



Blue Sky Alternative Investments Limited

MORGANS CONFERENCE - 2016

October 2016

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

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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 investments 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 investments 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).



Our Industry

Our Business

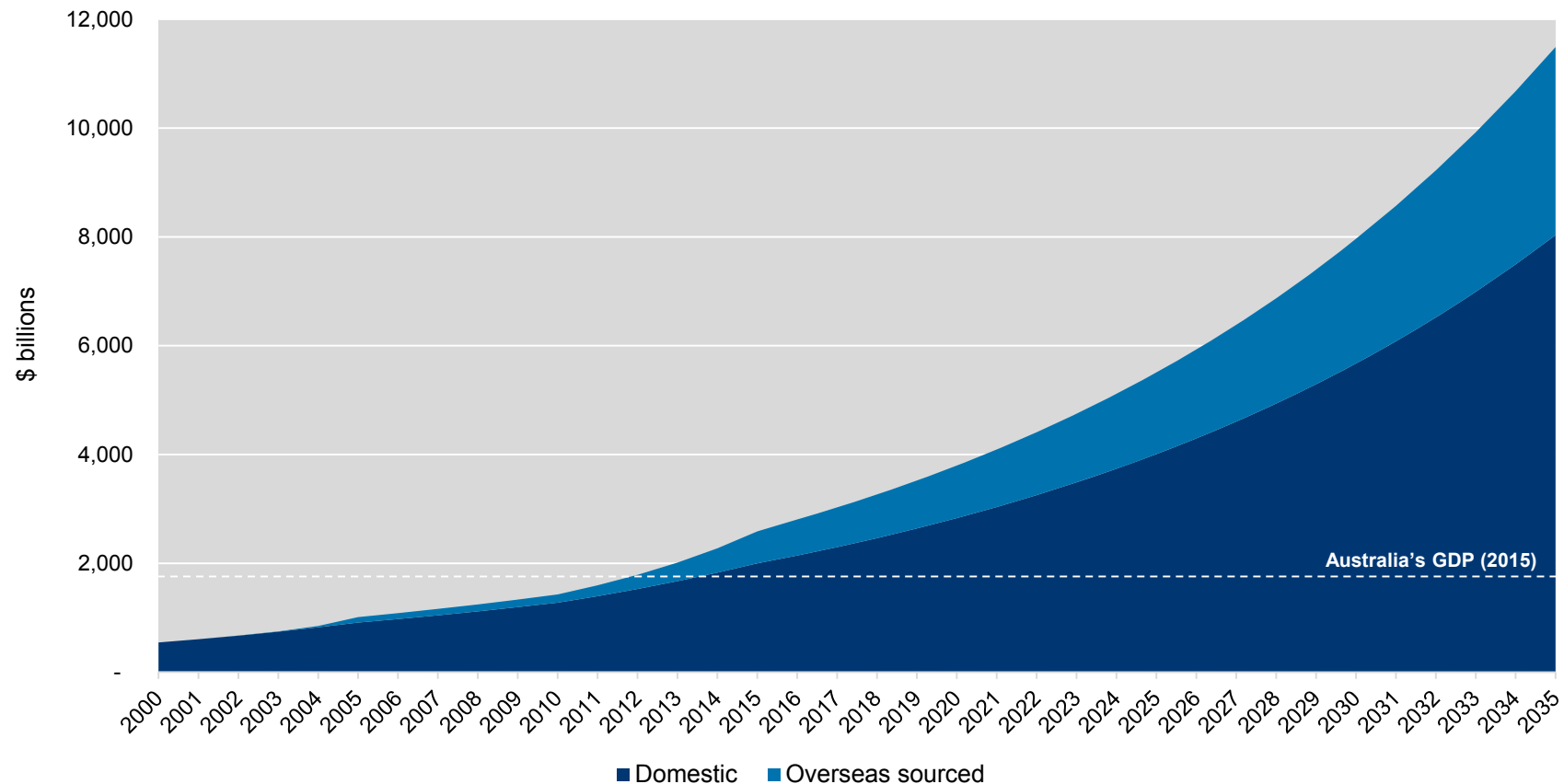
Our Financials

Our Next Decade

AGENDA

Australia's funds management industry: massive and growing

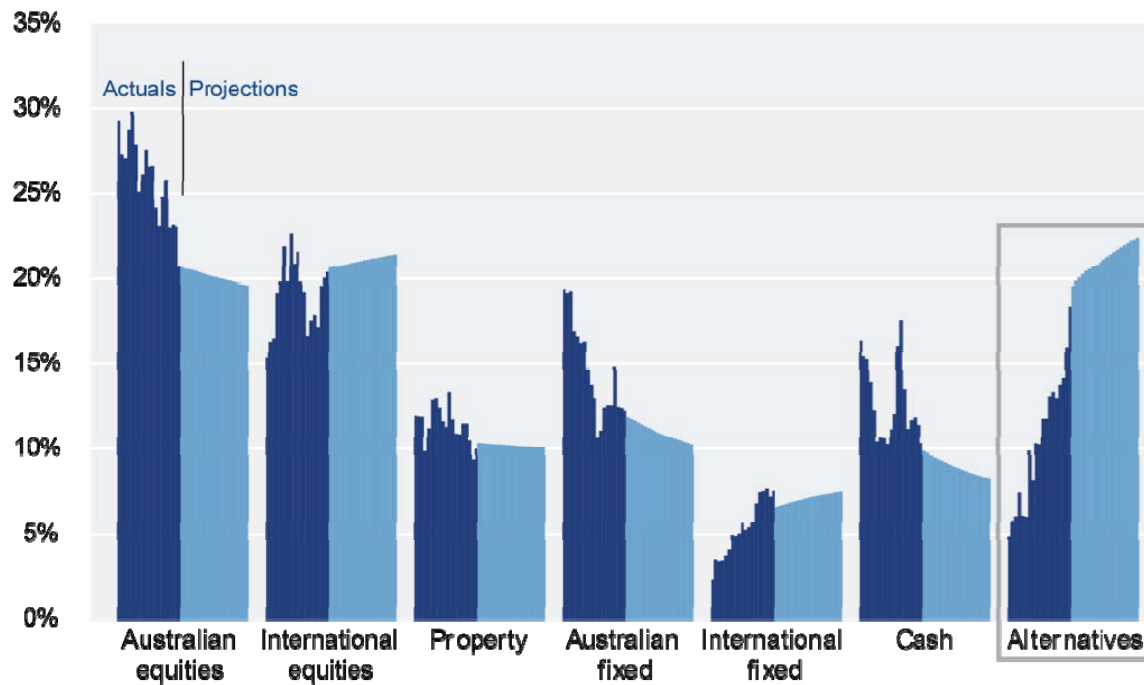
FUM market trends and projections: 2000 to 2035



Source: Rainmaker Roundup – Volume 19 Number 3 (SEP Quarter 2015)

“Alternatives”. Now very much mainstream. (and Australia’s largest asset class by 2021)

Asset class segment shares 1997-2035



Source: Rainmaker Roundup – Edition 72 (December 2015)

Why?

Returns ←.....

Diversification ←.....

including exposure to sectors that are underweight on the ASX

Broader opportunities ←.....

e.g. unlisted equities are a 65% larger market in Australia than listed equities¹

Australia catching up with international ‘norms’ ←.....

