GLAUCUS RESEARCH GROUP

"I reckon if you peeled back the layers on Aussie corporates with arrogant, young teams and a win at all costs culture you'd see a lot of the same characteristics." - **Elaine Stead, Head of Blue Sky Venture Capital**

COMPANY: Blue Sky Alternative Investments Ltd | ASX: BLA
INDUSTRY: Alternative Asset Management

On March 28, 2018, we published our investment opinion (the "Report") on Blue Sky Alternative Investments Limited (ASX: BLA) ("Blue Sky" or the "Company"), an Australian fund manager with a purported $3.9 billion of fee earning assets under management ("AUM"). On April 3, Blue Sky issued a response (the "Response").

Rather than address our Report on its merits, Blue Sky has doubled down on obfuscating simple details about its business. Instead of transparency, Blue Sky has fallen back on threats and recriminations. We simply do not see how investors can have any confidence in a Blue Sky management team that cannot answer basic questions about its fee structure, AUM and historic performance.

Time and again, Blue Sky insists that we are incorrect, without providing any substantive rebuttal, analysis or calculations showing why we are wrong. Rather, Blue Sky claims what we consider to be a **fabricated obligation** to maintain secrecy on all of its investments, its portfolio and its performance. We call on Blue Sky **to point to the statute or requirement which prevents them from even high-level disclosures regarding their portfolio**. The market should not hold its breath, because we suspect that no such requirement exists. Blue Sky's claimed confidentiality requirement is entirely self-serving and only selectively applied: when it suits the Company, it discloses details; when it wants to hide, it insists that its hands are tied. But in our opinion, this is smokescreen, designed to conceal details which we believe will show the truth.

This should be obvious (to everyone but Blue Sky) but Blue Sky is a **public company**. As a public company, it is accountable to investors and to the market to provide baseline disclosures regarding its financial condition, including its portfolio.

Other publicly listed asset managers understand this and do not hide behind some fabricated duty of secrecy. Apollo and KKR, which as publicly listed asset managers have similar fiduciary obligations as Blue Sky, provide a transparent breakdown of **both gross AUM and fee earning AUM (including performance metrics and fees) not only across asset classes but at the individual fund level**. They also disclose unrealized and realized valuations and **IRRs** at the fund level. KKR and Apollo claim no such duty of secrecy. Neither can Blue Sky, which has pitched itself as a Brisbane-based wanna-be KRR to the financial markets.

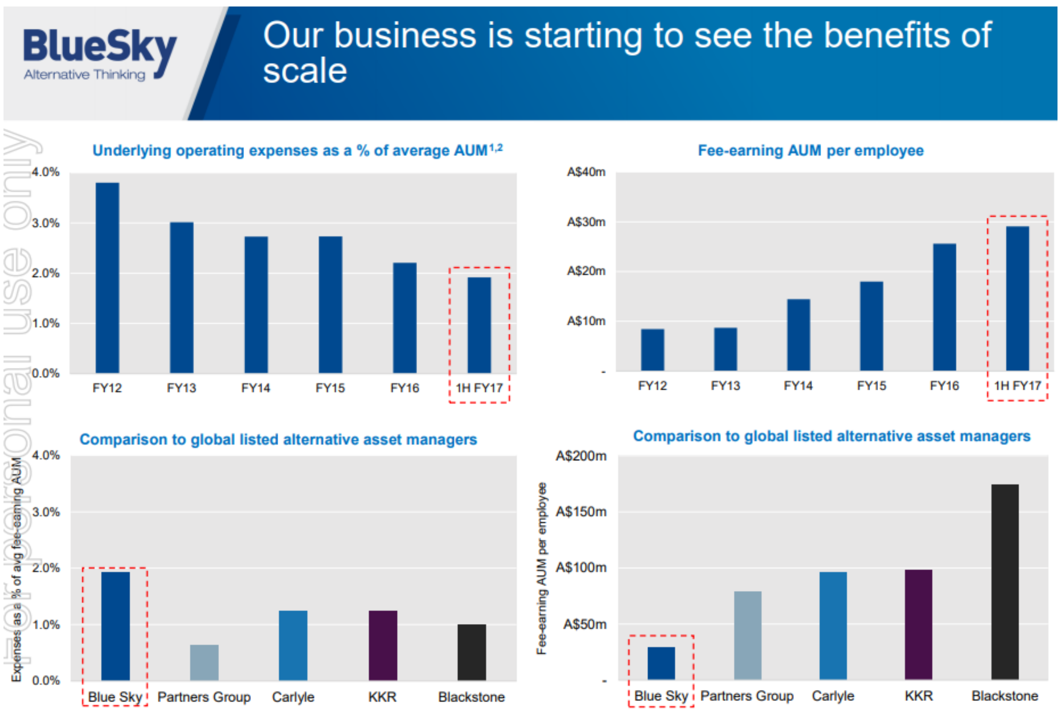
We call on Blue Sky to provide the same level of transparency as the alternative asset managers to which it compares itself **and provide a breakdown of fee earning AUM by fund, complete with disclosures on realized and unrealized valuation and IRRs**. Indeed, other asset managers provide at least this level of disclosure in their annual reports.

Investors should insist on transparency. Blue Sky's rebuttal was so opaque and defensive that it only enhances conviction in our investment thesis. We continue to believe that Blue Sky materially overstates its reported fee earning AUM, that it gouges primarily Australian investors with egregious fees, and that it has overstated its performance by inappropriately marking up unrealized investments.

1. Blue Sky Wildly Exaggerates its Fee Earning AUM

In our investment thesis, we posited that Blue Sky overstated its fee earning AUM by reporting the *gross* value of certain assets as AUM instead of the fair value of the capital invested. Incredibly, in its Response, **Blue Sky admits that we are right**, but makes the excuse that it is "common reporting practice" for Australian property fund managers to report gross realizable value (or 'fair value' or 'market value') of an asset in a property when reporting AUM. Blue Sky then presents a list of five Australian property development comps (and one investment bank) that supposedly calculate fee earning AUM in the same way, including Charter Hall (ASX: CHC), Dexus (ASX: DXS) Goodman Group (ASX: GMG), GPT Group (ASX: GPT) and Mirvac (ASX: MGR).

