

7 May 2018

MARKET UPDATE**Key Updates:**

- Withdrawing earnings guidance for FY18 and Fee Earning Assets Under Management ('FEAUM') guidance for FY18 and FY19
- Restructuring business model/management structure
 - Reviewing all business units to ensure each has scale, is institutional grade and has competitive advantage
 - Commitment to recurring annual management fees exceeding fixed operating expenses in FY19
 - Commitment to improved alignment of interest between shareholders, investors and executive
- Chairman to stand down from Chairman role at the AGM subject to new appointment. Executive directors (other than Managing Director) to be replaced, with additional independent directors to be appointed
- Further detail provided regarding Blue Sky's business model, FEAUM, fees and performance record
- Continuing to facilitate exits, write new business and ensure active engagement with investors, investee companies, joint-ventures and operating partners

Blue Sky Alternative Investments Limited (ASX: BLA) ('Blue Sky' or 'the company') today announced it was withdrawing underlying net profit after tax ('NPAT') guidance for FY18 and FEAUM guidance for FY18 and FY19.

This decision has been determined by taking prudent account of recent developments including:

- uncertainty, due to deal timing, as to whether accretive US transactions will occur before or after 30 June 2018;
- uncertainty as to the timing and structure of three development projects in Australia; and
- allowance for significant non-recurring expenses associated with restructuring the business, including to reduce fixed operating costs below recurring annual management fees.

Mr Kim Morison, interim Managing Director of Blue Sky, said: "The Board is examining proposed changes to the Blue Sky business model and management structure, to prioritise Blue Sky's areas of competitive strength and to better align Blue Sky's fixed cost base with recurring management fee revenue. There will also be changes to board composition and disclosure framework to promote greater independence and further improve communication."

"In the meantime, we have been heartened by the ongoing support and commitment of our institutional investors and joint venture partners, who have remained committed to our business."

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Review of business and management structure

The Board and Mr Morison have agreed that an immediate priority is to rebuild trust with stakeholders by making significant changes to the business and management model.

“It is important that as part of this process we retain key staff and investment professionals, that we concentrate our business on scale, capability, expertise and competitive advantage as we review our business units and that our fixed operating expenses are less than our recurring annual management fee revenues.

“This ongoing review of the business and management structure will have the objectives of:

- ensuring each business unit is scalable, institutional grade and based upon deep expertise with a competitive advantage;
- reducing our fixed operating costs below recurring annual management fees;
- evolving governance, valuation and compliance regimes;
- improving alignment between investment teams, investor outcomes and shareholders; and
- strengthening risk management regimes.

“As part of this restructure we will appoint a Chief Risk Officer to manage risk across the Blue Sky group and the role of group Chief Investment Officer will become redundant.”

“These initiatives are expected to deliver a better performing, more transparent and accountable business with recurring annual management fees exceeding fixed operating expenses from FY19.”

A revised management structure is included within the investor briefing attached to this release.

Board Renewal

Blue Sky also announced today that, consistent with its commitment to move to a majority independent Board of Directors, the following further changes are proposed:

- Chairman, Mr John Kain, having served as a director of Blue Sky group companies since 2007, will no longer be deemed independent from this year’s AGM. To ensure that Blue Sky has an independent Chairman, Mr Kain will step down as chairman once a replacement has been appointed. This is targeted to occur by the time of this year’s AGM.
- Executive Director Tim Wilson will retire from the Board as independent non-executive directors are identified and appointed in the coming months. Tim has recommitted to continue in his executive role as Managing Director of Blue Sky’s Private Equity business.
- Executive Director and Chief Investment Officer Alexander McNab will retire from the Board effective immediately and his role as CIO.

Investment performance, FEAUM and fees

Blue Sky is committed to strong reporting and communications with shareholders and today provides further detail on its historical investment performance, FEAUM, and fee arrangements. Blue Sky will provide this level of detail in future half and full financial year results.

“It is intended that this information will be updated and released half-yearly at financial reporting dates. Certain information will need to be aggregated or disclosed in ranges, given commercial sensitivity and confidentiality undertakings to investors,” Mr Morison said.

Realisations and New Business

Blue Sky now expects to complete exits for 4-5 assets during the financial year ending 30 June 2018. Contracts have recently been exchanged to sell Blue Sky’s fund interests in Gundaline and Foundation Early Learning.

Blue Sky Agricultural Fund I owns a minority stake in Gundaline Pty Limited, the owner of Gundaline Station, a large cotton growing development in which Blue Sky invested in June 2014. It is estimated that the Fund will achieve an IRR of approximately 15%. These are current estimates as the asset sale is subject to FIRB approval and the balance of company assets will be determined by a winding up process following cotton harvest and processing, and fund level tax adjustments. These returns are in line with carrying value and are expected to deliver returns to investors in line with original forecast IRRs two years ahead of forecast.

