



AUSTRALIAN
INVESTORS
ASSOCIATION

The Mainstreaming of Alternative Investments

Blue Sky Alternative Investments Limited

Private Equity | Private Real Estate | Hedge Funds | Real Assets

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Non-IFRS information:

This presentation contains certain non-IFRS financial information. The directors of Blue Sky believe the presentation of certain non-IFRS financial information is useful for users of this presentation as they reflect the underlying financial performance of the business. The non-IFRS financial information includes Blue Sky's underlying Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flow (collectively, the 'underlying results'). These underlying results are presented with all equity held by Blue Sky in the funds that it manages being accounted for at fair value using the same approach as AASB 13 – Fair Value Measurement. This differs from Blue Sky's statutory financial statements where a range of Blue Sky's equity holdings in the funds that it manages are either consolidated or equity accounted following the adoption of the AASB 10 – Consolidated Financial Statements accounting standard.

The non-IFRS financial information has been subject to review by Blue Sky's auditor (Ernst & Young).

- Blue Sky is an ASX listed funds management business founded in 2006, focused on the four major alternative asset classes:
 - Private equity and venture capital
 - Private real estate
 - Real assets (water entitlements, water infrastructure and agribusiness)
 - Hedge funds
- Blue Sky's goal is to be Australia's leading diversified alternative asset manager
- Approx. \$650 million market cap¹
- Over \$3.0 billion in assets under management²
- Offices in Brisbane, Sydney, Melbourne, Adelaide and New York; >90 staff

Generated returns of 16.4% p.a. net of fees since inception to investors in its funds³

1. Closing price at 25 July 2017

2. To 31 May 2017; note that past performance is not a reliable indicator of future performance

3. To 31 December 2016; note that past performance is not a reliable indicator of future performance



Investing environment

Alternatives in investor portfolios

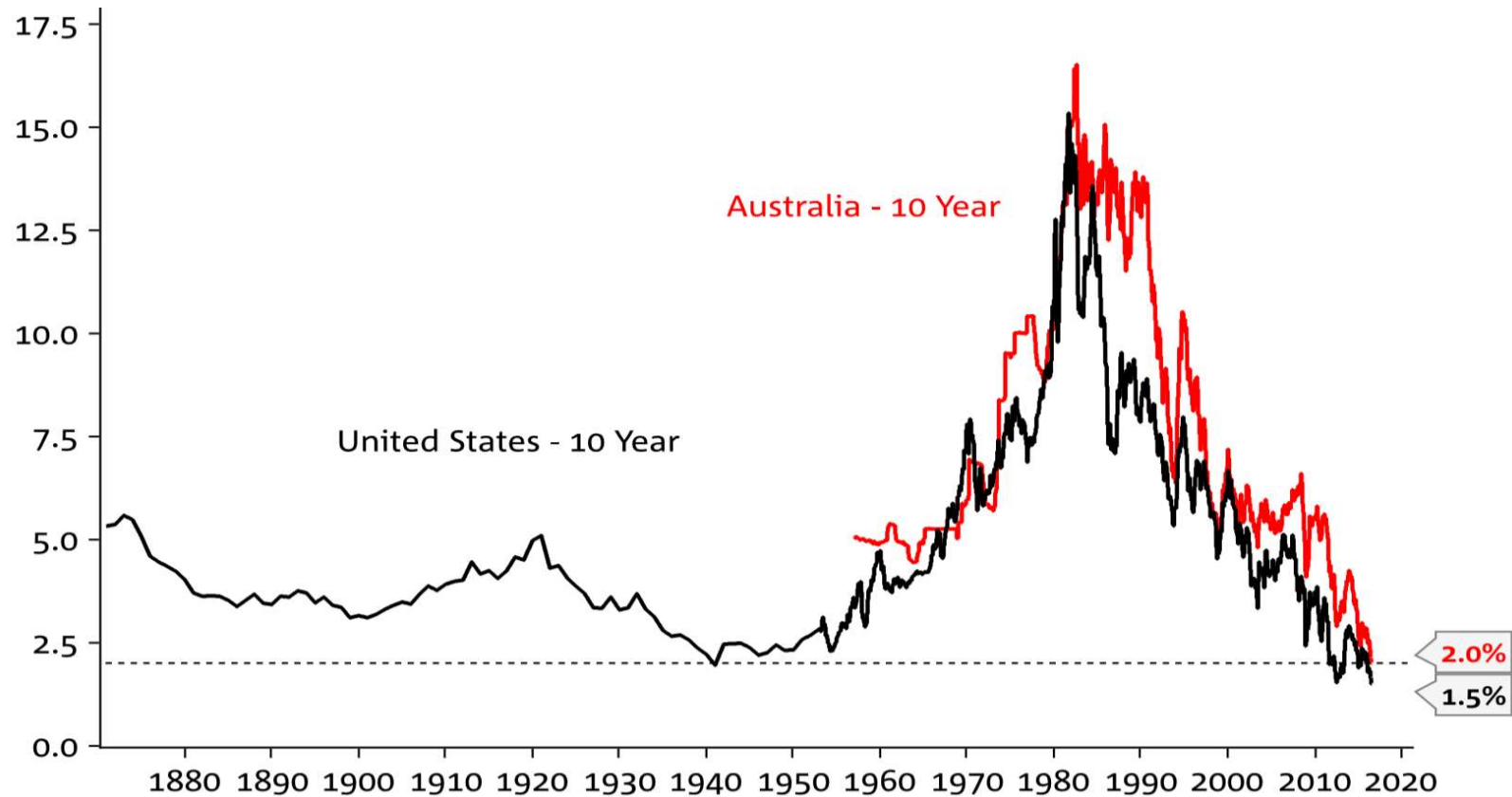
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Bonds: Yields at historically low levels

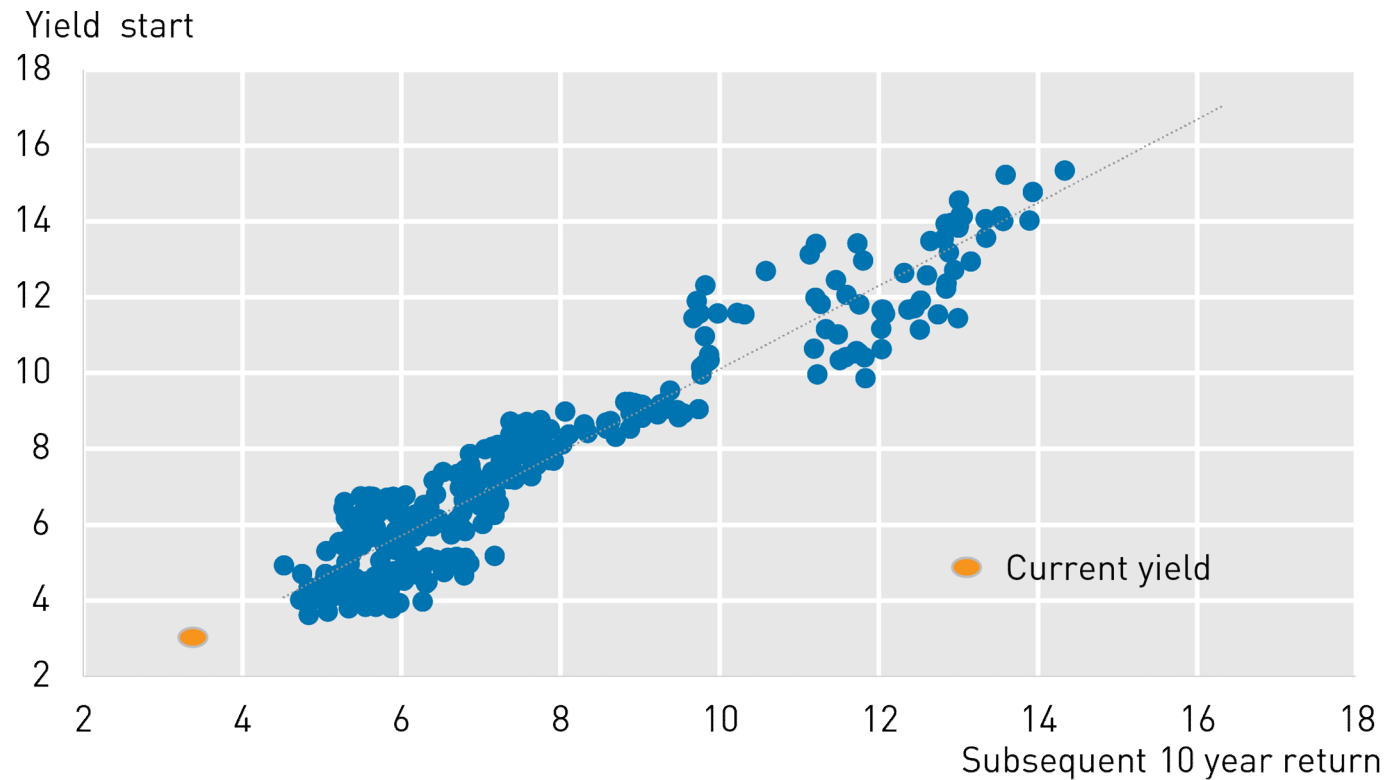
A Long Look at Government Bond Yields – 10 Year