First, **this comparison is a disingenuous about face that directly contradicts Blue Sky's previous representations to the market**. Before our report, Blue Sky did not compare itself or its fee earning AUM to pure play Australian property developers, but rather to global asset managers such as KKR, Apollo and Blackstone. The following slide is taken directly from a Blue Sky management presentation.



Source: H1 17 Presentation

Incredibly, later in its Response, Blue Sky argues that its growing balance of receivables is reasonable by comparing itself to these same global asset managers.

	Blue Sky	Blue Sky	Blackstone	Carlyle	KKR	Ares	Apollo
	Underlying (AUD)	*Statutory (AUD)*	*(USD)*	*(USD)*	*(USD)*	*(USD)*	*(USD)*

Source: Blue Sky Response, p. 5

But such comparisons are absurdly misleading because KKR, Apollo and Blackstone define fee earning AUM as the fair value of their invested capital **and not the gross value of assets, companies or real properties**. Indeed, such asset managers distinguish between fee earning and non-fee earning AUM in their annual reports. Blue Sky does not. It is disingenuous for Blue Sky to compare itself to global, blue chip asset managers when it is convenient, but to then claim it is akin to an Australian property developer when it is not.

Source: Blue Sky Investment Presentation

It is only after Glaucus exposed Blue Sky for overstating its fee earning AUM (as calculated in the same way as other alternative asset managers), that Blue Sky desperately says such comparisons are unfair. But this is exactly how Blue Sky pitched itself to the market: as a Brisbane based wanna-be KKR.

Blue Sky's self-selected list of five Australian property developers provide exhaustive disclosures about the value of their properties. Based on these disclosures, investors typically value listed property development companies on a multiple of book value of their underlying portfolio.

Pure play property developers invest almost exclusively in property and derive the majority of income from rents or property development. As pure play property players are transparent about the gross value of the properties they own (or manage on behalf of third parties), a standard valuation method is to compare net asset value (NAV) to market capitalization. We provide such a calculation new peers selected by Blue Sky and its formerly favorite peer, Blackstone. The difference is obvious: the market values Blue Sky based on its claim to be an alternative asset manager, not as a pure play Australian property developer.

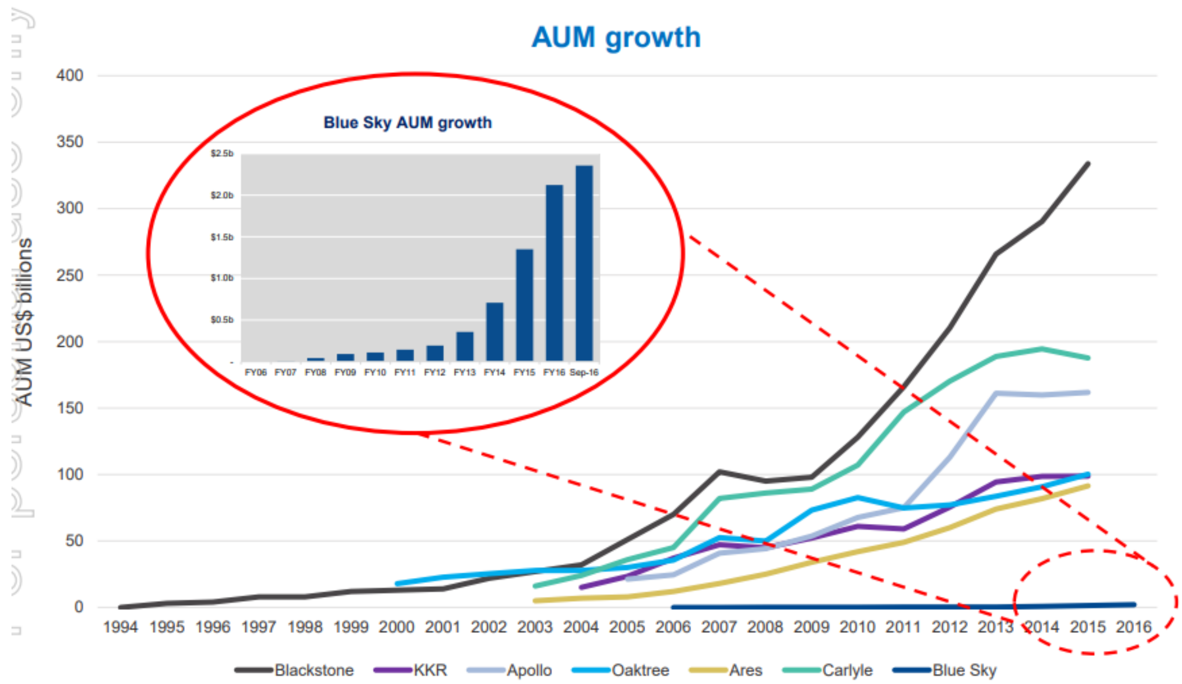
Blue Sky Cherry Picks its Comps

	Pure Play Property Players					Alternative Asset Managers	
$ M	Charter Hall	Dexus	Goodman	GPT	Mirvac	Blackstone	Blue Sky
Net Assets	1,766	9,557	8,672	9,107	8,248	8,627	237
Market Cap	2,620	9,380	15,040	8,480	7,940	50,479	885
Price to NAV	***1.5x***	***1.0x***	***1.7x***	***0.9x***	***1.0x***	***5.9x***	***3.7x***

Source: Glaucus calculation; share prices on April 2, 2018, Blue Sky market cap on the date of our Report

Alternative asset managers are more complex and rather than simply generating direct rental income from the property market, generate fee income from underlying funds invested across asset classes. Not only is it disingenuous for Blue Sky to compare itself to such property developers whose portfolios are substantially different; it also directly contradicts Blue Sky's core representations about its business.

At Blue Sky's insistence, the market values its shares as an alternative asset manager, not a property developer. This is no accident: Blue Sky has compared itself and its fee earning AUM to the KKRs, Blackstone's and Apollo's of the world, even though this comparison was as self-serving as it was misleading.



Source: [Blue Sky Investor Presentation 2016]

As far as we concerned, Blue Sky can pick its poison. It can either trade like a pure play Australian property developer and trade at 1.0-1.2x NAV; or it can trade as an alternative asset manager like KKR and Blackstone at a 0.13x multiple of its actual **fee earning AUM** (as we estimated in our Report). Either way, the downside to Blue Sky's shares is over 70% from its pre-halt trading price.

