



# Blue Sky Alternative Investments Limited

## FY16 RESULTS PRESENTATION

August 2016

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

This presentation has been prepared by Blue Sky Alternative Investments Limited ('Blue Sky'). The information in this presentation is of a general nature and does not purport to be complete, nor does it contain all the information which would be required in a prospectus prepared in accordance with the requirements of the Corporations Act.

This presentation contains statements, opinions, projections, forecasts and other material ('forward looking statements'), based on various assumptions. Those assumptions may or may not prove to be correct. None of Blue Sky, its respective officers, employees, agents, advisers or any other person named in this presentation makes any representation as to the accuracy or likelihood of fulfilment of the forward looking statements or any of the assumptions upon which they are based.

The information contained in this presentation does not take into account the investment objectives, financial situation or particular needs of any recipient and is not financial product advice. Before making an investment decision, recipients of this presentation should consider their own needs and situation and, if necessary, seek independent, professional advice.

To the extent permitted by law, Blue Sky and its respective officers, employees, agents and advisers give no warranty, representation or guarantee as to the accuracy, completeness or reliability of the information contained in this presentation. Further, none of Blue Sky and its respective officers, employees, agents and advisers accept, to the extent permitted by law, responsibility for any loss, claim, damages, costs or expenses arising out of, or in connection with, the information contained in this presentation. Any recipient of this presentation should independently satisfy themselves as to the accuracy of all information contained herein.

Figures presented throughout this presentation 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 financial statements 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 subject to review by Blue Sky's auditor (Ernst & Young).







- Underlying net profit after tax for FY16 up 57% to \$16.3 million (FY15: \$10.4 million)
- Underlying income for FY16 up 44% to \$62.8 million (FY15: \$43.6 million)
- Underlying NTA of \$133.8 million at 30 June 2016, including \$62.9 million in cash
- Fee earning assets under management ('AUM') at 30 June 2016 of \$2.1 billion (30 June 2015: \$1.35 billion)
- Investment performance: 16.7% p.a. net of fees since inception (up from 15.4% at 30 June 2015)<sup>1</sup>
- Delivered or exceeded all priorities outlined at last year's AGM
- Declared a 16 cents per share fully franked dividend (record date: 2 Sept 2016; payment date 16 Sept 2016)

	Underlying Results			Statutory Results		
	FY15	FY16	% Change	FY15	FY16	% Change
Total income	\$43.6m	\$62.8m	44.0%	\$64.5m	\$70.9m	9.9%
Net profit after tax	\$10.4m	\$16.3m	56.7%	\$10.4m <sup>2</sup>	\$11.4m <sup>2</sup>	9.6%
Net tangible assets	\$56.9m	\$133.8m	135%	\$58.0m	\$128.7m	122%

1. Note that past performance is not a reliable indicator of future performance.

2. Excluding non-controlling interest.

Please refer to the Consolidated Financial Report for the year ended 30 June 2016 for an explanation (and reconciliation) of the difference between the statutory and underlying results.

What we said we'd do	Current status
 Investment track record of >15% p.a. net of fees since inception	 10 year investment track record. Returns of 16.7% p.a. net of fees since inception to 30 June 2016 <sup>1</sup>
 Grow AUM to achieve \$2b+ by 31 December 2016	 Fee earning AUM of \$2.1b at 30 June 2016
 Raise two additional funds that attracts institutional capital	 Raised capital from four new institutional investors

1. Note that past performance is not a reliable indicator of future performance.

- Private Real Estate team secured an investment mandate from Goldman Sachs into student accommodation
- Established Cove joint venture, which made its first investment in March 2016 (acquiring an office tower at 2 Rector St, New York with a transaction value >A\$280 million)
- Continued to deliver private equity exits, including sale of Readify to Telstra
- Made our first private equity (expansion capital) investment in North America
- Successful completion of \$66.8 million equity raising in May / June
- Admitted to ASX300 index in March



**FY16 RESULTS**

# Income Statement: Summary

In AUD \$m	Underlying Results		Statutory Results	
	FY15	FY16	FY15	FY16
<b>Income</b>				
Management fees	\$24.8m	\$31.5m	\$24.7m	\$31.0m
Performance fees	\$8.8m	\$18.7m	\$8.8m	\$18.7m
Investment income	\$5.5m	\$6.9m	\$2.3m	(\$0.7m)
Share of gain/(loss) of associates	-	\$1.1m	\$3.7m	\$2.8m
Other income	\$4.5m	\$4.6m	\$25.0m	\$19.1m
<b>Total income</b>	<b>\$43.6m</b>	<b>\$62.8m</b>	<b>\$64.5m</b>	<b>\$70.9m</b>
<b>Operating costs</b>				
Employee benefits expense	(\$12.4m)	(\$19.2m)	(\$15.2m)	(\$20.7m)
Occupancy	(\$1.1m)	(\$1.9m)	(\$1.6m)	(\$2.1m)
External service providers	(\$3.0m)	(\$4.2m)	(\$3.2m)	(\$4.5m)
External capital raising expenses	(\$3.0m)	(\$2.1m)	(\$3.0m)	(\$2.1m)
Fee rebates to BSAAF Limited (BAF)	(\$3.3m)	(\$5.6m)	(\$3.3m)	(\$5.6m)
Other operating costs	(\$5.3m)	(\$5.3m)	(\$21.2m)	(\$16.6m)
<b>Total operating costs</b>	<b>(\$28.1m)</b>	<b>(\$38.3m)</b>	<b>(\$47.5m)</b>	<b>(\$51.6m)</b>
<b>EBITDA</b>	<b>\$15.5m</b>	<b>\$24.5m</b>	<b>\$17.0m</b>	<b>\$19.3m</b>
EBIT	\$15.2m	\$24.0m	\$14.8m	\$17.0m
<b>Net profit after tax</b>	<b>\$10.4m</b>	<b>\$16.3m</b>	<b>\$9.9m</b>	<b>\$10.5m</b>
Non-controlling interests (NCI)	-	-	(\$0.5m)	(\$0.9m)