Source: National Australia Bank, Macrobond

Bonds: Low current yields suggest weak future returns

US bond and future returns



Source: Datastream, Evans & Partners

Equities: Relatively high valuations

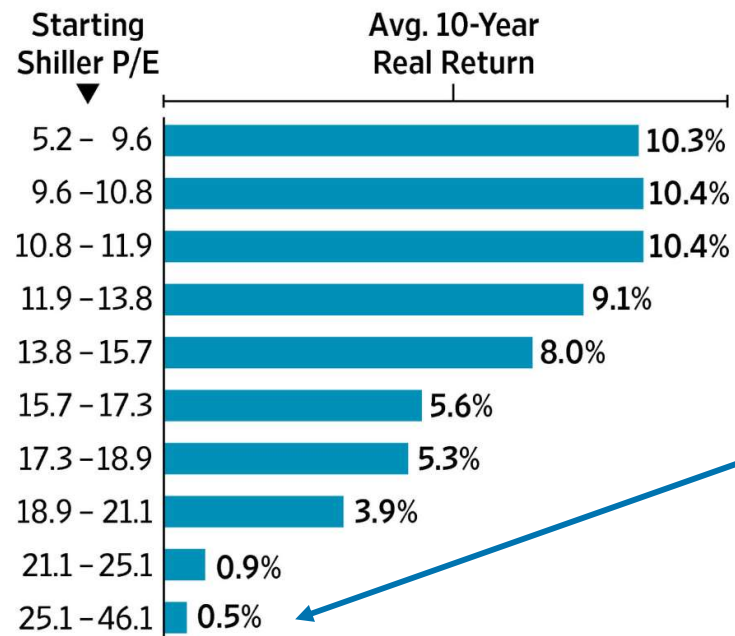
Schiller CAPE (Cyclically adjusted price earnings ratio)



Source: GMO, "Six Impossible Things Before Breakfast", March 2017

The Power of Earnings

Investment returns are better when the market has a lower Shiller P/E (cyclically adjusted price/earnings ratio).



Cyclically adjusted price-earnings ratio currently sitting **above 28x**, suggesting likely weak equity market returns over the next 10 years

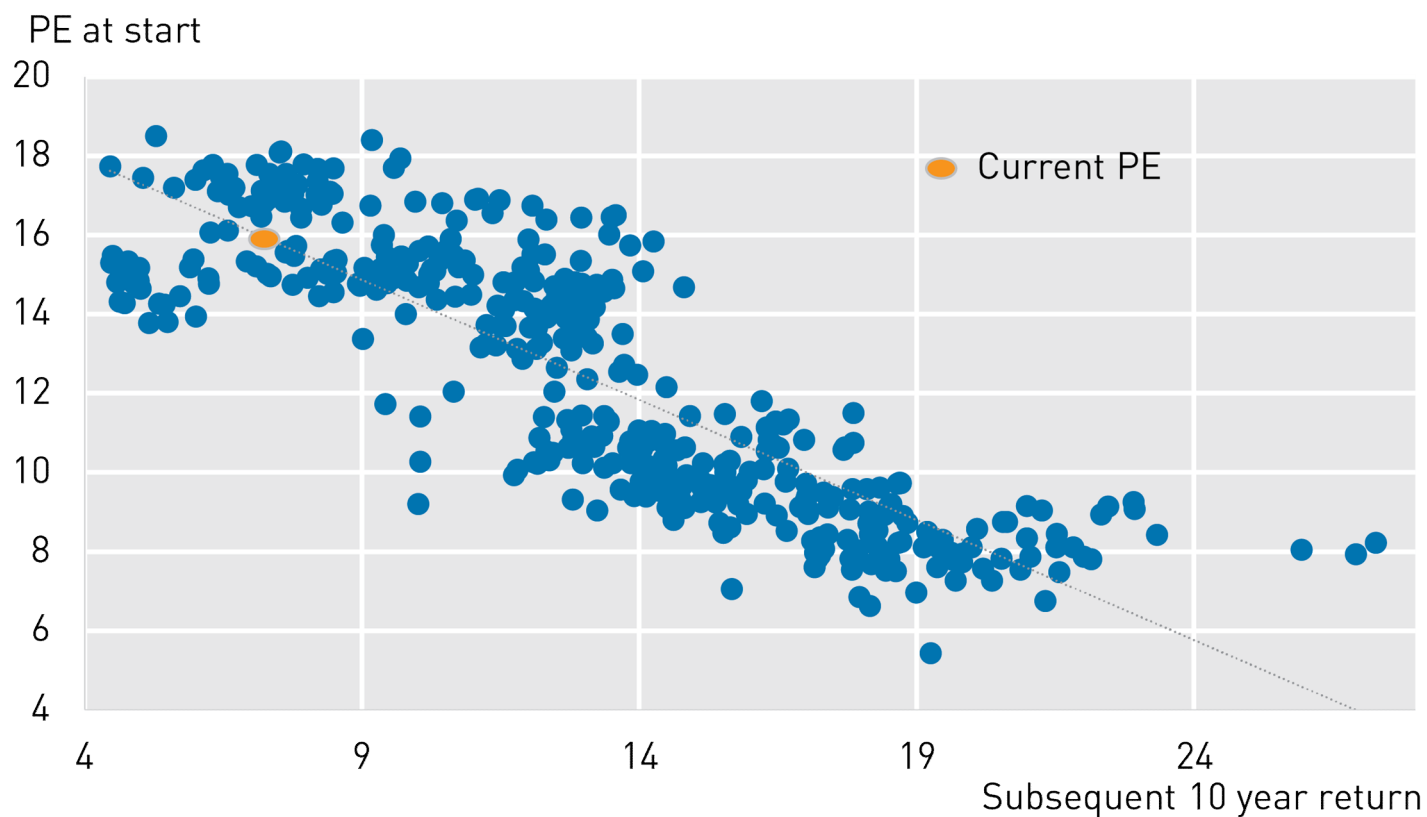
Source: Clifford Asness/AQR Capital Management

THE WALL STREET JOURNAL.

