

Blue Sky Alternative Investments Ltd

1H FY17 RESULTS PRESENTATION

Private Equity | Private Real Estate | Hedge Funds | Real Assets

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Figures presented throughout this presentation are in Australian dollars (unless otherwise noted) and may not add precisely due to rounding.

Non-IFRS information:

This presentation contains certain non-IFRS financial information. The directors of Blue Sky believe the presentation of certain non-IFRS financial information is useful for users of this presentation as they reflect the underlying financial performance of the business. The non-IFRS financial information includes Blue Sky's underlying Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flow (collectively, the 'underlying results'). These underlying results are presented with all equity held by Blue Sky in the funds that it manages being accounted for at fair value using the same approach as *AASB 13 – Fair Value Measurement*. This differs from Blue Sky's statutory results where a range of Blue Sky's equity holdings in the funds that it manages are either consolidated or equity accounted following the adoption of the *AASB 10 – Consolidated Financial Statements* accounting standard.

The non-IFRS financial information has been reviewed by Blue Sky's auditor (Ernst & Young).

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Executive summary

Momentum has continued, translating into growth in earnings and cash flow

- **Underlying NPAT:** \$10.1 million, up 130% from \$4.4 million in 1H FY16
- **Underlying revenue:** \$36.4 million, up 53% from \$23.8 million in 1H FY16
- **Improved margins:** Underlying EBITDA margin increased to 41.2% (up from 28.1% in 1H FY16)
- **Net operating cash flow:** \$9.3 million, up 200% from \$3.1 million in 1H FY16

Our balance sheet is robust

- **Underlying net tangible assets of \$134.0 million including net cash of \$52.1 million**
- Our balance sheet is a key strategic asset that has enhanced our ability to attract and invest alongside institutional investors, seed new ventures and move quickly to secure investment opportunities

Investment performance has been strong¹

- Maintained **ten year track record of 16.4% p.a. net of fees compounding** since inception¹

Fee-earning AUM is growing rapidly

- **\$2.7 billion in fee-earning assets under management ('AUM')** at 31 December 2016, up from \$2.1 billion at 30 June 2016
- Increase of \$1.0 billion in fee-earning AUM over the last twelve months

FY17 guidance

- Reiterate **FY17 guidance that underlying NPAT is expected to be \$24 to \$26 million**, representing growth of approximately 50% on FY16
- Anticipate **fee-earning AUM of \$3.1 to \$3.3 billion at 30 June 2017**
- Longer term target of \$5 billion in fee-earning AUM by the end of FY19 remains unchanged

The platform we have built over the last ten years is now rapidly starting to scale, translating to increased earnings, expanding margins and improved cash flow

1. Past performance is not a reliable indicator of future performance.

Please refer to slides 32-36 of this presentation as well as the Consolidated Financial Report for an explanation of the difference between the statutory and underlying results.

Financial performance: summary

Underlying Results

	1H FY16	1H FY17	Growth vs pcp (%)
Fee-earning AUM	\$1.7 b (at 31 Dec 2015)	\$2.7 b (at 31 Dec 2016)	59%
Total income	\$23.8 m	\$36.4 m	53%
EBITDA	\$6.7 m	\$15.0 m	124%
EBITDA margin (%)	28.1%	41.2%	n.a.
NPAT	\$4.4 m	\$10.1 m	130%
NPAT margin (%)	18.4%	27.7%	n.a.
Net operating cash flow	\$3.1 m	\$9.3 m	200%
Cash flow conversion¹	70%	92%	n.a.
Net tangible assets	\$55.7 m	\$134.0 m	141%
Net cash position	\$5.8 m	\$52.1 m	n.m.
Earnings per share	7.8 cps	15.0 cps	92%

1. Cash flow conversion is calculated as underlying net operating cash flow divided by underlying NPAT.

Note the above financials reflect Blue Sky's underlying results. Please refer to slides 32-36 of this presentation as well as the Consolidated Financial Report for an explanation of the difference between the statutory and underlying results. The non-IFRS financial information has been reviewed by Blue Sky's auditor (Ernst & Young).

- **On track to deliver the three key FY17 priorities identified at our AGM:**
 - Investment track record of >15% p.a. net of fees compounding since inception
 - Grow fee-earning AUM to exceed \$3 billion by 30 June 2017
 - Deliver on our FY17 earnings guidance – i.e. underlying NPAT of \$24–26 million
- **Delivered five exits across multiple asset classes:**
 - Anticipate six to eight exits across the business in 2H FY17
 - Have realised 30 investments since inception, with realised returns superior to overall investment track record (and 27 investments realised at or above their carrying value)
- **Investment in growing our distribution capability is paying off:**
 - **Institutional investors:** Secured investments from institutional investors, both domestic and offshore
 - **Sophisticated investors:** Remains the core of our business and is growing rapidly
 - **Retail investors:** Strong demand from this segment, reflected in the successful completion of a \$47 million entitlement offer for BAF in November 2016
- **New York office well established and profitable**
- **Two new independent directors will be appointed by end of February 2017**

- **Industry tailwinds continue to be highly favourable**
 - Alternatives are the fastest growing asset class in Australia¹
 - Forecast to be Australia's largest asset class in the next decade¹
- **Investment focus remains on “the essentials”**
 - Focus is on investing in things people need, rather than things people want
 - Conviction remains in long term trends that underpin sectors such as food, water, agriculture, healthcare, education, retirement and technology
- **Will invest further in expanding our distribution capability**
 - Anticipate further growth in institutional investment, with multiple institutions conducting due diligence across our asset classes
 - Will add resources to our sophisticated/retail distribution team in Australia
- **Will continue to grow offshore, spearheaded by our New York office**
- **Growth to \$5 billion in fee-earning AUM by FY19 (and longer term target of \$10 billion) does not require expansion into other alternative asset classes or new geographies**
 - Focus is on scaling within our existing four asset classes

1. Rainmaker Roundup – Volume 20 Number 3 (Sep Quarter 2016).

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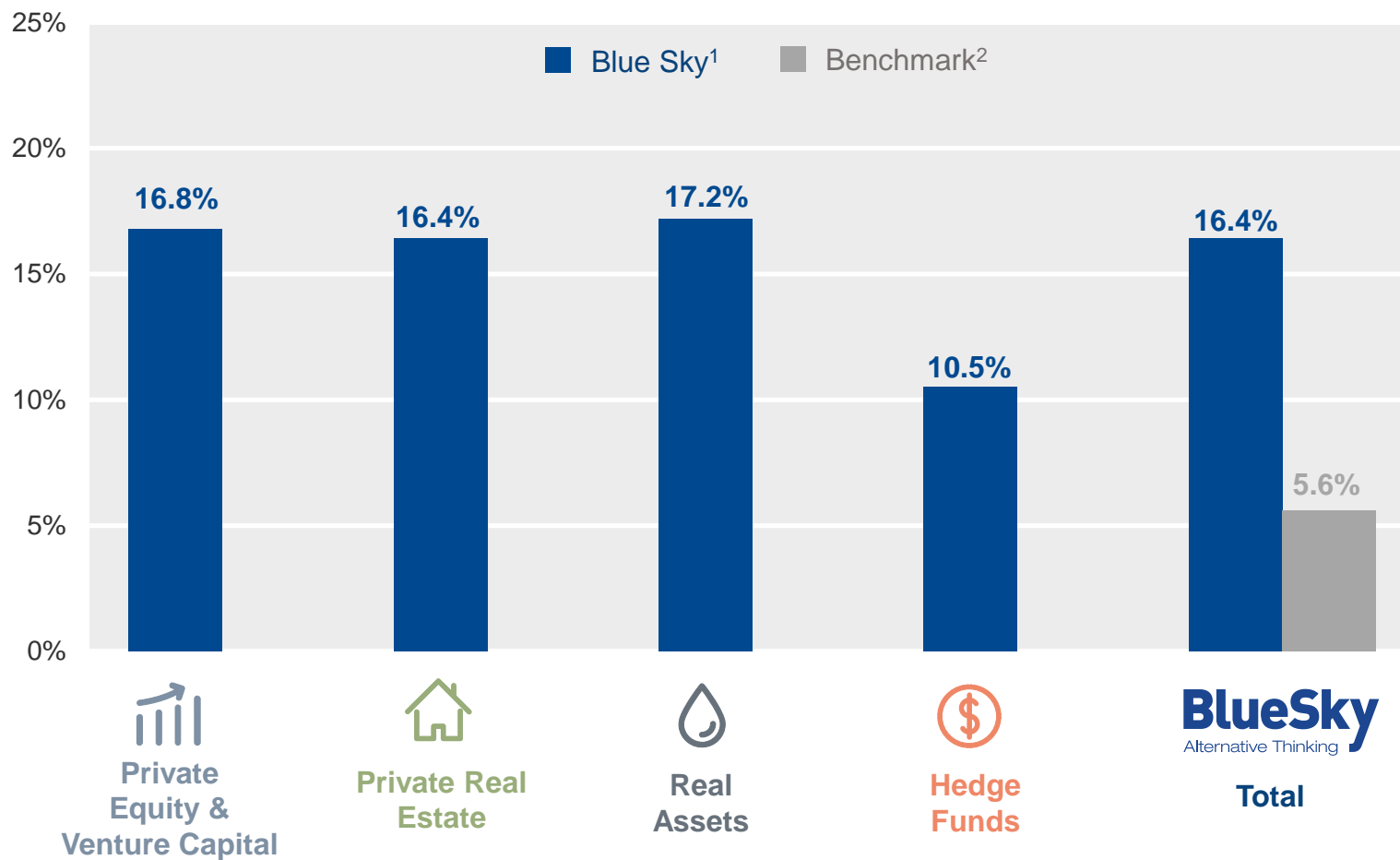
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Investor returns are 16.4% p.a. net of fees compounding since inception in 2006



1. Total returns are equity weighted returns since inception through to 31 December 2016. Returns are net of fees and include both realised and unrealised investments. Past performance is not a reliable indicator of future performance.