Blue Sky invested in Foundation Early Learning (FEL) in July 2014 and again in December 2014. FEL is contracted to sell to an international child care operator. It is estimated that the sale proceeds will represent a discount to carrying value of between approximately 14-23%, an IRR of approximately 1 - 4% and a return on equity invested of 1.0 - 1.2x. The discount to carrying value is reflective of the negotiated outcome with the purchaser and the recent substantial de-rating of comparable listed peers. These are current estimates as the sale is subject to FIRB approval and other conditions precedent, and they include an estimated earn out component of the sale price reflecting FEL's estimated earnings for the whole of FY18.

Blue Sky achieved a second close on its Strategic Australian Agriculture Fund in April 2018 and is currently deploying capital across a range of agricultural assets for this Fund and associated mandates. Blue Sky does not anticipate a final close for the Fund until post-30 June 2018.

Investor Call

Blue Sky will hold a teleconference today to discuss this announcement. This will also be an opportunity for participants to ask questions of interim Managing Director, Mr Kim Morison. Details for the teleconference will be provided shortly.

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Blue Sky Alternative Investments

Managing Director (Interim) Presentation

7 May 2018

Disclaimer

This presentation has been prepared by Blue Sky Alternative Investments Limited ('Blue Sky') and is dated 7 May 2018. 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 2001 (Cth)*.

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

- Blue Sky's business has been disrupted, however it has continued to do business: raising capital, making investments, managing and exiting investments.
- There is uncertainty, particularly in the near term. Accordingly Blue Sky has withdrawn NPAT and FEAUM guidance.
- From FY19 Blue Sky's annual management fees are expected to exceed operating costs. In addition, it is expected to continue to generate establishment fees, performance fees and investment income.
- Blue Sky is committed to robust governance and oversight, including through a majority independent board and other measures underway.
- Blue Sky is committed to transparency and has today provided additional information on FEAUM, fee composition and investment returns.

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Where we have come from

- Blue Sky manages private market and other alternative investments for sophisticated and institutional investors
- Retail investors may access Blue Sky managed funds via shares in Blue Sky Alternatives Access Fund Limited ('Alternatives Access Fund' or 'BAF') (ASX:BAF)
- Since inception, Blue Sky has built a strong 10+ year investment track record across various asset classes¹
- Blue Sky always endeavours to achieve the best possible outcomes in the interests of fund investors and shareholders
- With a portfolio of over 80 investments,² most of which are long-term, there may be some that invariably do not achieve the projected investment case
- Our exit track record is supportive of Blue Sky's valuation practices

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

2. As at 31 March 2018

What happened

- Blue Sky was of the belief that shareholders understood the nature of its private market investment management business including our governance policies and valuation practices
- Blue Sky acknowledges there have been calls for it to disclose a greater level of detail regarding its investment funds and how the business model operates
- Blue Sky underestimated the impact that shareholder activism could have on the business as a whole, inclusive of its shareholders, fund investors and staff

What we are doing now

- Retaining support of investors and key team members
- Reviewing Blue Sky's business units and focusing on:
 - Scale – deploying at scale and achieving investment management efficiencies
 - Capability – ensuring we offer institutional-grade capability
 - Expertise – investing in opportunities where we have deep expertise
 - Competitive Advantage – offering unique investment solutions
- Restructuring the Blue Sky management model to improve alignment between investment teams, investor returns and shareholder outcomes
- Providing greater transparency (including additional external validation where practical)
- Reviewing Blue Sky's governance, valuation processes and reporting
- Adjusting fixed operating costs so that recurring management fees exceed them
- Getting on with business

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About Blue Sky

PARENT
(ASX:BLA)

Blue Sky Alternative Investments Limited ('Blue Sky')

ASX 300 Market Cap: A\$211m¹ FEAUM: \$4.0bn²
Returns: 15% p.a. net of fees since inception³
Offices in Brisbane, Sydney, Melbourne, Adelaide and New York

FUNDS
Asset
Classes



Private Equity Funds

Growth capital & 'late stage' venture capital



Private Real Estate Funds

Student accommodation, retirement, residential & commercial



Real Assets Funds

Water entitlements, farmland & agribusiness private equity



Hedge Funds

Portfolio diversifying products

INVESTORS
Diversified
Base

Retail (7%)²

Listed Investment Company (ASX:BAF)
Market Cap: \$176m¹
Pre-Tax NTA: \$244m²

Sophisticated (49%)²

High net worth individuals, family offices, self managed superannuation funds & financial planners