Source: Wall Street Journal, 6 July 2016

Equities: Valuations in Australia also suggest low future returns

Australia valuation and future returns %



Source: Datastream, Evans & Partners

Observations

Market returns in traditional asset classes
are unlikely to support investors' return
objectives

Portfolio themes in current environment

Observations

Market returns in traditional asset classes are unlikely to support investors' return objectives



Implications

Active investment important for portfolio returns; private markets illiquidity premium becomes critical contributor to returns

Portfolio themes in current environment

Observations

Market returns in traditional asset classes are unlikely to support investors' return objectives

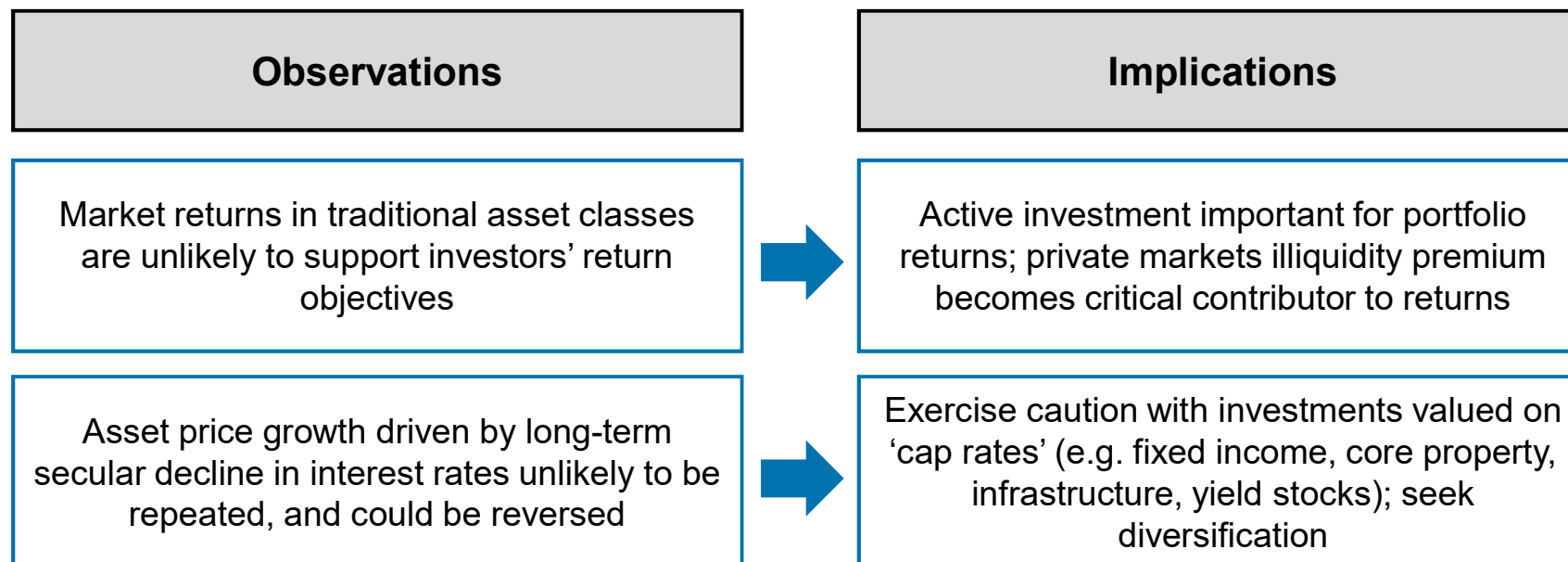
Asset price growth driven by long-term secular decline in interest rates unlikely to be repeated, and could be reversed



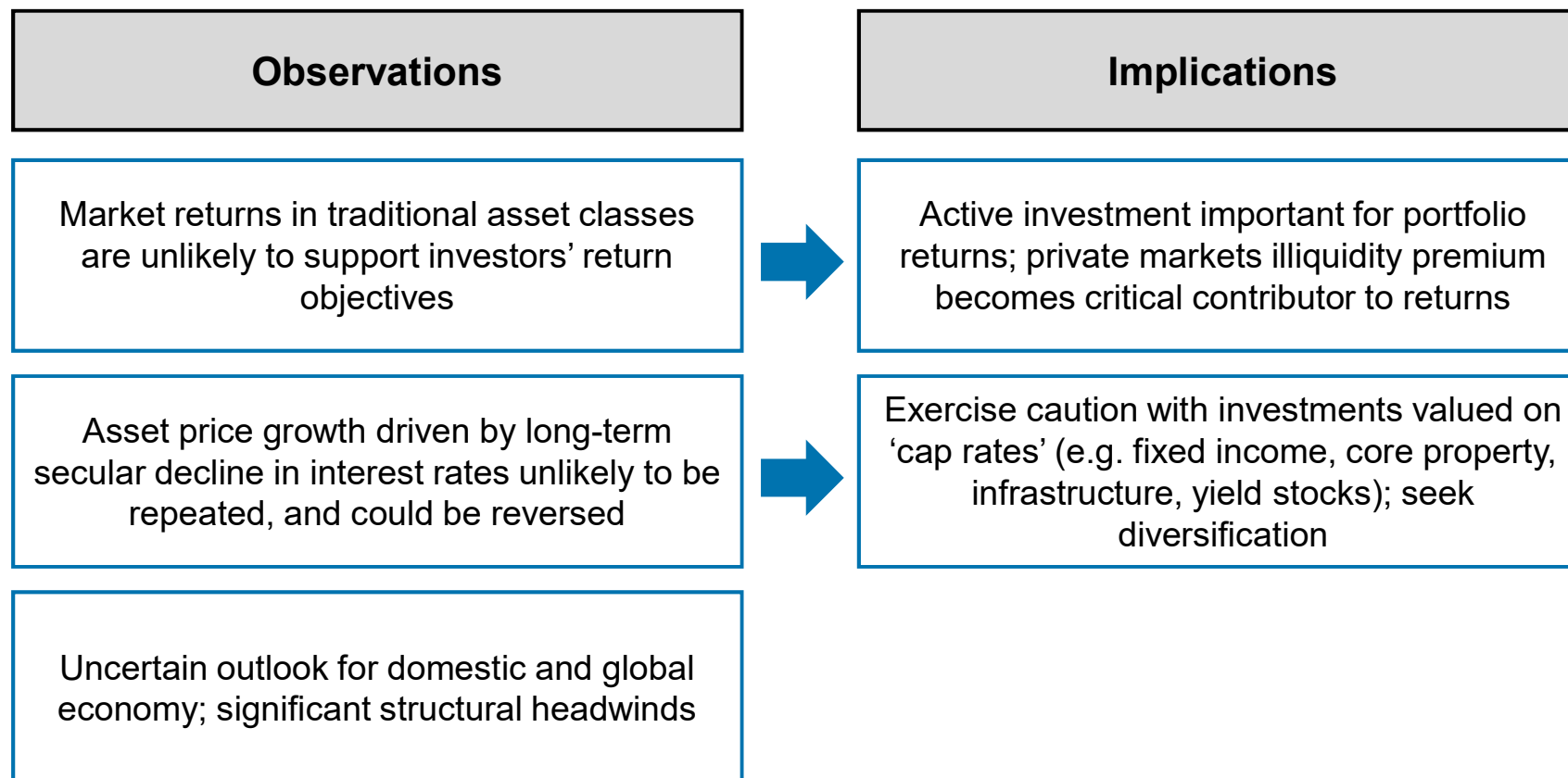
Implications

Active investment important for portfolio returns; private markets illiquidity premium becomes critical contributor to returns