In our Report, we presented a detailed, 26-page analysis of the assets we could identify in Blue Sky's portfolio. Our analysis broke down Blue Sky's portfolio into three major categories of investment: real estate, agricultural and resources and private equity/venture capital. Our review was by necessity the work of financial detectives based on limited publicly available evidence because Blue Sky has historically failed to disclose (intentionally, we believe) much detail on its portfolio or its investments. Based on our review, we estimated that Blue Sky's fee earning AUM was at most $1.5 billion, not $3.9 billion as claimed by the Company.

Blue Sky's response was notable not for its flimsy rebuttals but for its startling lack of transparency as to the basic composition of its portfolio. Blue Sky insists that our estimates are incorrect; yet failed to provide any corrective details or any explanation as to how we should adjust our estimates.

Blue Sky failed to provide even a high-level breakdown of its AUM by category. Instead, Blue Sky hides behind what we consider to be a nonsense excuse that it has a "fiduciary obligation" not to disclose the asset which make up its portfolio or even a basic breakdown of its fee earning AUM by asset class. What possible fiduciary obligation would prevent Blue Sky from disclosing a summary of its fee earning AUM by asset class (private equity vs. real estate), or the breakdown of fee earning AUM within asset classes (e.g., in real estate, the breakdown between residential, commercial and student accommodation)? If there is a statute preventing such disclosures, where is it?

As discussed above, other publicly listed asset managers such as KKR and Apollo are bound by similar fiduciary obligations as Blue Sky. And they have no problem being transparent with investors. For example, Apollo's annual report clearly breaks down the difference between fee earning and non-fee earning AUM, as well as providing a breakdown across categories such as private equity, credit and real assets.

Assets Under Management

The tables below present Fee-Generating and Non-Fee-Generating AUM by segment:

	As of December 31, 2017				As of December 31, 2016			
	Private Equity	Credit	Real Assets	Total	Private Equity	Credit	Real Assets	Total
	(in millions)				(in millions)			
Fee-Generating AUM	$ 29,792	$ 130,150	$ 9,023	$ 168,965	$ 30,722	$ 111,781	$ 8,295	$ 150,798
Non-Fee-Generating AUM	42,640	33,963	3,360	79,963	12,906	24,826	3,158	40,890
Total AUM	$ 72,432	$ 164,113	$ 12,383	$ 248,928	$ 43,628	$ 136,607	$ 11,453	$ 191,688

The table below presents AUM with Future Management Fee Potential, which is a component of Non-Fee-Generating AUM, for each of Apollo's three segments.

	As of December 31, 2017	As of December 31, 2016
	(in millions)	
Private Equity	$ 25,912	$ 1,977
Credit	10,057	6,533
Real Assets	464	639
Total AUM with Future Management Fee Potential	$ 36,433	$ 9,149

Source: Apollo 2017 Annual Report, p. 88

Apollo also provides a breakdown of AUM by fund, with disclosed IRRs and a valuation. Blackstone is even more transparent. Blackstone produces a detailed excel file in which it discloses to investors, by fund, its committed capital, available capital, unrealized investments, realized investments, and net IRRs.

Investment Records as of December 31, 2017[(a)]