## Commentary on underlying results:

- 27% increase in management fees reflects increase in fee earning AUM from \$1.35bn at 30 June 2015 to \$2.1bn at 30 June 2016
- Compression in management fees as a % of average fee earning AUM (FY16: 1.8%; FY15: 2.4%) reflects increasing investment from institutional investors (e.g. into Real Assets) and the Blue Sky Alternatives Access Fund. Focus remains on attracting capital at reasonable margins (rather than headline fee level)
- All four parts of the business generated performance fee revenue in FY16, with the largest contributors being Private Real Estate (\$8.7m), Real Assets (\$4.2m) and Private Equity (\$4.2m)
- Fixed employment costs grew from \$9.8m to \$14.5m, reflecting investments made in distribution, student accommodation and our New York office. Incremental costs reflect performance fees and bonuses earned by the team
- EBITDA margins are improving as the business begins to scale (FY16: 39.0%; FY15: 35.5%)

## Commentary on statutory results:

- 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
- For example, other income includes revenue earned by funds managed by Blue Sky and is largely made up of apartment sales revenue (\$4.4m), supply of water revenue (\$6.5m) and management and letting rights revenue (\$3.6m)
- Similarly, employee benefits expense includes the cost of staff employed by these funds
- Other operating costs are largely made up of costs associated with apartment sales (\$3.4m), the supply of water (\$2.7m) and management and letting rights expenses (\$4.5m)

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 subject to review by Blue Sky's auditor (Ernst & Young).

In AUD \$m	Underlying Results	Statutory Results
	At 30 June 2016	At 30 June 2016
Cash	\$62.9m	\$63.8m
Other current assets	\$58.5m	\$61.2m
<b>Total current assets</b>	<b>\$121.4m</b>	<b>\$125.0m</b>
Investments accounted for using the equity method	\$1.7m	\$35.5m
Financial assets at fair value through profit and loss	\$51.5m	-
Property, plant and equipment	\$3.7m	\$30.1m
Intangible assets	\$5.6m	\$18.7m
Other non-current assets	\$21.2m	\$19.1m
<b>Total non-current assets</b>	<b>\$83.7m</b>	<b>\$103.4m</b>
<b>Total assets</b>	<b>\$205.1m</b>	<b>\$228.4m</b>
Trade and other payables	\$19.8m	\$20.9m
Borrowings	\$7.9m	\$8.6m
Other current liabilities	\$10.3m	\$10.3m
<b>Total current liabilities</b>	<b>\$38.0m</b>	<b>\$39.8m</b>
Borrowings	-	\$9.3m
Other non-current liabilities	\$27.7m	\$31.9m
<b>Total non-current liabilities</b>	<b>\$27.7m</b>	<b>\$41.2m</b>
<b>Total liabilities</b>	<b>\$65.7m</b>	<b>\$81.0m</b>
Net assets	\$139.4m	\$147.4m
<b>Net tangible assets</b>	<b>\$133.8m</b>	<b>\$128.7m</b>

## Commentary on underlying results:

- Cash position is strong, reflecting \$18.7m in cash generated from operating activities and balance sheet realisations throughout FY16
- Other current assets include bridging finance provided to Blue Sky managed funds (\$25.6m), accrued performance fees (\$14.4m) and other fees (\$11.1m) expected to be realised in cash in the next 12 months
- Financial assets at fair value through profit and loss include balance sheet investments in: Private Equity and Venture Capital (\$17.2m) (e.g. Retirement Village Fund); Private Real Estate (\$20.8m) (e.g. student accommodation); Real Assets (\$7.4m) (e.g. water infrastructure); and Blue Sky Alternatives Access Fund (\$6.0m)
- Investments accounted for using the equity method represents the \$1.7m investment in Cove, our North American joint venture focused on institutional grade investments in commercial property
- Other non-current assets include accrued performance fees (\$9.6m), loans to funds (\$2.7m), loans to employees (\$2.1m) and other fees of (\$6.8m)
- Finished FY16 with over \$133 million in net tangible assets

## Commentary on statutory results:

- 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
- For example, investments accounted for using the equity method include investments by Blue Sky into funds that it manages such as our student accommodation co-investments
- Property, plant and equipment reflects assets owned by these funds (for example, water infrastructure assets)
- Borrowings include debt that is consolidated from funds under AASB10 (for example, construction debt; debt related to water infrastructure) and that is non-recourse to Blue Sky

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 subject to review by Blue Sky's auditor (Ernst & Young).