2. Overall benchmark – S&P ASX200 Accumulation Index from 1 July 2006 to 31 December 2016.



PRIVATE EQUITY & VENTURE CAPITAL

Continued to deliver exits with the sale of stake in Pet Circle, delivering investors a ~20% IRR (net of fees) in 3 years

Anticipate further exits in 2H FY17

Deal flow is very strong with five transactions signed in 1H FY17

Realised returns are 19.0% p.a. and higher than overall track record, reflecting prudent carrying value of unrealised investments



PRIVATE REAL ESTATE

Student accommodation portfolio is performing well (e.g. first site is operational; on track to pay 10% yield to investors in first year)

Southport Central management rights sold to Mantra at ~18% IRR

Cove performing ahead of expectations

Continued to exit residential developments and will exit four sites in 2H FY17 (each with expected return on equity of 40% to 60% (net of fees))

Realised returns are 18.5% p.a., reflecting prudent carrying value of unrealised investments



REAL ASSETS

Despite record spring rainfall across southern Australia, the Water Fund's diversification saw investor capital protected (with the fund up 1.7% net of fees over the last 12 months)

Water Utilities Group sold to Colonial First State Diversified Infrastructure Fund

Agricultural investments performing at or above investment case

Outperformance of Gundaline investment has led to the commencement of an exit process 3 years ahead of investment case



HEDGE FUNDS

Dynamic Marco fund is a systematic macro hedge fund with a nine year track record of 9.5% p.a. (net of fees) and a correlation to the S&P500 of -0.53

Fund performed well during periods of volatility in 2016 (e.g. in January 2016 and through the Brexit period), but the overall rally in global markets contributed to the fund losing 3.1% over the last 12 months

Recognised by Barclay Hedge as one of the Top 20 CTA hedge funds globally in 2016

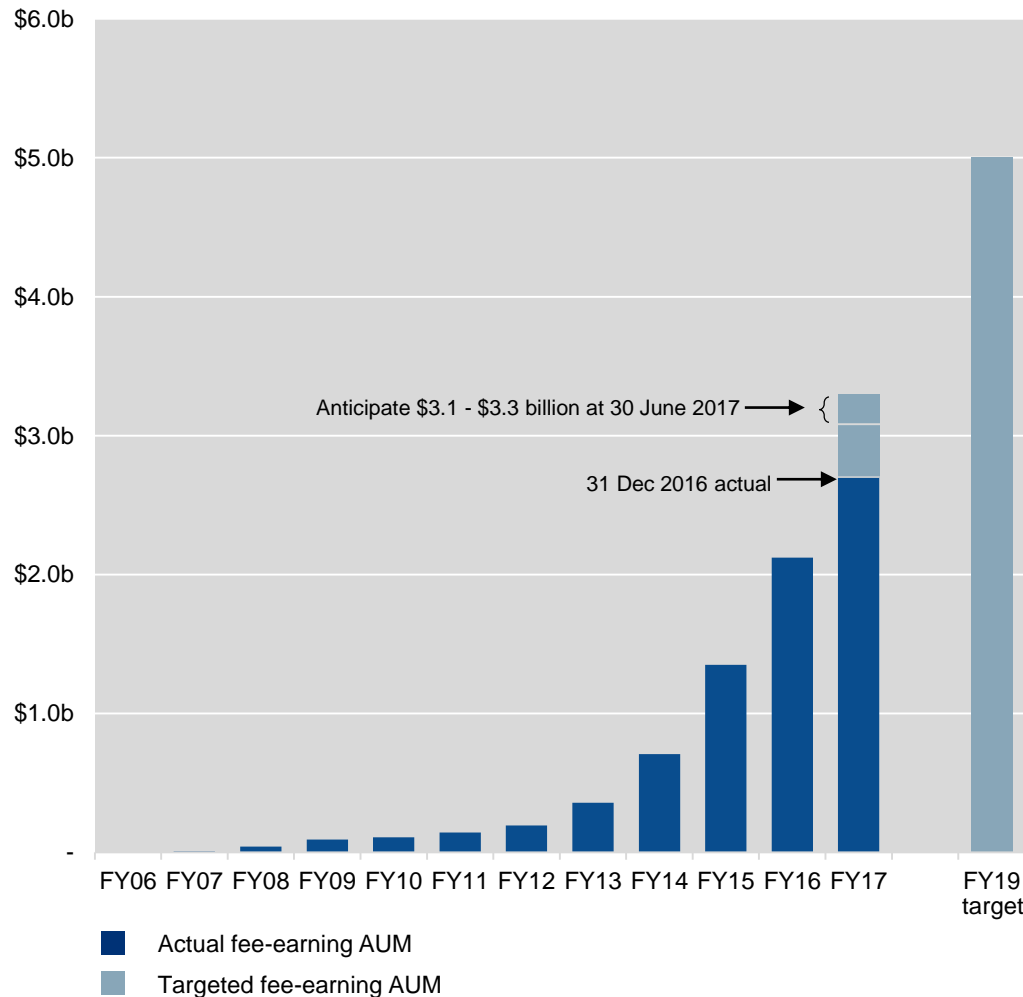
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\$2.7 billion in fee-earning AUM at 31 Dec 2016, anticipated to be \$3.1-\$3.3 billion by 30 June 2017

Fee-earning assets under management



Fee-earning AUM grew by \$1.0 billion over the last 12 months to \$2.7 billion at 31 December 2016



Anticipate \$3.1 - \$3.3 billion in fee-earning AUM by 30 June 2017



Targeting \$5.0 billion in fee-earning AUM by 30 June 2019

Our AUM is mostly in closed-ended, illiquid funds

Fee-earning assets under management

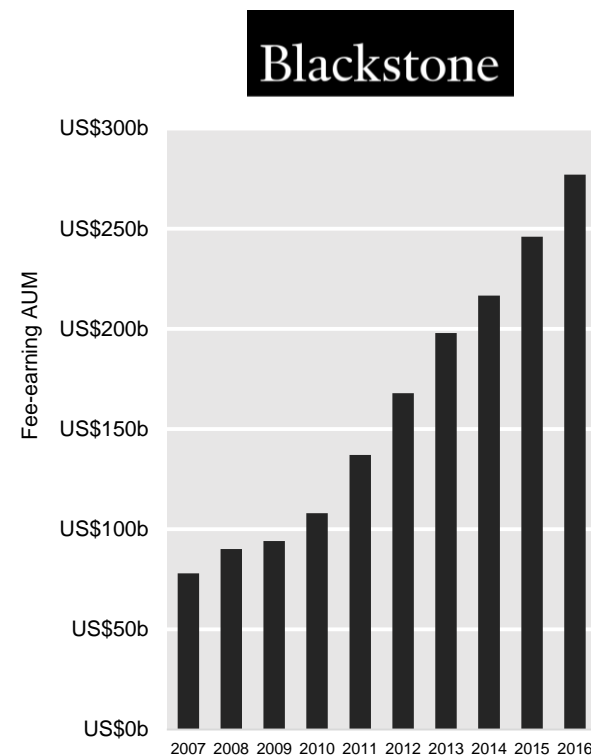
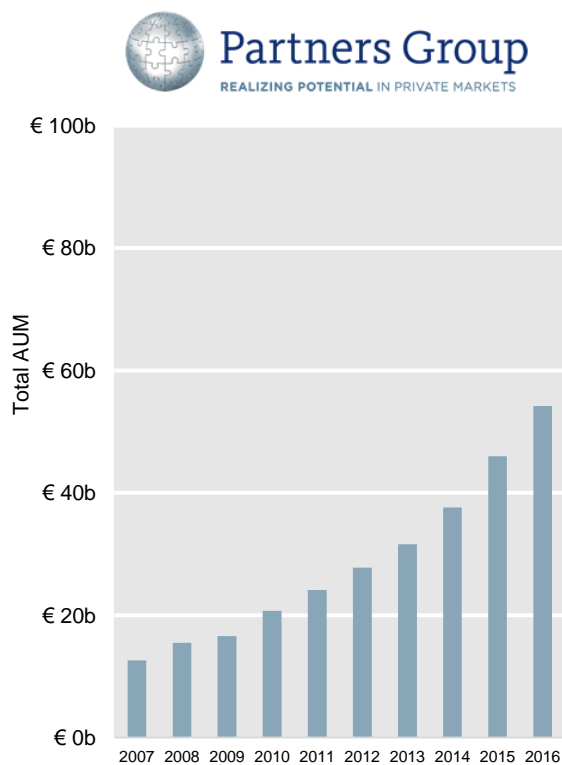
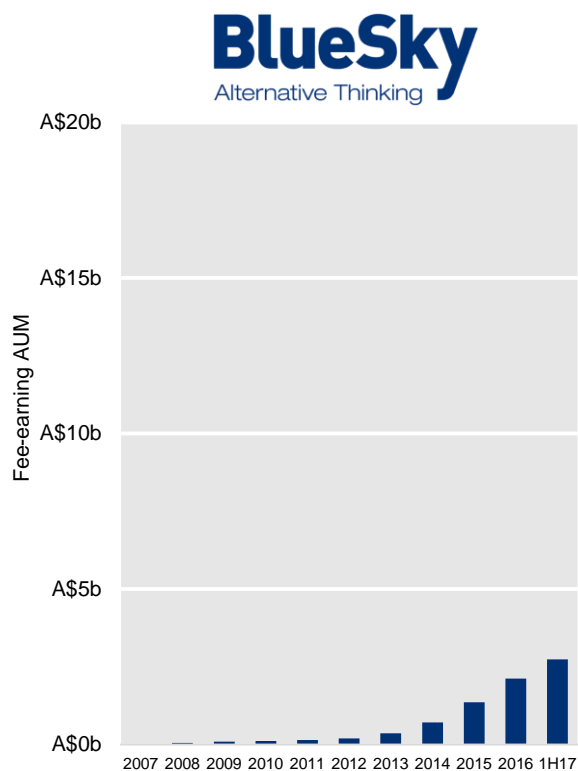


- Current AUM includes:
 - Open-ended funds: hedge funds; Blue Sky Water Fund
 - Closed-ended funds with anticipated realisations in the next twelve months (e.g. several Private Equity and Venture Capital, Private Real Estate and Real Asset funds)

- All remaining AUM is in closed-ended funds that are 'non-current'. These include:
 - Private Equity and Venture Capital funds with anticipated realisations beyond 2017
 - Private Real Estate funds with anticipated realisations beyond 2017
 - Real Assets – institutional mandate in water entitlements and other agricultural opportunities with anticipated realisations beyond 2017
 - Blue Sky Alternatives Access Fund (ASX: BAF): 10-year management agreement
- Provides baseline level of AUM that generates fees over a multi-year period

In contrast to traditional funds management businesses, all of our funds - other than our hedge funds and our Water Fund - are long dated and closed-ended (i.e. no redemption rights)

When executed well, there is a global track record of alternatives managers consistently building AUM

