30 August 2018

BLUE SKY FY18 RESULTS AND BUSINESS UPDATE

SUMMARY

- Changes to business model under way, strong cost discipline introduced, improvements to corporate governance being implemented and portfolio rationalisation well progressed
- Commitment to focus on institutional grade assets with the ability to achieve scale and genuine competitive advantage
- Fee-earning assets under management (‘FEAUM’) of $3.4 billion, including equity and debt capital deployed of $2.8 billion at 30 June 2018
- Discussions progressing on key terms for a capital partnership with Oaktree Capital Management (‘Oaktree’)

FY18 RESULTS

- Underlying revenue of $24.9 million, compared with $68.0 million in the financial year ended 30 June 2017
- Underlying Net Loss After Tax of $85.6 million, compared to a $25.5 million Net Profit After Tax in FY17, impacted by:
  - Provisions against the recoverability of receivables from related parties (principally investment funds) of $31.5 million;
  - Fees repaid in relation to terminated real estate development projects of $14.7 million;
  - Write down of the carrying values of Australian real estate development platforms as a result of the termination of four projects totalling $16.4 million, and non-cash valuation adjustments to Blue Sky’s carrying value of its interests in its US commercial property and student accommodation joint ventures of $5.1 million;
  - Write down of the carrying value of co-investments into investment funds of $2.6 million; and
  - Unanticipated costs in relation to staff retention, corporate and legal advice and other external service providers of $9.7 million.
- Underlying Net Tangible Assets (‘NTA’) at 30 June 2018 were $152.4 million ($1.97 per share). On a pro forma basis and considering the estimated impact of new accounting standard AASB 15 from 1 July 2018, NTA is expected to reduce to $1.70 per share
- Cash balance of $40.0 million at 30 June 2018, with no corporate debt
FY18 Financial Overview

Blue Sky Alternative Investments Limited (ASX: BLA) (‘Blue Sky’ or the ‘Company’) today announced its results for FY18, which reflect a disruption to its business in Q4 FY18.

Blue Sky interim Managing Director Mr Kim Morison said the $85.6 million underlying net loss after tax was disappointing and that it was impacted by the deterioration in market sentiment towards the Company, impacting upon its ability to attract new capital.

“Our performance was also impacted by the need to incur one off costs associated with the restructuring of our business model and by impairments to several assets across our portfolio,” Mr Morison said.

“We have taken tough decisions as part of a sweeping review of our business, including rationalising our portfolio, adjusting the cost base, improving governance and transparency and introducing enhanced rigour to the management of our capital structure.

“These initiatives are designed to rebuild confidence with existing and future investors and to create a strong, robust platform to pursue investments that can create scale and are of institutional grade with competitive advantage.”

Mr Morison added that the other drivers to the FY18 financial performance included changes to the business strategy, closing the retail hedge fund business, winding up regional residential real estate projects, and the deferral or termination of certain retirement living and student accommodation projects.

Provisions and impairments had a negative impact of $31.5 million, while the decision to terminate four real estate development projects resulted in the repayment of $14.7 million in previously earned fees.

The carrying value of the Atira and Aura investment platforms were written down by $17.2 million resulting from the termination and deferment of purpose-built student accommodation and retirement living projects.

Further non-cash impacts resulting from the independent review of carrying values for every investment fund managed by Blue Sky (other than those revalued monthly or in an exit process) were negative $8.3 million; and non-cash valuation adjustments to Blue Sky’s carrying value of its interests in its US commercial property and student accommodation joint ventures also had a negative impact of $5.1 million on the underlying net loss after tax.

Unanticipated cash costs were also incurred within FY18 of $9.7 million, in relation to staff retention, corporate and legal advice and other external service providers.

Finally, the underlying Net Loss After Tax for FY18 was impacted by the non-recognition of a deferred tax asset of $16.3m in relation to Australian tax losses incurred in the financial year.

From a revenue perspective Blue Sky returned some management fee income on partly completed projects that it decided to exit and wrote down the goodwill of certain assets. As a result, underlying revenue decreased by 63% on the prior corresponding period to $24.9 million.

Blue Sky’s underlying NTA at 30 June 2018 was $152.4 million ($1.97 per share). On a pro-forma basis, considering the impact of new accounting standard AASB 15, NTA is estimated to
reduce to $1.70 per share from 1 July 2018. This compared to an NTA of $2.22 per share at 30 June 2017.

The cash balance position at 30 June 2018 was $40.0 million with no corporate debt, compared to $70.6 million at the prior corresponding period.

Blue Sky reconfirmed it would not pay a dividend for FY18.

**Investment Returns**

Despite the poor financial performance in FY18, and some financial difficulties faced by certain Private Equity and Private Real Estate investments, Blue Sky has retained a strong track record of investment returns.

The Group has generated overall investor returns of 13.9% per annum since inception (net of fees) through to 30 June 2018, while investor returns from realised funds have been 18.7% per annum (net of fees) in the five years to 30 June 2018.\(^1\)

Blue Sky’s FEAUM was $3.4 billion at 30 June 2018 including equity and debt capital deployed of $2.8 billion, compared to FEAUM of $3.25 billion at 30 June 2017 including equity and debt capital deployed of $1.6 billion.

**Real Assets**

Blue Sky’s Real Assets business achieved overall returns of 23.2% per annum (net of fees)\(^1\) in the five years to 30 June 2018 (including the Blue Sky Water Fund) and 75% growth in FEAUM to $991 million in the year to 30 June 2018.

The Real Assets business also achieved a second close on the Blue Sky Strategic Australian Agriculture Fund and entered a strategic partnership with a Canadian pension fund in December 2017. The sale of ‘Gundaline’ was executed by shareholders, including Blue Sky’s Agriculture Fund I. The Blue Sky Water Fund returned 27.6% during FY18 (net of fees, gross of tax)\(^1\). The Blue Sky Water Fund has generated a return since inception of 17.8% p.a. (net of fees, gross of tax)\(^1\).