On average, institutional investors globally allocate 20-25% to Alternatives²

1. Minack Advisors
2. Global Pension Assets Study 2016, Willis Towers Watson (February 2016)

AGENDA

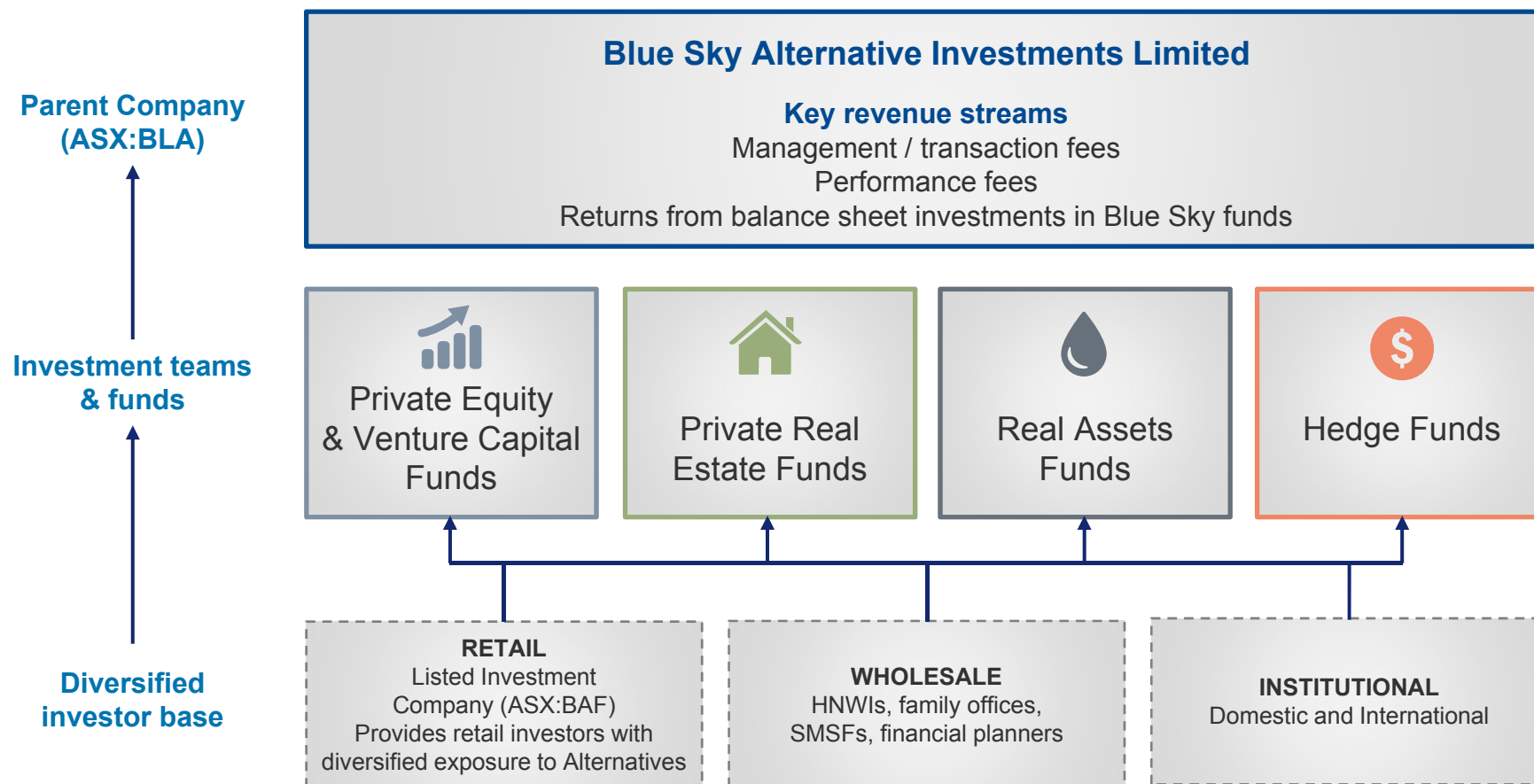
Our Industry

Our Business

Our Financials

Our Next Decade

Our Business Model



Blackstone

KKR



FORTRESS



Partners Group
Passion for Alternative Investments



GAM
GLOBAL ASSET MANAGEMENT

Ashmore



ARES

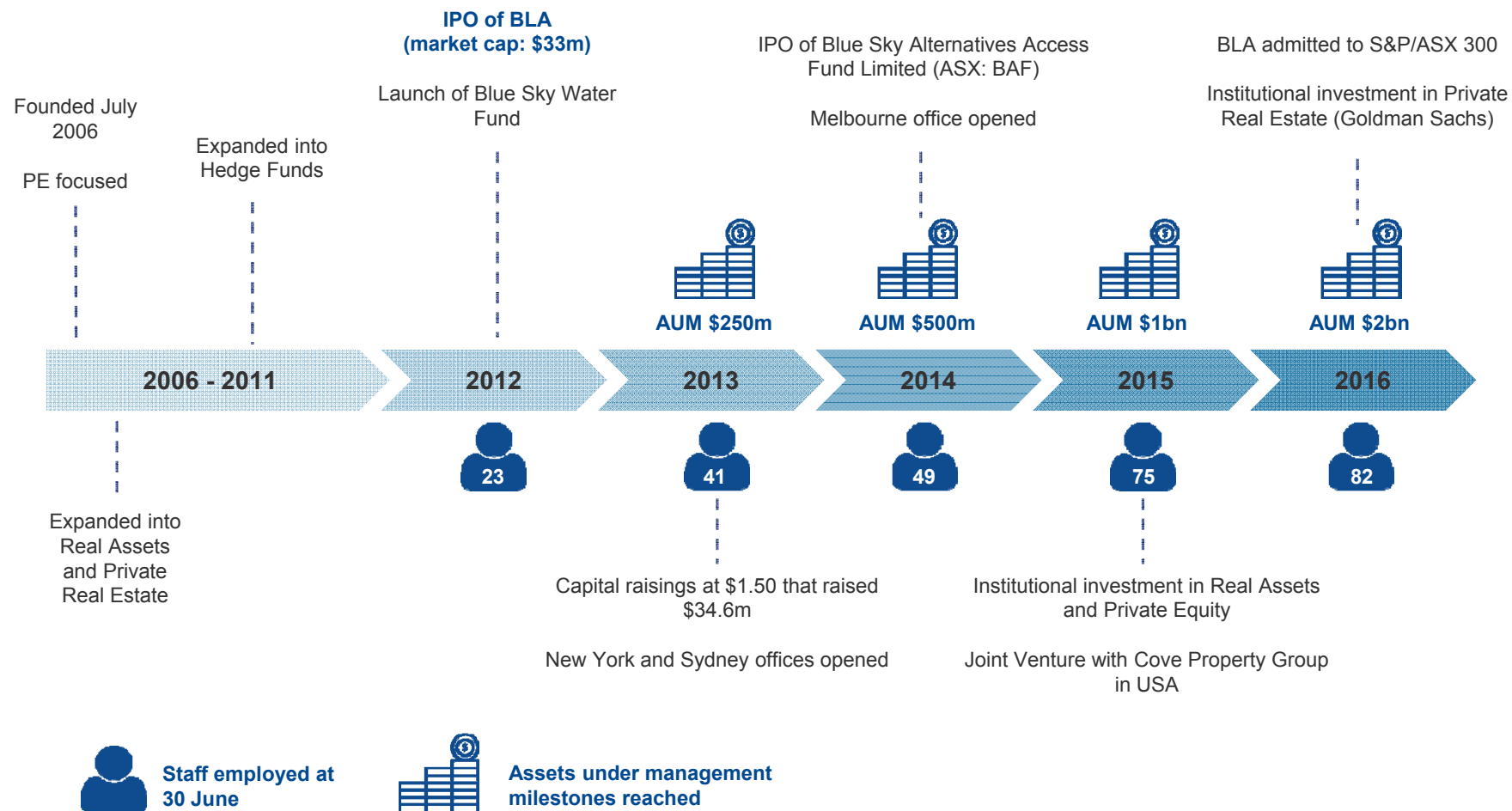
THE CARLYLE GROUP

GLOBAL ALTERNATIVE ASSET MANAGEMENT



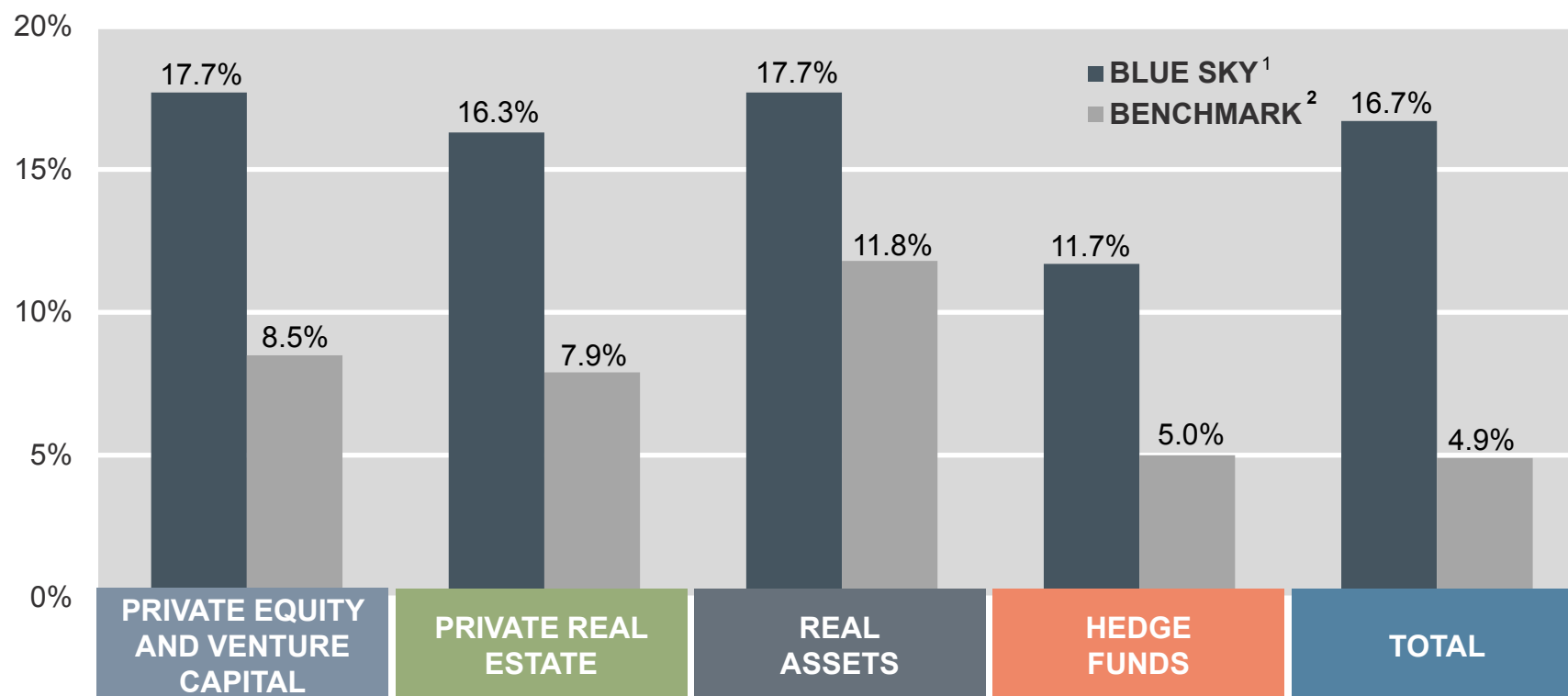
OAKTREE

Our First Decade



Our Competitive Advantage: A 10 year track record that is not easy to replicate (1/2)

Investor returns: 16.7% p.a. net of fees since inception



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.

Our Competitive Advantage: A 10 year track record that is not easy to replicate (2/2)



- Returns across all Blue Sky managed funds formally reviewed in July 2016 by EY following the completion of our first 10 years
- Review included all of the investments we have made, including:
 - Our 29 realised investments
 - Our unrealised investments (e.g. in Private Equity / Venture Capital and Private Real Estate); and
 - Our open-ended funds
- Our realised track record is:
 - **Private Equity / Venture Capital: 18.2%** (vs. 17.7% overall)
 - **Private Real Estate: 18.5%** (vs. 16.3% overall)

Note: Past performance is not a reliable indicator of future performance.

Independent valuation experts used

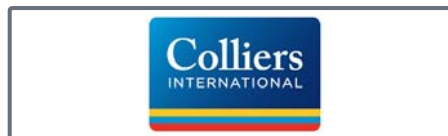
PRIVATE EQUITY AND
VENTURE CAPITAL



PRIVATE REAL ESTATE



REAL ASSETS



HEDGE FUNDS



Independent audit review

BLA



BAF

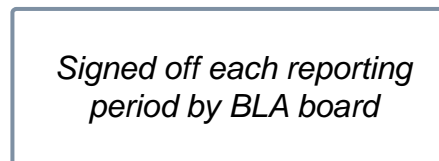


FUND LEVEL AUDITS
(e.g. registered schemes)

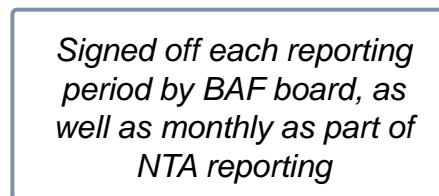


Board sign off

BLA



BAF



Note: Businesses identified above are examples of independent valuation experts and auditors that are used by Blue Sky.

Our Valuation Process: Examples



- Invested in Readify in June 2013
- BLA co-invested \$3.5m into this fund
- Independent valuers used at least annually through the life of the fund, and then reviewed by BLA and BAF boards
- Exited at 30 June 2016 at a 13% premium to 31 Dec 15 valuation. Total cash on cash return: 1.7x

	Unit valuation	Underlying balance sheet valuation	Distributions (cumulative)
At 30 June 2014	\$1.32	\$1.32	\$0.09
At 30 June 2015	\$1.33	\$1.33	\$0.17
At 31 Dec 2015	\$1.33	\$1.33	\$0.17
At Exit (30 June 2016)	\$1.51	\$1.51	\$1.17

1.68x total return

Note: Past performance is not a reliable indicator of future performance.

