

Blue Sky Alternative Investments Limited ABN 73 136 866 236  
**Appendix 4D Half-year report**  
**for the half-year ended 31 December 2016**

The following information sets out the requirements of Appendix 4D, with the stipulated information either provided below or cross-referenced to the 2017 Interim Financial Report, which is attached.

**1. Details of the reporting period and the prior corresponding period**

Current period: 1 July 2016 to 31 December 2016

Prior corresponding period: 1 July 2015 to 31 December 2015

**2. Results for announcement to the market**

Key information	6 months to 31 December 2016 \$'M	6 months to 31 December 2015 \$'M	Movement \$'M	Movement (%)	
<i>Underlying results</i>					
Total income	36.4	23.8	12.6	53%	Up
Net profit attributable to members	10.1	4.4	5.7	130%	Up
Net profit after tax	10.1	4.4	5.7	130%	Up
<i>Statutory results</i>					
Total income	41.7	34.2	7.5	22%	Up
Net profit attributable to members	10.3	4.3	6.0	140%	Up
Net profit after tax	10.8	4.5	6.3	140%	Up

**Details of dividends**

On 10 February 2017, the Directors resolved not to pay a dividend in relation to the current reporting period, being 1 July 2016 to 31 December 2016.

	6 months to 31 December 2016 \$'000	6 months to 31 December 2015 \$'000
Final dividends paid during the periods (fully franked)	10,783	6,221
Cents per share	16	11

**3. Net tangible assets per share**

Net tangible assets	As at 31 December 2016	As at 31 December 2015
Net tangible assets per share – underlying results <sup>1</sup>	\$1.9882	\$0.9858
Net tangible assets per share – statutory results <sup>1</sup>	\$1.7500	\$1.0007

<sup>1</sup> Under the Listing Rules NTA backing must be determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities (i.e. all liabilities, preference shares, outside equity interest etc.).

**4. Entities over which control has been gained or lost during the period**

Refer to the 2017 Interim Financial Report attached:

4.1 Note 19 to the Interim Consolidated Financial Statements

**5. Details of associates and joint ventures**

Refer to the 2017 Interim Financial Report attached:

5.1 Note 11 to the Interim Consolidated Financial Statements


**6. Accounting standards used by foreign entities**

Not applicable

**7. Audit**

This report is based on the Interim Consolidated Financial Statements to which one of the following applies:

<input type="checkbox"/>	The accounts have been audited. (refer attached interim financial report)	<input checked="" type="checkbox"/>	The accounts have been subject to review. (refer attached Interim Financial Report)
<input type="checkbox"/>	The accounts are in the process of being audited or subject to review.	<input type="checkbox"/>	The accounts have not yet been audited or reviewed.

Signed:  .....

Date: 10 February 2017

John Kain

Chair



---

**Blue Sky Alternative Investments Limited**

**ABN 73 136 866 236**

**Interim Financial Report for the half-year ended 31 December 2016**

---

Level 46, 111 Eagle Street, Brisbane QLD 4000  
Postal Address: PO Box 15515, Brisbane QLD 4002  
Telephone: +61 7 3270 7500  
Website: [www.blueskyfunds.com.au](http://www.blueskyfunds.com.au)  
Investor Portal: <https://investor.blueskyfunds.com.au>

**Blue Sky Alternative Investments Limited**  
**Directors' Report**  
**For the half-year ended 31 December 2016**

---

The Directors present their report, together with the Interim Financial Report, of Blue Sky Alternative Investments Limited ('Company', 'parent entity', or 'Blue Sky') and the entities it controlled ('the Group') for the half-year ended 31 December 2016.

**Directors**

The Directors of the Company are:

- John Kain (Chair)
- Mark Sowerby (retired 30 September 2016)
- Tim Wilson
- Alexander McNab
- Kim Morison
- Robert Shand (appointed 29 September 2016)
- Elaine Stead (appointed 29 September 2016)
- Nicholas Dignam (appointed 29 September 2016)

The Directors have been in office since the start of the financial year to the date of this report unless otherwise mentioned above.

**Company secretary**

The company secretary of the Company is Jane Prior.

**Principal activities**

The principal activities of the Company during the period consisted of managing alternative assets across the four major alternative asset classes - Private Equity and Venture Capital, Private Real Estate, Hedge Funds and Real Assets (focused on water rights and agribusiness).

**Operating and financial review**

*Financial performance and financial position – Underlying Results<sup>1</sup>*

Blue Sky's financial performance is summarised in the table below.

	Underlying Results		Consolidated Group Results <sup>2</sup>	
	1H FY17	1H FY16	1H FY17	1H FY16
Total income	\$36.4m	\$23.8m	\$41.7m	\$34.2m
Net profit after tax <sup>3</sup>	\$10.1m	\$4.4m	\$10.3m	\$4.3m
Net tangible assets	\$134.0m	\$55.7m	\$118.0m	\$56.6m

The Directors are pleased to report the Company earned an underlying net profit after tax for the period of \$10.1 million, up 130% from \$4.4 million in 1H FY16. Underlying revenue increased by 53% to \$36.4 million (1H FY16: \$23.8 million), reflecting continued growth in fee-earning Assets Under Management ('AUM') to \$2.7 billion at 31 December 2016.

Expenses grew modestly for the period leading to an improvement in margins. EBITDA margin increased from 28% in 1H FY16 to 41% in 1H FY17 and we expect our EBITDA margin to continue to expand over the coming years to approximately 50% as fee-earning AUM grows and our business matures.

Our balance sheet is strong with \$134.0 million in net tangible assets including a net cash position of \$52.1 million. The strength of our balance sheet is a key strategic asset for Blue Sky as it has enhanced our ability to attract and invest alongside institutional investors, seed new ventures and to move quickly to secure new investment opportunities.

During the most recent period we deployed capital alongside Goldman Sachs into student accommodation and invested in Aura Australia Holding Trust ('Aura'), the operator of a portfolio of retirement village assets being developed by our Private Real Estate team. We also realised several older investments, such as our investments in Water Utilities Australia Fund 1 ('WUA Fund 1') and the Blue Sky Alternatives Access Fund Limited ('BAF').

---

<sup>1</sup> The Underlying Results are non-IFRS financial information and are based on all investments held by Blue Sky in funds that it manages being accounted for at Fair Value through Profit and Loss under AASB 139 *Financial Instruments* using the same approach as outlined in AASB 13 *Fair Value Measurement* (rather than being consolidated or accounted for using the equity method). The non-IFRS financial information has been subject to review by Blue Sky's auditor (Ernst & Young).

<sup>2</sup> The Consolidated Group Results reflect Blue Sky's Statutory Results. These results include investments in a range of Blue Sky managed funds that have been consolidated or equity accounted in accordance with AASB 10 *Consolidated Financial Statements*.

<sup>3</sup> Excludes non-controlling interests where applicable.

Cash flow for the period improved with underlying net operating cash flow tripling to \$9.3 million for 1H FY17 (up from \$3.1 million in 1H FY16) and cash flow conversion increasing to 92% (up from 70% in 1H FY16)<sup>4</sup>.

#### *FY17 guidance*

With the momentum evident across our business, the Directors reiterate previous guidance that underlying NPAT for FY17 will grow by approximately 50% for the year to between \$24 million and \$26 million.

The Directors also anticipate that fee-earning AUM will be between \$3.1 billion and \$3.3 billion at 30 June 2017. Our longer term target of having \$5 billion in fee-earning AUM by the end of FY19 remains unchanged.

#### *Investment performance*

Investment returns across all asset classes since inception in July 2006 to the end of December 2016 were 16.4% per annum net of fees compounding. This ten year track record remains a critical source of value to Blue Sky and has led to the conversion of some significant investment mandates from a range of sophisticated investors.

Our investment focus has been on “the essentials” – investing in things people need, rather than things they want. This has led to investments in sectors such as food, water, agriculture, healthcare, education, retirement and technology. Our conviction in these sectors remains, and our access to high quality proprietary deal flow has been particularly strong.

We continued to deliver realisations for our investors, with five exits delivered during the half. We expect to deliver a further six to eight exits across our business in 2H FY17.