# Cash Flow: Summary

In AUD \$m	Underlying Results	Statutory Results
	FY16	FY16
Receipts from customers	\$52.1m	\$65.4m
Payments to suppliers and employees	(\$38.2m)	(\$48.9m)
Interest received	\$1.2m	\$1.2m
Interest and other finance costs paid	(\$0.7m)	(\$1.2m)
Income taxes paid	(\$2.9m)	(\$3.3m)
<b>Net cash from operating activities</b>	<b>\$11.5m</b>	<b>\$13.2m</b>
Payments for equity investments	(\$14.3m)	(\$14.3m)
Payments for property, plant and equipment	(\$0.8m)	(\$2.3m)
Payments for intangible assets	(\$0.1m)	(\$0.1m)
Proceeds from disposal of equity investments	\$7.1m	\$7.1m
Loans from/(to) related parties	(\$21.4m)	(\$20.5m)
<b>Net cash used in investing activities</b>	<b>(\$29.5m)</b>	<b>(\$30.1m)</b>
Proceeds from issue of shares	\$67.5m	\$67.5m
Share issue transaction costs	(\$2.4m)	(\$2.4m)
Proceeds from borrowings	\$7.6m	\$7.7m
Repayment of borrowings	(\$6.7m)	(\$8.2m)
Dividends paid	(\$6.2m)	(\$6.3m)
<b>Net cash from financing activities</b>	<b>\$59.8m</b>	<b>\$58.3m</b>
Starting cash balance	\$21.1m	\$22.4m
<b>Ending cash balance</b>	<b>\$62.9m</b>	<b>\$63.8m</b>

## Commentary on underlying results:

- Net operating cash continues to strengthen as the business matures (FY15: \$6.1m; FY16: \$11.5m). In addition, realised gains on, and distributions of profit from, balance sheet investments contributed \$2.1m in FY16
- Payments for equity investments include initial co-investment in student accommodation (including The Pad) of \$6.5m and Private Equity and Venture Capital funds of \$5.2m
- Loans to related parties include bridging finance provided to Blue Sky funds
- No significant movement in borrowings during FY16
- Proceeds from the issue of shares reflects the gross capital received from the entitlement offer that was successfully completed in June 2016
- \$6.2m dividend paid in FY16

## Commentary on statutory results:

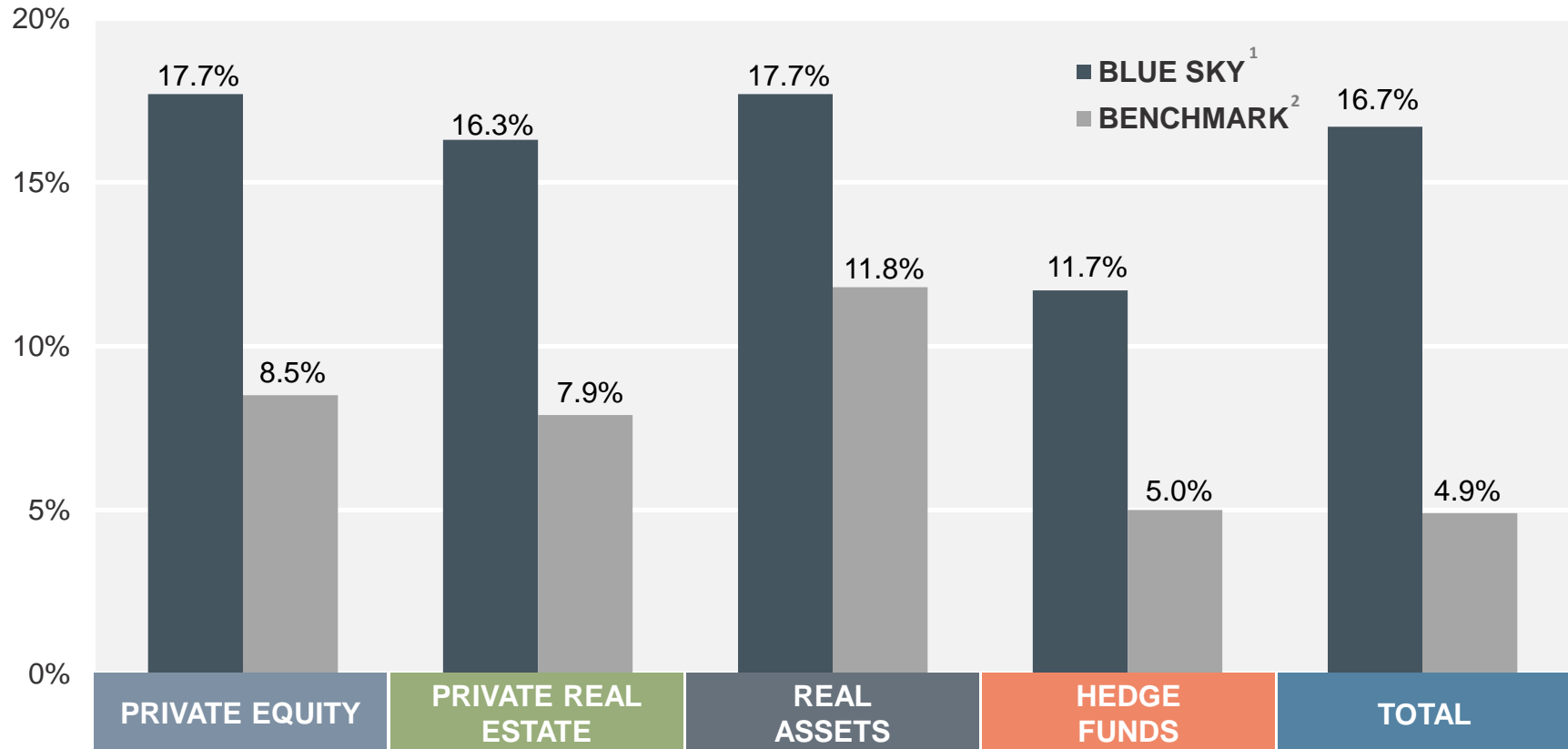
- Statutory results include the impact of a range of Blue Sky managed funds that have been consolidated or equity accounted following the adoption of AASB 10
- For example, higher receipts from customers and payments (than underlying results) include cash from the sale of water, proceeds from the sale of apartments and management rights letting income (and payments to suppliers reflecting the relevant funds' costs of providing these services)
- Statutory results for cash flow from investing activities and financing activities not significantly different to underlying results (refer to commentary above)