EC2010

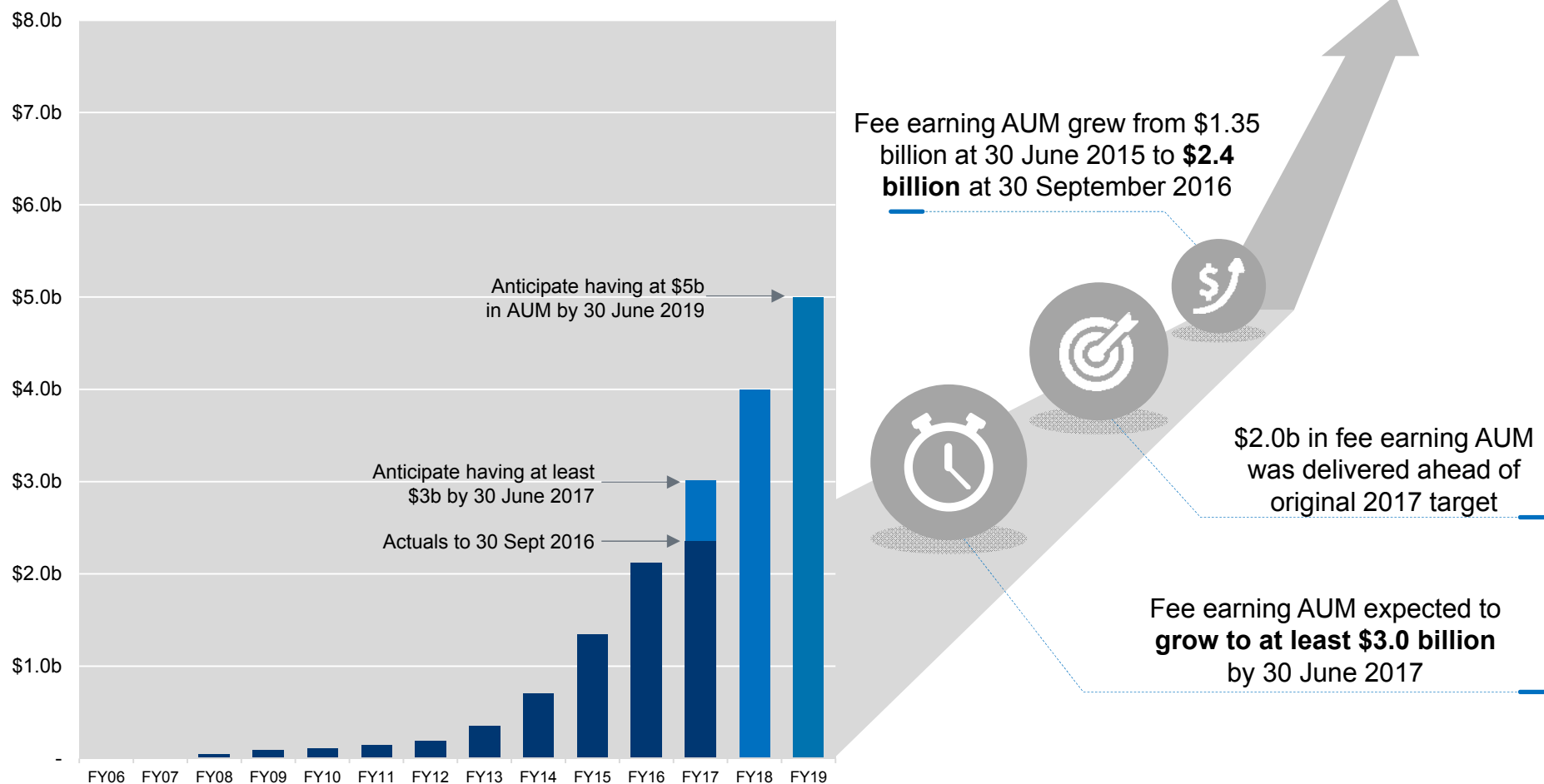
- Small PE fund raised in 2010
- BLA co-invested \$1.5m into this fund
- Independent valuers used at least annually through the life of the fund, and then reviewed by BLA (this investment pre-dated BAF)

	Unit valuation	Underlying balance sheet valuation	Distributions (cumulative)
At 30 June 2014	\$1.23	\$1.23	\$0.06
At 30 June 2015	\$1.06	\$1.06	\$0.06
At 31 Dec 2015	\$0.88	\$0.88	\$0.22
At 30 June 2016	\$0.73	\$0.73	\$0.22

Note: EC2010 not yet fully exited

Assets under management have grown to \$2.4 billion...