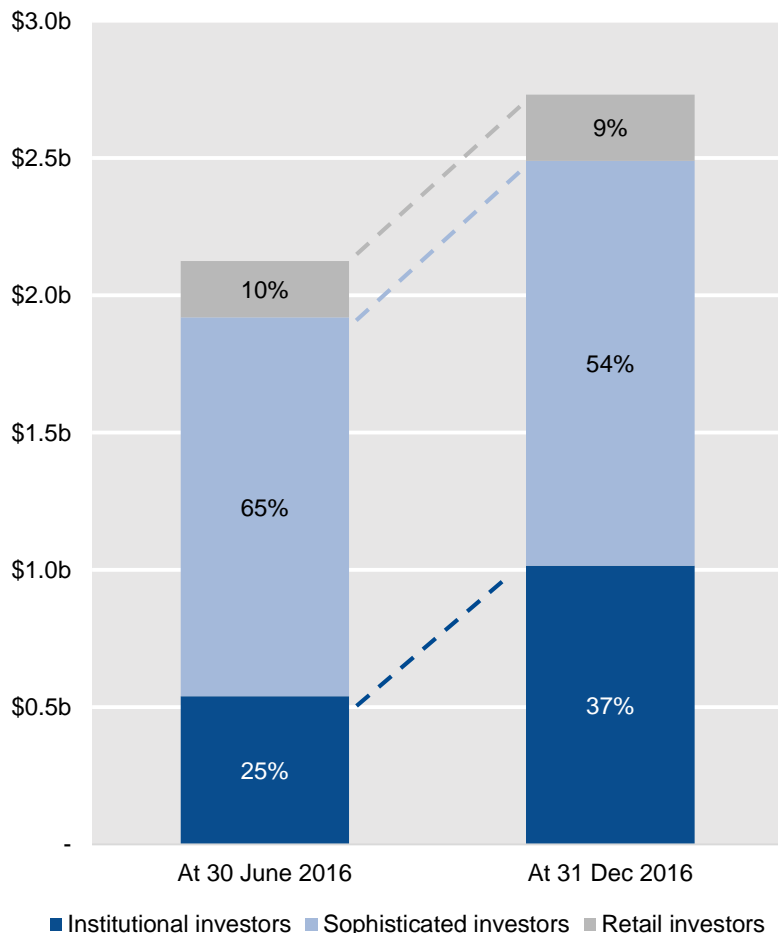


Long term investment horizons and the closed ended nature of alternatives funds enhances the ‘stickiness’ of fee-earning AUM

Source: Partners Group Press Release 12 Jan 2017; Blackstone 2016 results presentations.

Our three investor segments have all grown

Fee-earning assets under management



Retail (9% of total)

- \$47m raised from BAF entitlement offer in November 2016
- Shortfall facility for this offer opened and closed on the same day substantially over-subscribed, reflecting strong demand for alternatives from this segment



Sophisticated (54% of total)

- Remains our dominant source of fee-earning AUM
- Engagement with family offices, high net worth individuals, SMSFs and financial planners has expanded as alternatives have become mainstream

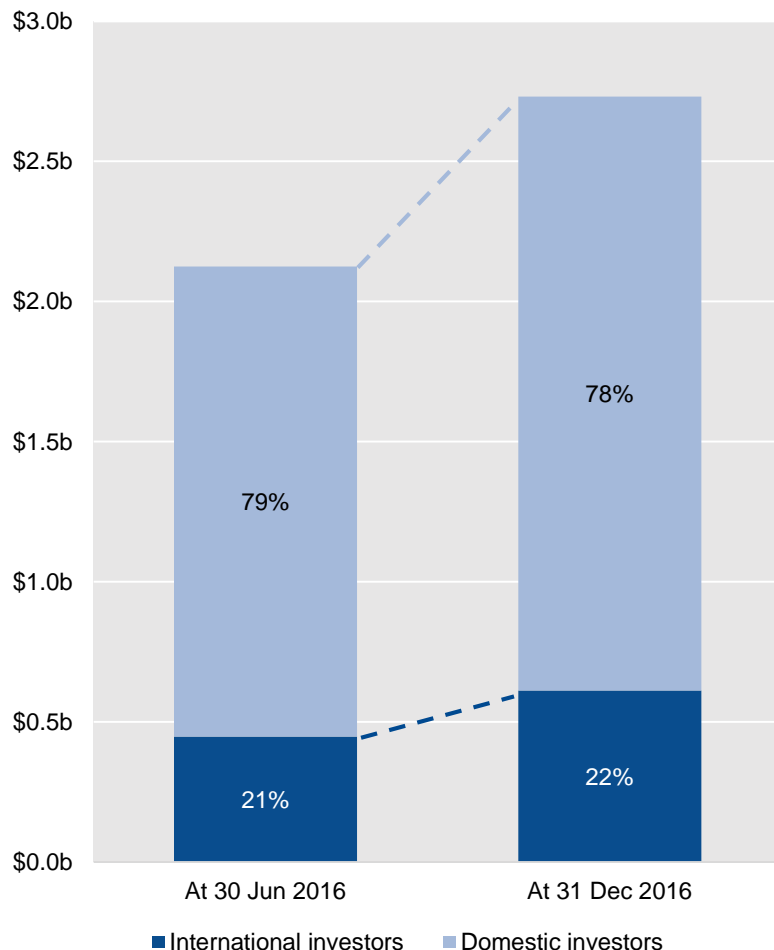


Institutional (37% of total)

- Engagement with domestic and international institutions has deepened and broadened
- Anticipated to grow to 50% of fee-earning AUM over the coming years

Domestic and international investor segments have both grown

Fee-earning assets under management



Domestic (78% of total)

- Strong domestic base that is rapidly expanding
- Have invested to build out distribution networks among family offices, high net worth individuals and wealth advisors



International (22% of total)

- International platform has grown with capital attracted from investors in twelve countries outside Australia (including North America, Singapore, Hong Kong, the United Kingdom, South Africa and New Zealand)
- New York presence growing strongly

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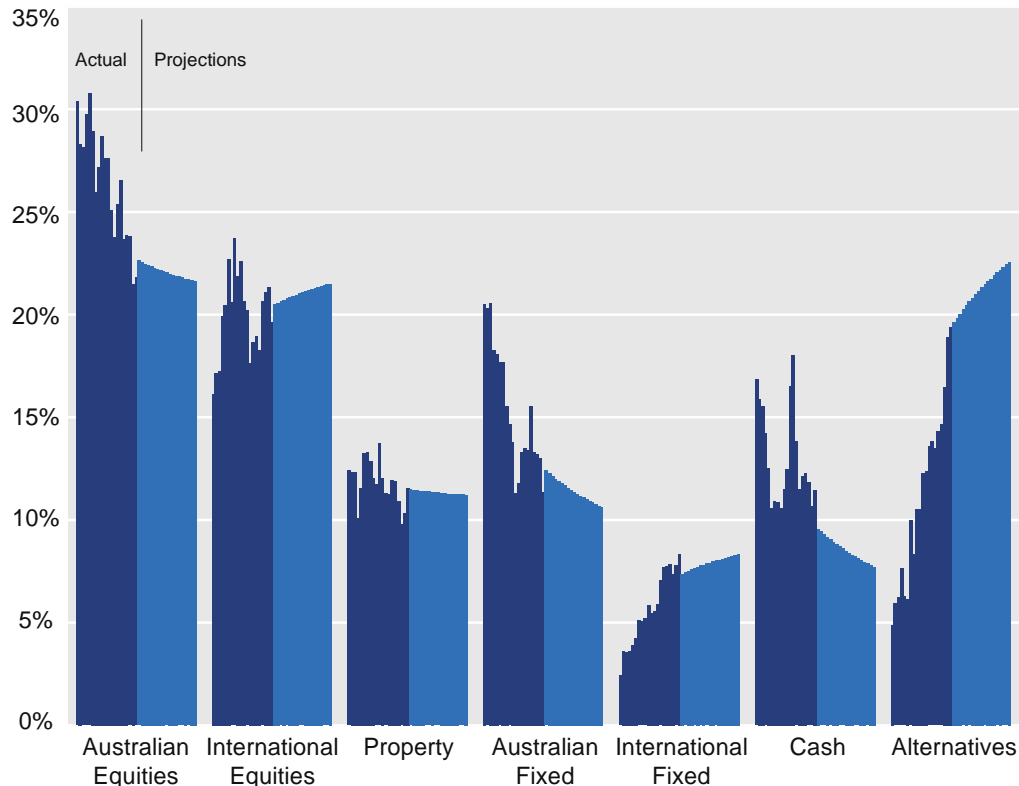
As an alternatives manager, our business model has a range of unique features

Diverse asset classes <ul style="list-style-type: none"> Blue Sky invests in the four major alternative asset classes, each with different cycles, return drivers and correlations Provides diversity of returns and flexibility in relation to investment decisions 	Multiple capital sources <ul style="list-style-type: none"> Deliberate strategy to source capital from a diverse range of investors, including institutional, sophisticated and retail investors Larger opportunity set: not reliant on one segment Enhances ability to raise capital at reasonable margins 	Defensive AUM <ul style="list-style-type: none"> Unlike traditional funds management businesses, the vast majority of our AUM is in closed-ended funds Typical fund life of 5+ years Provides greater reliability over future revenue streams 	Sophisticated investor base <ul style="list-style-type: none"> Lower concentration risk (vs. having a small number of institutional investors) Key source of proprietary deal flow Sophisticated investors typically more focused on net returns than headline fees
Opportunity to scale <ul style="list-style-type: none"> Australia's funds management industry is a \$2.8 trillion industry with alternatives making up over \$400 billion¹ Enormous opportunity for Blue Sky, with our fee-earning AUM representing <1% of this market 	Higher fees <ul style="list-style-type: none"> Alternative asset managers typically command higher fees than traditional funds management businesses Majority of our fee-earning AUM is in single asset unit trusts, giving greater security over performance fee revenue (as performance of individual trusts does not impact other trusts) 	Multiple geographies <ul style="list-style-type: none"> Deliberate strategy to grow our geographic diversity, further enhancing our ability to raise capital and diversifying our investor base Five offices (Brisbane, Sydney, Melbourne, Adelaide and New York), with investment and distribution resources in both Australia and the US 	Unique solutions <ul style="list-style-type: none"> Unique in-house capability in specific sectors e.g. water and agriculture, student accommodation, expansion capital and late stage venture capital Able to offer tailored solutions in areas that are less likely to be in-sourced by institutional and sophisticated investors

1. Rainmaker Roundup - Volume 20 Number 3 (Sep Quarter 2016).

Alternatives are forecast to be Australia's largest asset class in the next decade, reflecting global trends

Asset class segment shares 1997-2036



Source: Rainmaker Roundup – Volume 20 Number 3 (Sep Quarter 2016).