Institutional (44%)²
Domestic & international

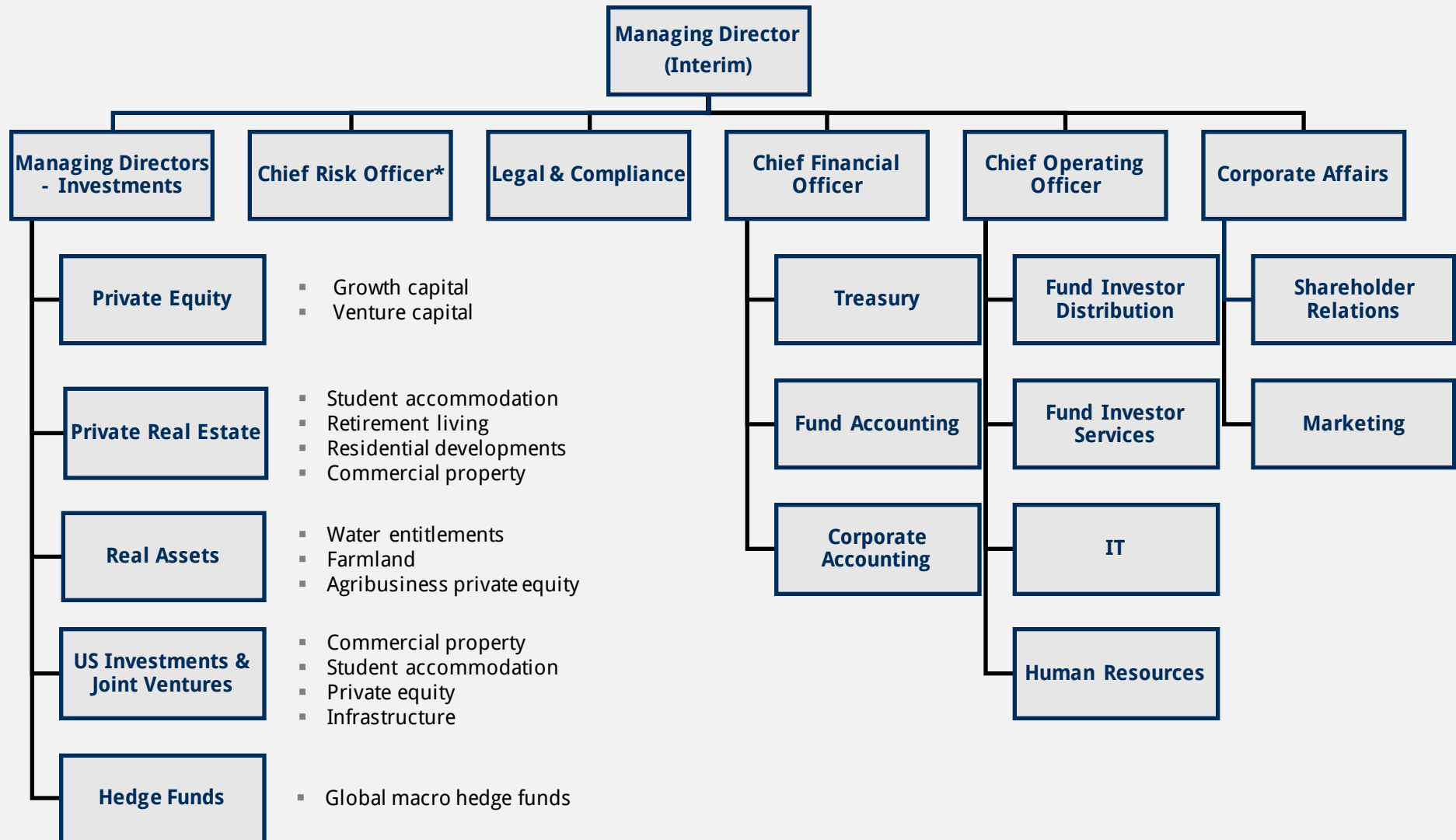
1. As at 4 May 2018.

2. As at 31 March 2018.

3. Returns are equity weighted since inception through to 31 December 2017 and include both realised and unrealised investments.