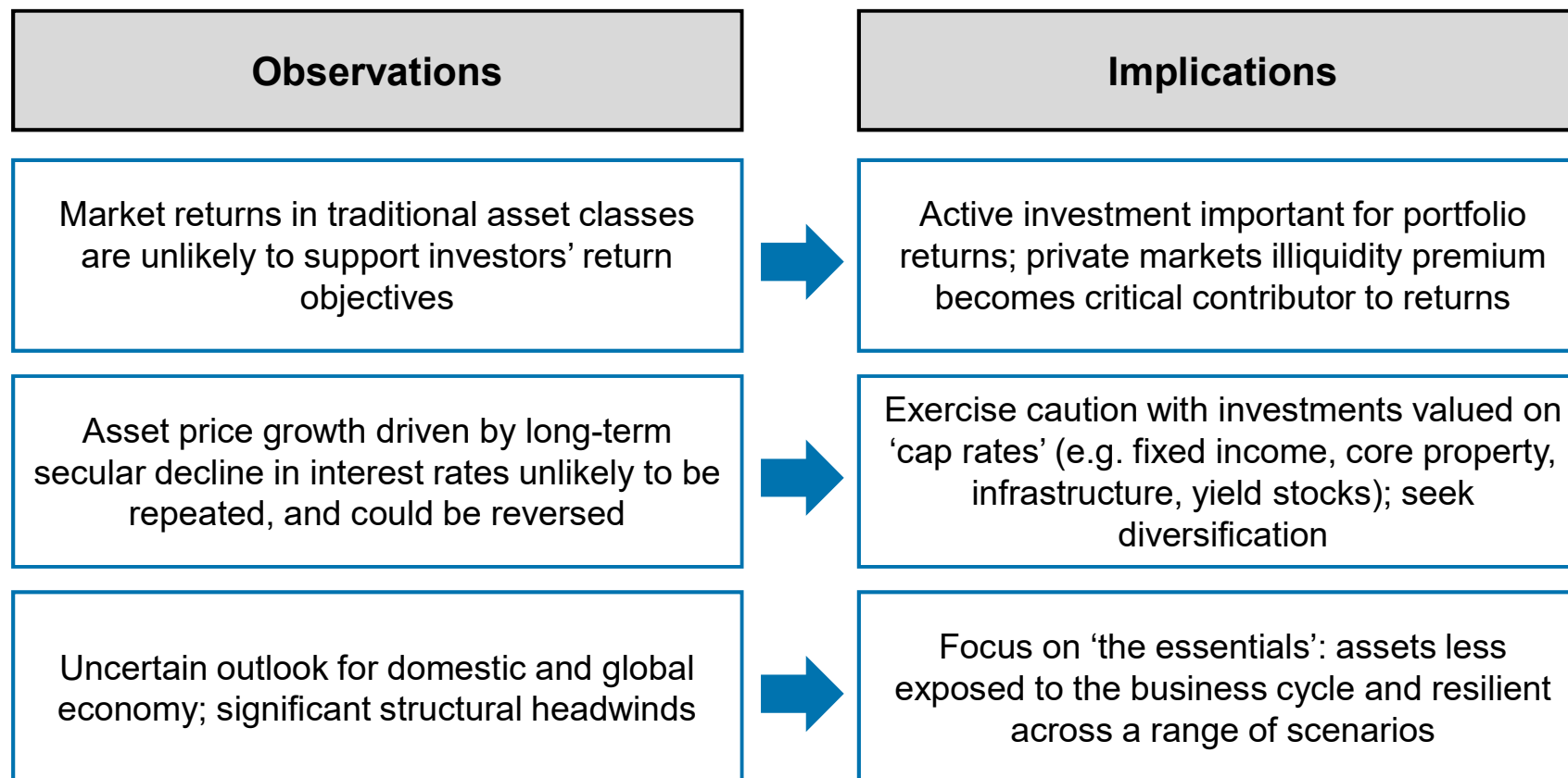
Portfolio themes in current environment



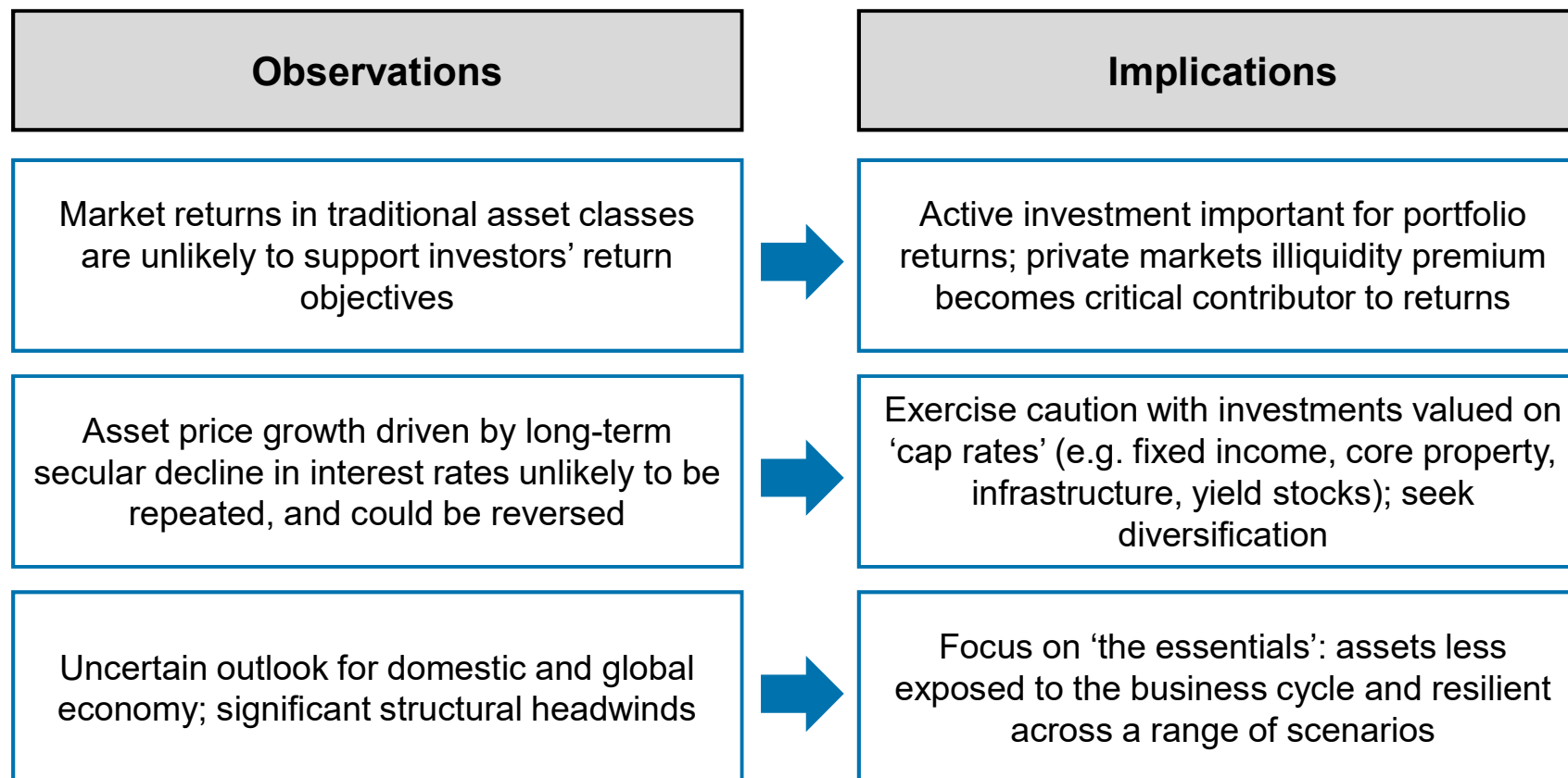
Portfolio themes in current environment



Portfolio themes in current environment



Portfolio themes in current environment



Together, these factors are accelerating the structural shift towards allocations to alternatives in institutional and individual portfolios

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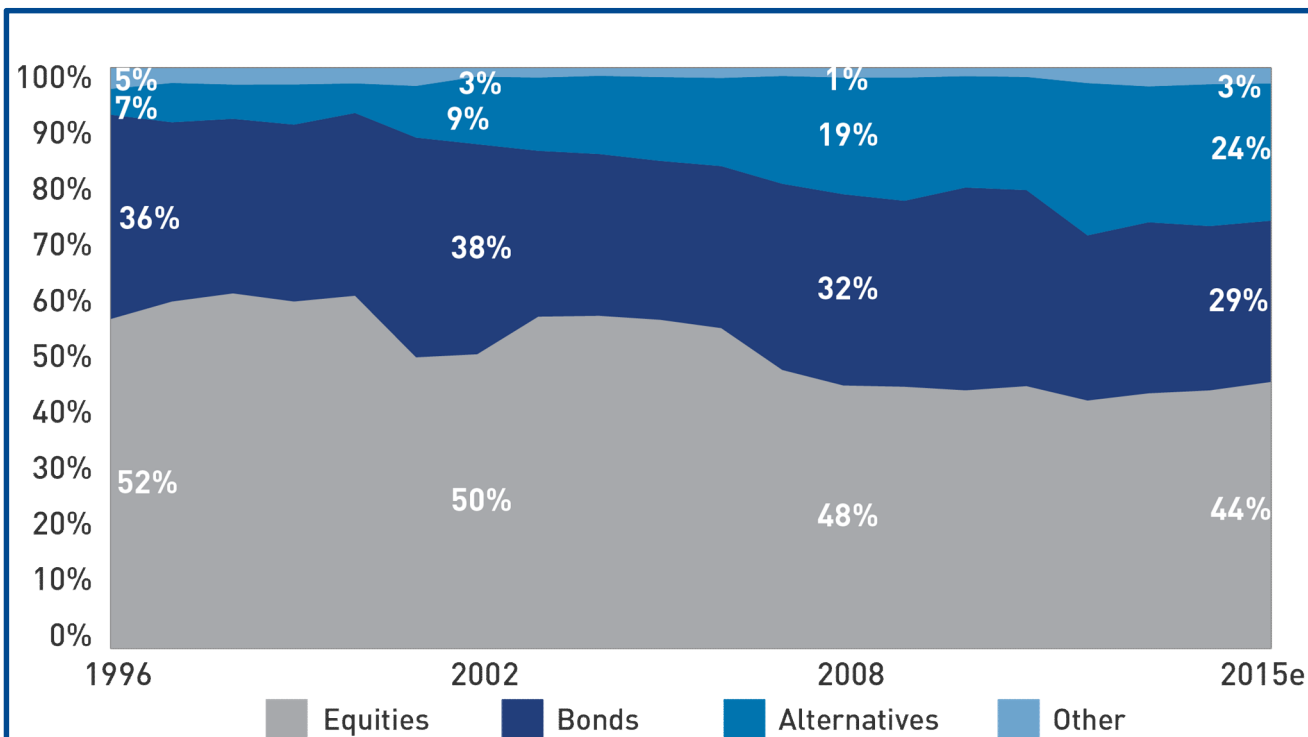
What are alternatives?