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 subject to review by Blue Sky's auditor (Ernst & Young).

The image features a solid blue background on the left side, which transitions into a white background on the right. A prominent diagonal stripe, composed of a dark blue band and a light grey band, runs from the top right towards the bottom left. The text 'BUSINESS UPDATE' is positioned in the lower-left area of the blue background.

**BUSINESS UPDATE**

# Investor returns: 16.7% net of fees since inception (as at 30 June 2016)



1. Total returns are equity weighted returns since inception through to 30 June 2016. Returns are net of fees and include a mix of realised and unrealised investments. Past performance is not a reliable indicator of future performance.
2. Benchmarks are measured over the same time period as the returns for each division and are sourced from Chant West's December 2015 and June 2016 media releases. Private Equity – Chant West Private Equity performance over 10 years. Private Real Estate – Average of Chant West Australian Unlisted Property performance over 10 years. Real Assets – Average of Chant West Unlisted Infrastructure performance over 3 and 5 years. Hedge Funds – Chant West Hedge Fund performance over 10 years. Overall – S&P ASX200 Accumulation Index from 1 July 2006 to 30 June 2016.



## PRIVATE EQUITY

Continued private equity exits, including the sale of Readify that generated a 23.2% IRR (net of fees) to fund investors

Executed first growth equity investment in North America

Overall portfolio positioned well, with small decline in overall returns attributable to newer investments that are yet to deliver any significant change in value



## PRIVATE REAL ESTATE

Student accommodation investments playing out as anticipated and will continue to deploy capital in this sector

Established Cove joint venture, which made its first investment in March 2016

Selected exits from management rights portfolio over FY17 will be delivered



## REAL ASSETS

Water fund generated 26.2% return in FY16, and is now up over 100% since inception (19.5% p.a.)<sup>2</sup>

Continued to deploy capital in water and agriculture

Agricultural investments continue to perform at or above investment case which may lead to early exit opportunities over the coming years