(Dollars in Thousands, Except Where Noted)	Committed	Available	Unrealized Investments			Realized Investments		Total Investments		Net IRRs (d)	
Fund (Investment Period Beginning Date / Ending Date)	Capital	Capital (b)	Value	MOIC (c)	% Public	Value	MOIC (c)	Value	MOIC (c)	Realized	Total
Private Equity											
BCP I (Oct 1987 / Oct 1993)	$ 859,081	$ -	$ -	n/a	-	$ 1,741,738	2.6x	$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100	-	-	n/a	-	3,256,819	2.5x	3,256,819	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,967,422	-	-	n/a	-	9,184,688	2.3x	9,184,688	2.3x	14%	14%
BCOM (Jun 2000 / Jun 2006)	2,137,330	24,575	19,313	1.5x	-	2,953,649	1.4x	2,972,962	1.4x	7%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,182	209,846	756,129	0.8x	48%	20,677,725	3.2x	21,433,854	2.8x	42%	36%
BCP V (Dec 2005 / Jan 2011)	21,024,739	1,055,337	2,413,319	1.1x	43%	35,757,252	2.0x	38,170,571	1.9x	9%	8%
BCP VI (Jan 2011 / May 2016)	15,199,202	1,857,593	15,493,831	1.6x	20%	8,470,999	2.0x	23,964,830	1.7x	23%	13%
BEP I (Aug 2011 / Feb 2015)	2,437,639	157,170	2,558,266	1.5x	31%	1,323,850	2.0x	3,882,116	1.6x	32%	13%
BEP II (Feb 2015 / Feb 2021)	4,882,737	1,926,610	2,487,414	1.2x	-	47,388	2.1x	2,534,802	1.2x	n/m	10%
BCP VII (May 2016 / May 2022)	18,507,997	13,697,870	4,147,133	1.2x	-	267,852	1.1x	4,414,985	1.2x	n/m	9%
BCP Asia (Dec 2017 /Dec 2023)	1,576,564	1,423,640	-	n/a	-	-	n/a	-	n/a	n/a	n/a
Total Corporate Private Equity	**$ 78,726,993**	**$ 20,352,641**	**$ 27,875,405**	**1.4x**	**19%**	**$ 83,681,960**	**2.2x**	**$ 111,557,365**	**1.9x**	**17%**	**15%**
Tactical Opportunities	16,565,845	6,853,971	9,534,468	1.2x	8%	4,458,750	1.7x	13,993,218	1.3x	25%	11%
Tactical Opportunities Co-Investment and Other	4,822,889	2,379,805	3,452,342	1.1x	-	885,924	1.7x	4,338,266	1.2x	n/a	13%
Strategic Partners I-V and Co-Investment (e)	11,862,658	1,718,537	2,300,197	n/m	-	15,147,965	n/m	17,448,162	1.5x	n/a	13%
Strategic Partners VI LBO, RE and SMA (e)	7,402,171	2,571,351	3,170,940	n/m	-	2,320,522	n/m	5,491,462	1.4x	n/a	20%
Strategic Partners VII (e)	7,489,970	3,780,343	3,103,959	n/m	-	237,950	n/m	3,341,909	1.2x	n/a	73%
Strategic Partners RA II (e)	1,491,009	1,167,065	221,364	n/m	-	5,582	n/m	226,946	1.0x	n/a	n/m
BCEP (Jan 2017 / Jan 2021) (f)	4,755,133	3,377,340	1,374,222	1.0x	-	-	n/a	1,374,222	1.0x	n/m	n/m
Other Funds and Co-Investment (g)	1,096,679	513	42,895	0.8x	36%	637,938	0.9x	680,833	0.9x	n/a	n/a
Real Estate											
Pre-BREP	$ 140,714	$ -	$ -	n/a	-	$ 345,190	2.5x	$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708	-	-	n/a	-	1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339	-	-	n/a	-	2,531,614	2.1x	2,531,614	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708	-	-	n/a	-	3,330,406	2.4x	3,330,406	2.4x	21%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694	-	353,666	0.4x	38%	4,193,163	2.2x	4,546,829	1.7x	35%	12%
BREP V (Dec 2005 / Feb 2007)	5,539,418	-	1,753,688	2.0x	29%	11,558,245	2.4x	13,311,933	2.3x	13%	11%
BREP VI (Feb 2007 / Aug 2011)	11,060,444	556,763	2,073,204	2.0x	23%	25,369,422	2.6x	27,442,626	2.5x	14%	13%
BREP VII (Aug 2011 / Apr 2015)	13,495,014	2,063,092	12,489,255	1.6x	21%	15,571,767	2.1x	28,061,022	1.9x	30%	18%
BREP VIII (Apr 2015 / Oct 2020)	16,435,028	9,361,391	9,519,459	1.3x	1%	3,320,192	1.5x	12,839,651	1.4x	34%	18%
Total Global BREP	**$ 51,971,067**	**$ 11,981,246**	**$ 26,189,272**	**1.5x**	**15%**	**$ 67,547,707**	**2.3x**	**$ 93,736,979**	**2.0x**	**20%**	**16%**
BREP Int'l (Jan 2001 / Sep 2005)	€ 824,172	€ -	€ -	n/a	-	€ 1,369,016	2.1x	€ 1,369,016	2.1x	23%	23%
BREP Int'l II (Sep 2005 / Jun 2008) (h)	1,629,748	-	196,692	0.7x	22%	2,215,612	2.0x	2,412,304	1.7x	10%	8%
BREP Europe III (Jun 2008 / Sep 2013)	3,205,167	459,102	1,412,710	1.5x	-	4,929,306	2.5x	6,342,016	2.2x	22%	16%
BREP Europe IV (Sep 2013 / Dec 2016)	6,707,671	1,444,315	5,083,569	1.5x	6%	5,483,833	2.0x	10,567,402	1.7x	28%	18%
BREP Europe V (Dec 2016 / Jun 2022)	7,809,546	5,455,395	2,446,991	1.2x	-	-	n/a	2,446,991	1.2x	n/a	21%
Total Euro BREP	€ 20,176,304	€ 7,358,812	€ 9,139,962	1.3x	4%	€ 13,997,767	2.1x	€ 23,137,729	1.7x	18%	14%
BREP Asia (Jun 2013 / Dec 2017)	$ 5,094,145	$ 2,039,069	$ 4,058,820	1.4x	-	$ 2,354,105	1.8x	$ 6,412,925	1.5x	24%	17%
BREP Asia II (Dec 2017 / Jun 2023)	5,872,995	5,872,995	-	n/a	-	-	n/a	-	n/a	n/a	n/a
BREP Co-Investment (i)	6,872,697	146,573	2,524,738	1.8x	58%	11,289,288	2.1x	13,814,026	2.1x	16%	16%
Total BREP	**$ 94,515,478**	**$ 28,874,136**	**$ 43,680,859**	**1.5x**	**13%**	**$ 99,227,773**	**2.2x**	**$ 142,908,632**	**1.9x**	**19%**	**16%**
BPP (j)	$ 22,714,906	$ 3,385,428	$ 22,077,318	1.1x	-	$ 1,687,447	3.1x	$ 23,764,765	1.2x	n/m	12%
BREDS (k)	$ 13,256,252	5,918,948	$ 2,877,439	1.1x	-	$ 8,470,740	1.3x	$ 11,348,179	1.3x	12%	11%
Hedge Fund Solutions											
BSCH (Dec 2013 / Jun 2020) (l)	$ 3,298,575	2,598,501	$ 816,577	1.0x	-	$ 195,909	n/a	$ 1,012,486	1.3x	n/a	6%
BSCH Co-Investment	276,000	193,020	109,490	1.0x	-	19,626	n/a	129,116	1.2x	n/a	16%
Total Hedge Fund Solutions	**$ 3,574,575**	**$ 2,791,521**	**$ 926,067**	**1.0x**	**-**	**$ 215,535**	**n/a**	**$ 1,141,602**	**1.3x**	**n/a**	**6%**
Credit (m)											
Mezzanine I (Jul 2007 / Oct 2011)	$ 2,000,000	$ 97,114	$ 57,318	1.0x	-	$ 4,767,097	1.6x	$ 4,824,415	1.6x	n/a	17%
Mezzanine II (Nov 2011 / Nov 2016)	4,120,000	1,154,965	2,642,627	1.1x	-	3,735,972	1.5x	6,378,599	1.3x	n/a	13%
Mezzanine III (Sep 2016 / Sep 2021)	6,639,133	4,417,141	2,256,846	1.1x	-	482,139	1.4x	2,738,985	1.1x	n/a	14%
Stressed / Distressed Investing I (Sep 2009 / May 2013)	3,253,143	275,357	372,255	0.6x	-	5,541,335	1.5x	5,913,590	1.4x	n/a	11%
Stressed / Distressed Investing II (Jun 2013 / Jun 2018)	5,125,000	880,783	3,517,251	1.1x	-	2,045,005	1.5x	5,562,256	1.2x	n/a	14%
Stressed / Distressed Investing III (Dec 2017/ Dec 2022)	6,652,790	6,465,005	29,292	0.9x	-	-	n/a	29,292	0.9x	n/a	n/a
Energy Select Opportunities (Nov 2015 / Nov 2018)	2,856,867	1,308,588	1,640,289	1.1x	-	268,018	1.7x	1,908,307	1.2x	n/a	21%
Euro											
European Senior Debt Fund (Feb 2015 / Feb 2018)	€ 1,964,689	€ 1,882,793	€ 1,654,112	1.0x	-	€ 507,929	1.5x	€ 2,162,041	1.1x	n/a	10%
Total Credit	**$ 32,913,343**	**$ 16,859,811**	**$ 12,502,136**	**1.1x**	**-**	**$ 17,413,704**	**1.6x**	**$ 29,915,840**	**1.3x**	**n/a**	**14%**

Realized and Unrealized Investments amounts were adjusted in 4Q'17 to account for a change in methodology regarding the treatment of current income, which now recognizes all proceeds as Realized Value.