An alternative asset is...	<ul style="list-style-type: none">• An investment that is not one of the three traditional asset types• I.e. any investment other than listed equities, fixed income and cash
Examples of alternatives	<ul style="list-style-type: none">• Hedge funds• Real estate• Commodities• Private equity• Venture capital• Agriculture• Managed futures• Infrastructure
Distinguishing features	<ul style="list-style-type: none">• Alternatives asset classes also have different risk, return and liquidity characteristics compared to other asset classes

- Potential for **strong returns**
 - Ability to selectively invest in private markets where pricing may be less efficient than public markets
- Alternatives are used to **enhance risk/return characteristics** of investment portfolios
 - Increase diversification: broader opportunity set
 - Reduce overall volatility in an investment portfolio (given low correlations to more traditional investments)
 - Potential for delivery of attractive returns through periods of under performance in listed equities and bonds
- Alternative asset managers' **incentives are typically based on absolute returns** (not relative returns)

Trend towards alternatives is a multi decade structural change

Global Pension Funds: Asset allocation



Examples

futurefund

Australia's Sovereign Wealth Fund

39% allocation to Alternatives



**HARVARD
MANAGEMENT
COMPANY, INC.**

58% allocation to Alternatives

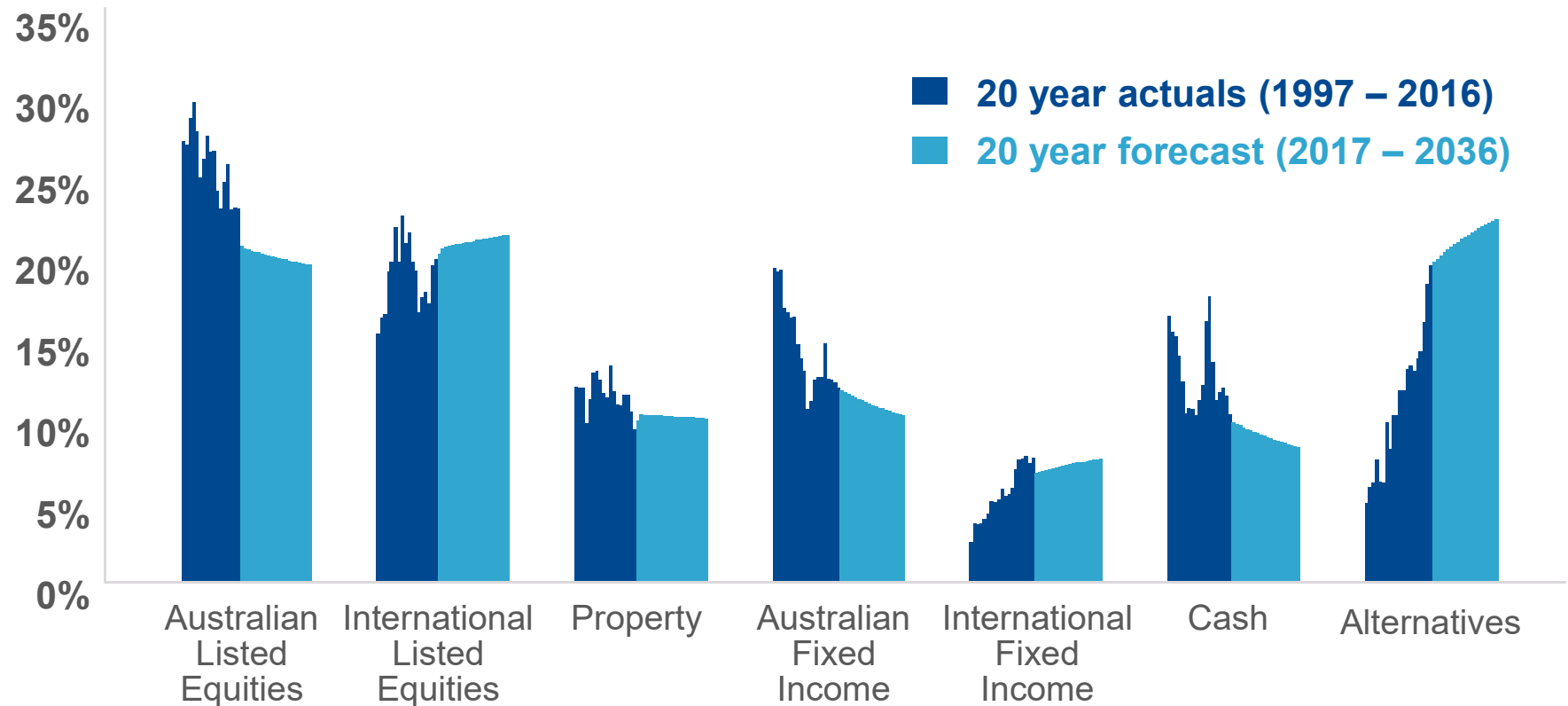


74% allocation to Alternatives

Source: Global Pension Assets Study 2016, Willis Towers Watson (February 2016).

“Alternatives”. Now very much mainstream.

Australian portfolios are reflecting global trends



Source: Rainmaker Roundup – Volume 20 Number 3 (SEP Quarter 2016).

Australian Example: The Future Fund

futurefund

Australia's Sovereign Wealth Fund

	31 Dec 2014	31 Dec 2015	31 Dec 2016
Asset class allocations	% of Fund	% of Fund	% of Fund
Australian equities	8.8%	6.5%	6.7%
Global equities			
Developed markets	20.9%	17.2%	15.0%
Emerging markets	9.4%	7.3%	7.4%
Cash	12.8%	20.6%	19.7%
Debt securities	10.8%	11.8%	12.0%
Private equity	9.5%	10.4%	10.9%
Property	6.3%	6.5%	6.2%
Infrastructure & timberland	7.4%	7.1%	7.9%
Alternative assets	14.0%	12.6%	14.2%
Total alternative assets	37.3%	36.6%	39.2%
Total	100.0%	100.0%	100.0%

*"...we continue to work closely with our global network of partners to seek out and access pockets of opportunity **particularly in our private market and alternatives programs.**"*

David Neal, Future Fund (June 2016)

