

## MARKET UPDATE

16 April 2018

### Key Highlights

- **Independent review of business processes and financial reporting to be commissioned**
- **Greater transparency and clarity around fees and performance**
- **Detailed breakdown of fee-earning AUM by asset class provided**
- **FY18 fee-earning AUM guidance revised to \$4-4.25 billion and FY18 underlying NPAT guidance revised to \$20-25 million**

Blue Sky Alternative Investments Limited (ASX: BLA) ('Blue Sky' or 'the company') today announces that the Board of Directors will commission an independent review with the objective of enhancing Blue Sky's disclosures around financial reporting, including valuations.

Blue Sky has also committed to a series of initiatives to provide shareholders with greater transparency, including:

- delivering greater clarity of the breakdown of fee-earning Assets Under Management (AUM), including by asset class as well as the principles for measuring fee-earning AUM;
- separately reporting one off upfront management fees and ongoing annual management fees in all future annual reports;
- greater transparency on its investment performance through releasing a detailed analysis of each of Blue Sky's exits over the last five years; and
- commissioning an independent valuation review of every asset it manages.

Blue Sky also advises that recent negative market sentiment is likely to constrain the company's ability to make new investments in the short term and as a result the Board expects Blue Sky's ability to generate fees to be adversely affected for the remainder of FY18.

The Board has therefore revised fee-earning AUM guidance for FY18 from \$4.25-\$4.75 billion to \$4.0-\$4.25 billion and underlying NPAT guidance for FY18 from \$34-\$36 million to \$20-\$25 million.

Blue Sky chairman, Mr John Kain, said: "The revision to fee earning AUM and underlying NPAT guidance is based on the expectation the company will now be constrained from completing new investments outside of unallocated institutional mandates."

"2HFY18 earnings will also be impacted by unbudgeted costs associated with the response to recent market events, including the costs of the upcoming independent review."

Commenting on the review, Mr Kain said the Board wanted to ensure the company was meeting market expectations around transparency and disclosure.

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“We have listened to the market feedback and it is clear that Blue Sky has fallen short of market and shareholder expectations around transparency and disclosure. We are committed to making changes which will improve the business, provide greater transparency and improve shareholder value over the long term. As part of this, the Board is committed to an independent review which will examine Blue Sky’s risk management framework, its valuation processes, financial reporting processes and other disclosures,” Mr Kain said.

“We will update shareholders in due course on progress of the review and the expected date of completion.”

Blue Sky has also reaffirmed its commitment to strengthening governance and to that end will prioritise the move, announced in February 2018, to a Board comprised of majority independent directors.

### **Blue Sky Annexures**

Blue Sky has also today released to the ASX additional information about the breakdown and the principles of AUM and; an analysis of the exits of investments over the last five years, including exit value versus carrying value.

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# Blue Sky Alternative Investments

## Appendices

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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.

# Appendices

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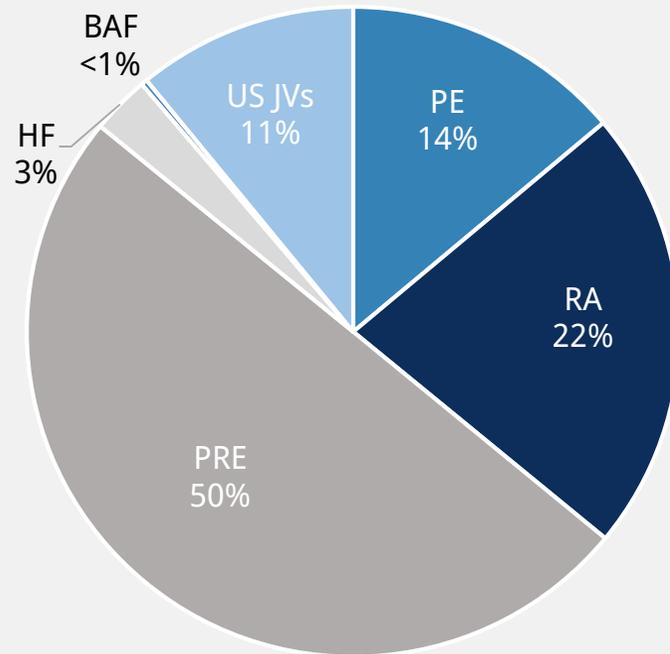
## **1. Fee-earning Assets Under Management (FEAUM) Breakdown**