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

Revised management structure



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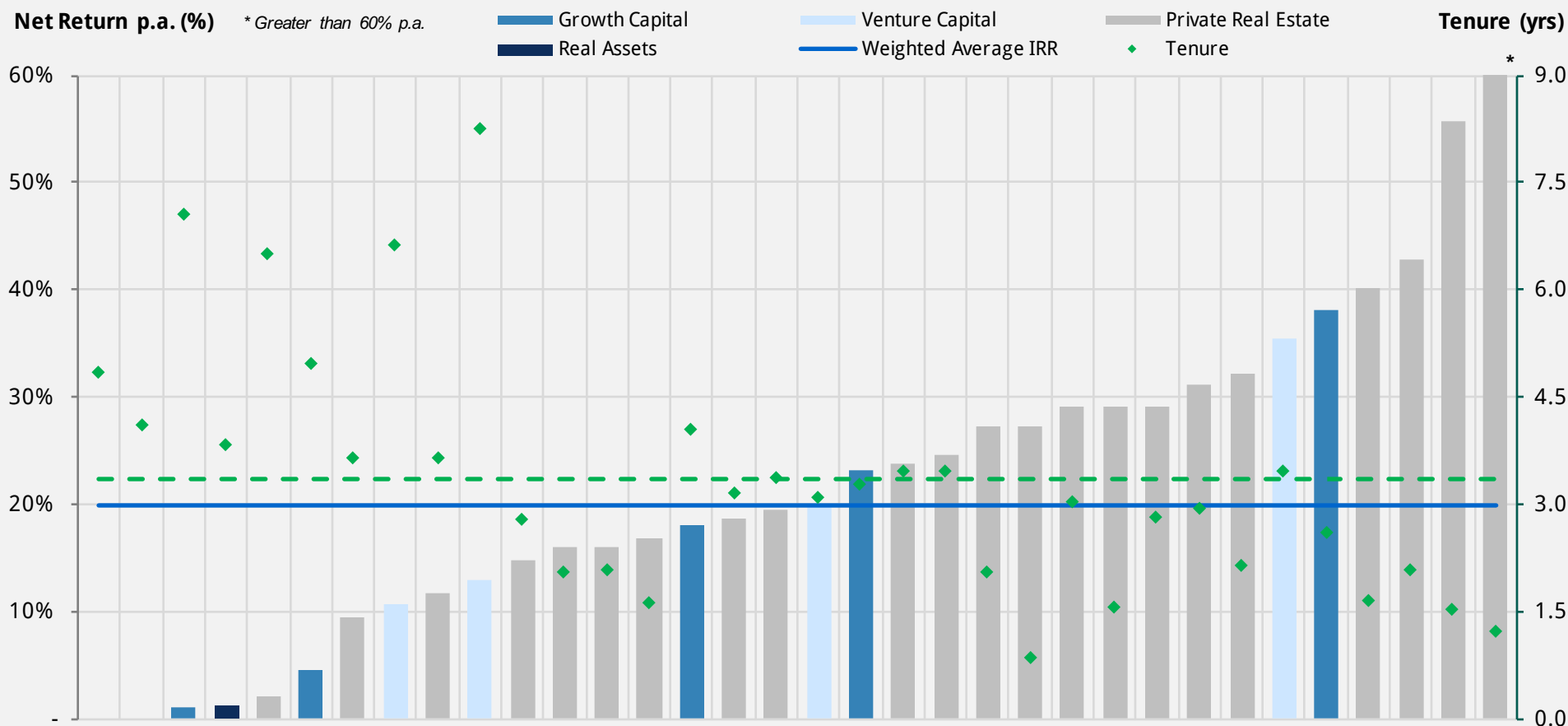
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Realised Funds over last 5 years

Net Return per annum and Tenure – Realised Funds



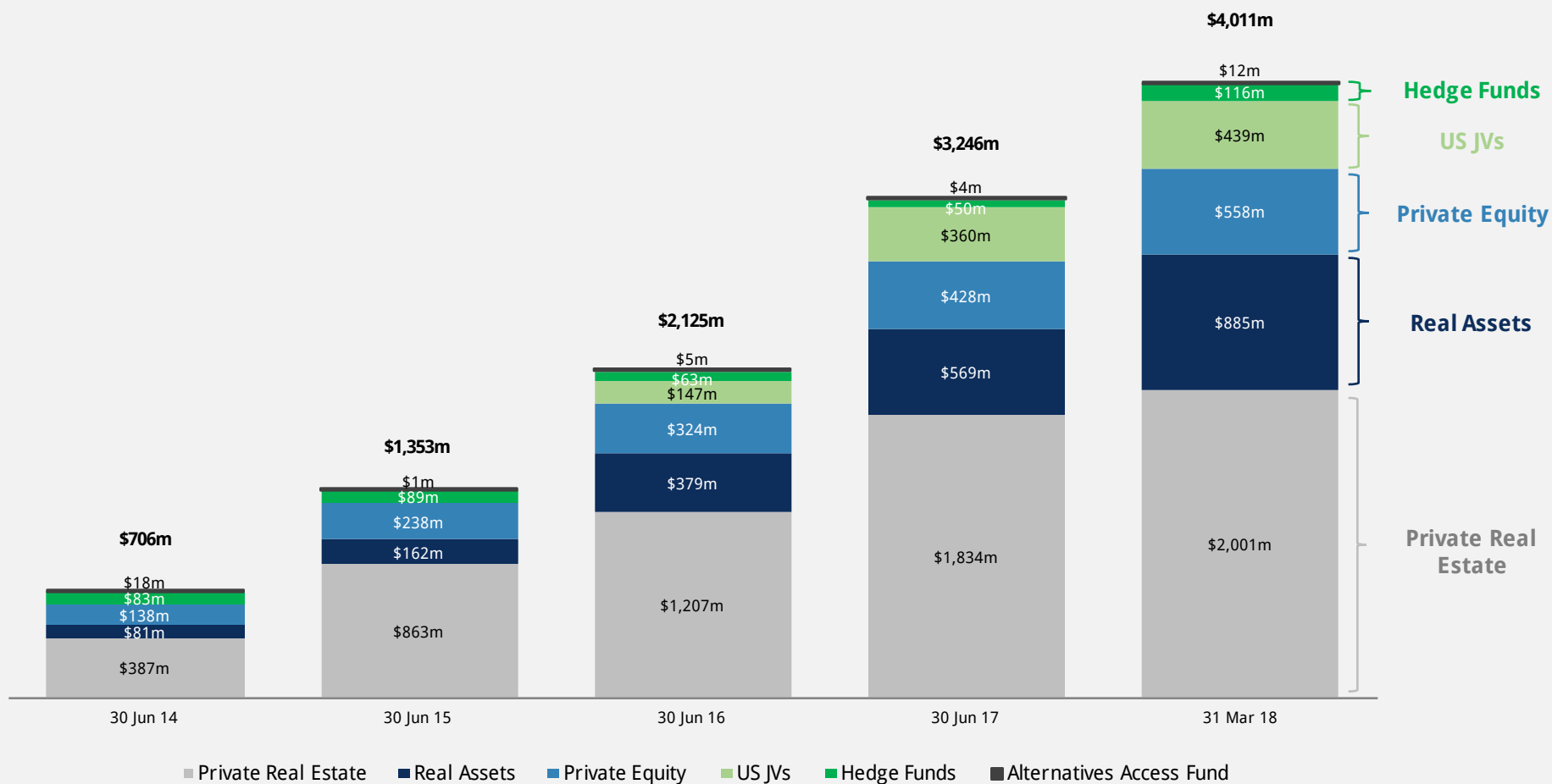
1. Returns are pre-tax, net of fees and as at 31 December 2017. Overall equity-weighted returns on the 34 funds realised over the last five years, excluding returns on open-ended funds, are 19.8% p.a. (net of fees). Past performance is not a reliable indicator of future performance.