Source: Blackstone Supplemental Disclosures

Blackstone has no problem giving detailed and transparent disclosures to investors regarding the performance of its investments, the capital invested in its funds and the valuation of its investment vehicles. We call on Blue Sky to provide the same level of transparency as the asset managers to which it compares itself **and provide a breakdown of fee earning AUM by fund, complete with disclosures on realized and unrealized valuation, real estate debt in its portfolio and IRRs at the fund level**.

Such transparency is not limited to American or global asset managers. Blue Sky compares itself to Australian listed property manager GPT Group, (ASX: GPT). Yet GPT discloses to investors a list of its investment properties, including the **fair value of the properties, GPT's ownership interest** and the last date on which such investments were valued.

THE GPT GROUP

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

OPERATING ASSETS AND LIABILITIES

2. INVESTMENT PROPERTIES

	Note	31 Dec 17 $M	31 Dec 16 $M
Retail	(a)	**4,818.7**	4,468.6
Office	(b)	**2,306.8**	2,068.1
Logistics	(c)	**1,498.6**	1,317.3
Properties under development	(d)	**121.6**	90.9
Total investment properties	(e)	**8,745.7**	7,944.9

	Ownership interest [5] %	Acquisition date	Fair value 31 Dec 17 $M	Fair value 31 Dec 16 $M	Latest independent valuation date	Valuer
(a) Retail						
Casuarina Square, NT	50.0	Oct 1973	**322.6**	313.0	Sep 2017	CB Richard Ellis Pty Ltd
Charlestown Square, NSW	100.0	Dec 1977	**924.8**	885.5	Jun 2017	M3 Property
Pacific Highway, Charlestown, NSW	100.0	Oct 2002 / Jul 2003	**6.6**	7.1	Jun 2017	M3 Property
Highpoint Shopping Centre, VIC	16.7	Aug 2009	**434.2**	373.4	Sep 2017	Savills Australia
Homemaker City, Maribyrnong, VIC	16.7	Aug 2009	**11.7**	9.8	Sep 2017	Savills Australia
Westfield Penrith, NSW	50.0	Jun 1971	**669.5**	636.2	Jun 2017	Knight Frank Valuations
Sunshine Plaza, QLD	** 50.0	Dec 1992 / Sep 2004	**449.3**	380.5	Dec 2017	M3 Property
Plaza Parade, QLD	50.0	Jun 1999	**10.0**	10.3	Dec 2017	M3 Property
Rouse Hill Town Centre, NSW	100.0	Dec 2005	**606.8**	578.8	Dec 2017	M3 Property
Melbourne Central, VIC - retail portion [1]	100.0	May 1999 / May 2001	**1,383.2**	1,274.0	Dec 2017	CB Richard Ellis Pty Ltd
Total Retail			**4,818.7**	4,468.6		

Source: GPT Group 2017 Annual Report

If GPT freely discloses the fair valuation of its individual investments (and clearly does not believe there is any fiduciary obligation preventing such disclosure), why **can't Blue Sky provide a similar breakdown?** Blue Sky fails to even provide a summary of its portfolio by asset class. Blue Sky does not want to reveal any details about its portfolio because, in our opinion, it is hiding something.

2. Evidence that Blue Sky misrepresents the performance of its investments

Blue Sky has reported an impressive 15% IRR *net of fees* since inception in 2006. To put this in context, if such returns are true, Blue Sky is one of the best asset managers in the entire world over the last decade. We think such reported performance is simply too good to be true.

In our Report, we opined that Blue Sky has been overstating its financial performance by aggressively, *and unjustifiably*, marking up the value of its unrealized assets. Our thesis is based on two categories of evidence: the first is the Company's consolidated financial statements, the second is documented examples where Blue Sky has, in our opinion, clearly overstated the performance and value of certain investments.

In its Response, Blue Sky first attempts to dismiss its growing receivables balance by arguing that measured as a percentage of revenues, its receivables are reasonable when compared to other blue-chip alternative asset managers Blackstone, Carlyle, KKR, Ares and Apollo. Investors should note with deep irony that Blue Sky wants to invite such comparisons when it suits but claims to be an Australian pure play property developer when it doesn't.

Blue Sky misses the point entirely and ignores the reason we highlighted the receivables to begin with. The critical data point is that Blue Sky's receivables have increased substantially over time, both on an absolute and a *relative basis*, suggesting that paper profits from unrealized investments are becoming an increasingly material component of the Company's reported financial performance.

For example, receivables have grown so rapidly that they comprised 129% of revenues as of LTM H1 18, up from just 45% in FY 2015.

Rapid Receivable Growth

$ M	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	LTM H1 18
Reported Revenues	8.9	10.6	32.2	58.5	68.8	69.1	75.5
Receivables	3.0	3.7	17.5	26.4	72.9	86.9	97.4
% of revenue	34%	35%	54%	45%	106%	126%	129%
Days Sales Outstanding	***124.4***	***129.2***	***197.8***	***164.6***	***386.3***	***458.5***	***471.1***

Source: Blue Sky Public Filings

Blue Sky's Response completely fails to address this change over time. Why have Blue Sky's receivables, measured on an absolute and relative basis, increased so dramatically in the last three years? The growth of receivables has led to a deterioration in earnings quality, as the Company has failed to generate free cash flows despite reporting seemingly impressive paper profits.