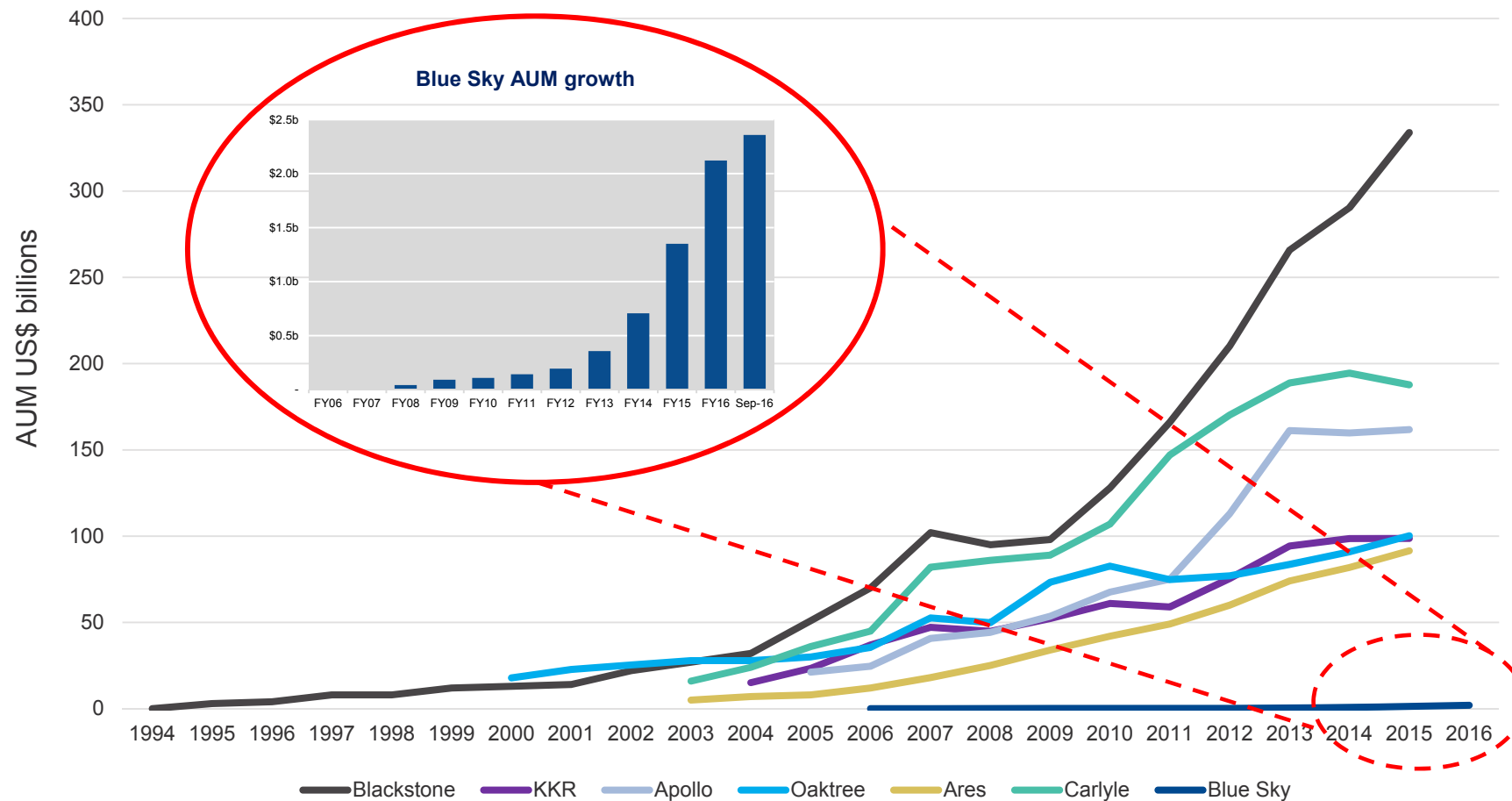
Fee earning assets under management



Note: Past performance is not a reliable indicator of future performance.

...but put in context, we still have a very long way to go

AUM growth



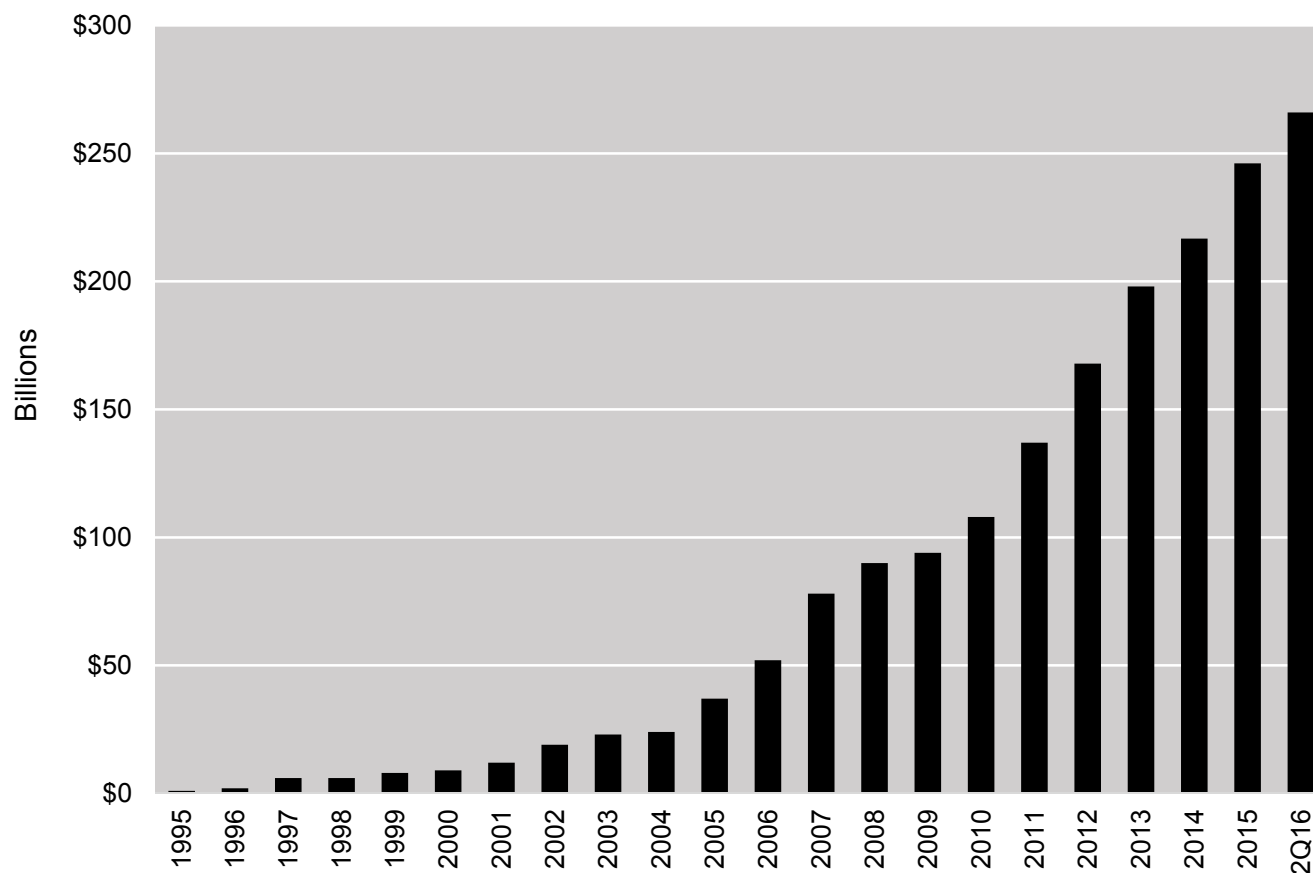
Note: Past performance is not a reliable indicator of future performance.

Some critical differences with traditional funds management businesses

- 1. Funds are typically closed ended and long dated (i.e. 5+ years), making capital far harder to win...but far harder to lose**

Blackstone example: Fee earning AUM has not decreased at any point in the last two decades

Blackstone Fee Earning AUM



30 June 2016

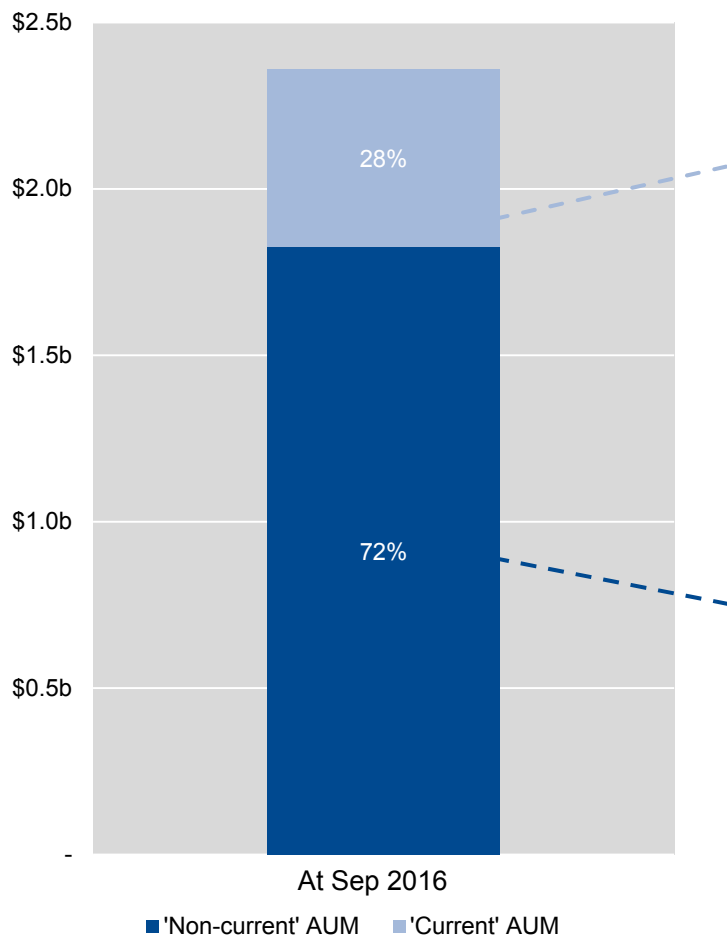
US\$266 Billion
(Fee earning AUM)