Notes on exit register:

1. Hatchtech secured a partial exit in September 2015. Returns reflect realised distributions received in 2015, 2016 and 2017 and the unrealised current carrying value at 30 June 2017 (latest valuation date).
2. Residential development projects Logan Road, Greenslopes and Duke Street, Kangaroo Point have finished construction and are in the process of final trust distributions.

FEAUM growth by asset class

Fee-earning Assets Under Management ('FEAUM') Growth by Asset Class



* Alternatives Access Fund shows uncommitted capital of BAF

FEAUM table

FEAUM Disclosure

As at 31 March 2018

Business Unit	31-Mar-18	%	Primary method	Equity						Debt in AUM		Fee-earning equity + debt	Other		FEAUM
				BAF equity	BLA equity	Investor equity	Total equity	Not yet fee-earning	Fee-earning equity	Drawn	Undrawn		Value	Note	
Growth Capital	\$358.2m	8.9%	Equity	\$51.6m	\$1.5m	\$308.2m	\$361.2m	-	\$361.2m	-	-	\$361.2m	(\$3.0m)	1	\$358.2m
Venture Capital	\$199.9m	5.0%	Equity	\$13.0m	\$7.5m	\$179.4m	\$199.9m	-	\$199.9m	-	-	\$199.9m	-		\$199.9m
Total Private Equity	\$558.1m	13.9%		\$64.5m	\$9.0m	\$487.6m	\$561.1m	-	\$561.1m	-	-	\$561.1m	(\$3.0m)		\$558.1m
Institutional Mandates	\$627.6m	15.6%	Various	\$15.0m	\$7.1m	\$634.4m	\$656.5m	(\$99.5m)	\$557.0m	-	-	\$557.0m	\$70.6m	2	\$627.6m
Water Fund	\$204.0m	5.1%	GAV	\$34.1m	-	\$135.1m	\$169.2m	-	\$169.2m	-	-	\$169.2m	\$34.8m	3	\$204.0m
Other Agriculture - Wholesale	\$53.5m	1.3%	Equity	\$12.6m	\$1.7m	\$39.3m	\$53.5m	-	\$53.5m	-	-	\$53.5m	-		\$53.5m
Total Real Assets	\$885.1m	22.1%		\$61.7m	\$8.8m	\$808.8m	\$879.2m	(\$99.5m)	\$779.7m	-	-	\$779.7m	\$105.4m		\$885.1m
Student Accomodation	\$963.5m	24.0%	GAV	\$29.0m	\$10.4m	\$315.2m	\$354.6m	-	\$354.6m	\$176.6m	\$317.6m	\$848.8m	\$114.7m	4	\$963.5m
Retirement Living	\$685.2m	17.1%	GRV	\$25.0m	\$3.1m	\$256.9m	\$285.0m	-	\$285.0m	\$20.0m	\$285.0m	\$590.0m	\$95.2m	5	\$685.2m
Residential Development	\$315.8m	7.9%	GRV	\$9.0m	\$1.0m	\$73.3m	\$83.2m	-	\$83.2m	\$4.0m	\$161.0m	\$248.2m	\$67.6m	6	\$315.8m
Other Real Estate	\$36.8m	0.9%	Equity + debt	\$4.5m	\$0.1m	\$15.4m	\$20.0m	-	\$20.0m	\$16.9m	-	\$36.8m	-		\$36.8m
Total Private Real Estate	\$2,001.4m	49.9%		\$67.5m	\$14.5m	\$660.8m	\$742.8m	-	\$742.8m	\$217.5m	\$763.5m	\$1,723.9m	\$277.5m		\$2,001.4m
Cove	\$366.9m	9.1%	Equity + debt	\$12.0m	-	\$291.1m	\$303.1m	(\$52.7m)	\$250.4m	\$116.5m	-	\$366.9m	-		\$366.9m
Student Quarters	\$71.6m	1.8%	GAV	-	-	\$29.1m	\$29.1m	-	\$29.1m	\$46.2m	-	\$75.3m	(\$3.7m)	7	\$71.6m
Total US JVs	\$438.5m	10.9%		\$12.0m	-	\$320.2m	\$332.2m	(\$52.7m)	\$279.6m	\$162.7m	-	\$442.2m	(\$3.7m)		\$438.5m
Hedge Funds	\$115.9m	2.9%	NAV	-	-	\$115.9m	\$115.9m	-	\$115.9m	-	-	\$115.9m	-		\$115.9m
BAF (Uncommitted)	\$12.1m	0.3%	Equity	\$12.1m	-	-	\$12.1m	-	\$12.1m	-	-	\$12.1m	-		\$12.1m
Current AUM	\$4,011.1m	100.0%		\$217.8m	\$32.3m	\$2,393.3m	\$2,643.4m	(\$152.2m)	\$2,491.3m	\$380.2m	\$763.5m	\$3,635.0m	\$376.2m		\$4,011.1m

