will always remain our core focus.

We are confident that, with the significant changes made to our business this year, we can continue to deliver those investor returns, which in turn will allow us to earn the right to grow FEAUM. Profitably managing those private market assets for our investor clients will allow us to sustainably grow profit and long term returns for you, our shareholders.

Thank you.