## HEDGE FUNDS

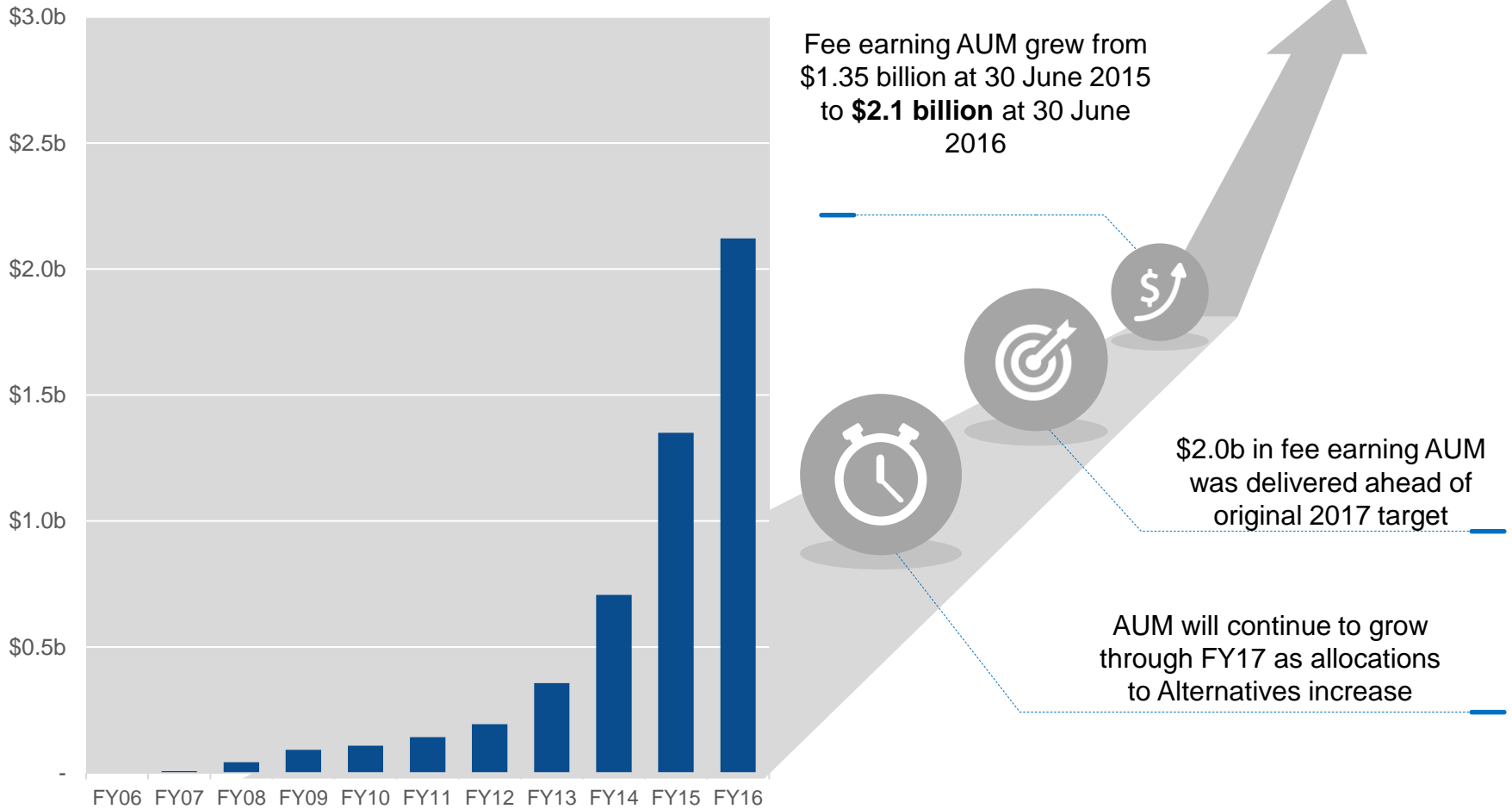
Dynamic Macro fund returned 8.2% in FY16, performing particularly well in market downturns (such as January 2016). Returns since inception now 11.6% p.a. with a correlation of -0.47 to the ASX200

Dynamic Macro fund recognised by Barclay Hedge as one of the Top 20 hedge funds in its class globally

Each of our hedge fund products generated a positive return in FY16

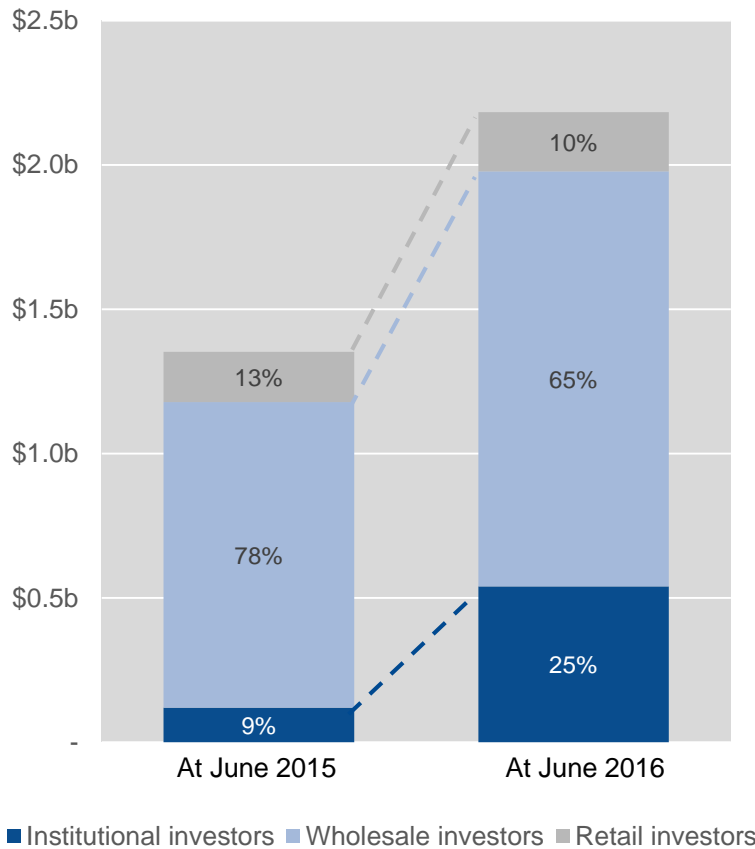
1. Note that past performance is not a reliable indicator of future performance.  
2. Note that returns since inception for the water fund are through to 31 July 2016.