Note: The figures in the above table may not add or calculate precisely due to rounding.

Notes

1. One Growth Capital fund charges fees based on equity market value. This value represents the difference between equity market value and total equity raised at balance date
2. Represents the difference between the GAV and equity deployed into institutional water portfolios
3. Represents the difference between Water Fund GAV and equity deployed
4. The difference between gross realisable value ('GRV') and equity + debt represents net development margin after fees
5. The difference between GRV and equity + debt represents net development margin after fees
6. The difference between GRV and equity + debt represents net development margin after fees
7. The total debt + equity currently deployed into Student Quarters' funds is less than GAV due to the impact of transaction costs, operating reserves and fees

Management and Performance Fees

Business unit / Fund type	FEAUM calculated	Typical management fees – recurring ¹	Typical performance fees
Growth Capital	Fund equity	Approx. 2% p.a. of par value of equity paid annually	20% of returns above 8% hurdle rate paid on wind-up
Venture Capital	Fund equity / committed capital	Approx. 2% p.a. of par value of equity paid annually	20% of returns above 8% hurdle rate paid on wind-up
Water Fund	GAV	1.95% p.a. of GAV paid monthly	17.5% of returns above 8% hurdle rate paid annually with a high watermark
Agricultural Funds	Fund equity	Approx. 2% p.a. of par value of equity paid annually	20% of returns above 8% hurdle rate paid on wind-up
Student Accommodation	GAV	Asset management fee of 0.5% p.a. of GAV paid quarterly	20% of returns above 8% hurdle rate paid on wind-up
Retirement Living Funds	GRV	4% of total development costs paid throughout development period	20% of returns above 8% hurdle rate paid on wind-up
Hedge Funds	Net Asset Value ('NAV')	0.92% - 1.13% of NAV paid monthly	20.5% of returns above daily-weighted RBA cash rate paid quarterly with a high watermark
BAF	Cash less committed capital	1.2% p.a of NAV paid monthly	17.5% of returns above 8% hurdle rate paid annually with a high watermark

Fee arrangements for institutional mandates, joint ventures, and institutional funds are not included as they are bespoke and subject to commercially negotiated terms and are confidential.

Blue Sky rebates specified fees to the Alternatives Access Fund for funds in which it has invested. Refer to the Alternatives Access Fund disclosures for full details of how the fees are calculated and paid.

1. Depending on the fund, a number of years of management fees may be raised upfront, held in trust and drawn down on each annual anniversary of fund commencement.