*“Alternative investments have been an ongoing story in asset management ... with **growth continuing to outstrip that of traditional assets.**”*

*“The alts boom is likely to be one of the **richest asset management growth opportunities in the years to come.** The low-beta environment – and the challenges that more traditional strategies have had in delivering alpha – have only accelerated the tailwinds for alternatives, as **investors place a larger premium on assets with the ability to deliver both yield and diversification...**”*

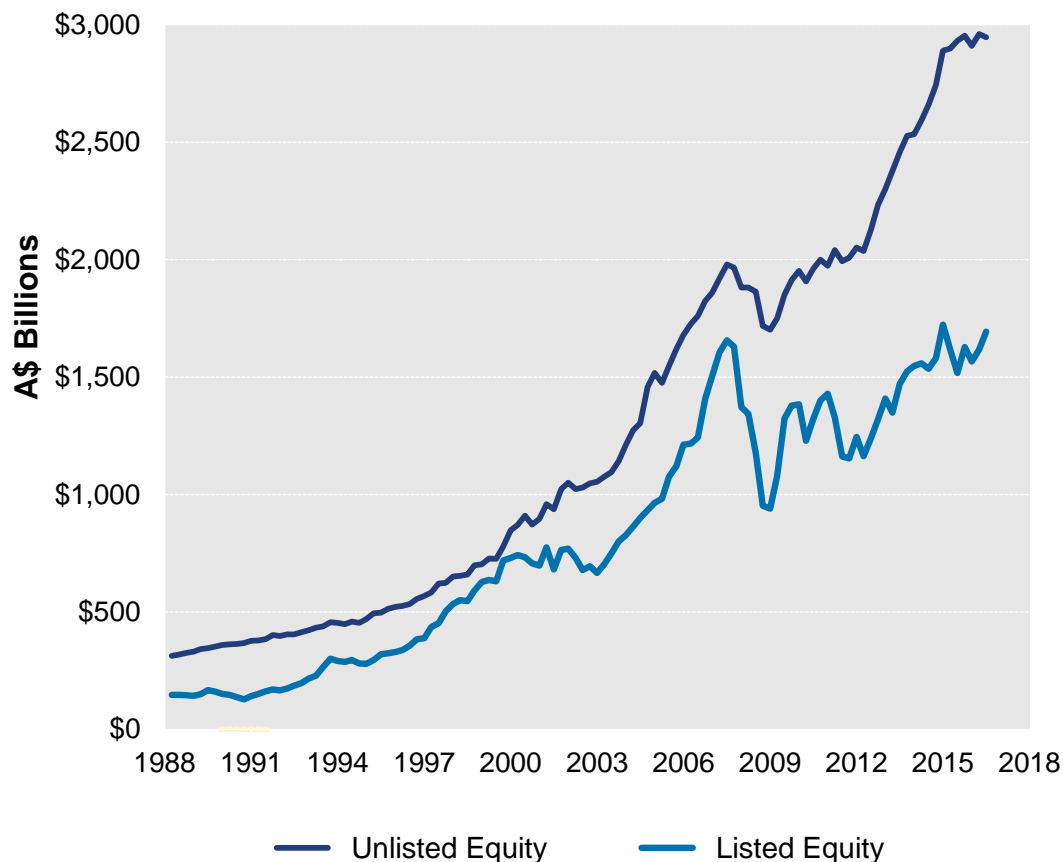
*“...Over the last 12 to 18 months, **demand has been robust in the illiquid private market segments,** as investors seek to capture liquidity premia and look for alpha generation in less efficient segments of the market.”*

McKinsey & Company, Thriving in the New Abnormal, November 2016

Blue Sky is uniquely positioned to benefit from the structural shift to alternatives, the fastest growing segment in Australia's funds management industry

Private markets are larger and have grown faster than public markets

Value of listed and unlisted equity in Australia



- The value of listed equities in Australia is **broadly the same today** as it was almost ten years ago
- Over the same period, the **value of unlisted equities has increased by 50%**, from \$2.0 trillion to \$3.0 trillion
- Growth in private markets reflects **investors searching for growth beyond listed markets**
- **Investing in private markets is an area where Blue Sky has specialised** over the last ten years

Source: Minack Advisors; Australian Bureau of Statistics

Large institutional investors such as the Future Fund make significant allocations to alternatives

futurefund

Australia's Sovereign Wealth Fund

	31 Dec 2014	31 Dec 2015	31 Dec 2016
Asset class allocations	% of Fund	% of Fund	% of Fund
Australian equities	8.8%	6.5%	6.7%
Global equities			
Developed markets	20.9%	17.2%	15.0%
Emerging markets	9.4%	7.3%	7.4%
Cash	12.8%	20.6%	19.7%
Debt securities	10.8%	11.8%	12.0%
Private equity	9.5%	10.4%	10.9%
Property	6.3%	6.5%	6.2%
Infrastructure & timberland	7.4%	7.1%	7.9%
Alternative assets	14.0%	12.6%	14.2%
Total alternative assets	37.3%	36.6%	39.2%
Total	100.0%	100.0%	100.0%

*“...we continue to work closely with our global network of partners to seek out and access pockets of opportunity **particularly in our private market and alternatives programs.**”*

David Neal, Future Fund (June 2016)

“We continue to cautiously and prudently manage the assets of the Future Fund. Given the uncertain and challenging outlook for investment returns, we are focused on maintaining our discipline to only take risk where it is adequately rewarded.

Over the quarter we deployed capital into our Private Equity program, primarily through co-investments in venture capital and growth [capital].”

David Neal, Future Fund (January 2017)

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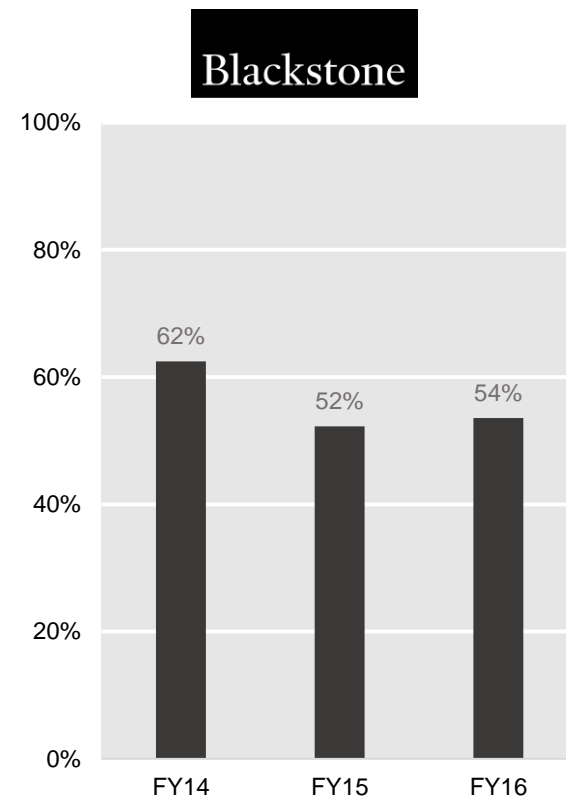
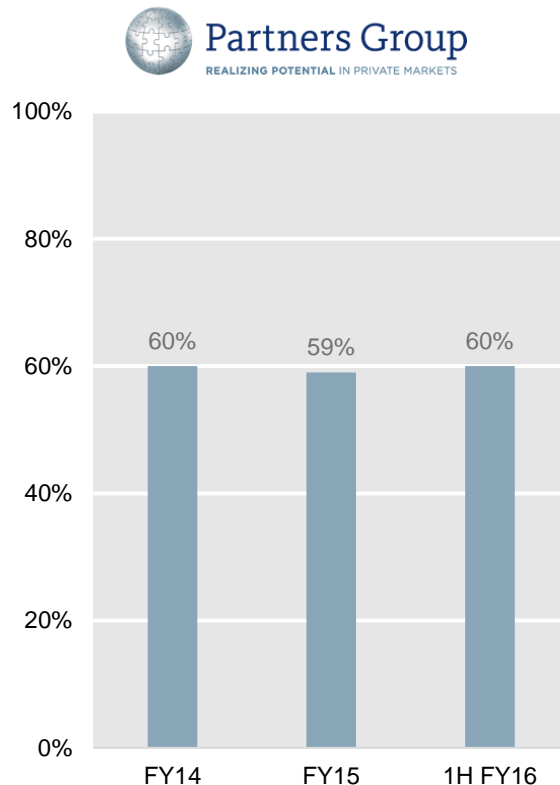
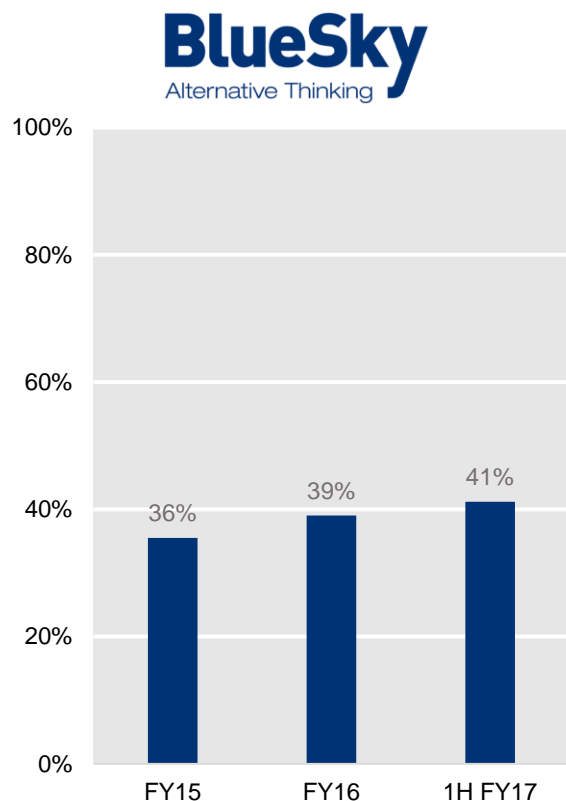
Underlying income statement: summary