Paper Profits

$ M	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**LTM H1 18**
Profit before tax (PBT)	6.2	0.9	3.6	14.1	15.7	29.7	25.6
Free cash flow	(1.4)	(1.3)	(68.3)	6.2	(16.9)	(10.3)	(10.9)
Free cash flow miuns PBT	***(7.6)***	***(2.2)***	***(71.9)***	***(8.0)***	***(32.6)***	***(40.0)***	***(36.5)***

Source: Blue Sky Public Filings

In our opinion, the deterioration in the Company's cash flow generation and its ballooning receivables balance are both evidence that management is playing games by inappropriately marking up the value of unrealized investments.

Our Report also highlighted seven private equity and venture capital investments in which we believe evidence suggested that Blue Sky had inflated the performance of the underlying investment. It is important to note why we chose such examples: Blue Sky is so opaque about the performance of its investments, these were some of the only examples where we could find publicly available data to analyze the Company's claims.

Blue Sky rejects our conclusions but fails to provide any details to rebut our analysis. If Blue Sky is telling the truth, why don't they provide any calculations or information as to why we are wrong? Blue Sky hides behind its supposed fiduciary duties but this, in our view, is nonsense.

Predictably, Blue Sky pleads with investors to rely on third party valuation by "top-tier" valuers. In our opinion, investors should be highly wary of any public company that points to the credibility of third party valuers to justify suspicious marks on its portfolio. Every public company that collapses under suspicion of fabricating valuations has had an auditor. **Quintis had an auditor. Enron had an auditor**. Investors should not dismiss credible evidence that Blue Sky is overvaluing returns or valuations because of some third party valuer who is paid by the Company.

a. Foundation Early Learning. Excessively Levered and Poorly Performing

In our report, we noted that Blue Sky had marked up its investment in Foundation Early Learning (FEL), a roll-up of day care centers, by 42% since 2014. Yet FEL's operating cash flows fell 62% year-over-year in FY 2017. Using FEL's publicly available accounts, we calculated that FEL's EBITDA was just $1.8 million in FY 2017 and that it has a startling net debt to EBITDA ratio of 10.8x.

In its Response, Blue Sky stated that FEL "does not have" a net debt to EBITDA ratio of 10.8x. **If that is the case, then what is correct net debt to EBITDA ratio?** Blue Sky hides behind dubious alleged fiduciary obligations so that it does not have to provide any detail or analysis as to why our calculation is wrong. But we relied on the publicly filed statutory accounts for FEL – surely nothing prevents Blue Sky from providing the correct calculation, if as it claims, our calculation is mistaken. After all, FEL already files statutory accounts which can be viewed by the public – what is stopping Blue Sky from providing its own analysis based on such publicly available figures?

Blue Sky oddly counters that FEL is banked by one of Australia's major banks, as if that is relevant at all to our analysis. Steinhoff also had major banking relationships, which made no difference when the underlying value of its business collapsed. Blue Sky also states that FEL is in compliance with its covenants. But we never said otherwise. FEL's credit agreements are not publicly available (to our knowledge) so we did not opine on whether it was in compliance with its covenants.

Our point was that given FEL's negative cash flow and excessive leverage, FEL looks closer to financial calamity than a successful investment warranting a markup in value. Blue Sky never provides any substantive rebuttal to justify its markup of its investment given FEL's documented struggles.

b. Vinomofo: Strapped for Cash and Missing Growth Forecasts

Blue Sky invested $25 million for a 22.7% stake in Vinomofo in February 2016. By December 2016, Blue Sky had already claimed a 9.3% IRR on its investment. Yet Vinomofo soon missed its forecasted revenue targets (despite doubling its marketing expenses) and continued to burn through cash at an alarming rate. Publicly available financials show that Vinomofo's cash flow from operations was *negative* $6.3 million for FY ending June 2017. By June 2017, Vinomofo only had $2.2 million in cash left. At that run rate, Vinomofo will likely run out of cash without further investment or financing.

Blue Sky argues that Vinomofo "should not have been revalued in December 2016 because the business missed its investment case. Vinomofo grew materially in that financial year…"[1] But publicly available financials state that Vinomofo's revenues were $43.7 million in FY 2017, up only $4.4 million from the previous fiscal year. Such growth for a cash-burning, early stage VC investment appears sluggish, not robust.

Rather than a successful investment justifying a markup, Vinomofo's growth appears to have slowed, and its cash crisis has deepened.

c. Beach Burrito

In our Report, we calculated that Blue Sky carried its 33% investment in Beach Burrito at $20.4 million (based on Blue Sky's disclosed returns on its investment), meaning the value of 100% of the equity of the burrito chain was a staggering $62 million.

Blue Sky responded that we miscalculated the carrying value of Beach Burrito. It claims that it carries Beach Burrito at less than $20 million for 100% of the equity. Again, Blue Sky fails to provide even basic details countering our calculation. We fail to see how or why our calculation is incorrect. In 2017, Blue Sky claimed to own 33% of the equity in Beach Burrito, not 100% as it now claims.

[1] Blue Sky Response, p. 5.

Beach Burrito Company ('BBC') is a fast casual chain of Mexican restaurants (a hybrid between fast food and full service restaurants). Established in December 2006, BBC opened its first restaurant on Campbell Parade, North Bondi in January 2007. BBC has since shown exceptional growth and expects to be run-rating EBITDA of $2 million by the end of FY17. BBC was listed in BRW's 'Fast Starters' list in 2010 and 2011 and has 13 restaurants nationwide including in Queensland, NSW, Victoria ACT and SA.

Ownership & governance

Blue Sky invested as equity and holds 33% of Beach Burrito Company on a fully diluted basis. Blue Sky holds two board seats.