Our team has also invested in a range of yield generating assets that have been performing well. Our first student accommodation site at Woolloongabba, Brisbane is operational and is on track to pay fund investors a yield of 10% per annum. Similarly, our private equity investment in a portfolio of hotels paid investors a yield of 12% over the last twelve months and our water fund paid investors a 5% yield in FY16 and is on track to deliver a similar outcome in FY17 having declared a 2.5% distribution for the six months ended December 2016.

#### *Capital raising activities*

Fee-earning AUM was \$2.7 billion at 31 December 2016. This represents an increase of \$1.0 billion over the last twelve months, including an increase of \$0.6 billion through 1H FY17 (fee-earning AUM was \$2.1 billion at 30 June 2016). Given that the vast majority of this fee-earning AUM is in long dated closed ended funds, this sets a new baseline for our business that will grow as we execute on our deal pipeline and deploy the mandates we have been awarded.

Our growth in fee-earning AUM has been broad based and reflects the significant investment we have made in this part of our business. We now have a team of nine dedicated distribution team members, with three focused on raising institutional capital (including two based in New York) and will continue to invest in expanding this capability in the coming years.

Fee-earning AUM increased across all three of our investor segments: institutional, wholesale and retail. We have attracted mandates from institutional investors across private equity, private real estate and real assets. This segment increased to 37% of our fee-earning AUM at 31 December 2016 (up from 25% at 30 June 2016). This will grow further with a significant mandate awarded in Real Assets in January 2017 and other domestic and international institutions conducting due diligence across a range of our asset classes.

Our wholesale investor segment – which is comprised of sophisticated investors such as family offices and high net worth individuals – remains at the core of our business and is growing rapidly.

For retail investors, BAF is the primary investment vehicle and is the only listed investment company on the ASX that allows investors to make a strategic allocation to a diverse portfolio of directly managed alternative assets. The investment in listing this vehicle on the ASX in 2014 is starting to bear fruit as the fund approaches \$200 million in net tangible assets. Demand for the product was clearly demonstrated in November 2016 with a \$47 million capital raise being heavily oversubscribed, and we believe that in time BAF will become the default allocation for retail investors seeking access to alternative assets.

Overall, the structural trend to alternative assets witnessed both globally and in Australia over the last two decades has continued. Alternative assets are the fastest growing asset class in Australia and are forecast to eclipse Australian equities as the largest asset class in the next decade.<sup>5</sup> Growth in unlisted equities has far outstripped growth in listed equities over the past decade, with the total value of unlisted equities now 74% greater than listed equities.<sup>6</sup> We expect that these long-term

---

<sup>4</sup> Calculated as underlying net operating cash flow divided by underlying NPAT.

<sup>5</sup> Rainmaker Roundup – Volume 20 Number 3 (September Quarter 2016).

<sup>6</sup> Australian Bureau of Statistics.

trends – in combination with our broadening and deepening engagement across all three investor segments – will fuel our growth for many years to come.

#### *Governance – board appointments*

Since our inception over ten years ago, we have focused on risk management, compliance and governance which has translated into an exemplary compliance track record. This is something we are proud of and something that we will continue to invest in.

As previously reported, we undertook a rigorous process in the second half of 2016 to add additional directors to our board. We expect to announce the appointment of two new independent board directors before the end of February 2017. These directors will both be highly credentialed and bring specific skills, experience and networks to our board that will enhance our growth over the coming decade.

#### *Strategy*

The primary reason Blue Sky exists is to provide our fund investors with the unique risk/return benefits of alternative assets. Historically, institutional investors globally have on average allocated 20% to 30% of their portfolios to alternatives, with some investors like the Future Fund making substantially larger allocations. While Australia has lagged the rest of the world in its allocations to alternatives, over the last two decades allocations have quadrupled as domestic investors have caught up with global norms and the asset class has become mainstream.

Over our first ten years, we established the platform, team and reputation that has given us the opportunity to capitalise on this growth in alternatives. With the platform we have in place, our next decade will witness a substantial scaling in our business to capture the opportunity in front of us.

Growing our business will involve finding scalable investment opportunities in areas such as agriculture and water, student accommodation and expansion capital and matching those opportunities with scalable sources of capital – including institutional investors, high net worth individuals, family offices, and wealth management / financial planning networks, both in Australia and overseas.

We will also continue to establish a range of partnerships: both partnerships with investors that entrust us to invest their capital over long periods of time, as well as partnerships with world class operators in attractive industries. Our recent expansion into retirement living, where we have partnered with the former executive team of Retire Australia to deliver a portfolio of suburban multi-level retirement living projects, is one such example of the sort of partnerships we will look to establish. The leaders of this business are proven operators in a sector with significant demographic tailwinds, and a chronic level of undersupply. Similarly, our partnership with Cove Property Group ('Cove') in New York has grown rapidly and represents a large opportunity for us over the coming years.

Based on our current idea set of investment opportunities within our existing asset classes we can see a pathway to \$10 billion in fee-earning AUM. However, even at \$10 billion in fee-earning AUM, we will still be relatively small and with the alternatives market in Australia currently worth \$400 billion (and growing) the opportunity in front of us – for our investors, for our shareholders, and for our team – remains very large.

#### *Financial performance and financial position – Statutory Results*

Blue Sky holds balance sheet investments in a range of the funds that we manage, primarily as alignment capital where we have invested alongside institutional and other investors in our underlying funds. Given that Blue Sky both (i) holds an economic interest in these funds and (ii) as the investment manager of these funds, exerts a degree of control over these funds, we are required under the accounting standards to consolidate or account for these funds using the equity method rather than accounting for them at fair value. This approach is required under the AASB 10 *Consolidated Financial Statements* accounting standard ('AASB 10').

In accordance with AASB10, five funds are consolidated into the Group's 1H FY17 statutory Interim Financial Report and a further nineteen funds are accounted for using the equity method.

This accounting treatment has a range of impacts, including:

- In the Group's statutory financial results, management and other fees that are paid to Blue Sky are eliminated from those funds that are consolidated and as such do not appear in the consolidated results of the Group;
- For those funds that are required to be consolidated, all of the assets and liabilities of those funds (that are held by the fund on behalf of investors in those funds) appear on the consolidated Group's statement of financial position; and
- For funds that are accounted for using the equity method, a share of the profit or loss – rather than the fair value of the units held by Blue Sky in those funds – appears in the consolidated results of the Group.

Given these impacts, Blue Sky is managed on a day to day basis using the same approach that is presented in our underlying results. In our underlying results, all balance sheet investments in funds that we manage are reported at Fair Value through Profit or Loss under AASB 139 *Financial Instruments* using the same principles of fair value that are included in AASB 13 *Fair Value Measurement*.

These underlying results are non-IFRS financial information and have been subject to review by Blue Sky's auditor (Ernst & Young).

In relation to the Group's statutory results, in 1H FY17 the Group reported:

- Higher revenue (\$41.7 million) than our underlying revenue (\$36.4 million);
- Higher EBITDA (\$16.6 million) than our underlying EBITDA (\$15.0 million); and
- Higher NPAT (\$10.3 million) than our underlying NPAT (\$10.1 million).

The Group's statutory net tangible assets at 31 December 2016 were \$118.0 million, lower than our underlying net tangible assets of \$134.0 million. This is primarily due to the fact that the fair value of the units we own in the funds that are consolidated does not appear on our statutory balance sheet (the value of these units is eliminated upon consolidation).

While the Group's statutory results appear in many respects to be superior to our underlying results, as we have noted since the introduction of the revised AASB10 accounting standard in 2013, the Directors believe our underlying results present shareholders with the most meaningful information in relation to the performance of Blue Sky. The Directors note that a similar approach is adopted by large global alternative asset managers where these firms have investments in their underlying funds (and as such are impacted by IFRS10, the global equivalent of the AASB10 accounting standard).

Comparative tables that reconcile Blue Sky's statutory results with Blue Sky's underlying results have been provided (starting at page 22).

#### **Rounding**

The amounts contained in this report and in the interim consolidated financial statements have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Instrument 2016/191 applies.