## 2. Exit Register

## 3. Unit Price Band Analysis

# 1. Fee-earning AUM Breakdown

## Fee-earning AUM (as at 31 March 2018)



By Asset Class		Amount	Percentage
Private Equity	PE	\$0.6b	14%
Real Assets	RA	\$0.9b	22%
Private Real Estate	PRE	\$2.0b	50%
Hedge Funds	HF	\$0.1b	3%
Alternatives Access Fund <sup>1</sup>	BAF	\$0.0b	0%
US JVs	US JVs	\$0.4b	11%
<b>Total</b>		<b>\$4.0b</b>	<b>100%</b>

1. Represents the Alternative Access Fund's capital not yet deployed across one of the asset classes.

Note: PRE FEAUM is calculated on gross realisable value (including debt funding). PE and RA FEAUM is calculated on the committed equity capital to each fund. Further details on following slide.

# 1. Fee-earning AUM Breakdown - Summary

- Blue Sky ('Company') has disclosed to the market that fee-earning AUM ('FEAUM') is calculated as follows: "for Blue Sky Private Real Estate Funds as gross realisable value of the Fund and for all other Funds as debt and equity capital committed to that Fund".<sup>1</sup>
- Below is a summary of Blue Sky's Fee-Earning Assets Under Management Policy to provide the market with additional detail on the calculation of FEAUM.

## 1. General Principles

- A fund is included as FEAUM from the point the relevant investment vehicle is established and the Company has a present entitlement to accrue or draw any fee income.
- A fund is removed or excluded from the calculation of FEAUM from the point when there is no reasonable prospect of the Company earning any fee income from the fund in the future.

## 2. Measuring FEAUM

- The overarching principle for the measurement of FEAUM is to, as closely as possible, reflect the asset base upon which economic benefits flow to the Company from the provision of investment management services.

### *Operating assets – Private Equity and Real Assets*

- Where the Company has established an investment vehicle for the purpose of investing capital into an operating asset (such as a company/business), FEAUM equals the face value of capital raised from investors into the investment vehicle.
- FEAUM does not change over the life of a project unless fee income is measured with reference to asset value.<sup>2</sup>

### *Project-based strategies – Private Real Estate*

- Where the Company has established an investment vehicle for the purpose of raising equity or debt to undertake a capital works project (such as a new development, redevelopment or repositioning, particularly of real property), FEAUM will equal the Gross Realisable Value (**GRV**) of the investment asset.

### *Open-ended funds – Hedge Funds and Real Assets*

- The FEAUM of an open-ended fund will equal the most recently calculated NAV of the fund (be that daily, weekly or monthly etc.).

## 3. Joint Venture

- Where the Company provides investment management services through or with a joint venture partner (for example, Cove Property Group), a fund's FEAUM is to be measured according to the proportionate share of the economic benefits flowing to the Company under the agreement with the joint venture partner. For example, if the Company has a 40% interest in the joint venture partner then 40% of the investment asset's total FEAUM will be attributed to the Company.

1. BLA Replacement Prospectus – November 2011, and as recently mentioned in the Placement and SPP Presentation – March 2018.

2. Closed-ended funds where fee income is measured with reference to asset value comprises 9% of Blue Sky's FEAUM.

# Appendices

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1. Fee-earning Assets Under Management (FEAUM) Breakdown

**2. Exit Register**

3. Unit Price Band Analysis

## 2. Exit Register: Last 5 years

\*Exit Value vs Holding Value reported are for the Fund as a whole and may differ from that reported by BAF which reports inclusive of fee rebates