**Private Equity**

Blue Sky’s Private Equity business achieved overall realised returns of 19.3% per annum (net of fees)\(^1\) in the five years to 30 June 2018. The Private Equity business completed one significant exit in FY18 (Foundation Early Learning), executed six new investments across food, fintech and IT services and completed two investments under the 15-year South Australian Venture Capital Fund (SAVCF) mandate. The disruption to Blue Sky’s business negatively impacted new investment activity and capital raising in 4Q FY18.

The Growth Capital team in the Private Equity business has also been progressing the exit of early investments, including the sale of Lenard’s to its management team in July 2018. Three of the four remaining early investments are expected to be finalised over the coming months. Venture Capital investment Shoes of Prey ceased trading after 30 June 2018.

---

\(^1\) Overall returns on realised funds include returns on open-ended funds (where investors have redemption rights). Returns are net of fees and are equity weighted through to 30 June 2018.
Private Real Estate

Blue Sky’s Private Real Estate business achieved overall realised returns of 21.2% per annum (net of fees)\(^1\) in the five years to 30 June 2018.

The purpose-built student accommodation portfolio operated by Atira is expected to have more than 3,500 beds in operation across six sites in Australia by January 2019. Delays were experienced on two other sites and a proposed Sydney project was terminated in FY18.

Blue Sky’s retirement living development strategy was reviewed following the decision to terminate three proposed development projects in June 2018 after an assessment of their feasibility resulting from development planning approval challenges at each site. A binding sale of Blue Sky’s funds’ interests in each of the remaining five retirement living projects and of its share in the operator was announced in August 2018.

Hedge Funds

Blue Sky closed part of its Hedge Fund activities in June 2018 and will exit its Hedge Funds business – the Dynamic Macro strategy for international institutional mandates - by the end of the calendar year.

US

Blue Sky’s US joint venture partner, Cove, focused on completing construction and commencing the leasing of the 101 Greenwich project (formerly 2 Rector Street) and progressing construction at the Hudson Commons project (formerly 441 Ninth Avenue).

Student Quarters made key senior hires, completed several transactions and focused on optimisation of property management with a focus on driving cashflow.

The US business also completed private equity investments in esVolta and Lord Hobo Brewery, along with sourcing offshore institutional capital for Blue Sky’s Real Assets business.

BAF

The Blue Sky Alternatives Access Fund (ASX: BAF or the ‘Alternatives Fund’) has achieved a performance of 8.53% per annum (net of fees) since inception to 30 June 2018.\(^2\)

BAF currently holds a strong cash position and is undertaking an on-market share buyback program.

\(^1\) Includes NTA growth, dividends and franking credits.
Strategic Update

Commenting on Blue Sky’s structure going forward, Mr Morison said that every business unit must be institutional grade, scalable, profitable and operate in an asset class where Blue Sky can offer stakeholders a competitive advantage.

“Blue Sky will retain its Real Assets, Private Equity and Private Real Estate business units. The decision has been made to progressively exit Hedge Funds, Property Management Rights, regional Residential Development, and Retirement Living strategies,” Mr Morison said.

Blue Sky is also implementing a new structure to enhance investment governance, valuation, reporting and risk oversight. This implementation includes the recent appointment of Andrew Werro as Chief Risk Officer to improve consistency of investment discipline and strengthen investment approaches and procedures across the business.

Blue Sky also announced on 26 July 2018 that it was in discussions with Oaktree in relation to a possible investment by Oaktree in Blue Sky’s business.

Commenting on the discussions, Mr Morison said Blue Sky has received a number of inbound enquiries to invest in various parts of the business. Having regard to recent events the Blue Sky Board ran a formal process to identify a capital partner who would help stabilise and grow the Blue Sky business by:

• Investing capital in Blue Sky to fund further co-investment;
• Adding additional market leading expertise in asset management; and
• Assisting to attract additional investment capital into underlying funds and strategies.

Following a comprehensive assessment of all interested parties, Blue Sky selected Oaktree Capital Management as its preferred capital partner and entered into exclusive negotiations in July this year.

The key terms of the capital partnership with Oaktree contemplate:

• An investment in Blue Sky of approximately $60m by a convertible note facility;
• Proceeds to fund co-investment and working capital requirements;
• Board representation;
• Conversion rights capped at 30% of issued share capital; and
• Aspects of the conversion rights will be subject to shareholder approval.

Detailed terms remain confidential, noting that the transaction remains subject to final approvals by all parties.
Teleconference
Blue Sky will hold an investor call at 12.00pm (AEST) today. Registration is accessible via: https://blueskyfunds.com.au/fy18-results-teleconference/ or by using the following dial-in details.

<table>
<thead>
<tr>
<th>Blue Sky FY18 Results investor call details:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within Australia</td>
</tr>
<tr>
<td>Outside Australia</td>
</tr>
<tr>
<td>Conference ID</td>
</tr>
</tbody>
</table>

A recording of the investor call will be available via Blue Sky’s shareholder centre at https://blueskyfunds.com.au/shareholder-centre/

For more information, please contact:
Leyya Taylor
Company Secretary
Blue Sky Alternative Investments Limited
Telephone: 07 3270 7500
Email: ltaylor@blueskyfunds.com.au
Website: blueskyfunds.com.au

For shareholder enquiries, please contact:
Neil Power
Investor Relations Officer
Blue Sky Alternative Investments Limited
Telephone: 0416 186 016
Email: npower@blueskyfunds.com.au

For media enquiries, please contact:
Emily Blyth
Telephone: 0401 601 044
Email: emily.blyth@consiglio.com.au