#### **Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the following page.

On behalf of the Directors



---

John Kain  
Chair

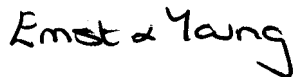
10 February 2017  
Brisbane

## Auditor's independence declaration to the directors of Blue Sky Alternative Investments Limited

As lead auditor for the review of Blue Sky Alternative Investments Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Blue Sky Alternative Investments Limited and the entities it controlled during the financial period.



Ernst & Young



Paula McLuskie  
Partner  
10 February



**Interim Financial Report of Blue Sky Alternative Investments Limited**  
**For the half-year ended 31 December 2016**

---

<b>Contents</b>	<b>Page</b>
Interim Financial Report	
Consolidated Statement of Comprehensive Income	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Notes to the Consolidated Financial Statements	11
Directors' Declaration	19
Independent Auditor's Review Report to the Shareholders	20
Appendix A to the Directors' Report: Reconciliation of Statutory Results to Underlying Results	22

**General information**

The Interim Financial Report covers Blue Sky Alternative Investments Limited ('Company', 'parent entity' or 'Blue Sky') as a consolidated entity consisting of the Company and the entities it controlled (the 'Group'). The interim consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

The Interim Financial Report consists of the financial statements, notes to the financial statements and the Directors' declaration.

The Company is a publicly listed company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 46, 111 Eagle Street  
Brisbane QLD 4000

The Interim Financial Report was authorised for issue, in accordance with a resolution of Directors, on the date that the Directors' declaration was signed. The Directors have the power to amend and reissue the financial report.

**Blue Sky Alternative Investments Limited**  
**Interim Consolidated Statement of Comprehensive Income**  
**For the half-year ended 31 December 2016**

		<b>Half-year ended</b>	
		<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>			
Operating revenue	3	32,813	33,715
Share of profit of associates accounted for using the equity method		3,315	532
Other income	4	5,558	(88)
<b>Expenses</b>			
Employee benefits		(12,999)	(9,005)
Occupancy		(1,090)	(1,252)
External service providers		(1,499)	(2,020)
Consultancy		(445)	(250)
Marketing		(919)	(789)
Administrative		(797)	(434)
Travel and entertainment		(1,347)	(1,012)
Other expenses	5	(5,965)	(10,908)
Finance costs		(595)	(528)
Depreciation and amortisation		(1,124)	(1,063)
<b>Profit before income tax</b>		<b>14,906</b>	<b>6,898</b>
Income tax expense	6	(4,116)	(2,414)
<b>Profit after income tax</b>		<b>10,790</b>	<b>4,484</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Other comprehensive income - net of tax		-	-
<b>Total comprehensive income</b>		<b>10,790</b>	<b>4,484</b>
Profit is attributable to:			
Non-controlling interests		500	189
Owners of Blue Sky Alternative Investments Limited		10,290	4,295
		<b>10,790</b>	<b>4,484</b>
Total comprehensive income is attributable to:			
Non-controlling interests		500	189
Owners of Blue Sky Alternative Investments Limited		10,290	4,295
		<b>10,790</b>	<b>4,484</b>
<b>Earnings per share</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share (profit per share)	18	15.27	7.60
Diluted earnings per share (profit per share)	18	15.15	7.36

*The above interim consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

**Blue Sky Alternative Investments Limited**  
**Interim Consolidated Statement of Financial Position**  
**As at 31 December 2016**

		<b>As at</b>	
		<b>31 December 2016</b>	<b>30 June 2016</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		59,359	63,828
Trade and other receivables	7	53,803	54,379
Inventory	8	2,413	2,534
Other assets		4,970	4,251
Total current assets		120,545	124,992
<b>Non-current assets</b>			
Receivables	9	28,460	18,473
Investment property – retirement villages	10	30,853	-
Investments accounted for using the equity method	11	34,940	35,486
Property, plant and equipment	12	5,204	30,151
Intangible assets	13	12,331	18,669
Deferred tax assets		-	661
Total non-current assets		111,788	103,440
<b>Total assets</b>		<b>232,333</b>	<b>228,432</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	30,441	20,863
Borrowings	15	14,347	8,603
Deferred revenue	16	5,090	6,687
Income tax		(693)	(854)
Employee benefits		3,578	4,527
Total current liabilities		52,763	39,826
<b>Non-current liabilities</b>			
Deferred revenue	16	6,758	4,745
Provisions		420	393
Borrowings	15	22,123	9,335
Other liabilities		10,418	13,054
Deferred tax liabilities		9,541	13,638
Total non-current liabilities		49,260	41,165
<b>Total liabilities</b>		<b>102,023</b>	<b>80,991</b>
<b>Net assets</b>		<b>130,310</b>	<b>147,441</b>
<b>Equity</b>			
Contributed equity		119,761	119,611
Reserves		(5,938)	(6,633)
Accumulated profits	17	16,320	16,813
<b>Total equity, attributable to the owners of Blue Sky Alternative Investments Limited</b>		<b>130,143</b>	<b>129,791</b>
Non-controlling interests		167	17,650
<b>Total equity</b>		<b>130,310</b>	<b>147,441</b>

*The above interim consolidated statement of financial position should be read in conjunction with the accompanying notes.*

**Blue Sky Alternative Investments Limited**  
**Interim Consolidated Statement of Changes in Equity**  
**For the half-year ended 31 December 2016**

	<b>Contributed equity \$'000</b>	<b>Reserves \$'000</b>	<b>Accumulated profits \$'000</b>	<b>Non-controlling interests \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2016	119,611	(6,633)	16,813	17,650	147,441
Profit after income tax for the half-year	-	-	10,290	500	10,790
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	10,290	500	10,790
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	150	-	-	-	150
Employee share option reserve	-	695	-	-	695
Decrease in non-controlling interests	-	-	-	(12,312)	(12,312)
Dividends	-	-	(10,783)	(5,671)	(16,454)
<b>Balance at 31 December 2016</b>	<b>119,761</b>	<b>(5,938)</b>	<b>16,320</b>	<b>167</b>	<b>130,310</b>
Balance at 1 July 2015	53,162	(6,908)	11,633	18,974	76,861
Profit after income tax for the half-year	-	-	4,295	189	4,484
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	4,295	189	4,484
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	637	-	-	-	637
Employee share option reserve	-	50	-	-	50
Decrease in non-controlling interests	-	-	-	(422)	(422)
Dividends	-	-	(6,221)	-	(6,221)
<b>Balance at 31 December 2015</b>	<b>53,799</b>	<b>(6,858)</b>	<b>9,707</b>	<b>18,741</b>	<b>75,389</b>

*The above interim consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

**Blue Sky Alternative Investments Limited**  
**Interim Consolidated Statement of Cash Flows**  
**For the half-year ended 31 December 2016**

	<b>Half-year ended</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	31,800	30,242
Payments to suppliers and employees (inclusive of GST)	(27,274)	(23,061)
	4,526	7,181
Interest received	1,345	392
Interest and other finance costs paid	(657)	(427)
Income taxes paid	(2,326)	(2,058)
<b>Net cash provided by operating activities</b>	<b>2,888</b>	<b>5,088</b>
<b>Cash flows from investing activities</b>		
Payments for equity investments	(5,007)	(1,992)
Proceeds from disposal of equity investments (including distributions)	21,132	2,528
Payments for property, plant and equipment	(482)	(1,462)
Payments for investment properties	(24,274)	-
Payments for intangible assets	(39)	(50)
Bridging finance and loans to funds	(7,152)	(4,643)
<b>Net cash used in investing activities</b>	<b>(15,822)</b>	<b>(5,619)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	168	25
Share issue transaction costs	(175)	-
Proceeds from borrowings	39,371	16,975
Repayment of borrowings	(14,445)	(17,765)
Dividends paid	(16,454)	(6,221)
<b>Net cash provided by/(used in) financing activities</b>	<b>8,465</b>	<b>(6,986)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(4,469)</b>	<b>(7,517)</b>
Cash and cash equivalents at the beginning of the half-year	63,828	22,416
<b>Cash and cash equivalents at the end of the half-year</b>	<b>59,359</b>	<b>14,899</b>

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

## **Note 1. Significant accounting policies**

These interim consolidated financial statements for the half-year ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements. Accordingly, these interim consolidated financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Australian Securities Exchange* Listing Rules.