Fund Name	Brief Description	Year Invested	Tenure <sup>1</sup>	Size of Investment <sup>2</sup>	Money Multiple (net of fees)	Exit Value vs Holding Value <sup>3</sup>
<b>Private Equity</b>						
1	Paradise Motor Homes	Motor home manufacturer	2007	7 – 8 years	< \$10 million	1.1x 21% ↑
2	Viking Rentals (Funds I and II)	Portable toilet and shower rental	2007	8 – 9 years	< \$10 million	2.6x -23% ↓
3	Viking Rentals - Convertible Note	Portable toilet and shower rental	2009	6 – 7 years	< \$10 million	1.5x 30% ↑
4	Hatchtech <sup>4</sup>	Clinical pharmaceutical company that has developed the world's first head lice treatment that kills both lice and their eggs simultaneously	2013	3 – 4 years	< \$10 million	2.8x 27% ↑
5	Readify (Funds I and II)	IT services business focused on application development for mobile, web, data analytics and the cloud	2013	3 – 4 years	\$20 - \$30 million	1.7x 11 % ↑
6	Pet Circle	Online pet products retailer	2014	3 – 4 years	< \$10 million	1.7x -8 % ↓
7	Milk & Co	'Lifestyle' brand that offers skincare products	2012	5 – 6 years	< \$10 million	1.2x 51% ↑
8	Hospital Pharmacy Services	Outsourced hospital and oncology pharmacy business	2015	2 – 3 years	\$40 - \$50 million	2.0x 37% ↑
9	Oaktree	Developer and operator of retirement villages	2013	4 – 5 years	\$20 - \$30 million	1.9x -16% ↓

1. Average tenure is grouped into the following twelve month buckets: (i) < 12 months (" $< 1$  year"), (ii) 13 – 24 months (" $1 - 2$  years"), (iii) 25 – 36 months (" $2 - 3$  years"), (iv) 37 – 48 months (" $3 - 4$  years"), (v) 49 – 60 months (" $4 - 5$  years"), (vi) 61 – 72 months (" $5 - 6$  years"), (vii) 73 – 84 months (" $6 - 7$  years"), (viii) 85 – 96 months (" $7 - 8$  years"), (ix) 97 – 108 months (" $8 - 9$  years").
2. Size of investment is grouped into the following ranges (all in AUD): (i) < \$10,000,000 (" $< \$10$  million"), (ii) \$10,000,001 - \$20,000,000 (" $\$10 - \$20$  million"), (iii) \$20,000,001 - \$30,000,000 (" $\$20 - \$30$  million"), (iv) \$30,000,001 - \$40,000,000 (" $\$30 - \$40$  million"), \$40,000,001 - \$50,000,000 (" $\$40 - \$50$  million"), > \$50,000,001 (" $> \$50$  million").
3. Until 2014, most residential development funds were held at original investment value until realisation.
4. Partial exit secured 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. Exit Register: Last 5 years (cont.)

\*Exit Value vs Holding Value reported are for the Fund as a whole and may differ from that reported by BAF which reports inclusive of fee rebates

Fund Name	Brief Description	Year Invested	Tenure <sup>1</sup>	Size of Investment <sup>2</sup>	Money Multiple (net of fees)	Exit Value vs Holding Value <sup>3</sup>	
<b>Private Real Estate</b>							
10	Mezzanine Fund II	Mezzanine facility for the development of 44 apartments in Kawana, Sunshine Coast	2012	< 1 year	< \$10 million	1.16x	16% ↑
11	Eight Mile Plains	A residential development of 38 apartments in the South Brisbane suburb of Eight Mile Plains	2011	2 – 3 years	< \$10 million	1.26x	26% ↑
12	Skyring Terraces	3 townhouses located in Bundaberg, Queensland	2009	4 – 5 years	< \$10 million	1.00x	0% –
13	Mezzanine Fund I	Mezzanine facility for the development of 62 apartments in Yeppoon, Townsville	2012	2 – 3 years	< \$10 million	1.33x	33% ↑
14	Kawana I	Stage 1 of a 90 townhouse development located in Kawana, Sunshine Coast	2013	1 – 2 years	< \$10 million	2.00x	70% ↑
15	Bowen Hills I	A residential development of 36 apartments in the Central Brisbane suburb of Bowen Hills	2013	1 – 2 years	< \$10 million	1.40x	28% ↑
16	Kawana II	Stage 2 of a 90 townhouse development located in Kawana, Sunshine Coast	2013	1 – 2 years	< \$10 million	1.75x	53% ↑
17	Mezzanine Fund IV	Mezzanine facility for the development of 27 apartments in Kelvin Grove, Brisbane	2013	1 – 2 years	< \$10 million	1.22x	22% ↑
18	Mezzanine Fund III	Mezzanine facility for the development of 49 apartments in Townsville (Stage 1)	2013	2 – 3 years	< \$10 million	1.26x	26% ↑
19	Bowen Hills II	A residential development of 40 apartments in the Central Brisbane suburb of Bowen Hills	2014	1 – 2 years	< \$10 million	1.51x	4% ↑
20	25 Regent Street Woolloongabba	A residential development of 57 apartments in the South Brisbane suburb of Woolloongabba	2013	2 – 3 years	< \$10 million	1.68x	5% ↑