- **Management fees grew 36%** reflecting the overall growth in Blue Sky's fee-earning AUM
- **Performance fees grew 13%**, primarily driven by our student accommodation and private equity and venture capital funds
 - 16 separate funds contributed to performance fee revenue in 1H FY17
 - Represents 26% of Blue Sky's total revenue
 - Lower than more mature alternatives managers overseas e.g. Blackstone, whose performance fees represented 39% and 43% of revenue in 2015 and 2016 respectively
- **Increased investment income** reflects profit distributions and gains from our balance sheet investments (seven of our balance sheet investments contributed to these gains in 1H FY17)
- **Share of gain of associates** reflects performance of Cove Property Group, our US commercial property joint venture
- **Expenses grew modestly translating to increased EBITDA margin**
 - Primary driver was growth in employee expenses, reflecting investments made in building our team (e.g. distribution), expenses associated with performance fees (i.e. 25% employee share of performance fee revenue), and the issuance of options to key team members
 - EBITDA margin anticipated to increase to approximately 50% over the coming years as our business scales
- **Underlying NPAT more than doubled to \$10.1 million** vs. 1H FY16

<i>In AUD \$m</i>	1H FY16	1H FY17
Management fees	\$13.5m	\$18.4m
Performance fees	\$8.2m	\$9.3m
Investment income	\$0.4m	\$2.6m
Share of gain/(loss) of associates	-	\$3.1m
Interest income	\$0.5m	\$1.8m
Other income	\$1.2m	\$1.2m
Total income	\$23.8m	\$36.4m
Employee benefits expense	-\$8.2m	-\$12.1m
Occupancy	-\$1.0m	-\$1.0m
External service providers	-\$1.9m	-\$1.3m
External capital raising expenses	-\$0.8m	-\$1.1m
Fee rebates to BSAAF Limited (BAF)	-\$2.7m	-\$2.2m
Other operating costs	-\$2.5m	-\$3.7m
Total operating costs	-\$17.1m	-\$21.4m
EBITDA	\$6.7m	\$15.0m
EBIT	\$6.5m	\$14.8m
Net profit after tax	\$4.4m	\$10.1m

Note the above financials reflect Blue Sky's underlying results. Please to slides 32-36 of this presentation as well as the Consolidated Financial Report for an explanation of the difference between the statutory and underlying results. The non-IFRS financial information has been reviewed by Blue Sky's auditor (Ernst & Young).

EBITDA margins have expanded, but have room to further improve as we scale

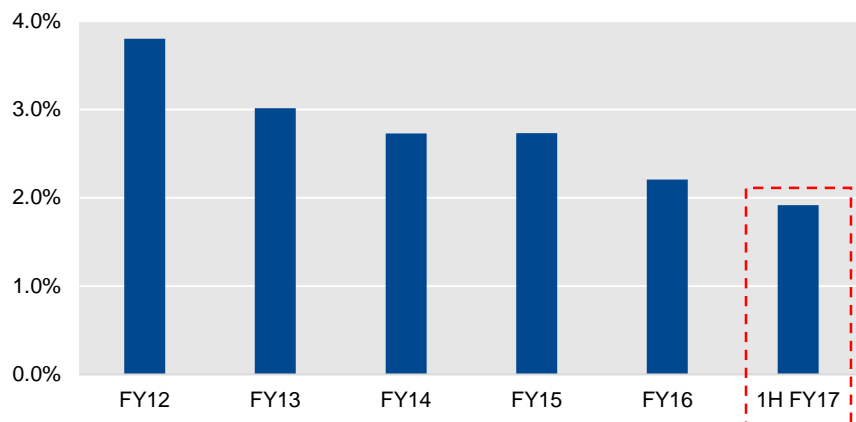


Source: Partners Group and Blackstone results presentations.

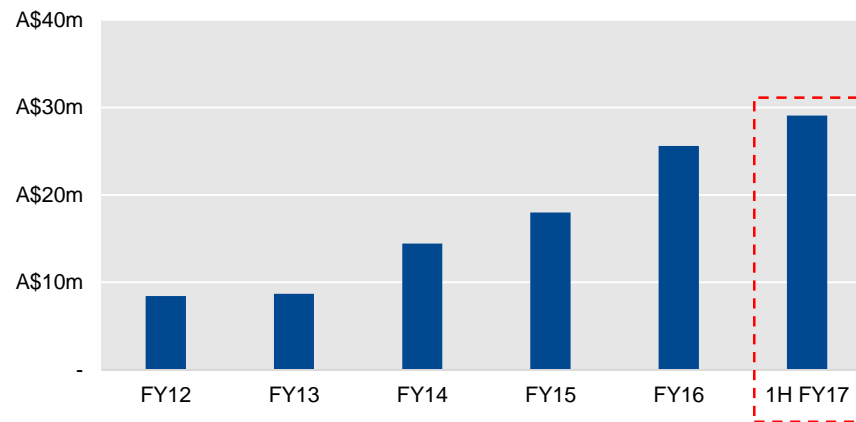
Note: Blackstone margin analysis based on Total Segments Revenue and Economic Income (with interest expense, depreciation and amortisation added-back). Economic Income represents segment net income before taxes excluding transaction related charges.

Our business is starting to see the benefits of scale

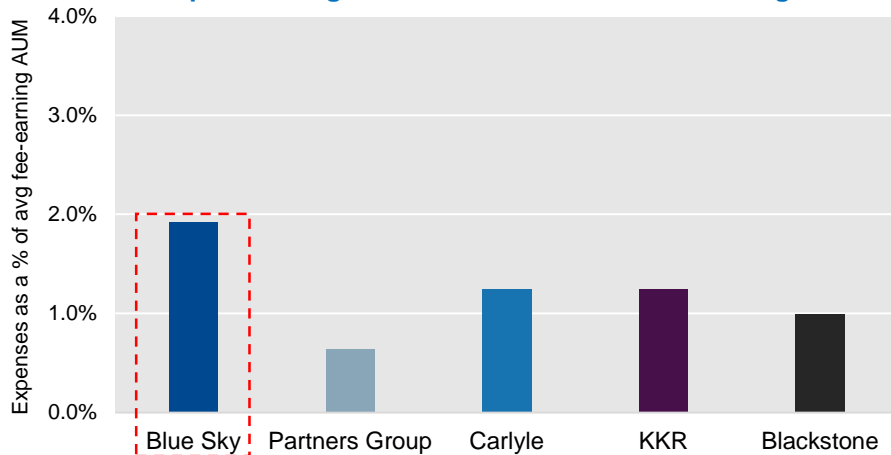
Underlying operating expenses as a % of average AUM^{1,2}



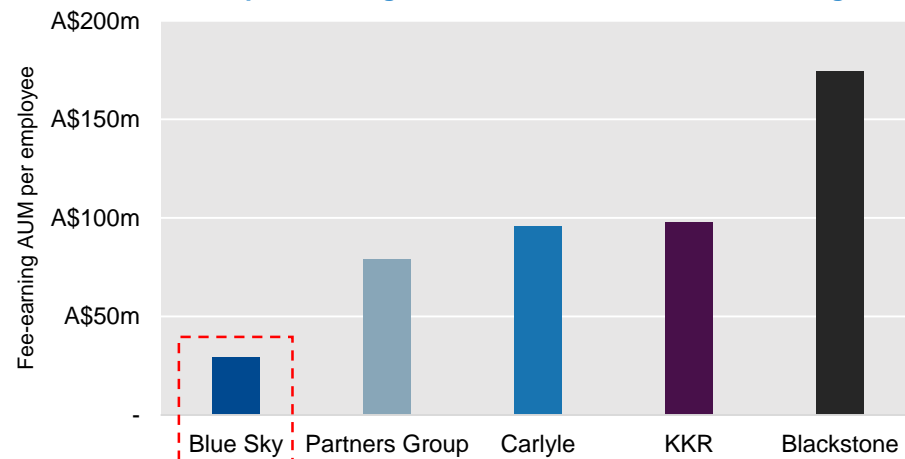
Fee-earning AUM per employee



Comparison to global listed alternative asset managers



Comparison to global listed alternative asset managers



1. Average AUM based on average AUM over last twelve months.

2. 1H FY17 full-year comparison operating expenses based on last twelve months.

Source: Blackstone 2015 and 2016 full year results presentations; KKR and Carlyle Third Quarter 2015 and 2016 results presentations; Partners Group 1H16 results presentation.

Underlying statement of financial position: summary (1/2)

- **Robust balance sheet with \$134.0 million in net tangible assets, including a net cash position of \$52.1 million**
- **Hold \$45.9 million as strategic fund investments alongside investors:**
 - Investments spread across twenty funds and two operating businesses:
 - Atira (previously 'The Pad') - 35% ownership
 - Aura (retirement village operator) - 50% ownership
 - Realised investments in Water Utilities Australia and BAF during 1H FY17
- **Current receivables in line with 30 June 2016 and include:**
 - \$28.1 million in bridging finance to Blue Sky managed funds (for example to seed new deals and/or strategies)
 - \$13.0 million in management fees that have been earned across our funds and that will be paid within the next 12 months
 - \$11.1 million in accrued performance fees
- **Non current receivables include \$16.2 million in accrued performance fees and \$5.8 million in management fees**

<i>In AUD \$m</i>	At 30 Jun 2016	At 31 Dec 2016
Cash	\$62.9m	\$58.0m
Receivables	\$54.6m	\$54.2m
Other current assets	\$3.9m	\$4.8m
Total current assets	\$121.4m	\$117.0m
Investments accounted for using the equity method	\$1.7m	\$5.0m
Financial assets at fair value through profit and loss	\$51.5m	\$45.9m
Receivables	\$21.1m	\$32.1m
Property, plant and equipment	\$3.7m	\$3.4m
Intangible assets	\$5.6m	\$5.6m
Other non-current assets	\$0.1m	-
Total non-current assets	\$83.7m	\$92.0m
Total assets	\$205.1m	\$209.0m
Trade and other payables	\$19.8m	\$25.4m
Borrowings	\$7.9m	\$5.9m
Other current liabilities	\$10.3m	\$7.9m
Total current liabilities	\$38.0m	\$39.2m
Borrowings	-	-
Other non-current liabilities	\$27.7m	\$30.2m
Total non-current liabilities	\$27.7m	\$30.2m
Total liabilities	\$65.7m	\$69.4m
Net assets	\$139.4m	\$139.6m
Net tangible assets	\$133.8m	\$134.0m

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Underlying statement of financial position: summary (2/2)

- **Trade and other payables include:**
 - \$12.9 million in fee rebates to be paid to funds (relating mostly to BAF and student accommodation funds)
 - Commitments of \$6.4 million to be invested into our funds (primarily new student accommodation funds) as well as fee rebates
- **Debt drawn to \$5.9 million with undrawn facilities of \$14.1 million**
- **Other current liabilities include accrued employee benefits expenses of \$3.5 million**
 - Includes accrual of expenses associated with current performance fees payable to staff
- **Other non-current liabilities include:**
 - Deferred tax liabilities of \$12.1 million
 - Other liabilities of \$10.4 million, including \$3.7 million in accrued expenses associated with non-current performance fees payable to staff

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Total non-current assets	\$83.7m	\$92.0m
Total assets	\$205.1m	\$209.0m
Trade and other payables	\$19.8m	\$25.4m
Borrowings	\$7.9m	\$5.9m
Other current liabilities	\$10.3m	\$7.9m
Total current liabilities	\$38.0m	\$39.2m
Borrowings	-	-
Other non-current liabilities	\$27.7m	\$30.2m
Total non-current liabilities	\$27.7m	\$30.2m
Total liabilities	\$65.7m	\$69.4m
Net assets	\$139.4m	\$139.6m
Net tangible assets	\$133.8m	\$134.0m

Note the above financials reflect Blue Sky's underlying results. Please to slides 32-36 of this presentation as well as the Consolidated Financial Report for an explanation of the difference between the statutory and underlying results. The non-IFRS financial information has been reviewed by Blue Sky's auditor (Ernst & Young).