The accounting policies applied in these interim consolidated financial statements are the same as those applied in the Group's annual financial statements as at and for the year ended 30 June 2016 unless otherwise mentioned. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. New standards and amendments to standards that are mandatory for the first time for the new financial year beginning 1 July 2016 have not affected any of the amounts recognised in the current period or any prior period.

### *New accounting policy – accounting for investment properties*

On 15 September 2016, Blue Sky acquired 50% of the units and voting interests in the Aura Australia Holding Trust ('Aura'). Aura was established to own, operate and manage retirement villages throughout Australia including Blue Sky's portfolio of retirement villages currently under construction. As a result of this acquisition, Blue Sky is required to consolidate the assets, liabilities and results of Aura into its interim consolidated financial statements from the date of acquisition. Consequently, the adoption of a new accounting policy in relation to investment properties, which include retirement villages made up of independent living units, common facilities and integral plant and equipment, is required.

Retirement villages are investment properties held to derive revenue and capital growth over the long-term and are made up of independent living units, common facilities and integral plant and equipment. Retirement villages also include undeveloped land and land subject to residential site lease agreements including constructed independent living units.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are re-measured at fair value, which reflects market conditions, and will be based on independent valuation expert opinion. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the period in which they arise. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the period of retirement or disposal.

## **Note 2. Operating segments**

### *Identification of reportable operating segments*

The Group's core operating segment is Alternative Asset Management. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The financial information below in relation to the core operating segment incorporates the results, assets and liabilities of the 100% owned subsidiaries of the Group as outlined in Note 19.

There is no aggregation of operating segments.

The Group's non-core operating segment includes the various funds where control and/or significant influence exists, in accordance with AASB 10. The management and performance of these entities is currently not being reviewed at an operating segment level by the CODM in the same manner at which the core operating segment is reviewed. However, the management and performance of these entities is reviewed regularly by the appropriate Investment Manager.

The CODM review both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and net profit before income tax (segment result). The information reported to the CODM is on at least a monthly basis.

### *Types of products and services*

The principal products and services of the core operating segment is Alternative Asset Management.

**Blue Sky Alternative Investments Limited**  
**Notes to the Interim Consolidated Financial Statements (cont'd)**  
**For the half-year ended 31 December 2016**

**Note 2. Operating segments (cont'd)**

	Core segment	Non-core segment	Adjustments and eliminations	Consolidated
Half-year ended 31 December 2016	\$'000	\$'000	\$'000	\$'000
Total income	31,366	11,646	(1,326)	41,686
Profit/(loss) before income tax	9,440	5,742	(276)	14,906
<b>Half-year ended 31 December 2015</b>				
Total income	23,742	10,822	(405)	34,159
Profit/(loss) before income tax	6,165	982	(249)	6,898
<b>As at 31 December 2016</b>				
Total assets	187,955	50,021	(5,643)	232,333
Total liabilities	69,275	39,360	(6,612)	102,023
<b>As at 30 June 2016</b>				
Total assets	189,152	52,962	(13,682)	228,432
Total liabilities	65,576	19,542	(4,127)	80,991

**Note 3. Operating revenue**

	Half-year ended	
	31 December 2016	31 December 2015
	\$'000	\$'000
Management fees	16,093	12,767
Performance fees	9,291	8,223
Responsible entity and trustee fees	824	678
Sales commissions	223	377
Interest revenue	1,751	645
Other revenue	981	764
Supply of water utilities	1,851	4,267
Apartment sales revenue	291	3,896
Management and letting rights revenue	1,508	2,098
<b>Total operating revenue<sup>1</sup></b>	<b>32,813</b>	<b>33,715</b>

<sup>1</sup> Total revenue from Blue Sky managed funds for the half-year ended 31 December 2016 was \$28,188,832 (31 December 2015: \$22,200,894).

**Note 4. Other income**

	Half-year ended	
	31 December 2016	31 December 2015
	\$'000	\$'000
Gain on disposal of subsidiary <sup>2</sup>	5,231	-
Net gain/(loss) on financial assets at fair value through profit or loss	-	(159)
Other income	327	71
<b>Total other income</b>	<b>5,558</b>	<b>(88)</b>

<sup>2</sup> This relates to the sale of Water Utilities Australia Group ('WUG') by the WUA Fund 1, as explained in Note 22.

**Note 5. Other expenses**

	Half-year ended	
	31 December 2016	31 December 2015
	\$'000	\$'000
Rebates of transaction costs and fees to BAF	(2,182)	(2,733)
External capital raising costs for funds	(1,140)	(809)
Insurance	(321)	(207)
Costs associated with supply of water utilities	(601)	(992)
Costs associated with apartment sales	(244)	(2,998)
Management and letting rights expenses	(1,243)	(2,999)
Retirement village operator expenses	(104)	-
Other	(130)	(170)
<b>Total other expenses</b>	<b>(5,965)</b>	<b>(10,908)</b>

**Blue Sky Alternative Investments Limited**  
**Notes to the Interim Consolidated Financial Statements (cont'd)**  
**For the half-year ended 31 December 2016**

**Note 6. Income tax expense**

The income tax expense for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities. The major components of income tax expense are detailed below.

	Half-year ended	
	31 December 2016	31 December 2015
<i>Income tax expense</i>	<b>\$'000</b>	<b>\$'000</b>
Current tax	(2,010)	(1,257)
Deferred tax	(2,106)	(1,157)
<b>Aggregate income tax expense</b>	<b>(4,116)</b>	<b>(2,414)</b>

**Note 7. Trade and other receivables**

	As at	
	31 December 2016	30 June 2016
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	811	1,136
Other receivables	238	375
Performance fees receivable – Blue Sky managed funds	11,144	14,361
Receivables from Blue Sky managed funds <sup>1</sup>	41,610	38,507
<b>Total current trade and other receivables</b>	<b>53,803</b>	<b>54,379</b>

<sup>1</sup> The majority of this balance relates to investments (as loans) into Blue Sky managed funds, as well as management fees expected to be paid to Blue Sky within the next 12 months.

**Note 8. Inventory**

	As at	
	31 December 2016	30 June 2016
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Cost of land acquisition – Riverside Gardens Trust	493	505
Development and other costs – Riverside Gardens Trust	1,770	1,876
Interest capitalised – Riverside Gardens Trust	150	153
<b>Total current inventory</b>	<b>2,413</b>	<b>2,534</b>

**Note 9. Receivables**

	As at	
	31 December 2016	30 June 2016
	<b>\$'000</b>	<b>\$'000</b>
<b>Non-current</b>		
Performance fees receivable – Blue Sky managed funds	16,230	9,587
Receivables from Blue Sky managed funds	12,230	8,886
<b>Total non-current receivables</b>	<b>28,460</b>	<b>18,473</b>

**Note 10. Investment property**

	As at	
	31 December 2016	30 June 2016
	<b>\$'000</b>	<b>\$'000</b>
<b>Non-current</b>		
Acquisition of investment properties – Aura	7,400	-
Acquisition of development land – Aura	23,329	-
Capitalised subsequent expenditure – Aura	124	-
<b>Total non-current investment property</b>	<b>30,853</b>	<b>-</b>

Investment property assets above relate to retirement villages owned by Aura, an entity established to own, operate and manage retirement villages throughout Australia including Blue Sky's portfolio of retirement villages currently under construction. The investment property assets above are recorded at cost which reflect their fair value. Retirement villages are classified as level 3 in the fair value hierarchy. Refer to Note 22 for further information.



**Blue Sky Alternative Investments Limited**  
**Notes to the Interim Consolidated Financial Statements (cont'd)**  
**For the half-year ended 31 December 2016**

**Note 11. Investments accounted for using the equity method**

	As at	
	31 December 2016	30 June 2016
	\$'000	\$'000
<b>Non-current</b>		
Blue Sky Private Equity Retirement Village Fund	9,809	9,843
Blue Sky Alternatives Access Fund Limited	-	5,808
Atira Student Living Pty Ltd (formerly The Pad Management (Australia) Pty Ltd)	4,778	4,993
Blue Sky Private Equity Vinomofo Fund	4,542	4,342
Blue Sky Student Accommodation Funds	8,037	5,547
Other investments accounted for using the equity method <sup>1</sup>	7,774	4,953
<b>Total non-current investments accounted for using the equity method</b>	<b>34,940</b>	<b>35,486</b>

<sup>1</sup> Includes Cove Property Group as at 31 December 2016 for \$5,019,479 (30 June 2016: \$1,684,481).