- Average tenure is grouped into the following twelve month buckets: (i) < 12 months (“< 1 year”), (ii) 13 – 24 months (“1 – 2 years”), (iii) 25 – 36 months (“2 – 3 years”), (iv) 37 – 48 months (“3 – 4 years”), (v) 49 – 60 months (“4 – 5 years”), (vi) 61 – 72 months (“5 – 6 years”), (vii) 73 – 84 months (“6 – 7 years”), (viii) 85 – 96 months (“7 – 8 years”), (ix) 97 – 108 months (“8 – 9 years”).
- Size of investment is grouped into the following ranges (all in AUD): (i) < \$10,000,000 (“< \$10 million”), (ii) \$10,000,001 – \$20,000,000 (“\$10 – \$20 million”), (iii) \$20,000,001 – \$30,000,000 (“\$20 – \$30 million”), (iv) \$30,000,001 – \$40,000,000 (“\$30 – \$40 million”), \$40,000,001 – \$50,000,000 (“\$40 – \$50 million”), > \$50,000,001 (“> \$50 million”).
- Until 2014, most residential development funds were held at original investment value until realisation.

Past performance is not a reliable indicator of future performance. Returns are as at 31 December 2017.

## 2. Exit Register: Last 5 years (cont.)

\*Exit Value vs Holding Value reported are for the Fund as a whole and may differ from that reported by BAF which reports inclusive of fee rebates

Fund Name	Brief Description	Year Invested	Tenure <sup>1</sup>	Size of Investment <sup>2</sup>	Money Multiple (net of fees)	Exit Value vs Holding Value <sup>3</sup>	
<b>Private Real Estate (cont.)</b>							
21	Coronation Drive Toowong	A residential development of 20 apartments in the Central Brisbane suburb of Toowong	2014	2 – 3 years	< \$10 million	1.42x	7% ↑
22	Alice Street Kedron	A residential development of 38 apartments in the North Brisbane suburb of Kedron	2014	2 – 3 years	< \$10 million	1.56x	6% ↑
23	Management Rights Income Fund IV	Management rights for the 788 apartment 'Southport Central' precinct on the Gold Coast, plus the freehold title to the manager's office	2014	3 – 4 years	< \$10 million	1.34x	-16% ↓
24	RAMS Plantations	A residential development of 41 apartments in Beenleigh	2010	6 – 7 years	< \$10 million	1.06x	1% ↑
25	Carl Street Woolloongabba	A residential development of 69 apartments in the South Brisbane suburb of Woolloongabba	2014	3 – 4 years	< \$10 million	1.68x	1% ↑
26	Railway Terrace Milton	A residential development of 70 apartments in the Central Brisbane suburb of Milton	2013	3 – 4 years	< \$10 million	1.73x	2% ↑
27	37 Regent Street Woolloongabba	A residential development of 44 apartments in the South Brisbane suburb of Woolloongabba	2014	2 – 3 years	< \$10 million	1.57x	2% ↑
28	Main Street Kangaroo Point	A residential development of 105 apartments in the Central Brisbane suburb of Kangaroo Point	2014	2 – 3 years	< \$10 million	1.70x	1% ↑
29	Regina Street Greenslopes	A residential development of 61 apartments in the South Brisbane suburb of Greenslopes	2014	3 – 4 years	< \$10 million	1.61x	2% ↑
30	Logan Road Greenslopes	A residential development of 53 apartments in the South Brisbane suburb of Greenslopes <sup>4</sup>	2014	3 – 4 years	< \$10 million	1.20x	0% —

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- Until 2014, most residential development funds were held at original investment value until realisation.
- Logan Road has finished construction and is in the process of final trust distributions.