## Fee earning assets under management



# All three of our capital sources continued to grow throughout FY16

## Fee earning assets under management



### Retail (10% of total)

- \$46.4m raised from exercise of BAF options during FY16. This new capital, in combination with fund performance over FY16 (11.9% return pre tax) has driven NTA to \$140m



### Wholesale (65% of total)

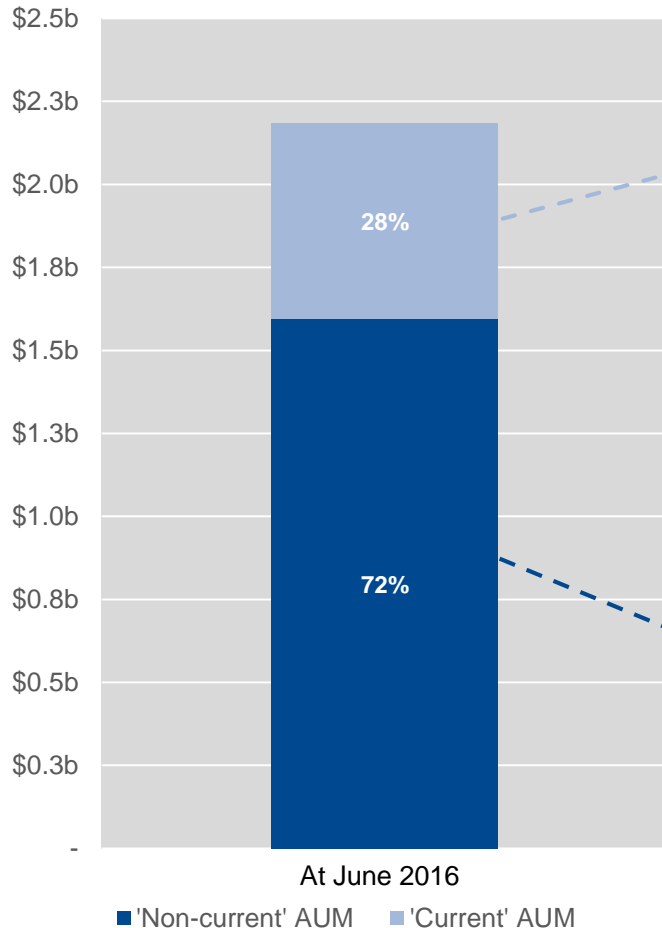
- Continues to be our dominant source of fee earning AUM, and represents 40%+ of assets in the Australian funds management industry
- Blue Sky continues to broaden engagement with family offices, HNWIs, SMSFs and financial planners as Alternatives become mainstream



### Institutional (25% of total)

- Has continued to increase (both in absolute and proportionate terms) as engagement with domestic and international institutions has deepened

## Fee earning assets under management

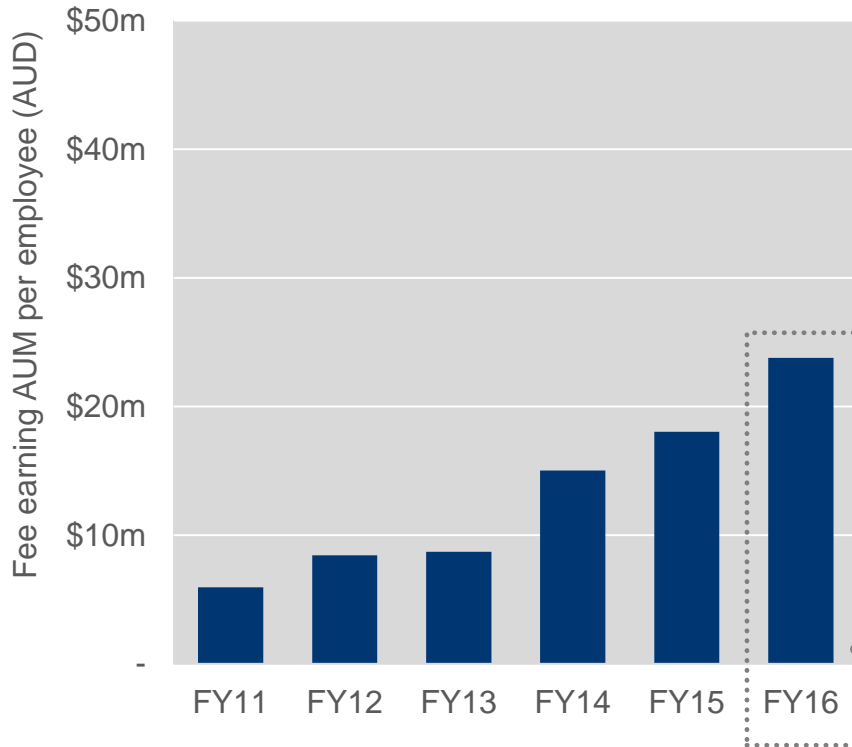


- Current AUM includes:
  - Open-ended funds: hedge funds; water fund (excl. institutional mandate)
  - Closed-ended funds with anticipated realisations in FY17 (e.g. some private equity and a number of private real estate funds)
- 28% of fee earning AUM (as at 30 June 2016)