**Note 12. Property, plant and equipment**

	As at	
	31 December 2016	30 June 2016
	\$'000	\$'000
<b>Non-current</b>		
Land and buildings – at cost	1,920	1,918
Less: Accumulated depreciation	(195)	(170)
	1,725	1,748
Plant and equipment – at cost <sup>2</sup>	38	29,095
Less: Accumulated depreciation	-	(4,398)
	38	24,697
Motor vehicles – at cost	112	120
Less: Accumulated depreciation	(30)	(42)
	82	78
Office equipment – at cost	1,471	1,496
Less: Accumulated depreciation	(652)	(591)
	819	905
Leased asset – fit out	3,203	3,204
Less: Accumulated depreciation	(672)	(492)
	2,531	2,712
Office equipment – under lease	120	119
Less: Accumulated depreciation	(111)	(108)
	9	11
<b>Total property, plant and equipment</b>	<b>5,204</b>	<b>30,151</b>

<sup>2</sup> The decrease in this balance relates to the sale of WUG by the WUA Fund 1, as explained in Note 22.

**Note 13. Intangible assets**

	As at	
	31 December 2016	30 June 2016
	\$'000	\$'000
<b>Non-current</b>		
Goodwill – at cost <sup>3</sup>	6,818	13,006
Less: Impairment	(190)	(190)
	6,628	12,816
Management rights – at cost	5,985	5,985
Less: Accumulated amortisation	(508)	(433)
	5,477	5,552
Licenses and trademarks	11	11
Less: Accumulated amortisation	-	-
	11	11
Website – at cost	83	84
Less: Accumulated amortisation	(72)	(65)
	11	19
Software – at cost	635	636
Less: Accumulated amortisation	(446)	(365)
	189	271
Borrowing – at cost	34	18
Less: Accumulated amortisation	(19)	(18)
	15	-
<b>Total intangible assets</b>	<b>12,331</b>	<b>18,669</b>

<sup>3</sup> The decrease in this balance relates to the sale of WUG by the WUA Fund 1, as explained in Note 22.

**Blue Sky Alternative Investments Limited**  
**Notes to the Interim Consolidated Financial Statements (cont'd)**  
**For the half-year ended 31 December 2016**

**Note 14. Trade and other payables**

	As at	
	31 December 2016	30 June 2016
Current	\$'000	\$'000
Trade payables	2,971	4,807
Other payables – Aura	6,511	20
Accrued expenses	2,714	3,594
Lease incentive liability	341	341
Payables to Blue Sky managed funds <sup>1</sup>	17,904	12,101
<b>Total current trade and other payables</b>	<b>30,441</b>	<b>20,863</b>

<sup>1</sup> The majority of this balance relates to fee rebates and co-investment payable to Blue Sky managed funds in accordance with the joint-venture in student accommodation with Goldman Sachs.

**Note 15. Borrowings**

	As at	
	31 December 2016	30 June 2016
Current	\$'000	\$'000
Bank loans – Blue Sky	5,894	7,578
Bank loans – Aura	8,160	-
Other borrowings	293	1,025
<b>Total current borrowings</b>	<b>14,347</b>	<b>8,603</b>
<b>Non-current</b>		
Bank loans – Water Utilities Australia Fund 1	-	6,000
Bank loans – Blue Sky RAMS Management Rights Income Fund 2	3,334	3,335
Other borrowings – Aura	18,789	-
<b>Total non-current borrowings</b>	<b>22,123</b>	<b>9,335</b>

Other than 'Bank loans – Blue Sky', the above borrowings relate to funds that have been consolidated by Blue Sky. These Borrowings are non-recourse, and are guaranteed by the respective funds with no recourse to Blue Sky Alternative Investments Limited or its 100% controlled subsidiaries.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables, trade payables and borrowings are assumed to approximate their fair values due to their short-term nature or are at market rates. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

**Note 16. Deferred revenue**

	As at	
	31 December 2016	30 June 2016
Current	\$'000	\$'000
Unearned income	5,090	6,487
Payments in advance for sale of water	-	200
<b>Total current deferred revenue</b>	<b>5,090</b>	<b>6,687</b>
<b>Non-current</b>		
Unearned income	6,758	4,382
Payments in advance for sale of water	-	363
<b>Total non-current deferred revenue</b>	<b>6,758</b>	<b>4,745</b>

**Note 17. Equity - retained profits**

	Half-year ended	
	31 December 2016	31 December 2015
	\$'000	\$'000
Retained profits at the beginning of the half-year	16,813	11,633
Profit after income tax for the half-year	10,290	4,295
Dividends (Note 20)	(10,783)	(6,221)
<b>Retained profits at the end of the half-year</b>	<b>16,320</b>	<b>9,707</b>

**Blue Sky Alternative Investments Limited**  
**Notes to the Interim Consolidated Financial Statements (cont'd)**  
**For the half-year ended 31 December 2016**

**Note 18. Earnings per share**

	Half-year ended	
	31 December 2016	31 December 2015
	\$'000	\$'000
Profit after income tax	10,790	4,484
Non-controlling interests	(500)	(189)
<b>Total earnings</b>	<b>10,290</b>	<b>4,295</b>
<b>Number of shares</b>	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares used in calculating basic statutory earnings per share	67,391	56,533
Weighted average number of ordinary shares and ordinary shares under option used in calculating diluted statutory earnings per share	67,919	58,390
<b>Statutory EPS (cents)</b>	<b>15.27</b>	<b>7.60</b>
<b>Diluted statutory EPS (cents)</b>	<b>15.15</b>	<b>7.36</b>

**Note 19. Information relating to subsidiaries**

The interim consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1.

		Equity holding	
Name of entity	Principal place of business	31 December 2016	30 June 2016
<b>Australian Financial Services Licence holders</b>			
Blue Sky Private Equity Ltd	Australia	100%	100%
Blue Sky Investment Science Asset Management Pty Ltd	Australia	100%	100%
<b>Investment management entities</b>			
BSPE Pty Ltd	Australia	100%	100%
BSVC Pty Ltd	Australia	100%	100%
Blue Sky Private Real Estate Pty Ltd	Australia	100%	100%
Blue Sky Private Real Estate Projects Pty Ltd	Australia	100%	100%
BSPRE Investment Management Pty Ltd	Australia	100%	100%
Blue Sky Residential Asset Managers Pty Ltd	Australia	100%	100%
Blue Sky Residential Development Managers Pty Ltd	Australia	100%	100%
Blue Sky Residential Development Managers 1 Pty Ltd	Australia	100%	100%
Blue Sky Retirement Living Managers Pty Ltd	Australia	100%	-
BSPRE RDM Investment Management Pty Ltd	Australia	100%	-
BSPRE RL Investment Management Pty Ltd	Australia	100%	-
BSPRE RL Maroochydore Development Manager Pty Ltd	Australia	100%	-
Blue Sky Student Investments Pty Ltd	Australia	100%	100%
Blue Sky Student Developments Pty Ltd	Australia	100%	100%
Blue Sky Investment Science Pty Ltd	Australia	100%	100%
Blue Sky SRA Alliance Pty Ltd	Australia	100%	100%
Blue Sky Water Partners Pty Ltd	Australia	100%	100%
Blue Sky Real Asset Investment Manager Pty Ltd	Australia	100%	-
Blue Sky Real Assets Holdings Pty Ltd	Australia	100%	100%
BSAAF Management Pty Ltd	Australia	100%	100%
BSAI International Pty Ltd	Australia	100%	100%
Blue Sky Alternative Investments LLC	USA	100%	100%
Blue Sky Opportunity Fund Pty Ltd	Australia	100%	-
<b>Trustee companies</b>			
Blue Sky VC GP Pty Ltd	Australia	100%	100%
BSPE SPV 1 Pty Ltd	Australia	100%	100%
BSPE SPV 2 Pty Ltd	Australia	100%	100%
Blue Sky Carbon Services Pty Ltd	Australia	100%	100%
BSPE Mining Services Pty Ltd	Australia	100%	100%
BSPE Medical Technology Pty Ltd	Australia	100%	100%
Milky Way Development 2 Pty Ltd	Australia	100%	100%
Blue Sky Hotel Assets Pty Limited	Australia	100%	-
Blue Sky Conventus Co-investment Pty Limited	Australia	100%	-
Blue Sky Commercial Asset Managers Pty Ltd	Australia	100%	100%
Blue Sky MR3 Gabba Central Co Pty Ltd	Australia	100%	100%
Blue Sky MR3 Cullen Bay Resorts Co Pty Ltd	Australia	100%	100%