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## 2. Exit Register: Last 5 years (cont.)

\*Exit Value vs Holding Value reported are for the Fund as a whole and may differ from that reported by BAF which reports inclusive of fee rebates

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<b>Private Real Estate (cont.)</b>						
31	Grantson Street Windsor	A residential development of 65 apartments in the North Brisbane suburb of Windsor	2014	3 – 4 years	< \$10 million	1.58x 5% ↑
32	Duke Street Kangaroo Point	A residential development of 125 apartments in the Central Brisbane suburb of Kangaroo Point <sup>4</sup>	2014	3 – 4 years	\$10 - \$20 million	1.24x 0% —
<b>Real Assets</b>						
33	Water Utilities Australia (Fund I)	Owns and operates a portfolio of high-quality water infrastructure assets	2013	4 – 5 years	\$10 - \$20 million	1.0x 0% —
34	Water Utilities Australia (Fund II)	Owns and operates a portfolio of high-quality water infrastructure assets	2014	4 – 5 years	< \$10 million	1.0x 9% ↑

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- Until 2014, most residential development funds were held at original investment value until realisation.
- Duke Street has finished construction and is in the process of final trust distributions.

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**3. Unit Price Band Analysis**

# 3. Unit Price Band Analysis

## BLA Fund Unit Price Summary - Closed Ended Funds<sup>1</sup>

The following table provides a summary of the carrying values for BLA's portfolio.

Unit Price Band <sup>2,3</sup>	Number of Funds <sup>4</sup>	Weighted Average Months Held <sup>5</sup>	% of FEAUM <sup>6</sup>	Funds within Band
<\$1.00	9	58	2%	5 Growth Capital 1 Venture Capital 3 Other Real Estate
\$1.00	38	13	45%	6 Growth Capital 8 Venture Capital 1 Student Accommodation 4 Retirement Living 7 Residential 2 Other Real Estate 6 Real Assets 4 US JV funds
\$1.01 - \$1.20	17	18	21%	3 Growth Capital 3 Venture Capital 2 Student Accommodation 3 Retirement Living 1 Residential 2 Other Real Estate 1 Real Assets 2 US JV funds
\$1.21 - \$1.40	9	27	19%	3 Growth Capital 1 Venture Capital 2 Student Accommodation 1 Retirement Living 2 Real Assets
>\$1.40	13	34	14%	4 Growth Capital 2 Venture Capital 4 Student Accommodation 1 Residential 1 Other Real Estate 1 Real Assets

1. Excludes the open ended funds including the Blue Sky Water Fund and hedge funds which are marked to market monthly. Excludes the Logan Road Greenslopes Trust and the Duke Street Kangaroo Point Trust as they are in the process of exiting.
2. Reflects the current holding value of investment trust unit price for every \$1.00 allocated plus the cash distributions per unit up until 10<sup>th</sup> April 2018.
3. Units issued in foreign currency are reflected at their foreign currency value to remove the impact of any foreign exchange movements since investment (i.e. the unit price is reflective only of changes in underlying valuation). Cash distributions made in A\$ are converted back to foreign currency at rate applicable on 10<sup>th</sup> April 2018.
4. In previous statements regarding Blue Sky's 80 separate funds, multiple funds raised on the same asset over time were aggregated. For example, aCommerce funds 1, 2 and 3 were counted as 1 fund. The data in the table includes each fund separately as some follow on funds are held at different unit prices. Additionally 5 open-ended funds previously included in the 80 figure are excluded from the above table.
5. Weighted by FEAUM. Time period is from investment date to 31 March 2018.
6. The percentage is only of AUM of funds included in the table (i.e. excludes AUM of excluded funds).



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