Underlying cash flow statement: summary

- **Net operating cash flow tripled** to \$9.3 million (up from \$3.1 million in 1H FY16)
 - Includes receipt of performance fees from the Blue Sky Water Fund and BAF following the FY16 financial year
- **Cash flow conversion grew to 92%¹**
- **Investing cash flows include:**
 - Receipt of \$11.3 million from the realisation of two balance sheet investments (Water Utilities Australia and BAF)
 - \$5.6 million in payments for equity investments reflects deployment of capital raised in May 2016 to invest strategically alongside investors in our funds
 - \$7.3 million invested as bridging finance and loans into funds (for example to seed new deals and/or strategies)
- **Paid 16.0 cents per share fully franked dividend** (\$10.8 million total) in relation to the FY16 year

<i>In AUD \$m</i>	1H FY16	1H FY17
Receipts from customers	\$23.4m	\$35.2m
Payments to suppliers and employees	-\$18.6m	-\$24.6m
Interest received	\$0.4m	\$1.3m
Interest and other finance costs paid	-\$0.2m	-\$0.4m
Income taxes paid	-\$1.9m	-\$2.2m
Net cash from operating activities	\$3.1m	\$9.3m
Payments for equity investments	-\$2.0m	-\$5.6m
Payments for property, plant and equipment	-\$0.4m	-\$0.1m
Payments for intangibles	-\$0.1m	-
Payments for investment property	-	-
Proceeds from disposal of equity investments	\$2.5m	\$11.3m
Bridging finance and loans to funds	-\$5.0m	-\$7.3m
Net cash used in investing activities	-\$5.0m	-\$1.7m
Proceeds from issue of shares	-	\$0.2m
Share issue transaction costs	-	-\$0.2m
Proceeds from borrowings	\$16.8m	\$12.5m
Repayment of borrowings	-\$15.6m	-\$14.2m
Dividends paid	-\$6.2m	-\$10.8m
Net cash used in financing activities	-\$5.0m	-\$12.5m
Starting cash balance	\$21.1m	\$62.9m
Ending cash balance	\$14.2m	\$58.0m

1. Calculated as underlying net operating cash flow divided by underlying NPAT.

Note the above financials reflect Blue Sky's underlying results. Please to slides 32-36 of this presentation as well as the Consolidated Financial Report for an explanation of the difference between the statutory and underlying results. The non-IFRS financial information has been reviewed by Blue Sky's auditor (Ernst & Young).

Valuations: Our process incorporates independent expert and audit sign off across all asset classes

Valuation Process

Independence – Top tier independent valuation experts are used across all asset classes

Methodology and inputs – Key valuation inputs (e.g. discount rates, EBITDA multiples) and appropriate methodology (e.g. discounted cash flow) are reviewed by independent experts

Review and sign off – In addition to the independent experts, valuations are reviewed by our institutional investors (where relevant to their investments) and signed off by the directors of the boards of BLA and BAF (for funds where BAF has invested)

Audit – The valuations of our investments are reviewed every reporting period by Ernst & Young in their capacity as auditor for BLA and BAF

Frequency – Independent review of valuations of all assets undertaken at least annually (more frequent valuations undertaken where appropriate e.g. water fund, hedge funds)

Market standard – The process is the same as that used by other leading global alternative asset managers such as Blackstone, KKR and Partners Group

Independent Valuation Experts



Valuations: Blue Sky Water Fund example

Market prices *Monthly*

Independent market prices determined by Colliers based on recent trades of similar or equivalent assets in the water market and with reference to public data



Water asset holdings *Monthly*

Australian Executor Trustees is the independent custodian and hold all Water Fund assets in their name. They maintain the register of water assets held by the fund and provide monthly holding statements of water assets held by the fund



Unit valuation *Monthly*

The independent prices and independent holding statements are then used to calculate the value of units in the Water Fund on a monthly basis

Fund Audit *Annually*

The Water Fund is audited annually by Deloitte



BLA and BAF Audit *Half Yearly*

Ernst & Young review the Water Fund as part of half year review and full year audit for BLA and BAF



Director sign off *Half Yearly*

Directors of BLA and BAF sign off on Water Fund valuation as part of half year and full year reporting

Valuations: 'Level 1', 'Level 2' and 'Level 3' assets

- The Australian Accounting Standards classify the way in which assets are valued into three 'levels' (see table below)
- With the exception of our Hedge Fund team, Blue Sky's business specialises in investing in private markets. These assets are defined as 'Level 3' assets under the Australian Accounting Standards. As such, Blue Sky is required under the accounting standards to account for these assets under the 'Level 3' classification.
- This is the same practice as many other fund managers in different asset classes (for example, REITs).
- **Since inception, 27 out of 30 of our realisations have been at or above their carrying value.**

Level 1	<p>Refers to assets where there are 'quoted prices in active markets for identical assets'. By definition, investments in private market assets typically do not meet this definition and are therefore not classified as 'Level 1' assets.</p> <p><i>Example:</i> The value of shares in a large, listed company that trades on the ASX.</p>
Level 2	<p>Refers to assets where there are valuation inputs (other than quoted prices) that are observable, either directly or indirectly. As with 'Level 1' assets, investments in private market assets typically do not meet this definition and are therefore not classified as 'Level 2' assets.</p> <p><i>Example:</i> The value of a derivative contract (e.g. a forward, futures or options contract) that relates to a share of a large, listed company that trades on the ASX.</p>
Level 3	<p>Refers to assets where there are valuation inputs that are considered under the accounting standards as 'unobservable'. This refers to all assets that are not classified as 'Level 1' or 'Level 2' assets.</p> <p><i>Example:</i> Land, privately owned infrastructure, investments in private companies etc.</p>

Statutory vs. underlying accounts (1/2): Overview

What is the difference between Blue Sky's statutory and underlying accounts?

- Blue Sky invests from its balance sheet for strategic reasons into a range of the funds it manages, typically as alignment capital
 - e.g. Blue Sky invests 5% into all new student accommodation funds alongside Goldman Sachs
- Blue Sky has also made several balance sheet investments into new businesses (e.g. Cove Property Group) and operational businesses that are related to funds that we manage (e.g. Atira, the operator of our Australian student accommodation assets (formerly trading as 'The Pad'))
- **Statutory accounts:** AASB10 requires that, for funds in which Blue Sky has invested, these are accounted for either on a consolidated basis or using equity accounting (depending on the level of control). This accounting treatment has a range of impacts, including:
 - Management and other fees that are earned by Blue Sky are eliminated upon consolidation
 - Assets and liabilities held by funds that are consolidated appear on the consolidated Group's statement of financial position, and the fair value of the units held by Blue Sky in those funds is eliminated; and
 - For funds that are accounted for using the equity method, a share of the period's 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
- **Underlying accounts:** Blue Sky's underlying accounts are prepared on exactly the same basis as its statutory accounts, with the only difference being that Blue Sky's fund investments are accounted for using the same approach as *AASB13 – Fair Value Measurement*
 - All management, performance or other fees earned by Blue Sky are reflected in our underlying accounts
 - All investments in our funds are reflected in our underlying accounts at fair value
 - No profit and loss, balance sheet and cash flow items from our the funds we manage are consolidated
 - Note: Balance sheet investments into new funds management businesses (e.g. Cove Property Group) are accounted for in exactly the same way under our statutory and underlying accounts

Does Blue Sky's audit include its underlying accounts?

- Ernst and Young's standard audit covers both our statutory accounts and a review of underlying accounts

Do other alternative asset managers present underlying accounts?