**Blue Sky Alternative Investments Limited**  
**Notes to the Interim Consolidated Financial Statements (cont'd)**  
**For the half-year ended 31 December 2016**

**Note 19. Information relating to subsidiaries (cont'd)**

Name of entity	Principal place of business	Equity holding	
		31 December 2016	30 June 2016
Flora Street Holdings Pty Ltd	Australia	100%	100%
Regina Apartments Pty Ltd	Australia	100%	100%
Wellington Road Holdings 1 Pty Ltd	Australia	100%	100%
Wellington Road Holdings 2 Pty Ltd	Australia	100%	100%
High Street Lutwyche Pty Ltd	Australia	100%	100%
Peel Street Property Pty Ltd	Australia	100%	100%
Waymouth Street Property Pty Limited	Australia	100%	-
Carinya Street Property Pty Ltd	Australia	100%	-
Kingsford Terrace Property Holdings Pty Ltd	Australia	100%	-
Maroochydore Retirement Property Holdings Pty Ltd	Australia	100%	-
Blue Sky Student Operations Pty Ltd	Australia	100%	100%
Excel Leasing Pty Ltd	Australia	100%	100%
Excel Operations Pty Ltd	Australia	100%	100%
Excel RE Holdings Pty Ltd	Australia	100%	100%
Excel RE Pty Ltd	Australia	100%	100%
Blue Sky Retirement Operator Pty Ltd	Australia	100%	-
Blue Sky Citrus Holdings Pty Ltd	Australia	100%	100%
Blue Sky 3DF1 Pty Ltd	Australia	100%	-
Blue Sky Water GP LLC	USA	100%	100%
La Trobe Street Property Pty Ltd	Australia	-	100%
RCL Accelerator Fund One Pty Ltd	Australia	100%	100%
<b>Other entities</b>			
Student Quarters Blue Sky GP LLC <sup>1</sup>	USA	60%	-
Aura Australia Holding Trust	Australia	50%	-
Aura Australia Holdings Pty Ltd	Australia	50%	-
Aura Australia Management Pty Ltd	Australia	50%	-
Aura Kingsford Terrace Trust	Australia	50%	-
Aura Anzac Avenue Trust	Australia	50%	-
Water Utilities Australia Fund 1	Australia	52%	52%
Blue Sky RAMS Management Rights Income Fund 2	Australia	48%	48%
Riverside Gardens Trust	Australia	48%	48%

<sup>1</sup> During the period, Blue Sky established a joint-venture with Student Quarters, an established business based in the US, for the purposes of acquiring and managing student accommodation facilities in the US.

**Note 20. Dividends paid**

	Half-year ended	
	31 December 2016	31 December 2015
<b>Cash dividends to the equity holders of Blue Sky</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Dividends on ordinary shares declared and paid:</b>		
Final dividend in relation to the 2016 financial year: 16 cents fully franked per share	10,783	6,221
(2015 financial year: 11 cents fully franked per share)		

**Note 21. Share-based payments**

During the period, 3,075,000 options were issued to employees under the Blue Sky Employee Share Option Plan. The fair value at grant date was calculated using a binomial pricing model, incorporating the terms and conditions upon which the options were granted. The information below lists the inputs to the models used.

	Issue 1	Issue 2	Issue 3
Dividend yield (%)	2.09%	2.71%	2.00%
Expected volatility (%)	35.00%	35.00%	35.00%
Risk-free interest rate (%)	2.11%	2.16%	1.62%
Expected life of options (years)	6.0	6.0	6.0
Weighted average strike price (\$)	\$10.00	\$7.74	\$8.63
Model used	Binomial	Binomial	Binomial

The weighted average fair value of options granted during the period was \$442,161 (31 December 2015: \$100,999).

During the period, Blue Sky recognised \$695,000 of share based payments expenses (31 December 2015: \$50,000).

**Note 22. Business combinations**

*(a) Aura Australia Holding Trust*

On 15 September 2016, Blue Sky acquired 50% of the units and voting interests in the Aura Australia Holding Trust ('Aura'). Aura was established to own, operate and manage retirement villages throughout Australia including Blue Sky's portfolio of retirement villages currently under construction. As a result of this acquisition, Blue Sky is required to consolidate the assets, liabilities and results of Aura into its interim consolidated financial statements from the date of acquisition.

In accordance with AASB 10, Blue Sky controlled Aura from 15 September 2016 given (a) the percentage of voting interests held (b) the size and variable nature of returns arising from Blue Sky's equity investment and (c) the relative dispersion of the remaining interests not held.

The following table summarises the total acquisition-date fair value of the consideration transferred:

	31 December 2016
	\$'000
Cash (including commitments)	2,200
<b>Total consideration transferred</b>	<b>2,200</b>

The following table summarises the total acquisition-date fair value of identifiable net assets acquired and liabilities assumed:

	31 December 2016
	\$'000
Cash (including commitments)	-
<b>Acquisition date fair value of identifiable net assets</b>	<b>-</b>

Goodwill arising from the acquisition has been recognised as follows:

	31 December 2016
	\$'000
Total consideration transferred	2,200
Non-controlling interest share at fair value on acquisition date	(1,100)
Acquisition date fair value of identifiable net assets	-
<b>Goodwill</b>	<b>1,100</b>

The fair values mentioned above are based on a provisional assessment and will be finalised within 12 months in accordance with AASB 3 *Business Combinations*.

*(b) Water Utilities Australia Fund 1*

As at 31 December 2013, Blue Sky held 52% of the stapled securities and voting interests in the Water Utilities Australia Fund 1 ('WUA Fund 1'), a fund created by Blue Sky to enable investors to gain exposure to the water infrastructure sector through the fund's investment in the Water Utilities Australia Group ('WUG').

In accordance with AASB 10, Blue Sky controlled WUA Fund 1 given (a) the percentage of voting interests held (b) Blue Sky's role as trustee (c) the size and variable nature of returns arising from the equity investment and (d) the relative dispersion of the remaining interests not held.

On 23 December 2016, WUA Fund 1 completed on the 100% sale of its investment in WUG to Colonial First State's Global Diversified Infrastructure Fund. As a result of disposing of its investment, WUA Fund 1 has deconsolidated WUG during the period as a result of the loss of control.

Blue Sky is still considered to control WUA Fund 1 (while its assets have been sold, the fund has not yet been wound up) for the same reasons as mentioned above and as such continued to consolidate it during the period.

**Note 23. Events occurring after the reporting date**

No matter or circumstance has arisen since the end of the period that has significantly affected or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial years.