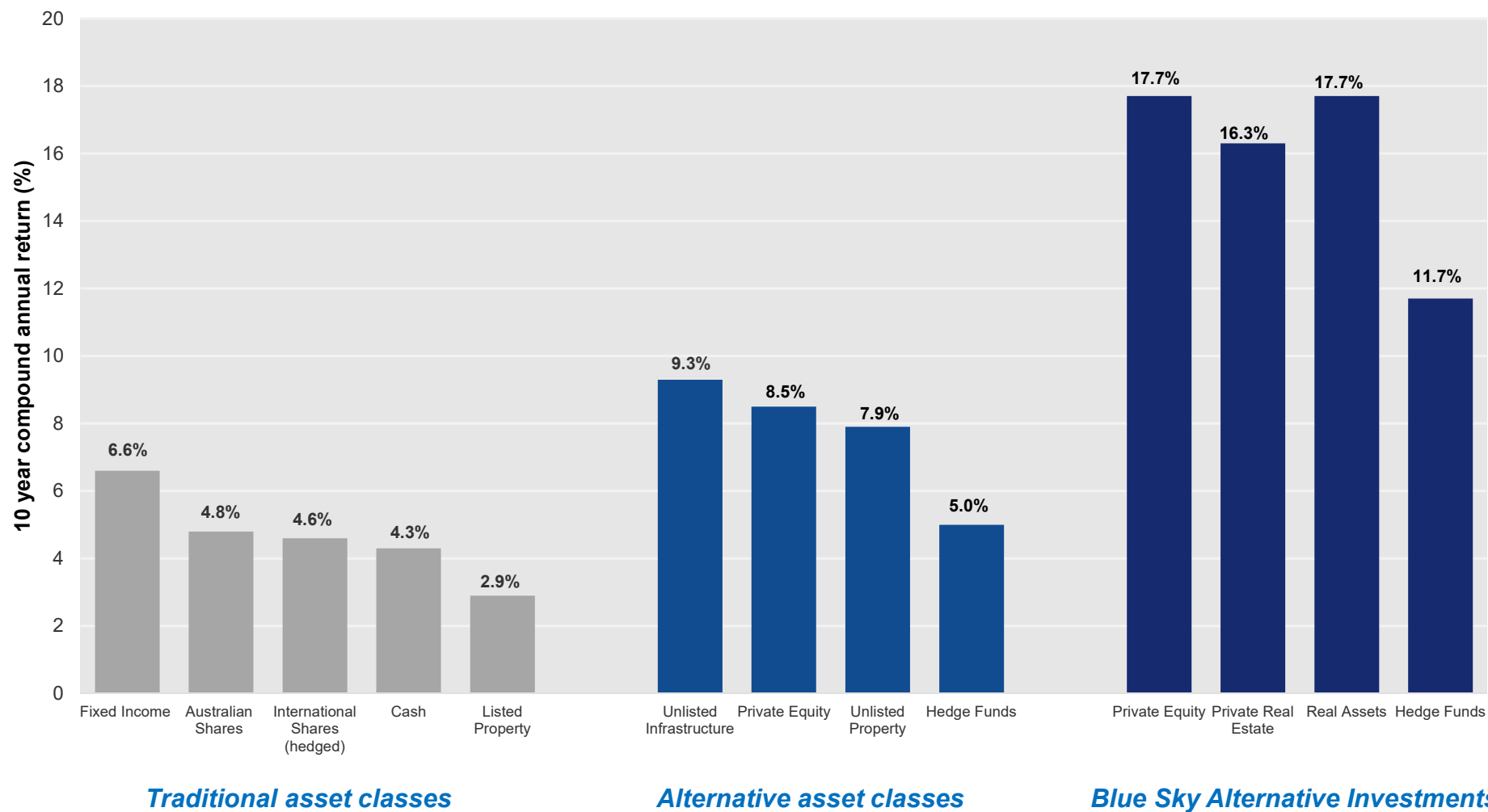
"We continue to cautiously and prudently manage the assets of the Future Fund. Given the uncertain and challenging outlook for investment returns, we are focused on maintaining our discipline to only take risk where it is adequately rewarded.

Over the quarter we deployed capital into our Private Equity program, primarily through co-investments in venture capital and growth [capital]."

David Neal, Future Fund (January 2017)

Why Mainstream?

Answer #1: Superior returns



Source: Chant West Media Release June 2016

Why Mainstream?

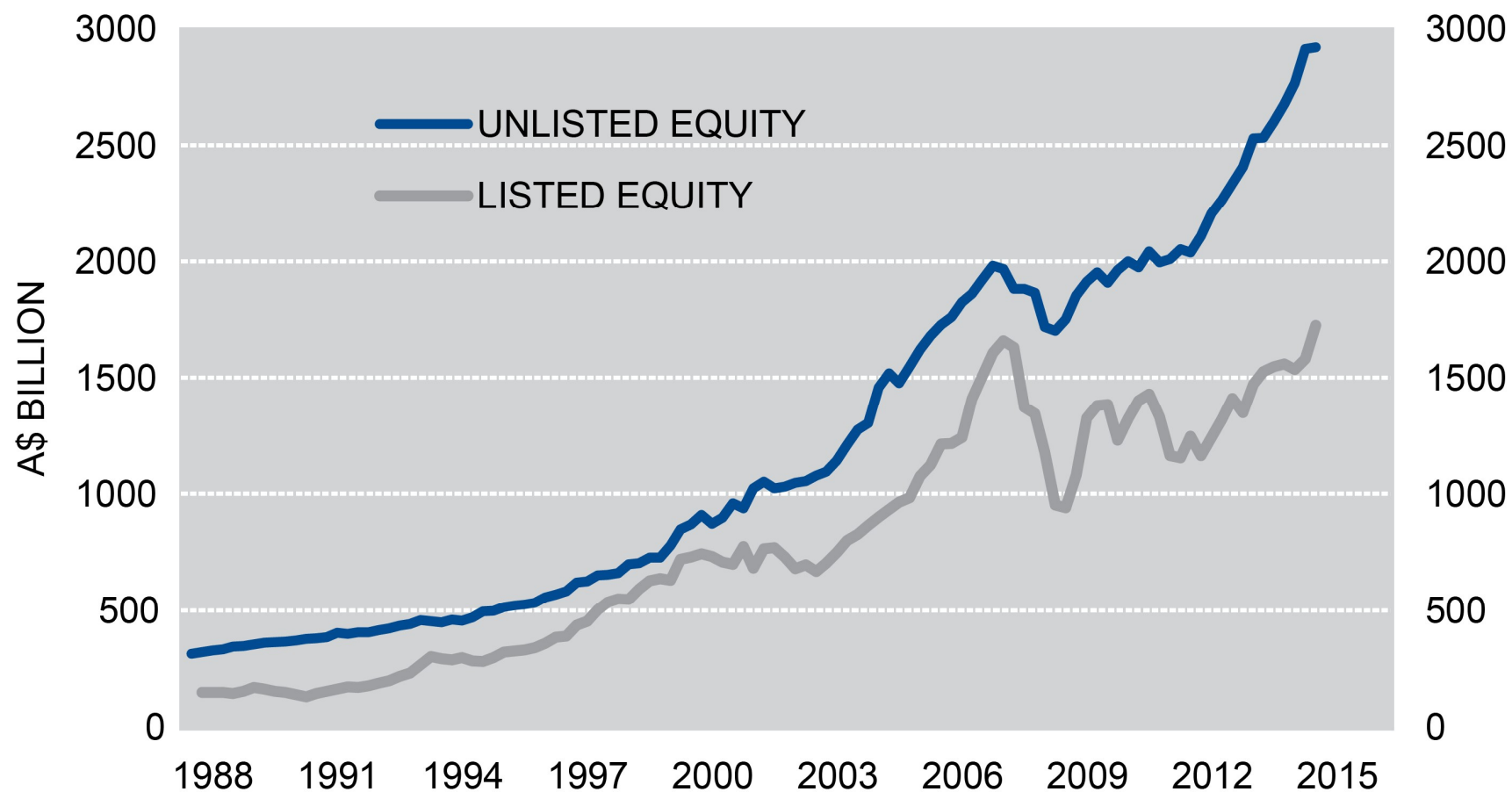
Answer #2: Exposure To Underweight Sectors

Sector	S&P500 Market Weight	ASX200 Market Weight
Financials	15.7%	45.7%
Information Technology	19.9%	1.0%
Health Care	14.8%	7.3%
Consumer Discretionary	12.4%	4.7%
Industrials	10.1%	8.2%
Consumer Staples	10.5%	7.0%
Energy	7.4%	4.1%
Communications	2.9%	5.7%
Utilities	3.6%	2.5%
Materials	2.8%	13.7%
Overall market	100.0%	100.0%

Sources: Minack Advisors, IBES/Datastream, MSCI as at August 2016

Why Mainstream? Answer #3: Broader opportunities

Value of listed and unlisted equity



Sources: Minack Advisors, ABS, Melbourne Institute



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Our business model

Parent company:

Blue Sky Alternative Investments Limited (ASX: BLA)

- Australia's leading diversified alternative asset manager, with funds across the four major alternative asset classes: Private Equity and Venture Capital, Private Real Estate, Real Assets and Hedge Funds
- Primary sources of revenue are management fees and performance fees from the funds we manage, as well as investment income from our balance sheet investments
- Have delivered overall returns since inception to investors in our funds of 16.4% p.a. (net of fees compounding)

Investment management teams:

Private Equity and Venture Capital

- Invests expansion capital (or 'growth capital') and late stage venture capital into rapidly growing businesses

Private Real Estate

- Invests in a range of private real estate opportunities, including student accommodation and retirement living
- Includes two US joint ventures

Real Assets

- Invests in water entitlements, agribusiness, and agricultural infrastructure opportunities

Hedge Funds

- Manages three separate hedge fund products, focused on strategic risk allocation

Returns since inception (net of fees)¹

16.8% p.a.