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Valuation of private market 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**
- All private market investments fit within the definition of 'Level 3' assets under the Australian Accounting Standards. As such, Blue Sky is required 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, real estate investment trusts)
- **Over the last five years, 30 out of 34 of our realisations have been exited at or above their carrying value¹**

Level 1	<p>Refers to assets where there are 'quoted prices in active markets for identical assets'. Investments in private market assets do not meet this definition and are therefore never 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 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>

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

Our valuation process

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

Methodology and inputs – Valuation methodology and all key valuation inputs (e.g. discount rates, earnings multiples) are reviewed by independent experts

Frequency – Independent reviews are undertaken at least annually for all assets that may have a material impact on Blue Sky's financial results (and more frequently where appropriate e.g. Water Fund, hedge funds). Annual reviews are undertaken for all funds in which the Alternatives Access Fund holds an investment

Institutional investor review – The valuations of investments are reviewed by institutional investors (for those funds or mandates they have invested in)

Board review and adoption – Valuations are reviewed and adopted by:

- The directors of the Audit Committee (all independent directors);
- The board of Blue Sky; and
- For the funds in which the Alternatives Access Fund holds investments, the Audit and Risk Committee of the Alternatives Access Fund (majority independent directors) and the board of the Alternatives Access Fund

Audit review – The valuations of investments are reviewed every reporting period by Ernst & Young in their capacity as Blue Sky's auditor

Example: Water Fund

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 holds all Water Fund assets in its name. It maintains the register of water assets and provides monthly holding statements of water assets held by the Fund

Unit valuation
Monthly

➤ An independent administrator, Link Fund Solutions, calculates monthly unit values using independent prices and holding statements.

Institutional review
Monthly

➤ Institutional clients review the monthly report issued by Blue Sky, which contains a detailed description of valuation movements and performance of the portfolio

Fund audit
Annually

➤ The Water Fund is audited annually by Deloitte

BLA and BAF audit / review
Every six months

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

Audit committee sign off
Every six months

➤ The Audit Committee of BLA (all independent directors) and Audit & Risk Committee of BAF (majority independent directors) sign off on the Water Fund valuation every six months

BLA & BAF Board sign off
Every six months

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

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- Significant impact expected on the timing (but not the quantum) of performance fee revenue recognition for funds that pay performance fees on wind-up (new revenue recognition is expected to closely align with “cash basis” of accounts)
- Complete assessment of impact not yet finalised. The impact will be disclosed to the market once the assessment is complete
- Transitioning from previous revenue standards will take place in the FY19 Financial Report
- Financial Statement impacts include:
 - Timing impact on earnings
 - Balance sheet impact as part of transitioning
 - No impact on cash flow
- Additional disclosures expected as part of the transition process

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- Consistent with Blue Sky's commitment to Board renewal, the following changes will occur:
 - Chairman, Mr John Kain, having served as a director of Blue Sky group companies since 2007, will no longer be deemed independent from this year's AGM. To ensure that Blue Sky has an independent Chairman, Mr Kain will step down as chairman once a replacement has been appointed. This is targeted to occur by the time of this year's AGM.
 - Executive Director Tim Wilson will retire from the Board as independent non-executive directors are identified and appointed in the coming months. He has recommitted to continue in his executive role as Managing Director of Blue Sky's Private Equity business.
 - Executive Director and Chief Investment Officer Alexander McNab will retire from the Board effective immediately and his role as CIO
- The usual external valuation review is on-going for all managed funds. The first batch of reports (focused on the highest valued funds) are expected to be received in the next fortnight
- The Board is commissioning a review of valuation, risk management and financial processes, including.

Guidance Update

On 7 May 2018, Blue Sky announced that it was withdrawing underlying NPAT guidance for FY18 and FEAUM guidance for FY18 and FY19.

This decision has been determined by taking prudent account of recent developments including:

- uncertainty, due to deal timing, as to whether accretive US transactions will occur before or after 30 June 2018;
- uncertainty as to the timing and structure of three development projects in Australia; and
- allowance for significant non-recurring expenses associated with restructuring the business, including to reduce fixed operating costs below recurring annual management fees.

Blue Sky will update shareholders in the coming weeks once it has a clearer view of the above items and in accordance with continuous disclosure obligations.

Cost Management

- Based on AUM deployed or committed to be deployed as at 30 April 2018, Blue Sky expects to reduce its operating costs below its recurring management fees from FY19
- Recurring management fees excludes:
 - Fees from:
 - Deployment of additional AUM
 - One off establishment fees
 - Performance fees
- Income from Blue Sky's balance sheet investments
- Share of profit from associates

Capital Management

- No net debt at corporate level
- \$30m corporate working capital facility currently drawn to \$11.4m¹
- At a fund level:
 - No substantive debt in real assets portfolio
 - Private Equity assets generally “growth” oriented and therefore typically have low leverage
 - Currently, 7 of 30 assets have term debt whilst 13 of 30 have a form of debt facility
 - Individual assets may be subject to credit concerns from time to time – currently 3 of 30 assets are on Blue Sky’s “watchlist”
 - Private Real Estate assets generally leveraged to 50% LVR’s, within context of achieving an appropriate, balanced fund cost of capital for investors
- Net \$96.8m equity raise completed in March 2018 has been allocated to:
 - \$40m co-invest with Private Real Estate joint venture partners in Australia and the US
 - \$30m co-invest with Real Assets institutional partners
 - \$18m co-invest in Private Equity
 - \$8m for balance sheet support for funds that Blue Sky manages
- A share buyback will be considered in future to the extent that allocations are not required; and as capital is repatriated from existing investments
- Dividend policy will be reviewed by the Board in the context of FY18 performance and upcoming adoption of AASB 15