**Blue Sky Alternative Investments Limited**  
**Directors' Declaration**  
**For the half-year ended 31 December 2016**

---

In accordance with a resolution of the Directors of the Company, the Directors declare that:

1. the interim consolidated financial statements and notes, as set out on pages 7 to 18, are in accordance with the *Corporation Act 2001* and:
  - a. comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* as stated in accounting policy Note 1 to the interim consolidated financial statements, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - b. give a true and fair view of the Group's financial position as at 31 December 2016 and of the performance for the half-year ended on that date;
2. in the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

On behalf of the Directors



---

John Kain  
Chair

10 February 2017  
Brisbane

To the members of Blue Sky Alternative Investments Limited

## Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Blue Sky Alternative Investments Limited, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### *Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Blue Sky Alternative Investments Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

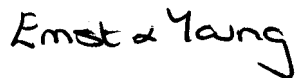
### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written auditor's independence declaration, a copy of which is included in the directors' report.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Blue Sky Alternative Investments Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Paula McLuskie  
Partner  
Brisbane  
10 February 2017



**Blue Sky Alternative Investments Limited**  
**Appendix A**  
**For the half-year ended 31 December 2016**

*1H FY17: Reconciliation of Statutory Results with Underlying Results*

*In AUD \$Ms*

	Consolidated statement of comprehensive income (‘statutory results’)	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
<b>Revenue</b>			
Management fees	\$16.1m	\$1.4m	\$17.5m
Performance fees	\$9.3m	-	\$9.3m
Investment income	\$5.6m	-\$3.0m	\$2.6m
Share of profit of associates accounted for using the equity method	\$3.3m	-\$0.2m	\$3.1m
Other income	\$7.4m	-\$3.5m	\$3.9m
<b>Total revenue</b>	<b>\$41.7m</b>	<b>-\$5.3m</b>	<b>\$36.4m</b>
<b>Expenses</b>			
Employee benefits	-\$13.0m	\$0.9m	-\$12.1m
Fee rebates to BAF	-\$2.2m	-	-\$2.2m
External capital raising costs	-\$1.1m	-	-\$1.1m
External service providers	-\$1.5m	\$0.2m	-\$1.3m
Travel and entertainment	-\$1.4m	\$0.1m	-\$1.3m
Occupancy	-\$1.1m	\$0.1m	-\$1.0m
Finance costs	-\$0.6m	\$0.3m	-\$0.3m
Depreciation and amortisation	-\$1.1m	\$0.9m	-\$0.2m
Other expenses	-\$4.8m	\$2.4m	-\$2.4m
<b>Total expenses</b>	<b>-\$26.8m</b>	<b>\$4.9m</b>	<b>-\$21.9m</b>
<b>Profit before income tax</b>	<b>\$14.9m</b>	<b>-\$0.4m</b>	<b>\$14.5m</b>
Income tax expense	-\$4.1m	-\$0.3m	-\$4.4m
<b>Profit after income tax for the period</b>	<b>\$10.8m</b>	<b>-\$0.7m</b>	<b>\$10.1m</b>
<b>Total comprehensive income for the period</b>			
Profit is attributable to:			
Non-controlling interests	\$0.5m	-\$0.5m	-
Owners of Blue Sky Alternative Investments Limited	\$10.3m	-\$0.2m	\$10.1m

**Blue Sky Alternative Investments Limited**  
**Appendix A (cont'd)**  
**For the half-year ended 31 December 2016**

*1H FY17: Reconciliation of Statutory Results with Underlying Results*

<i>In AUD \$Ms</i>	Consolidated statement of financial position (‘statutory results’)	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
<b>Current assets</b>			
Cash and cash equivalents	\$59.4m	-\$1.4m	\$58.0m
Trade and other receivables	\$53.8m	\$0.4m	\$54.2m
Inventory	\$2.4m	-\$2.4m	-
Other assets	\$4.9m	-\$0.1m	\$4.8m
<b>Total current assets</b>	<b>\$120.5m</b>	<b>-\$3.5m</b>	<b>\$117.0m</b>
<b>Non-current assets</b>			
Receivables	\$28.5m	\$3.6m	\$32.1m
Investment property	\$30.9m	-\$30.9m	-
Investments accounted for using the equity method	\$34.9m	-\$29.9m	\$5.0m
Financial assets at fair value through profit and loss	-	\$45.9m	\$45.9m
Property, plant and equipment	\$5.2m	-\$1.8m	\$3.4m
Intangible assets	\$12.3m	-\$6.7m	\$5.6m
Deferred tax assets	-	-	-
<b>Total non-current assets</b>	<b>\$111.8m</b>	<b>-\$19.8m</b>	<b>\$92.0m</b>
<b>Total assets</b>	<b>\$232.3m</b>	<b>-\$23.3m</b>	<b>\$209.0m</b>
<b>Current liabilities</b>			
Trade and other payables	\$30.5m	-\$5.1m	\$25.4m
Borrowings	\$14.3m	-\$8.4m	\$5.9m
Deferred revenue	\$5.1m	-	\$5.1m
Income tax	-\$0.7m	-	-\$0.7m
Employee benefits	\$3.6m	-\$0.1m	\$3.5m
<b>Total current liabilities</b>	<b>\$52.8m</b>	<b>-\$13.6m</b>	<b>\$39.2m</b>
<b>Non-current liabilities</b>			
Deferred revenue	\$6.8m	\$0.5m	\$7.3m
Provisions	\$0.4m	-	\$0.4m
Borrowings	\$22.1m	-\$22.1m	-
Other non-current liabilities	\$10.4m	-	\$10.4m
Deferred tax liabilities	\$9.5m	\$2.6m	\$12.1m
<b>Total non-current liabilities</b>	<b>\$49.2m</b>	<b>-\$19.0m</b>	<b>\$30.2m</b>
<b>Total liabilities</b>	<b>\$102.0m</b>	<b>-\$32.6m</b>	<b>\$69.4m</b>
<b>Net assets</b>	<b>\$130.3m</b>	<b>\$9.3m</b>	<b>\$139.6m</b>
<b>Equity</b>			
Contributed equity	\$119.7m	-	\$119.7m
Reserves	-\$5.9m	-	-\$5.9m
Accumulated profits	\$16.3m	\$9.5m	\$25.8m
<b>Total equity attributable to the owners of Blue Sky</b>	<b>\$130.1m</b>	<b>\$9.5m</b>	<b>\$139.6m</b>
Non-controlling interests	\$0.2m	-\$0.2m	-
<b>Total equity</b>	<b>\$130.3m</b>	<b>\$9.3m</b>	<b>\$139.6m</b>

**Blue Sky Alternative Investments Limited**  
**Appendix A (cont'd)**  
**For the half-year ended 31 December 2016**

*1H FY17: Reconciliation of Statutory Results with Underlying Results*

*In AUD \$Ms*

	Consolidated statement of cash flows (‘statutory results’)	Impact where investments are consolidated rather than reported at fair value	Underlying results
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)	\$31.8m	\$3.4m	\$35.2m
Payments to suppliers and employees (inclusive of GST)	-\$27.3m	\$2.7m	-\$24.6m
Interest received	\$1.4m	-\$0.1m	\$1.3m
Interest and other finance costs paid	-\$0.7m	\$0.3m	-\$0.4m
Income taxes paid	-\$2.3m	\$0.1m	-\$2.2m
<b>Net cash from operating activities</b>	<b>\$2.9m</b>	<b>\$6.4m</b>	<b>\$9.3m</b>
<b>Cash flows from investing activities</b>			
Payments for equity investments	-\$5.0m	-\$0.6m	-\$5.6m
Proceeds from disposal of equity investments (including distributions)	\$21.1m	-\$9.8m	\$11.3m
Payments for property, plant and equipment	-\$0.5m	\$0.4m	-\$0.1m
Payments for investment properties	-\$24.3m	\$24.3m	-
Payments for intangible assets	-	-	-
Bridging finance and loans to funds	-\$7.1m	-\$0.2m	-\$7.3m
<b>Net cash used in investing activities</b>	<b>-\$15.8m</b>	<b>\$14.1m</b>	<b>-\$1.7m</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	\$0.2m	-	\$0.2m
Share issue transaction costs	-\$0.2m	-	-\$0.2m
Proceeds from borrowings	\$39.4m	-\$26.9m	\$12.5m
Repayment of borrowings	-\$14.4m	\$0.2m	-\$14.2m
Dividends paid	-\$16.5m	\$5.7m	-\$10.8m
<b>Net cash from/(used in) financing activities</b>	<b>\$8.5m</b>	<b>-\$21.0m</b>	<b>-\$12.5m</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-\$4.4m</b>	<b>-\$0.5m</b>	<b>-\$4.9m</b>
Cash and cash equivalents at the beginning of the half-year	\$63.8m	-\$0.9m	\$62.9m
<b>Cash and cash equivalents at the end of the half-year</b>	<b>\$59.4m</b>	<b>-\$1.4m</b>	<b>\$58.0m</b>

