

28 September 2018**Legal and Regulatory Update**

In the 2018 Annual Financial Report, released to the Australian Securities Exchange ('ASX') on 30 August 2018, Blue Sky Alternative Investments Limited (ASX: BLA) ('Blue Sky' or 'the Company') reported on certain legal and regulatory matters. Blue Sky today provides an update on these matters.

AFSL Matters

As previously reported, in the last quarter of FY2018, Blue Sky commissioned a review of all 88 (now 89) funds which it manages, their underlying assets and all other parts of its business. The 2018 Annual Financial Report noted three matters which constituted a reportable breach of Blue Sky's AFSL, that two of these matters had been rectified and that the third was in the process of being rectified, with Blue Sky anticipating no loss to fund investors.

ASIC has now notified Blue Sky that, based on information currently available, it does not intend to make any further enquiry into the two initial breaches. Blue Sky has now completed its review of the third matter in conjunction with its external legal and accounting advisers.

The third breach relates to identified fees or third-party expenses that were allocated to certain Blue Sky closed-end managed funds in a manner inconsistent with arrangements represented in the disclosure documents for those funds.

Blue Sky advises that the aggregate value of identified incorrectly charged fees and/or third-party expenses was approximately \$4.1 million plus GST. These charges were incurred across 65 different existing closed-end funds in the ten years from FY2007 to FY2017 inclusive and related mainly to receiving reimbursements for third party expenses not in accordance with fixed annual administrative expense caps or otherwise not expressly permitted in the respective disclosure documents.

The incorrectly charged fees and expenses mostly pertained to wholesale private real estate and private equity funds and did not impact any institutional mandates and institutional funds including the Strategic Australian Agriculture Fund, or open-ended funds including the Water Fund or Hedge Funds.

Blue Sky has commenced reimbursing these charges to the relevant closed-end funds and will complete that process by 31 October 2018, such that there is no loss to fund investors resulting from incorrectly charged fees. Investors in these funds will be separately advised of these matters by 31 October 2018.

Blue Sky also today confirms one further identified breach of Blue Sky's obligations arising from an external custodian. Blue Sky's AFSL holder (Blue Sky Private Equity Limited) previously appointed Australian Executor Trustee Limited ('AET') as the custodian of seven of its managed investment schemes. On 31 August 2018, AET informed its clients that it did not believe it had met its net tangible asset (NTA) requirements under its own AFSL in June, July and August 2018. Consequently, Blue Sky was obliged to inform ASIC of this breach on 31 August 2018. AET has subsequently rectified its NTA breach of its AFSL.

S 33 notice

On 2 July 2018, Blue Sky confirmed it had received an ASIC notice pursuant to section 33 of the Australian Securities and Investment Commission Act 2001 (Cth) requesting information regarding Blue Sky's compliance with its continuous disclosure obligations. Blue Sky has delivered to ASIC all documents requested under this notice and has to date received no subsequent communication from ASIC in relation to this matter.

*Class action(s)***BLUE SKY ALTERNATIVE INVESTMENTS LIMITED**

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As noted in the 2018 Annual Financial Report, in the days following the release of the short seller report three legal firms commenced advertising for class action participants. Blue Sky again confirms that it has received no communication from these firms and no claim has been served.

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