Blue Sky Alternative Investments Limited
ACN 136 866 236

Risk Management Policy

Approved and adopted by the Board on 23 September 2011, effective 6 October 2011

This Policy was reviewed, amended and adopted by the Board on 25 September 2017
1. **Introduction**

1.1 Blue Sky Alternative Investments Limited (‘Company’ or ‘BSAIL’) is a public company which is listed on the Australian Securities Exchange (‘ASX’).

1.2 The Risk Management Policy (‘Policy’) applies to BSAIL and its subsidiary companies (‘Group’).

1.3 The Company recognises that it has obligations to shareholders, investors, staff and other stakeholders to ensure that risks to the businesses are identified, evaluated, monitored and managed to minimise losses and maximise opportunities. The Company, in meeting its obligations in relation to risk management, acknowledges that such actions provide the following benefits:

   1.3.1 assists in strategic planning;
   1.3.2 provides better information for decision making;
   1.3.3 reduces unexpected and costly surprises;
   1.3.4 provides more effective and efficient allocation of resources; and
   1.3.5 produces better results from projects and programs.

1.4 The Company acknowledges the role of prudent and well-informed risk taking in the achievement of its strategic and commercial objectives. This Policy seeks to articulate how risk taking is governed, and does not seek to avoid risk at all costs.

2. **Risk Management**

2.1 At BSAIL, risk management is everyone’s responsibility. Staff at all levels are expected to be risk aware, to make decisions with a risk management mentality, and to bring material risks to the attention of senior management.

2.2 BSAIL operates three lines of defence with respect to risk management:

   2.2.1 First line of defence: Line managers are expected to manage the full spectrum of risks within their parts of the organisation.

   2.2.2 Second line of defence: BSAIL has established a Risk Management Framework that includes a number of decision making bodies with specific risk management responsibilities (described in more detail in this Schedule).

   2.2.3 Third line of defence: BSAIL’s Risk Management Framework includes a risk assurance function that independently tests whether BSAIL is complying with agreed risk management policies and processes.

2.3 While risk management is embedded throughout BSAIL, the BSAIL Board is ultimately responsible for risk management.

2.4 Key elements of the Company’s Risk Management Policy are:

   2.4.1 the aim to use effective and efficient risk management practices to support and enhance business activities in all areas of the Group;

   2.4.2 ensuring risk management is an integral part of all Company decision-making processes;

   2.4.3 using a structured Risk Management Framework to minimise reasonably foreseeable financial underperformance, disruption to operations, harm to people and damage to the environment and property;

   2.4.4 identifying and taking advantage of opportunities as well as minimising adverse effects; and
2.4.5 striving to continually improve the Group’s risk management practices.

3. Risk Management Framework

The Company has established a Risk Management Framework to ensure the practical implementation of effective risk management disciplines. This Risk Management Framework comprises a number of elements:

3.1 This Risk Management Policy;
3.2 Risk appetite statement [see Schedule 1 – not publicly disclosed];
3.3 Risk management roles and responsibilities [see Schedule 2 – not publicly disclosed];
3.4 Risk management assessment procedures [see Schedule 3 – not publicly disclosed]; and
3.5 Risk management assurance [see Schedule 4 – not publicly disclosed].

This Risk Management Framework is designed to ensure that risks faced by the Company are identified, evaluated, monitored and managed in a way that is consistent with the Company’s strategic and financial objectives, and its regulatory obligations (for example, under RG259: Risk management systems of responsible entities).

4. Scope

4.1 This Policy applies to all employees of the Group, whether full time, part time or casual at any level of seniority within the business.

4.2 The Company’s Risk Management Framework has been developed to include the following key risk categories:
   4.2.1 market risk;
   4.2.2 investment risk;
   4.2.3 credit risk;
   4.2.4 liquidity risk;
   4.2.5 operational risk;
   4.2.6 legal and regulatory risk;
   4.2.7 reputational risk;
   4.2.8 strategy risk; and
   4.2.9 governance risk.

5. Responsibilities

5.1 Board

5.1.1 The Board is ultimately responsible for identifying and assessing internal and external risks that may impact the Company in achieving its strategic objectives. The Board is responsible for determining the Company’s risk appetite, overseeing the development and implementation of the Risk Management Framework and maintaining an adequate monitoring and reporting mechanism.