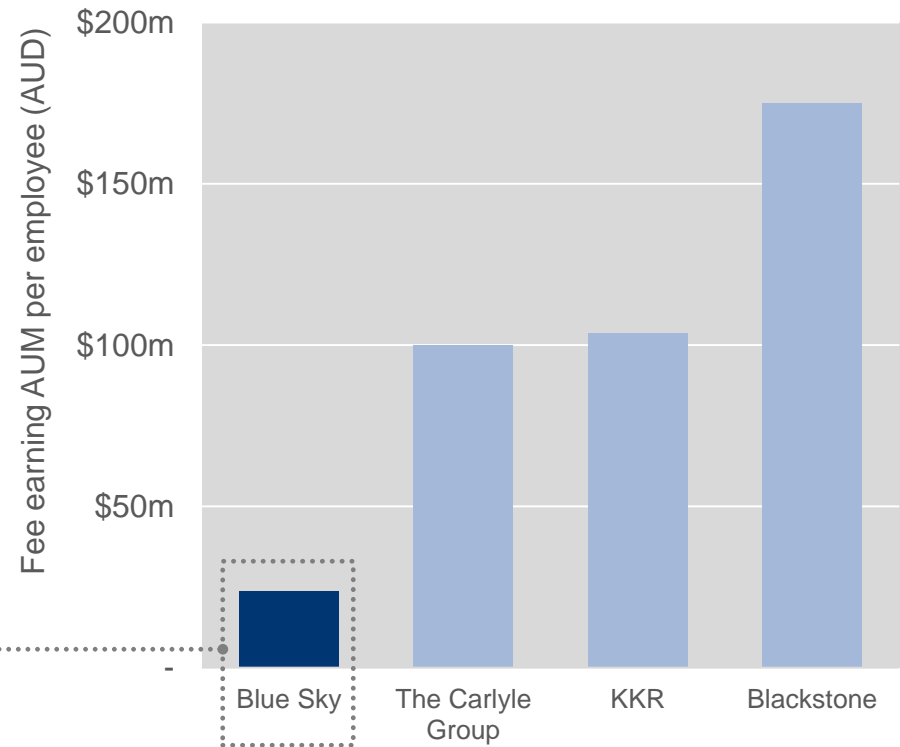
- All remaining AUM is in closed-ended funds that are 'non-current'. These include:
  - Private Equity and Venture Capital funds with anticipated realisations beyond FY17
  - Private Real Estate funds with anticipated realisations beyond FY17
  - Real Assets – water infrastructure; agribusiness; institutional investment into water entitlements
  - BAF: 10-year management agreement
- Provides baseline level of AUM that generates fees over a multi-year period
- 72% of fee earning AUM (as at 30 June 2016)

# Our business is small relative to global peers, but is beginning to see the benefits of scale

**Blue Sky fee earning AUM per employee**



**Comparison to global listed alternative asset managers**



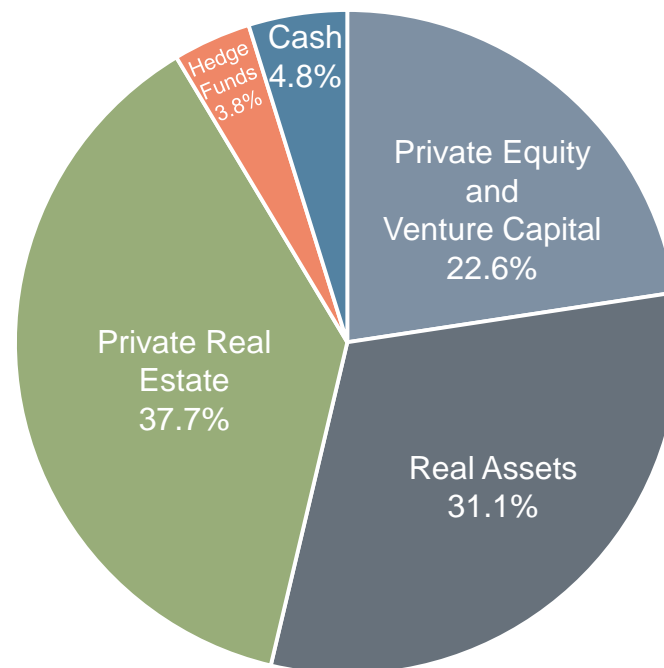
Source: Q2 2016 results presentations and company websites. Exchange rate of 0.76 AUD/USD applied.