16.4% p.a.

17.2% p.a.

10.5% p.a.

Investors:

Institutional investors

- Institutional investors across private equity, private real estate and real assets
- Domestic and international

Sophisticated investors

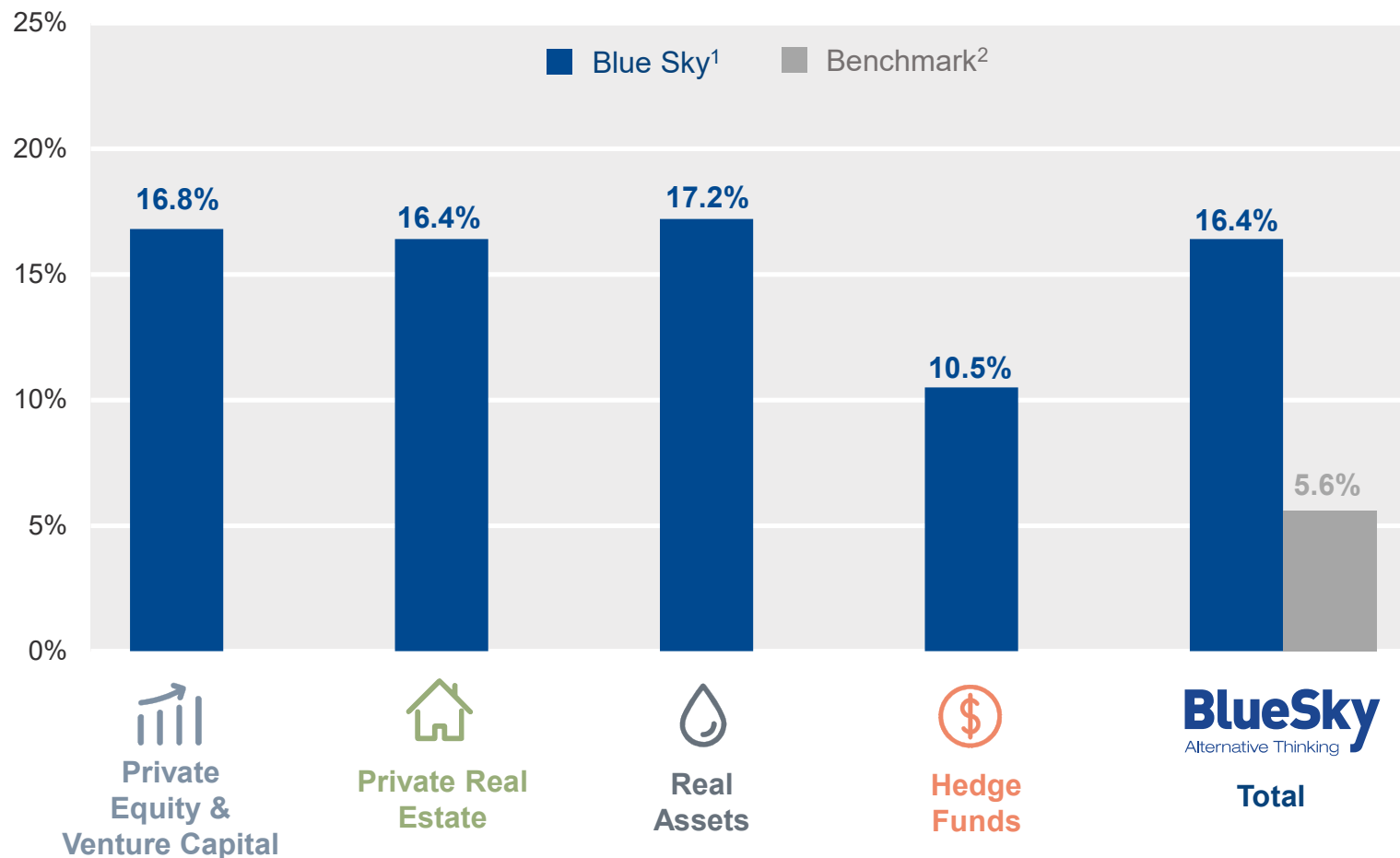
- Family offices, high net worth individuals and self-managed super funds
- Domestic and international

Retail investors

- Primary investment vehicle for retail investors is BAF, a listed investment company that invests in a broad range of Blue Sky managed funds

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

Investor returns are 16.4% p.a. net of fees
compounding since inception in 2006

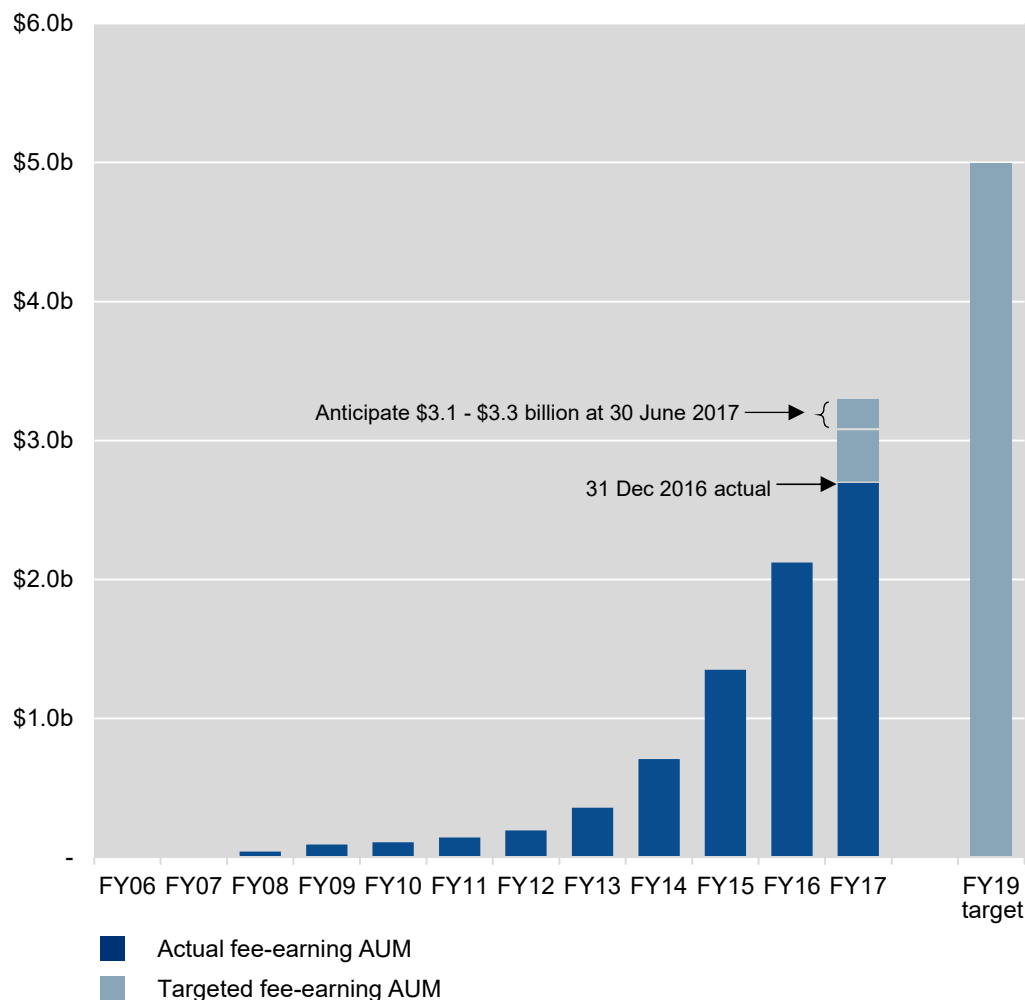


1. Total returns are equity weighted returns since inception through to 31 December 2016. Returns are net of fees and include both realised and unrealised investments. Past performance is not a reliable indicator of future performance.