5.1.2 The Board is also responsible for reviewing and approving the Risk Management Framework and risk appetite on an annual basis.
5.2 Risk and Compliance Committee
The Risk and Compliance Committee of the Board monitors:

5.2.1 corporate risks and internal controls;

5.2.2 compliance with the Corporations Act 2001 (Cth) and ASX Listing Rules (where applicable);

5.2.3 risks exposures and treatment plans with respect to the risks described in section 4.2; and

5.2.4 adequacy of insurance coverage.

5.3 Chief Investment Officer and Senior Executive Team

5.3.1 The Board has delegated responsibility for implementation of this Policy and the Risk Management Framework to the Chief Investment Officer of the Company (‘CIO’) and the Senior Executive Team.

5.3.2 The CIO and Senior Executive Team are responsible for ensuring that risks are identified, analyzed, evaluated and mitigated. They must develop a sustainable control environment to manage significant risks and champion the implementation of risk management processes within their business operations.

5.3.3 The Senior Executive Team must monitor and report to the Managing Director on material risks identified through the Company's internal and external audit process. The Managing Director will report on such matters to the Risk and Compliance Committee and the Board.

5.3.4 The Company’s internal assurance program must be aligned to the Company’s risk profile and is responsible for providing independent assurance in relation to the effectiveness of processes to manage particular areas of risk. The scope of internal assurance’s risk-based program is agreed to as part of an annual plan which is refined as necessary.

5.4 Employees
Employees are encouraged to report risk and to manage risks that are within their area of responsibility

5.5 Risk management roles and responsibilities
The Company has defined detailed risk management roles and responsibilities

6. Risk management culture

6.1 BSAIL believes that the risk management disciplines described in this Risk Management Policy, and in the Risk Management Framework more broadly, will only be effective in the context of a strong risk management culture.

6.2 BSAIL is committed to a strong risk management culture, and a strong risk management culture is inculcated at all levels of BSAIL in a number of ways:

6.2.1 Strong leadership, including leadership behavior and consistent emphasis on risk management as a strategic priority for BSAIL;

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1 The Senior Executive Team refers to the senior management team as distinct from the Board, being those who have the opportunity to materially influence the integrity, strategy and operation of the Company and its financial performance. It includes, for the purposes of this Policy, the Managing Directors, the Chief Financial Officer (CFO), the Chief Investment Officer (CIO), Chief Operating Officer (COO) and the head of each investing division.
6.2.2 Ensuring that recruiting processes prevent the hiring of people likely to diminish BSAIL’s risk management culture;

6.2.3 Providing induction material to new employees that includes a statement of BSAIL’s risk management expectations and the new employee’s material obligations;

6.2.4 Providing periodic training to all staff members on key aspects of BSAIL’s Risk Management Framework;

6.2.5 Ensuring that all material investment and business decisions are made in a risk aware way;

6.2.6 Ensuring that any identified breaches of BSAIL’s risk framework are dealt with appropriately and attract consequences;

6.2.7 Creating remuneration structures that reward long-term value creation and encourage a risk-aware mindset; and

6.2.8 Maintaining ongoing risk reporting frameworks that are reviewed by key line decision makers to ensure that risk is a regular focus.

7. Definitions

This policy defines the following key terms;

7.1 ‘Risk’ is defined as the chance of a future event or situation happening that will have an impact upon company’s objective favorably or unfavorably. It is measured in terms of consequence and likelihood; and

7.2 ‘Risk Management Framework’ encompasses the elements described in section 3 of this Policy.

8. Reporting

8.1 In line with Principle 7 of the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (3rd Edition) and section 295A of the Corporations Act 2001, the Chief Operating Officer and the Chief Financial Officer provide assurance to the Audit Committee and the Board with regards to the Company’s financial records, financial risk management and internal compliance.

8.2 In addition, the Company’s Compliance Officer provides annual assurance to the Risk and Compliance Committee and the Board with regards to the Company’s compliance with its Risk Management Framework.

8.3 These declarations will be founded on a sound system of risk management and internal control and that the system was operating effectively in all material respects to strategic, shareholder, operational and financial risks.

9. Policy review

This Policy will be reviewed at least annually to ensure effectiveness and its continued application and relevance to the Company’s business.