US\$356 Billion
(Total AUM)

Note: Figures in this chart are in US dollars
Source: Blackstone 2Q 2016 Earnings Call Presentation

For Blue Sky, >70% of our AUM is in 'non-current' funds

Fee earning assets under management



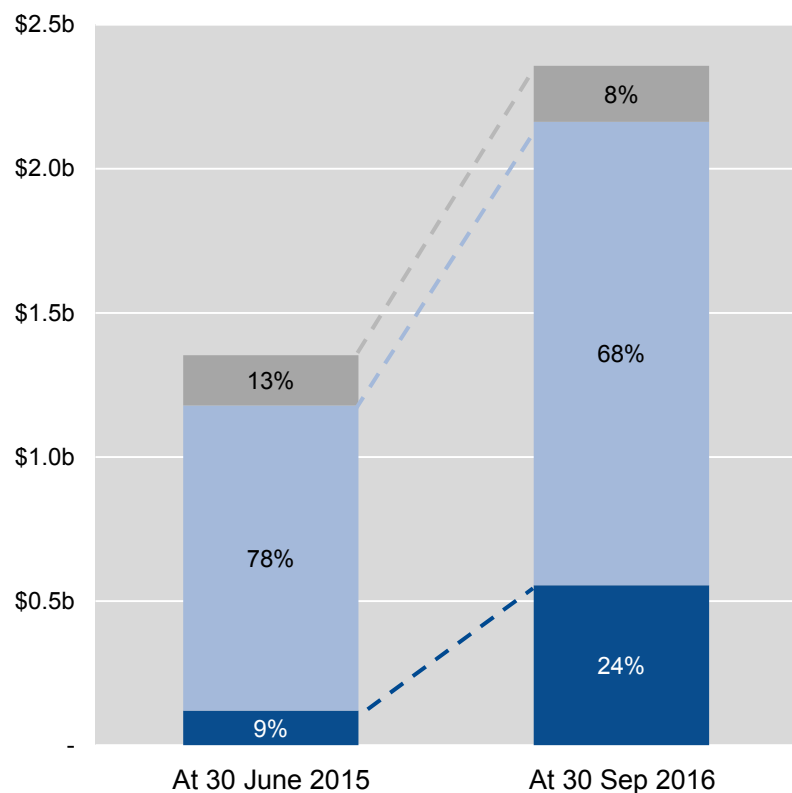
- Current AUM includes:
 - Open-ended funds: hedge funds; water fund (excl. institutional mandate)
 - Closed-ended funds (e.g. PE/VC) with anticipated realisations in FY17

- All remaining AUM is in closed-ended funds that are 'non-current'. These include:
 - PE / VC and 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 cannot be redeemed

Some critical differences with traditional funds management businesses

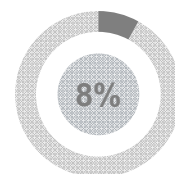
1. Funds are typically closed-ended and long dated (i.e. 5+ years), making capital far harder to win...but far harder to lose
- 2. Our deals can't be found on screens – relationships matter**

Fee earning assets under management



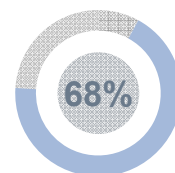
■ Institutional investors ■ Wholesale investors ■ Retail investors

Note: Past performance is not a reliable indicator of future performance.



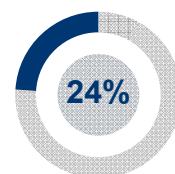
Retail

- Blue Sky Alternatives Access Fund
- Hedge Funds



Wholesale

- High Net Worth Individuals
- Family Offices
- Self Managed Super Funds



Institutional

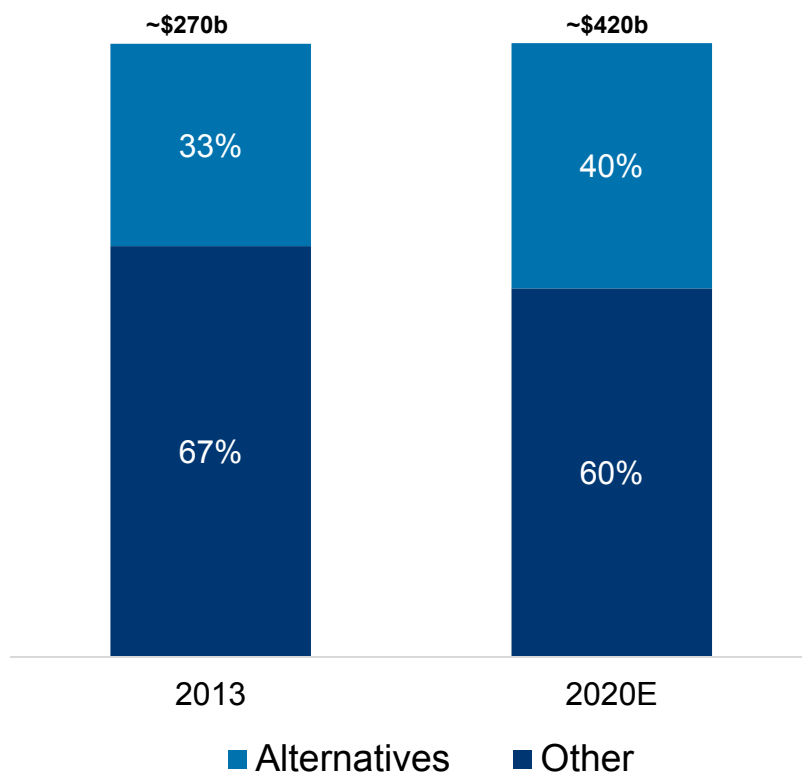
- 10 institutions, including:
 - First State Super (Real Assets)
 - Goldman Sachs (Private Real Estate)
 - Partners Group (Private Equity)

Some critical differences with traditional funds management businesses

1. Funds are typically closed-ended and long dated (i.e. 5+ years), making capital far harder to win...but far harder to lose
2. Our deals can't be found on screens – relationships matter
3. **Fees in the Alternatives are higher (with the cost to deliver also higher in some asset classes)**

Alternatives managers command a greater share of the revenue pool

Global Funds Management Revenue Pool¹



*By 2020, Alternatives [are forecast to] account for about **40% of revenues** in the global asset management industry, a disproportionate share when compared to global industry assets.*

McKinsey & Company

1. Excludes performance fees (i.e. carried interest).

Source: McKinsey Global Asset Management Growth Cube

So, how do Blue Sky's fees work?