**Blue Sky Alternative Investments Limited**  
**Appendix A (cont'd)**  
**For the half-year ended 31 December 2016**

*1H FY16: Reconciliation of Statutory Results with Underlying Results*

*In AUD \$Ms*

	Consolidated statement of comprehensive income (‘statutory results’)	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
<b>Revenue</b>			
Management fees	\$12.8m	-	\$12.8m
Performance fees	\$8.2m	-	\$8.2m
Investment income	-\$0.1m	\$0.5m	\$0.4m
Share of profit of associates accounted for using the equity method	\$0.5m	-\$0.5m	-
Other income	\$12.8m	-\$10.4m	\$2.4m
<b>Total revenue</b>	<b>\$34.2m</b>	<b>-\$10.4m</b>	<b>\$23.8m</b>
<b>Expenses</b>			
Employee benefits	-\$9.0m	\$0.8m	-\$8.2m
Fee rebates to BAF	-\$2.7m	-	-\$2.7m
External capital raising costs	-\$0.8m	-	-\$0.8m
External service providers	-\$2.0m	\$0.1m	-\$1.9m
Travel and entertainment	-\$1.0m	-	-\$1.0m
Occupancy	-\$1.3m	\$0.3m	-\$1.0m
Finance costs	-\$0.5m	\$0.2m	-\$0.3m
Depreciation and amortisation	-\$1.1m	\$0.9m	-\$0.2m
Other expenses	-\$8.9m	\$7.4m	-\$1.5m
<b>Total expenses</b>	<b>-\$27.3m</b>	<b>\$9.7m</b>	<b>-\$17.6m</b>
<b>Profit before income tax</b>	<b>\$6.9m</b>	<b>-\$0.7m</b>	<b>\$6.2m</b>
Income tax expense	-\$2.4m	\$0.6m	-\$1.8m
<b>Profit after income tax for the period</b>	<b>\$4.5m</b>	<b>-\$0.1m</b>	<b>\$4.4m</b>
<b>Total comprehensive income for the period</b>	<b>\$4.5m</b>	<b>-\$0.1m</b>	<b>\$4.4m</b>
Profit is attributable to:			
Non-controlling interests	\$0.2m	-\$0.2m	-
Owners of Blue Sky Alternative Investments Limited	\$4.3m	\$0.1m	\$4.4m

**Blue Sky Alternative Investments Limited**  
**Appendix A (cont'd)**  
**For the half-year ended 31 December 2016**

*Full year FY16: Reconciliation of Statutory Results with Underlying Results*

<i>In AUD \$Ms</i>	<b>Consolidated statement of financial position (‘statutory results’)</b>	<b>Impact where investments are consolidated or equity accounted rather than reported at fair value</b>	<b>Underlying results</b>
<b>Current assets</b>			
Cash and cash equivalents	\$63.8m	-\$0.9m	\$62.9m
Trade and other receivables	\$54.4m	\$0.2m	\$54.6m
Inventory	\$2.5m	-\$2.5m	-
Other assets	\$4.3m	-\$0.4m	\$3.9m
<b>Total current assets</b>	<b>\$125.0m</b>	<b>-\$3.6m</b>	<b>\$121.4m</b>
<b>Non-current assets</b>			
Receivables	\$18.5m	\$2.6m	\$21.1m
Investment property	-	-	-
Investments accounted for using the equity method	\$35.5m	-\$33.8m	\$1.7m
Financial assets at fair value through profit and loss	-	\$51.5m	\$51.5m
Property, plant and equipment	\$30.1m	-\$26.4m	\$3.7m
Intangible assets	\$18.7m	-\$13.1m	\$5.6m
Deferred tax assets	\$0.6m	-\$0.5m	\$0.1m
<b>Total non-current assets</b>	<b>\$103.4m</b>	<b>-\$19.7m</b>	<b>\$83.7m</b>
<b>Total assets</b>	<b>\$228.4m</b>	<b>-\$23.3m</b>	<b>\$205.1m</b>
<b>Current liabilities</b>			
Trade and other payables	\$20.9m	-\$1.1m	\$19.8m
Borrowings	\$8.6m	-\$0.7m	\$7.9m
Deferred revenue	\$6.7m	-\$0.2m	\$6.5m
Income tax	-\$0.9m	\$0.4m	-\$0.5m
Employee benefits	\$4.5m	-\$0.2m	\$4.3m
<b>Total current liabilities</b>	<b>\$39.8m</b>	<b>-\$1.8m</b>	<b>\$38.0m</b>
<b>Non-current liabilities</b>			
Deferred revenue	\$4.8m	-\$0.4m	\$4.4m
Provisions	\$0.4m	-	\$0.4m
Borrowings	\$9.3m	-\$9.3m	-
Other non-current liabilities	\$13.1m	-\$0.1m	\$13.0m
Deferred tax liabilities	\$13.6m	-\$3.7m	\$9.9m
<b>Total non-current liabilities</b>	<b>\$41.2m</b>	<b>-\$13.5m</b>	<b>\$27.7m</b>
<b>Total liabilities</b>	<b>\$81.0m</b>	<b>-\$15.3m</b>	<b>\$65.7m</b>
<b>Net assets</b>	<b>\$147.4m</b>	<b>-\$8.0m</b>	<b>\$139.4m</b>
<b>Equity</b>			
Contributed equity	\$119.6m	-	\$119.6m
Reserves	-\$6.6m	-	-\$6.6m
Accumulated profits	\$16.8m	\$9.6m	\$26.4m
<b>Total equity attributable to the owners of Blue Sky</b>	<b>\$129.8m</b>	<b>\$9.6m</b>	<b>\$139.4m</b>
Non-controlling interests	\$17.6m	-\$17.6m	-
<b>Total equity</b>	<b>\$147.4m</b>	<b>-\$8.0m</b>	<b>\$139.4m</b>

**Blue Sky Alternative Investments Limited**  
**Appendix A (cont'd)**  
**For the half-year ended 31 December 2016**

*1H FY16: Reconciliation of Statutory Results with Underlying Results*

*In AUD \$Ms*

	<b>Consolidated statement of cash flows (‘statutory results’)</b>	<b>Impact where investments are consolidated rather than reported at fair value</b>	<b>Underlying results</b>
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)	\$30.2m	-\$6.8m	\$23.4m
Payments to suppliers and employees (inclusive of GST)	-\$23.1m	\$4.5m	-\$18.6m
Interest received	\$0.4m	-	\$0.4m
Interest and other finance costs paid	-\$0.4m	\$0.2m	-\$0.2m
Income taxes paid	-\$2.0m	\$0.1m	-\$1.9m
<b>Net cash from operating activities</b>	<b>\$5.1m</b>	<b>-\$2.0m</b>	<b>\$3.1m</b>
<b>Cash flows from investing activities</b>			
Payments for equity investments	-\$2.0m	-	-\$2.0m
Proceeds from disposal of equity investments (including distributions)	\$2.5m	-	\$2.5m
Payments for property, plant and equipment	-\$1.4m	\$1.0m	-\$0.4m
Payments for investment properties	-	-	-
Payments for intangible assets	-\$0.1m	-	-\$0.1m
Bridging finance and loans to funds	-\$4.6m	-\$0.4m	-\$5.0m
<b>Net cash used in investing activities</b>	<b>-\$5.6m</b>	<b>\$0.6m</b>	<b>-\$5.0m</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	-	-	-
Share issue transaction costs	-	-	-
Proceeds from borrowings	\$17.0m	-\$0.2m	\$16.8m
Repayment of borrowings	-\$17.8m	\$2.2m	-\$15.6m
Dividends paid	-\$6.2m	-	-\$6.2m
<b>Net cash used in financing activities</b>	<b>-\$7.0m</b>	<b>\$2.0m</b>	<b>-\$5.0m</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-\$7.5m</b>	<b>\$0.6m</b>	<b>-\$6.9m</b>
Cash and cash equivalents at the beginning of the half-year	\$22.4m	-\$1.3m	\$21.1m
<b>Cash and cash equivalents at the end of the half-year</b>	<b>\$14.9m</b>	<b>-\$0.7m</b>	<b>\$14.2m</b>