# The Blue Sky Alternatives Access Fund (ASX: BAF) continues to deliver on its promise to investors (1/2)

Fund performance to 30 June 2016 (NTA growth plus dividends and franking credits) <sup>1</sup>		
Period	Pre-Tax	Post-Tax
1 month	2.14%	1.76%
3 months	3.66%	3.75%
6 months	4.79%	4.62%
12 months	11.87%	10.12%

**Sector weightings  
(as at 30 June 2016)**

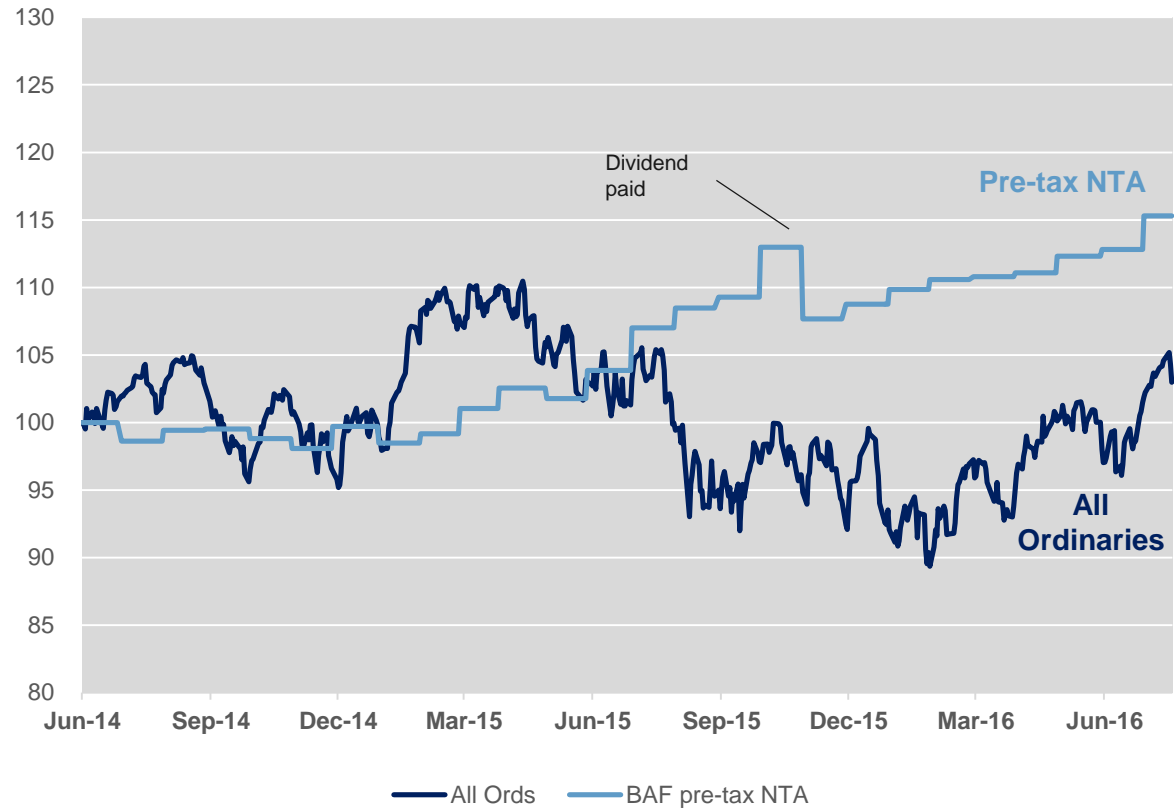


1. To 30 June 2016. Includes NTA growth, dividends and franking credits. Past performance is not a reliable indicator of future performance.

# The Blue Sky Alternatives Access Fund (ASX: BAF) continues to deliver on its promise to investors (2/2)

- ✓ Diversified / balanced portfolio
- ✓ Exposure to assets that are not correlated to equities
- ✓ Liquid access
- ✓ Returns in line with BLA track record
- ✓ Meaningful yield component
- ✓ Low fees

**Pre-tax NTA v. All Ordinaries Index**



- Long term, structural increase in allocations to Alternatives will continue to underpin growth
- Opportunity remains large: Australia's funds management industry is forecast to grow from \$2.6 trillion today to \$8.0 trillion by 2030,<sup>1</sup> with Alternatives growing from \$369 billion to \$1.2 trillion
- We now have a ten-year investment track record across the four major alternative asset classes. This is difficult to replicate and a key source of competitive advantage for Blue Sky
- This investment track record, in combination with our balance sheet having >\$130m in net tangible assets, will see us continue to grow fee earning AUM in FY17
- At the same time as growing AUM and maintaining our investment track record, we have grown revenue and profitability, improved cash conversion, improved the quality of our team and increased the dividend paid to investors

1. Source: Rainmaker. Includes overseas sourced FUM.



**Blue Sky Alternative Investments Limited**

Level 46, 111 Eagle Street  
Brisbane, Queensland  
4000

T: +61 7 3270 7500

E: [investorservices@blueskyfunds.com.au](mailto:investorservices@blueskyfunds.com.au)

[blueskyfunds.com.au](http://blueskyfunds.com.au)