Management fees

- Typically a 2.0% p.a. management fee
 - BAF, Hedge Funds and some institutional mandates are lower
- Recognised and paid monthly when capital is deployed (i.e. mandates that aren't yet deployed typically don't attract fees)¹
 - Note: Blue Sky only reports fee earning AUM

Performance fees

- Typically 20% of all returns over 8% IRR (no "carry catch-up")
 - Recognised when performance of a fund is above the hurdle rate for that fund
- Received in cash quarterly for Hedge Funds, annually for water fund and BAF (accrued at 30 June and paid in July) and upon realisation for Private Equity / Venture Capital and Private Real Estate
- 25% of performance fees are paid to the team when received in cash by Blue Sky. These are expensed at the same time performance fees are recognised and appear as a liability on our underlying balance sheet

Investment income

- Income derived from investments made from Blue Sky's underlying balance sheet

Transaction fees

- Income derived from Private Equity / Venture Capital and Private Real Estate transactions (largely to offset the costs involved in executing these deals)

1. Management fees in some Private Real Estate funds are recognised when certain project milestones are met

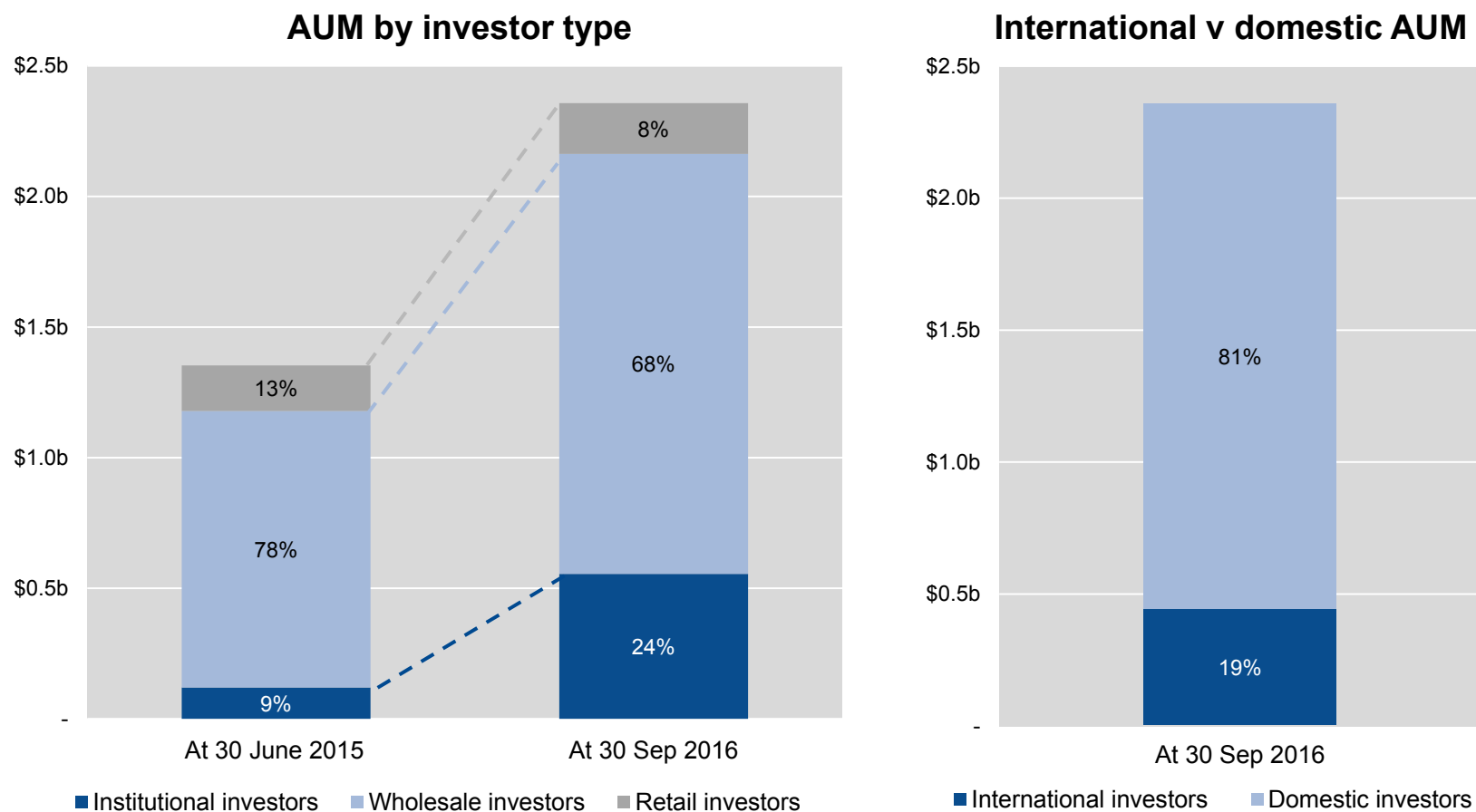
Some critical differences with traditional fund management businesses

1. Funds are typically closed ended and long dated (i.e. 5+ years), making capital far harder to win...but far harder to lose
2. Our deals can't be found on screens – relationships matter
3. Fees in the Alternatives are higher (with the cost to deliver also higher in some asset classes)
4. **Assets are split across many funds, giving greater certainty over fees**

Some critical differences with traditional funds management businesses

1. Funds are typically closed-ended and long dated (i.e. 5+ years), making capital far harder to win...but far harder to lose
2. Our deals can't be found on screens – relationships matter
3. Fees in the Alternatives are higher (with the cost to deliver also higher in some asset classes)
4. Assets are split across many funds, giving greater certainty over fees
- 5. We deliberately target diverse sources of capital**
 - **Institutional, wholesale, retail**
 - **Domestic and offshore**

Fee earning assets under management as at 30 Sep 2016



Note: Past performance is not a reliable indicator of future performance.

Some critical differences with traditional funds management businesses

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2. Our deals can't be found on screens – relationships matter
3. Fees in the Alternatives are higher (with the cost to deliver also higher in some asset classes)
4. Assets are split across many funds, giving greater certainty over fees
5. We deliberately target diverse sources of capital
 - Institutional, wholesale, retail
 - Domestic and offshore
- 6. Alignment is critical for Alternatives managers**
 - As such, we invest in our funds, despite the accounting standards requiring that we typically consolidate, or equity account, for these funds in our statutory accounts

Underlying vs. Statutory Results

<i>In AUD \$m</i>	Underlying Results		Statutory Results	
Income	FY15	FY16	FY15	FY16
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
Total income	\$43.6m	\$62.8m	\$64.5m	\$70.9m
Operating costs				
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)
Total operating costs	(\$28.1m)	(\$38.3m)	(\$47.5m)	(\$51.6m)
EBITDA	\$15.5m	\$24.5m	\$17.0m	\$19.3m
EBIT	\$15.2m	\$24.0m	\$14.8m	\$17.0m
Net profit after tax	\$10.4m	\$16.3m	\$9.9m	\$10.5m
Non-controlling interests (NCI)	-	-	(\$0.5m)	(\$0.9m)