¹As at 7 May 2018

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FEAUM and Fees

Fee-earning Assets Under Management (FEAUM) refers to the assets of the investment funds, joint ventures, and investment management accounts ('mandates') to which Blue Sky provides investment management services and on which we earn management fees, or other investment related fees pursuant to investment management agreements or other fee agreements. It includes any fee earning capital commitments that those funds, joint ventures, and mandates have the right to call from investors. Blue Sky's FEAUM is the sum of:

- The par value (eg. \$1 per unit) of invested capital of private equity, venture capital, real asset funds and mandates that we manage, plus the capital that those funds are entitled to call from investors pursuant to fee earning capital commitments
- The net asset value (NAV) or gross asset value (GAV) of open-ended funds which are valued to market including hedge funds, Blue Sky Water Fund, and the Alternatives Access Fund, and the NAV of certain institutional investment mandates investing in real asset investments (including water entitlements and farmland re-developments)
- The gross asset value (GAV) or gross realisable value (GRV) of the private real estate development funds and projects we manage, which includes the leverage used by such portfolio investments. The GRV is measured on an 'as complete' basis
- Blue Sky's proportionate share of the economic benefits flowing to the Company under the agreements with Joint Venture Partners

Management fees are recurring fees Blue Sky receives for the investment management services we provide to our funds. Management fees are typically calculated on the NAV or GAV of the fund, capital commitments that are subject to commitment fees, total development costs, or invested capital as defined in each investment management agreement. Management fees are typically paid to Blue Sky on an annual basis.

Establishments fees or upfront fees are one-off transactional fees to compensate Blue Sky for costs associated with establishing funds, originating proprietary deals, due diligence and acquiring the associated assets. Establishment fees are paid to Blue Sky upon issue of the first units in the fund.

FEAUM and Fees (cont.)

Performance fees are the portion of the gains of underlying investment funds and investment management mandates that Blue Sky is entitled to retain (also known as carried interest). Performance fees are generally structured as a proportion of the gains of the fund or investment portfolio (eg 15% or 20%) over and above a specified annualised hurdle rate after allowing for management and other direct expenses. Performance fee hurdle rates and participation percentages are clearly defined in each investment management agreement. Hurdle rates may be fixed (eg 8% per annum) or determined by reference to an observable benchmark (eg Australian CPI plus 5%), and may be subject to a 'high water mark'.

At each balance date, Blue Sky will determine if a fund is eligible to generate performance fees based on its returns net of expenses being above the hurdle rate. A fund that is determined to be eligible will generate an **accrued performance fee**, which is non-cash in nature, but reflects the amount Blue Sky would be eligible to receive upon a hypothetical realisation of the fund at fair value at that balance date.

Similar to other alternative investment management companies, Blue Sky recognises the total accrued performance fees that all unrealised funds and mandates would generate if they were sold and exited at fair value at each balance date.

With the exception of the Alternatives Access Fund and certain open-ended funds (Hedge Funds, Blue Sky Water Fund) and similar mandates which may pay performance fees more frequently subject to on-going 'high water marks', performance fees are paid to Blue Sky once the fund is exited. At that time, Blue Sky reduces its accrued performance fees to that extent.

Investment income is recognised by Blue Sky when a co-investment fund generates a gain based on the fair value of the fund or investment. Blue Sky typically commits alignment capital and invests alongside its institutional investors. Investments are realised upon wind up of the fund.

Glossary

2H FY18	Half financial year ended 30 June 2018
AASB	Australian Accounting Standards Board
AFSL	Australian Financial Services Licence
Alternatives Access Fund	Blue Sky Alternatives Access Fund Limited
ASX	Australian Securities Exchange
AUM	Assets Under Management
BAF	Blue Sky Alternatives Access Fund Limited
BLA or Blue Sky or Company	Blue Sky Alternative Investments Limited
BSPE	Blue Sky Private Equity Limited
CPI	Consumer Price Index
FEAUM	Fee-earning Assets Under Management
FY19	Financial year ended 30 June 2019
GAV	Gross Asset Value

GRV	Gross Realisable Value
IRR	Internal Rate of Return
IT	Information Technology
LVR	Loan to value ratio
Market Cap	Market capitalisation
NAV	Net Asset Value
NTA	Net Tangible Assets
P&L	Profit and Loss
p.a.	Per annum
US	United States
US JVs	United States Joint Ventures
W. Avg.	Weighted average
Yrs	Years



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