Source: VC Information Memorandum, dated March 2017

BSVC track record as at 31 December 2016

BlueSky Alternative Thinking

	Committed capital	Current status	Gross[1] IRR	Gross[1] Money multiple	Net[2] IRR	Net[2] Money multiple
2006 VINTAGE						
Beach Burrito Company 1	$0.2 million	Part realised	57.2%	74.0x	57.2%	74.0x
Viking Rentals	$4.7 million	Realised	14.8%	2.2x	15.8%	1.9%
Total			26.7%	4.8x	24.5%	4.2x
VC2012 FUND						
Hatchtech	$1.0 million	Part realised	50.4%	2.8x	-	-
Pet Circle	$4.0 million	Realised	28.4%	2.0x	-	-
Conventus Orthopaedics[3]	$3.1 million	Unrealised	2.7%	1.1x	-	-
HeyLet's	$0.5 million	Unrealised	8.5%	1.2x	-	-
Serene Medical	$1.8 million	Unrealised	88.6%	2.7x	-	-
Total			40.2%	2.2x	20.8%	1.7x
OTHER 2012 VINTAGE INVESTMENTS						
Alcidion	$2.5 million	Unrealised	31.7%	3.2x	-	-
Beach Burrito Company 2	$2.8 million	Unrealised	20.7%	2.0x	13.6%	1.6x
Total			26.9%	2.5x	N/A	N/A
VC2014 FUND						
Parcel Point / Fluent Retail[5]	$4.5 million	Unrealised	0.0%	1.0x	-	-
Vinomofo[3]	$25.0 million	Unrealised	9.3%	1.1x	-	-
THR1VE	$2.2 million	Unrealised	24.5%	1.3x	-	-
Shoes of Prey[3]	$9.1 million	Unrealised	7.9%	1.1x	-	-
Eloquii	$2.7 million	Unrealised	18.9%	1.2x	-	-
Serene Medical	$0.4 million	Unrealised	22.5%	1.1x	-	-
GO1	$0.5 million	Unrealised	9.2%	1.0x	-	-
Lexer[5]	$2.5 million	Unrealised	0.0%	1.0x	-	-
Total			8.1%	1.1x	(2.7%)	0.97x
Total realised and unrealised returns[4]			25.4%	1.6x	17.4%	1.3x

Source: VC2017 Information Memorandum, dated April 2017

At Blue Sky's reported money multiples, we calculate that the Company valued its 33% equity holding at $20.4 million, meaning Beach Burrito as a whole was valued at over $60 million.

Beach Burrito Is a Plug Used to Skew IRR

$ M	Investment	Money Multiple	Value of Holdings
Beach Burrito 1	0.2	74	14.8
Beach Burrito 2	2.8	2	5.6
Total	3.0	6.8	20.4
% Ownership			33%
Blue Sky valuation of Beach Burrito			62
Forcasted EBITDA			2
EV/EBITDA			***30.9x***

Source: Glaucus Calculation

We relied on Blue Sky's disclosures and as is typical, we were transparent in our Report about how we calculated Blue Sky's markup. In its rebuttal, Blue Sky simply hides rather than directly addressing why we are wrong.

d. Failure to Thrive

In our Report, we highlighted that Blue Sky had marked up its investment in Thrive for the purposes of a follow-on investment even though Thrive's EBITDA declined from **negative $1.8 million in 2015**, to an even more dire **negative $2.1 million** in 2016. Over that same period, revenues grew by just $2 million to $9.4 million. In its Response, Blue Sky disputes that it had sole discretion on the valuation of the follow-on investment and claims that we erred in calculating the revenue multiple. But again, Blue Sky provides no substantive rebuttal. If we erred in our calculation, what is the correct multiple?

e. Viking Dunnie: A Bad Smell.

In our Report, we highlighted that Viking underperformed Blue Sky's forecasts. Investor updates show that Viking's EBITDA was just $1.1 million in 2009 (28% less than forecasted), and $1.7 million in 2010 (41% less than forecasted). Despite poor underlying performance, Blue Sky marked up its investment by 3.7x and raised a new fund (EC 2010) to buy out previous investors at the higher valuation. In 2015, Blue Sky sold its investment in Viking to a mysterious buyer, Bayfront Capital Management ("Bayfront"). We wondered who was behind Bayfront. Blue Sky responded that Bayfront had no association or relation to Blue Sky whatsoever, and certain media outlets have apparently corroborated this claim. The mysterious buyer claims to be independent, but details regarding the transaction and the buyer are hard to come by. Yet for us, the larger point is that Blue Sky completely ignored our financial analysis showing that it marked up its investment despite evidence that Viking was materially underperforming.

f. Lenard's: Crying Fowl

In its Response, Blue Sky **completely ignored our analysis on Lenard's**. Blue Sky initially invested $3.3 million in 2008 for a 30% stake in Lenard's Chicken, an owner/operator of chicken shops. Lenard's immediately underperformed. Blue Sky reported that Lenard's FY 2009 EBITDA was $718,000, 65% less than forecast at the time of the Company's initial investment. In 2010, Blue Sky announced a follow-on investment from a new fund (EC 2010) of $7 million to buy out its previous investors at a price implying that Lenard's had doubled in value in 28 months. Blue Sky complains that no original investors were bought out in the follow-on investment, but that they were rolled into the new fund in 2010. As is typical, Blue Sky provides no documentation to support its assertion, but based on the publicly available documents we continue to believe that such investments were "transferred" from one investor to the other (which are the exact words from the investment memorandum).

But again, Blue Sky ignores the larger point. We highlighted Lenard's because it is a clear example where Blue Sky marked up the value of its investment despite the fact that Lenard's had performed disastrously. Blue Sky never rebuts or addresses this evidence.

g. HeyLet's Overstate Performance

In our Report, we noted that in an April 2017 investment presentation, Blue Sky claimed an 8.5% IRR on its investment in HeyLet's, a social networking site. This was remarkable as Blue Sky admitted that HeyLets was in the process of being *liquidated* in an investment memorandum dated *March* 2017. How could Blue Sky claim such a return on an investment that appears to have been a total loss?

In its Response, Blue Sky made the excuse that the reported return was a result of "movements in foreign currency" and that the investment was eventually written off to $0 in June 2017. But this makes no sense; why would foreign currency fluctuations have any impact on the valuation of an underlying investment that was already in liquidation? Anything multiplied by **0 is 0**.

3. Blue Sky Gouges Australian Investors with Extortionate Fees

A critical element of our investment thesis is our finding that Blue Sky is a massive outlier among global asset managers because it gouges Australian investors with extortionate upfront **"management" fees as high as 17%**, which we believe is an off-market, abusive and unsustainable practice.

These are not performance fees tied to the success of the investments. Rather, Blue Sky charges such fees up front and labels them as management fees, establishment fees, due diligence fees or other advisory fees. Other asset managers charge such due diligence and advisory fees associated with closing a transaction or investment. But the key difference is that even for the world's best asset managers, transactional fees (advisory, M&A and due diligence fees) are **offset against** management fees. Yet Blue Sky ***layers*** transactional fees on top of management fees, leading to an extortionate fee structure designed to rip off investors regardless of whether the underlying investment succeeds.