- Yes. This accounting standard has the same impact described above on all alternative asset managers globally (for those that invest in their funds)
- Blue Sky's approach is based on the approach adopted by these global asset managers. For example, every reporting period Blackstone report 'Economic Net Income' (the equivalent of Blue Sky's 'underlying earnings')

Statutory vs. underlying accounts (2/2): Accounting treatment for balance sheet investments

Statutory results			
Accounting basis:	Fair value accounting	Equity accounting	Consolidated
Used when:	<ul style="list-style-type: none"> Balance sheet investments where Blue Sky is deemed not to have any control or influence over its investment 	<ul style="list-style-type: none"> Balance sheet investments where Blue Sky is deemed to have influence (but not control) 	<ul style="list-style-type: none"> Balance sheet investments where Blue Sky is deemed to have control
Number of investments:	<ul style="list-style-type: none"> Nil (Blue Sky, in its role as investment manager, is deemed to have control or influence over all of its investments) 	<ul style="list-style-type: none"> Nineteen 	<ul style="list-style-type: none"> Five
Examples:	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Student Accommodation funds Blue Sky Private Equity Retirement Village Fund 	<ul style="list-style-type: none"> WUA Fund 1 Riverside Gardens Trust
Underlying results			
Accounting basis:	Fair value accounting	Equity accounting	Consolidated
Used when:	<ul style="list-style-type: none"> All balance sheet investments in Blue Sky funds Other balance sheet investments into operating entities that are intended to be realised in the future 	<ul style="list-style-type: none"> Balance sheet investments that will be held indefinitely where Blue Sky is deemed to have influence, but not control 	<ul style="list-style-type: none"> Balance sheet investments that will be held indefinitely where Blue Sky is deemed to have control
Number of investments:	<ul style="list-style-type: none"> Twenty-two 	<ul style="list-style-type: none"> One investment 	<ul style="list-style-type: none"> One investment
Examples:	<ul style="list-style-type: none"> Student Accommodation funds Blue Sky Private Equity Retirement Village Fund Atira (Australian student accommodation management company. Blue Sky owns 35%) Aura (operator of retirement village sites. Blue Sky owns 50%) 	<ul style="list-style-type: none"> Cove Property Group, a US based joint venture focused on investing in institutional quality commercial real estate. Blue Sky owns 38% of Cove Property Group 	<ul style="list-style-type: none"> Student Quarters, a US based joint venture focused on investing in North American student accommodation assets. Blue Sky owns 60% of Student Quarters

Detailed underlying and statutory results: Income Statement

<i>In AUD \$m</i>	Underlying Results		Statutory Results	
	1H FY16	1H FY17	1H FY16	1H FY17
Income				
Management fees	\$13.5m	\$18.4m	\$13.5m	\$16.9m
Performance fees	\$8.2m	\$9.3m	\$8.2m	\$9.3m
Investment income	\$0.4m	\$2.6m	-\$0.1m	\$5.6m
Share of gain/(loss) of associates	-	\$3.1m	\$0.5m	\$3.3m
Interest income	\$0.5m	\$1.8m	\$0.7m	\$1.7m
Other income	\$1.2m	\$1.2m	\$11.4m	\$4.9m
Total income	\$23.8m	\$36.4m	\$34.2m	\$41.7m
Operating costs				
Employee benefits expense	-\$8.2m	-\$12.1m	-\$9.0m	-\$13.0m
Occupancy	-\$1.0m	-\$1.0m	-\$1.3m	-\$1.1m
External service providers	-\$1.9m	-\$1.3m	-\$2.0m	-\$1.5m
External capital raising expenses	-\$0.8m	-\$1.1m	-\$0.8m	-\$1.1m
Fee rebates to BSAAF Limited (BAF)	-\$2.7m	-\$2.2m	-\$2.7m	-\$2.2m
Other operating costs	-\$2.5m	-\$3.7m	-\$9.9m	-\$6.2m
Total operating costs	-\$17.1m	-\$21.4m	-\$25.7m	-\$25.1m
EBITDA	\$6.7m	\$15.0m	\$8.5m	\$16.6m
EBIT	\$6.5m	\$14.8m	\$7.4m	\$15.5m
Net profit after tax	\$4.4m	\$10.1m	\$4.5m	\$10.8m
Non-controlling interests (NCI)	-	-	\$0.2m	\$0.5m

Commentary on statutory results:

- Statutory results exclude the management fees, performance fees and other fees that have been earned by Blue Sky, as these are eliminated upon consolidation in accordance with AASB10
- Statutory results include all of the revenue and expenses from funds that have been consolidated, as well as a share of the gain/(loss) of funds that have been equity accounted in accordance with AASB 10
 - The revenue and expenses from the funds that are consolidated are attributable to the fund's unitholders (of which Blue Sky is one), but are not wholly attributable to Blue Sky
 - For example, 'other revenue' in the statutory results includes \$1.9m from the supply of water utilities that was attributable to WUA Fund 1
- Notwithstanding the above, AASB10 requires that these funds be consolidated where Blue Sky is deemed to have control, and equity accounted where Blue Sky is deemed to have significant influence

Commentary on underlying results:

- Underlying results exclude all of the revenue and expenses from funds that have been consolidated in the statutory results, as well as the share of gain/(loss) of funds that have been equity accounted in accordance with AASB 10
- Underlying results include the management, performance and other fees earned by Blue Sky from these funds.
- The underlying results are therefore more reflective of the economic reality (refer to slide 23 for further details)

Note that the Statutory Results include the impact of a range of Blue Sky managed funds that have been consolidated or equity accounted following the adoption of AASB 10. The underlying results columns are non-IFRS financial information and are based on all equity held by Blue Sky in funds that it manages being accounted for at fair value using the same approach as outlined in AASB 13. A reconciliation between the Underlying Results and the Statutory Results is provided in the Consolidated Financial Statements which may be downloaded from the ASX's website. The non-IFRS financial information has been reviewed by Blue Sky's auditor (Ernst & Young).

Detailed underlying and statutory results: Statement of Financial Position

In AUD \$m	Underlying Results		Statutory Results	
	At 30 June 2016	At 31 Dec 2016	At 30 June 2016	At 31 Dec 2016
Cash	\$62.9m	\$58.0m	\$63.8m	\$59.4m
Receivables	\$54.6m	\$54.2m	\$54.4m	\$53.8m
Other current assets	\$3.9m	\$4.8m	\$6.8m	\$7.3m
Total current assets	\$121.4m	\$117.0m	\$125.0m	\$120.5m
Investments accounted for using the equity method	\$1.7m	\$5.0m	\$35.5m	\$34.9m
Financial assets at fair value through profit and loss	\$51.5m	\$45.9m	-	-
Receivables	\$21.1m	\$32.1m	\$18.5m	\$28.5m
Property, plant and equipment	\$3.7m	\$3.4m	\$30.1m	\$5.2m
Intangible assets	\$5.6m	\$5.6m	\$18.7m	\$12.3m
Investment property	-	-	-	\$30.9m
Other non-current assets	\$0.1m	-	\$0.6m	-
Total non-current assets	\$83.7m	\$92.0m	\$103.4m	\$111.8m
Total assets	\$205.1m	\$209.0m	\$228.4m	\$232.3m
Trade and other payables	\$19.8m	\$25.4m	\$20.9m	\$30.5m
Borrowings	\$7.9m	\$5.9m	\$8.6m	\$14.3m
Other current liabilities	\$10.3m	\$7.9m	\$10.3m	\$8.0m
Total current liabilities	\$38.0m	\$39.2m	\$39.8m	\$52.8m
Borrowings	-	-	\$9.3m	\$22.1m
Other non-current liabilities	\$27.7m	\$30.2m	\$31.9m	\$27.1m
Total non-current liabilities	\$27.7m	\$30.2m	\$41.2m	\$49.2m
Total liabilities	\$65.7m	\$69.4m	\$81.0m	\$102.0m
Net assets	\$139.4m	\$139.6m	\$147.4m	\$130.3m
Net tangible assets	\$133.8m	\$134.0m	\$128.7m	\$118.0m

Commentary on statutory results:

- Statutory results exclude units that are owned by Blue Sky in funds that are consolidated (as these are eliminated upon consolidation in accordance with AASB10)
- Statutory results include all of the assets and liabilities of funds and entities that have been consolidated in accordance with AASB10
 - The assets and liabilities of those funds are attributable to each fund's unitholders (of which Blue Sky is one), but not wholly attributable to Blue Sky (e.g. 'investment property')
- Notwithstanding the above, AASB10 requires that these funds and entities be consolidated where Blue Sky is deemed to have control, and equity accounted where Blue Sky is deemed to have significant influence

Commentary on underlying results:

- Underlying results exclude the assets and liabilities of funds that are consolidated in the statutory results
- Underlying results include all investments made by Blue Sky in funds that it manages at fair value (using the same approach as in AASB13)
- The underlying results are therefore more reflective of the economic reality (refer to slide 26-27 for further details)

Note that the Statutory Results include the impact of a range of Blue Sky managed funds that have been consolidated or equity accounted following the adoption of AASB 10. The underlying results columns are non-IFRS financial information and are based on all equity held by Blue Sky in funds that it manages being accounted for at fair value using the same approach as outlined in AASB 13. A reconciliation between the Underlying Results and the Statutory Results is provided in the Consolidated Financial Statements which may be downloaded from the ASX's website. The non-IFRS financial information has been reviewed by Blue Sky's auditor (Ernst & Young).

Detailed underlying and statutory results: Statement of Cash Flows

In AUD \$m	Underlying Results		Statutory Results	
	1H FY16	1H FY17	1H FY16	1H FY17
Receipts from customers	\$23.4m	\$35.2m	\$30.2m	\$31.8m
Payments to suppliers and employees	-\$18.6m	-\$24.6m	-\$23.1m	-\$27.3m
Interest received	\$0.4m	\$1.3m	\$0.4m	\$1.4m
Interest and other finance costs paid	-\$0.2m	-\$0.4m	-\$0.4m	-\$0.7m
Income taxes paid	-\$1.9m	-\$2.2m	-\$2.0m	-\$2.3m
Net cash from operating activities	\$3.1m	\$9.3m	\$5.1m	\$2.9m
Payments for equity investments	-\$2.0m	-\$5.6m	-\$2.0m	-\$5.0m
Payments for property, plant and equipment	-\$0.4m	-\$0.1m	-\$1.4m	-\$0.5m
Payments for intangibles	-\$0.1m	-	-\$0.1m	-
Payments for investment property	-	-	-	-\$24.3m
Proceeds from disposal of equity investments	\$2.5m	\$11.3m	\$2.5m	\$21.1m
Bridging finance and loans to funds	-\$5.0m	-\$7.3m	-\$4.6m	-\$7.1m
Net cash used in investing activities	-\$5.0m	-\$1.7m	-\$5.6m	-\$15.8m
Proceeds from issue of shares	-	\$0.2m	-	\$0.2m
Share issue transaction costs	-	-\$0.2m	-	-\$0.2m
Proceeds from borrowings	\$16.8m	\$12.5m	\$17.0m	\$39.4m
Repayment of borrowings	-\$15.6m	-\$14.2m	-\$17.8m	-\$14.4m
Dividends paid	-\$6.2m	-\$10.8m	-\$6.2m	-\$16.5m
Net cash used in financing activities	-\$5.0m	-\$12.5m	-\$7.0m	\$8.5m
Starting cash balance	\$21.1m	\$62.9m	\$22.4m	\$63.8m
Ending cash balance	\$14.2m	\$58.0m	\$14.9m	\$59.4m

Commentary on statutory results:

- Statutory results exclude cash from management fees, performance fees and other fees that has been paid to Blue Sky from funds that are consolidated (as these are eliminated upon consolidation in accordance with AASB10)
- Statutory results include the cash flows generated within a range of Blue Sky funds that have been consolidated in accordance with AASB10
 - The cash flows generated within these funds are attributable to each fund's unitholders (of which Blue Sky is one), but are not wholly attributable to Blue Sky
- Notwithstanding the above, AASB10 requires that these funds and entities be consolidated where Blue Sky is deemed to have control, and equity accounted where Blue Sky is deemed to have significant influence

Commentary on underlying results:

- Underlying results exclude the cash flows generated within these funds, but include management fees, performance fees and other fees paid to Blue Sky
- The underlying results are therefore more reflective of the economic reality (refer to slide 28 for further details)

Note that the Statutory Results include the impact of a range of Blue Sky managed funds that have been consolidated or equity accounted following the adoption of AASB 10. The underlying results columns are non-IFRS financial information and are based on all equity held by Blue Sky in funds that it manages being accounted for at fair value using the same approach as outlined in AASB 13. A reconciliation between the Underlying Results and the Statutory Results is provided in the Consolidated Financial Statements which may be downloaded from the ASX's website. The non-IFRS financial information has been reviewed by Blue Sky's auditor (Ernst & Young).