UNDERLYING RESULTS

- Presented on the same basis as established offshore Alternatives managers report 'Economic Net Income' i.e. this deconsolidates the investments in funds that Blue Sky manages, with all fund investments accounted for at fair value through profit and loss
- Reviewed by EY each reporting period in their capacity as Blue Sky's auditor

STATUTORY RESULTS

- Following the change to AASB10 in 2013, all funds that we have invested in are either consolidated or equity accounted in Blue Sky's statutory accounts
- Results in fund level revenues, expenses and balance sheet items appearing throughout Blue Sky's statutory results (e.g. 'revenue from the sale of water')
- Presented 'side by side' with Underlying Results as per ASIC guidance

AGENDA

Our Industry

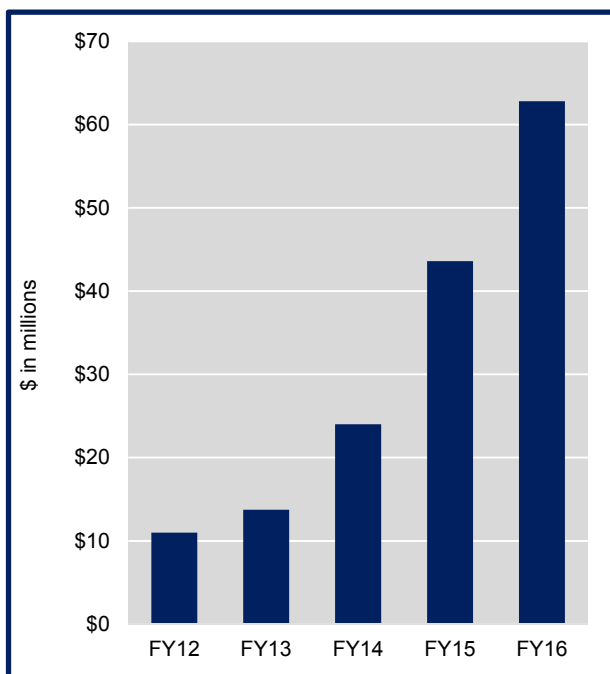
Our Business

Our Financials

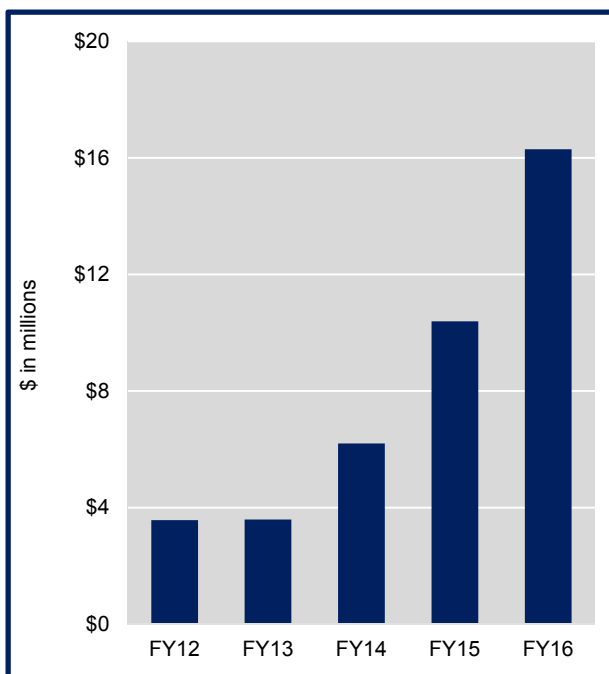
Our Next Decade

Our business has grown at ~50% p.a.

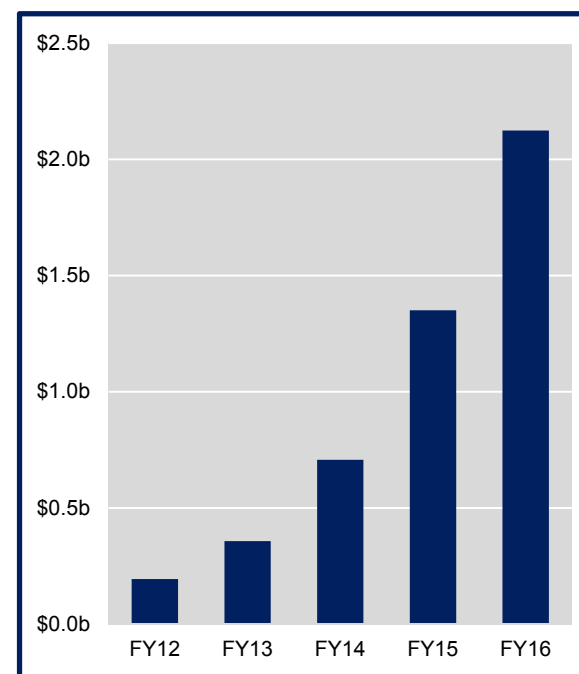
Underlying Revenue



Underlying NPAT



AUM



Note: Past performance is not a reliable indicator of future performance.

Income Statement

<i>In AUD \$m</i>	Underlying Results		Statutory Results	
	FY15	FY16	FY15	FY16
Income				
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
Total income	\$43.6m	\$62.8m	\$64.5m	\$70.9m
Operating costs				
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)
Total operating costs	(\$28.1m)	(\$38.3m)	(\$47.5m)	(\$51.6m)
EBITDA	\$15.5m	\$24.5m	\$17.0m	\$19.3m
EBIT	\$15.2m	\$24.0m	\$14.8m	\$17.0m
Net profit after tax	\$10.4m	\$16.3m	\$9.9m	\$10.5m
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). Past performance is not a reliable indicator of future performance.

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
Total current assets	\$121.4m	\$125.0m
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
Total non-current assets	\$83.7m	\$103.4m
Total assets	\$205.1m	\$228.4m
Trade and other payables	\$19.8m	\$20.9m
Borrowings	\$7.9m	\$8.6m
Other current liabilities	\$10.3m	\$10.3m
Total current liabilities	\$38.0m	\$39.8m
Borrowings	-	\$9.3m
Other non-current liabilities	\$27.7m	\$31.9m
Total non-current liabilities	\$27.7m	\$41.2m
Total liabilities	\$65.7m	\$81.0m
Net assets	\$139.4m	\$147.4m
Net tangible assets	\$133.8m	\$128.7m

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

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)
Net cash from operating activities	\$11.5m	\$13.2m
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)
Net cash used in investing activities	(\$29.5m)	(\$30.1m)
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)
Net cash from financing activities	\$59.8m	\$58.3m
Starting cash balance	\$21.1m	\$22.4m
Ending cash balance	\$62.9m	\$63.8m

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

AGENDA

Our Industry

Our Business

Our Financials

Our Next Decade

- **Returns, returns, returns:** Continue to deliver great returns (and access to Alternatives) to all investors
- **Continue to lead the Alternatives market in Australia:** Cement our position as Australia's leading diversified alternative asset manager
- **Growth to \$10b+ in AUM** (would still represent <2% of the Alternatives market)
- **Trusted partner to Tier 1 institutions:** Will expand partnerships with institutional investors, while always retaining diverse sources of capital
- **International expansion:** Spearheaded by North American business (incl. Cove), may move into other geographies selectively (esp. with a distribution focus)
- **Asset class expansion:** May expand into other Alternatives classes (but won't go outside Alternatives)



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