Blue Sky Charges Exorbitant Fees to Small Ticket Investors

$ M	Date of IM	Management fee upfront	Transaction fees	Total fees to Blue Sky	Capital raised	**% of Total fees to Blue Sky/ Capital raised**
Lenards	May-08	0.1	0.2	0.3	5.0	**5.9%**
Residentail Asset Income Fund 1	May-13	0.0	1.1	1.3	8.1	**15.4%**
Flora	Jun-15	0.3	1.1	1.4	8.0	**17.3%**
Vinomofo	Dec-15	2.6	1.3	3.9	23.9	**16.3%**
Parkwood	Sep-17	0.3	0.9	1.2	12.6	**9.5%**
Beef Fund	May-17	0.6	0.8	1.5	10.5	**14.0%**
THR1VE	Jun-17	0.7	0.7	1.4	9.9	**14.0%**
es-Volta	Oct-17	2.8	1.9	4.8	30.4	**15.6%**
CDRU	Dec-17	0.9	1.0	2.0	15.2	**13.1%**
Total		8.3	9.0	17.6	123.6	**14.2%**

Source: Company Filings, Information Memorandums, AFR, Glaucus Calculation

Not only are Blue Sky's ludicrous upfront fees an abusive practice that gouges the very investors Blue Sky claims to serve, but we believe that Blue Sky's revenues will continue to shrink as it runs out of suckers.

Blue Sky complains that the comparison to other asset managers is misleading because there are "structural differences between Blue Sky's fee structures and those other alternative asset managers which are advantageous to fund investors… including the fact that Blue Sky typically charges fees on invested capital not committed capital."[2]

First, it is critical to note that Blue Sky never denies layering establishment fees, M&A advisory fees and transactional fees upon management fees. This is off-market, and results in charging investors much higher fees than other alternative asset managers.

Second, the notion that Blue Sky should be applauded for charging fees on invested capital not committed capital is ridiculous. The reason, we suspect, that Blue Sky does this is because has trouble raising money for individual investments and thus has no choice but to charge fees on the capital it manages to raise rather than the theoretical number it hopes to achieve.

It is notable that Blue Sky fails to address our follow-on point. We calculated in our Report that the bulk of Blue Sky's reported management fees are comprised of one-off establishment fees, which are charged up front at the beginning of the investment and by nature are *not* recurring. Based on the investment memoranda we reviewed, we estimate that one off "establishment" fees (like due diligence fees or transactional advisory fees) constitute *81%* of the total "management" fees received by Blue Sky in the first year of a new investment. Our point is that investors valuing Blue Sky's shares cannot count on the Company's management fees to be a steady, recurring source of revenues because at least half of such management fees are extortionate, front-loaded establishment fees charged to unsuspecting investors on new investments.

Ultimately, nothing in Blue Sky's Response changes the basic point that its fees are egregious and as a result, are likely unsustainable as it runs out of suckers.

[2] Blue Sky Response, p. 6.

Valuation

It is important to note that we are playing the role of financial detective, reconstructing Blue Sky's fee earning AUM from the limited publicly available evidence and disclosures by the Company about the exact composition of its portfolio and the performance of its investments.

We call on Blue Sky to match the level of disclosure of other alternative asset managers like KKR, Blackstone and Apollo (to which Blue Sky compares itself) and disclose its fee earning and gross AUM by asset class and at the fund level. Blue Sky should also disclose, broken down by fund, its IRR, and the balance of realized and unrealized invested capital. Blue Sky should tell investors how much of its supposed fee earning AUM is actually property debt. Neither shareholders nor investors should allow Blue Sky to hide behind fabricated duties of secrecy. If other alternative asset managers can be so transparent, the only reason for Blue Sky's secrecy is, in our opinion, a desire to conceal an ugly truth.

Ultimately, Blue Sky's Response shows just how absurdly its stock is priced. In our Report, we valued Blue Sky's shares on a multiple of enterprise value to our estimate of its maximum fee earning AUM of $1.5 billion. We think that Blue Sky should trade at a discount to the multiple for blue chip asset managers because of the multitude of corporate governance concerns identified in our analysis.

Blue Sky is Worth a Fraction of its Current Share Price

	$ M
Glaucus AUM Estimate	1,464
Peer average EV/FEAUM ratio	0.13x
Glaucus calculation of enterprise value	187
Less net debt	(31)
Capital raise March 2018	100
Implied Market capitalization	256
Shares outstanding	77
Estimate of stock price ($)	3.33
Glaucus corporate governance discount	20%
Glaucus estimate of stock price ($)	2.66
Current trading price ($)	11.52
Stock downside	***-77%***

Source: Table from Glaucus Report based on Previous Trading Prices

Our valuation, based on our estimate of fee-earning AUM (calculated in the way that other alternative asset managers define fee earning AUM) implies a market capitalization of $256 million and a ***Glaucus adjusted share price of $2.66***.

But if Blue Sky wants to claim to be an Australian property developer, then its share should trade like one. Blue Sky now admits that it has included debt into its reported fee earning AUM, which it says it should be allowed to do, because other Australian pure play property developers do so as well. Again, this is disingenuous as Blue Sky has historically compared itself and its fee earning AUM to the KKRs and Blackstone's of the world. But if Blue Sky wants to be valued like an Australian pure play property developer, then analysts should use NAV to value it. On this basis, we calculate that Blue Sky's shares are worth only $2.99.

Blue Sky Valued on NAV Basis

Average Blue Sky selected property fund NAV (a)	1.2x
Blue Sky book equity value December 2017	137
Capital raise March 2018	100
Adjusted book value (b)	237
Market Cap calculation (a x b)	288
Shares outstanding	77
Value per Share ($)	3.74
Corporate Governance Discount	20%
Glaucus adjusted share price ($)	2.99
Current share price ($)	10.40
Downside	***-71%***

Source: Glaucus Calculation; based on April 2, 2018 trading price

Blue Sky must pick its poison. Investors will not allow Blue Sky to jump back and forth in a blatant attempt to cherry pick the best bits of both worlds. Either way, it is our investment opinion that Blue Sky's shares are worth considerably less than their last traded price.

DISCLAIMER

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