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Appendix

- We have made a solid start to FY17 with material increases in revenue, margins, profitability and cash flow
- We are uniquely positioned in Australia to benefit from the boom in alternative assets and private markets given:
 - Our ten year investment track record across the four major alternative asset classes;
 - The long term partnerships we have established with institutional and sophisticated investors;
 - The platform and reputation we have established over our first decade
- We expect to convert additional large mandates over the course of 2017, and forecast our fee-earning AUM at 30 June 2017 will be between \$3.1 - \$3.3 billion
- We reiterate FY17 guidance of \$24 - \$26 million in underlying NPAT

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Appendix

Our business model

Parent company:

Blue Sky Alternative Investments Limited (ASX: BLA)

- Australia's leading diversified alternative asset manager, with funds across the four major alternative asset classes: Private Equity and Venture Capital, Private Real Estate, Real Assets and Hedge Funds
- Primary sources of revenue are management fees and performance fees from the funds we manage, as well as investment income from our balance sheet investments
- Have delivered overall returns since inception to investors in our funds of 16.4% p.a. (net of fees compounding)

Investment management teams:

Private Equity and Venture Capital

- Invests expansion capital (or 'growth capital') and late stage venture capital into rapidly growing businesses

Private Real Estate

- Invests in a range of private real estate opportunities, including student accommodation and retirement living
- Includes two US joint ventures

Real Assets

- Invests in water entitlements, agribusiness, and agricultural infrastructure opportunities

Hedge Funds

- Manages three separate hedge fund products, focused on strategic risk allocation

Returns since inception (net of fees)¹

16.8% p.a.

16.4% p.a.

17.2% p.a.

10.5% p.a.

Investors:

Institutional investors

- Institutional investors across private equity, private real estate and real assets
- Domestic and international

Sophisticated investors

- Family offices, high net worth individuals and self-managed super funds
- Domestic and international

Retail investors

- Primary investment vehicle for retail investors is BAF, a listed investment company that invests in a broad range of Blue Sky managed funds

1. Past performance is not a reliable indicator of future performance.

Private Equity and Venture Capital — Private Real Estate — Hedge Funds — Real Assets — The Alternatives Fund

Investment focus:

- Invests **expansion capital (or ‘growth capital’)** and **late stage venture capital** into established businesses
 - Focus is on investing in rapidly growing companies, with limited use of leverage across the portfolio
 - >50% of completed transactions are proprietary and sourced from our sophisticated investor network
- Investment focus is on industries with long term structural tailwinds, particularly where aligned with Blue Sky’s overall focus on “the essentials”

Returns:¹

- **Overall returns of 16.8% p.a. since inception (net of fees)**
- **Realised returns of 19.0% p.a. since inception (net of fees)**

Division update:

- Portfolio continues to perform well, particularly some of the larger companies. These larger companies include:
 - HPS (healthcare services business): Revenue has grown at >30% p.a. since we invested
 - Origo (education products business): Revenue has grown at >25% p.a. since we invested
 - GMH (pub portfolio) paid a yield of >12% to investors through CY2016
- Exited Pet Circle investment, delivering fund investors a **~20% IRR** (net of fees) over our three year investment period
- Hatchtech won the **Best Early Stage Award at the 2016 annual AVCAL awards**
- Deal flow is very strong with **5 transactions signed across growth equity and late-stage venture capital in 1H FY17**
- Anticipate **further exits in 2H FY17**

1. Past performance is not a reliable indicator of future performance.

Investment focus:

- Real estate opportunities where returns are generated through active management that typically results in a change of use (referred to as 'private equity into real estate')
- Current focus is on four areas:
 - **Student accommodation:** Developing purpose-built student accommodation in Australia (in partnership with Goldman Sachs) Blue Sky also owns 35% of Atira (formerly trading as 'The Pad'), the management company responsible for operating these assets
 - **Retirement living:** Developing suburban multi-storey retirement villages. Blue Sky is responsible for the development of each site and also owns 50% of Aura (alongside former executives of Retire Australia), the management company which operates these assets
 - **Cove Property Group ('Cove'):** US based joint venture focused on investing in institutional quality commercial real estate in North America. Blue Sky owns 38% of Cove, the funds management business responsible for these investments
 - **Student Quarters:** US based business focused on investing in brownfield purpose-built student accommodation in North America. Blue Sky owns 60% of Student Quarters, the funds management business responsible for these investments

Returns:¹

- **Overall returns of 16.4% p.a. since inception (net of fees)**
- **Realised returns of 18.5% p.a. since inception (net of fees)**

Division update:

- **Student accommodation:**
 - Over 4,500 beds across eight sites that are either operational or under development. Recently agreed to acquire our first site in Sydney. Remain well on track to grow to meet our 5,000 – 10,000 bed target
 - Portfolio is tracking ahead of plan. First site delivered on time, under budget and will pay a 10% yield to fund investors in its first year of operations. Second site will open within the next month and is under budget and well ahead of its original schedule to be completed mid-year. Our remaining sites in development are all tracking at or ahead of their investment case
- **Retirement living:** Two sites acquired in 2016 that are proceeding through development approval and several potential sites in late stages of due diligence
- **Cove:** Two acquisitions made in Manhattan, New York since establishment (2 Rector Street and 441 Ninth Avenue)
- **Student Quarters:** Investment platform established and agreement signed to acquire first site in 1H FY17
- **Residential developments:**
 - Will finish four projects over 2H FY17, including two where settlements are currently underway. Settlements are proceeding well (99% of apartments across our developments have been sold to domestic buyers). Each of these projects is on track to deliver a return on equity for investors in these funds of 40% to 60% (net of fees)
 - Currently a relatively small part of our business

1. Past performance is not a reliable indicator of future performance.

Investment focus:	<ul style="list-style-type: none"> • Manages three separate hedge fund products • Core product is 'Dynamic Macro', which is a global systematic macro strategy <ul style="list-style-type: none"> • Dynamic Macro systematically takes positions across a range of global markets based on a quantitative assessment of macroeconomic signals • Dynamic Macro has generated returns of 9.5% p.a. since inception¹ with a correlation to the S&P500 of -0.53 • Generally outperforms through periods of global market volatility, and is specifically designed to maintain its negative correlation when market instability occurs (i.e. avoids a situation where all asset classes devalue at the same time in a crisis)
Returns:¹	<ul style="list-style-type: none"> • Overall returns of 10.5% p.a. since inception (net of fees)
Division update:	<ul style="list-style-type: none"> • Dynamic Macro recognised in 2016 as one of the top 20 CTA hedge funds globally by Barclay Hedge • Increased focus on offshore capital raising: <ul style="list-style-type: none"> • Full time distribution capability in New York • Cayman based fund to be launched later this half

1. Past performance is not a reliable indicator of future performance.

Investment focus:

- Invests in Australian water entitlements, agribusiness and agricultural infrastructure
 - **Water entitlements:** Perpetual rights to water. Investment focus is primarily on building and managing a portfolio of water entitlements across the Murray-Darling Basin
 - **Agribusiness:** Focus is on agricultural investments where returns are generated through a change of use (e.g. conversion of land used for rice farming to cotton farming)
 - **Agricultural infrastructure:** Focused on infrastructure investments exposed to Australia's agriculture sector

Returns:¹

- **Overall returns of 17.2% since inception (net of fees)**

Division update:

- Water entitlements:
 - Performance of Blue Sky Water Fund was relatively flat in 2016, but exceeded expectations given a record wet winter and spring period for the Murray Darling Basin
 - **Returned 1.7% (net of fees) for the 12 months ended 31 Dec 2016**, having delivered a return of 47.4% (net of fees) across the prior twelve months
 - Paid interim 2.5% yield to investors in January 2017 and **on track to deliver yield of at least 5%** for the full financial year
 - Long term demand / supply drivers of water entitlements remain compelling
- **Realised our investment in water infrastructure**, with Water Utilities Group being sold to Colonial First State Diversified Infrastructure Fund in December 2016
- Signed significant mandate in January 2017 and anticipate securing additional institutional capital during 2017

1. Past performance is not a reliable indicator of future performance.

Blue Sky Alternatives Access Fund (ASX: BAF) update

Private Equity and Venture Capital — Private Real Estate — Hedge Funds — Real Assets — **The Alternatives Fund**

Investment focus:

- BAF is a listed investment company providing shareholders with **exposure to a broad range of alternative assets** managed by Blue Sky
- Only listed investment company on the ASX that allows investors to make a strategic allocation to a diverse portfolio of directly managed alternative assets
- Currently invested in **44 Blue Sky managed funds**

Returns:¹

- **Total shareholder return of 9.6% p.a. since inception^{1,2}**
- Overall portfolio return of 8.8% p.a. since inception (net of fees and fund expenses)^{1,3}
- On average, has traded at a 7.9% premium to NTA over the last 6 months

Division update:

- Raised \$47 million in an entitlement offer in November 2016
 - Shortfall facility was opened and closed on the same day significantly over-subscribed
- Deployed over \$42 million by 31 December 2016, with full deployment in line with original 3-5 month target
- Declared interim dividend for 1H FY17 of 1.0 cents per share

1. Past performance is not a reliable indicator of future performance.

2. Growth in share price (ASX:BAF) plus dividends and franking credits from inception (16 June 2014) to 31 December 2016. No adjustment has been made for transaction costs such as brokerage charges.

3. Growth in pre-tax net tangible assets plus dividends and franking credits from inception (16 June 2014) to 31 December 2016.



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