2. Overall benchmark – S&P ASX200 Accumulation Index from 1 July 2006 to 31 December 2016.

**\$2.7 billion in fee-earning AUM at 31 Dec 2016,
anticipated to be \$3.1-\$3.3 billion by 30 June 2017**

Fee-earning assets under management



**Fee-earning AUM grew by
\$1.0 billion over the last 12
months to \$2.7 billion
at 31 December 2016**



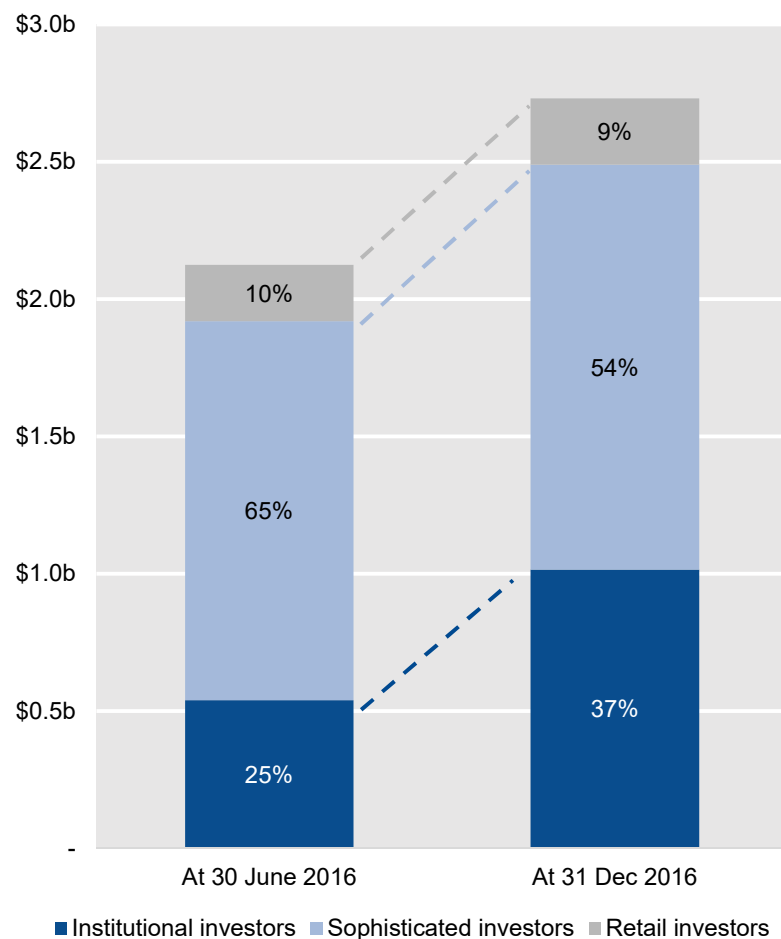
**Anticipate \$3.1 - \$3.3
billion in fee-earning
AUM by 30 June 2017**



**Targeting \$5.0 billion in
fee-earning AUM by 30
June 2019**

Our three investor segments have all grown

Fee-earning assets under management



Retail (9% of total)

- \$47m raised from BAF entitlement offer in November 2016
- Shortfall facility for this offer opened and closed on the same day substantially over-subscribed, reflecting strong demand for alternatives from this segment



Sophisticated (54% of total)

- Remains our dominant source of fee-earning AUM
- Engagement with family offices, high net worth individuals, SMSFs and financial planners has expanded as alternatives have become mainstream



Institutional (37% of total)

- Engagement with domestic and international institutions has deepened and broadened
- Anticipated to grow to 50% of fee-earning AUM over the coming years



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Blue Sky Alternatives Access Fund Limited (ASX:BAF) is a listed investment company that invests in a diverse range of alternative assets including:



Private Equity &
Venture Capital



Real
Assets



Private
Real Estate

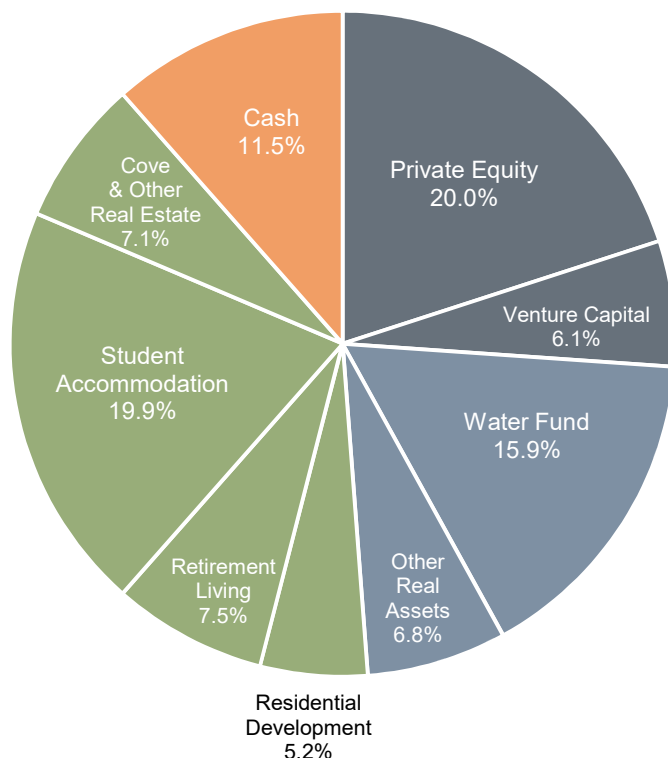


Hedge
Funds

BSAAF provides investors with:

- ✓ A **diverse portfolio** of Blue Sky managed alternative investments
- ✓ **Low expected correlation** of returns to listed equities and fixed interest
- ✓ **Liquidity** as an ASX listed security
- ✓ Access to the **strong investment track record** of Blue Sky
- ✓ An investment strategy aimed at achieving **attractive investment returns** via **dividend income** and an increase in BAF's NTA
- ✓ **Low cost** structure

Sector weightings as at 30 June 2017



Real assets

- Cornerstone position in the Blue Sky Water Fund
- 3 other agricultural investments



Private Equity / Venture Capital:

- 11 Private Equity (expansion capital) funds
- 5 late stage Venture Capital funds



Private Real Estate:

- 8 purpose-built student accommodation projects
- Commercial property in Australia and New York
- 5 retirement living projects
- Residential developments allocation will reduce to <5% by the end of FY17

Fund Performance

Fund performance ¹ (NTA growth plus dividends and franking credits)			Total shareholder return (Performance of ASX:BAF plus dividends and franking credits)
	Pre-Tax	Post-Tax	ASX:BAF ²
1 month	3.53%	2.65%	0.0%
3 months	5.81%	4.54%	1.7%
6 months	6.77%	6.30%	3.9%
12 months	10.29%	10.86%	4.5%
Annualised since inception ³	9.71%	8.84%	9.2%
Total since inception	32.55%	29.40%	30.7%

1. Fund NTA performance to 30 June 2017 which includes growth in NTA, plus dividends and franking credits paid. Unrealised investments are valued in accordance with the Accounting Standards and the Access Fund's published valuation policy, which is available on the ASX and the Access Fund's website.
2. Includes closing price of ASX:BAF as at 30 June 2017, plus dividends and franking credits. No adjustment has been made for brokerage or transaction costs.
3. Inception date is 16 June 2014.

Past performance is not a reliable indicator of future performance.

- Alternatives have a role to play across a broad range of portfolios, to contribute diversification and returns enhancement
- These benefits become particularly relevant when the return outlook for traditional asset classes is so uncertain
- Alternatives have historically been difficult to access for retail and high net worth investors
- However, the asset management industry is adapting, through products like the Blue Sky Alternatives Access Fund



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