GLAUCUS RESEARCH GROUP

"One of the great things I see in Blue Sky is our people always fighting for our investors' money."
- John Kain, Blue Sky Chairman

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

Price (as of close 03/27/2018):
AU$ 11.43

Market Cap:
AU$ 885 million

Daily Volume:
111,000 shares
(30 Day Avg.)

Shares Outstanding:
77 million

GRG Valuation:
AU$ <2.66

Blue Sky Alternative Investments Limited (ASX: BLA) ("Blue Sky" or the "Company") is an Australian fund manager with a purported $3.9 billion of fee earning assets under management ("AUM") as of December 2017. Blue Sky also claims to have achieved a 15% Internal Rate of Return (IRR) *net of fees* since inception. Driven by the supposed rapid increase in 'fee earning' AUM and fantastic reported performance, Blue Sky's market capitalization has grown exponentially to nearly $1 billion.

But all is not as it seems. We believe that Blue Sky is significantly overstating its fee earning AUM by reporting the gross value of certain assets as AUM instead of the fair value of the capital invested. Based on our analysis, we estimate that Blue Sky's ***real fee earning AUM is at most $1.5 billion***, 63% less than Blue Sky's reported figure.

We believe Blue Sky compensates for its overstated AUM by charging clients egregious management fees, which can reach up to 17% of the capital invested in Blue Sky funds and are charged *irrespective* of the performance of the underlying investment. Because investors will soon wise up, we view Blue Sky's fee revenues as inherently unsustainable. In other cases, such as private equity, we present evidence that Blue Sky has overstated its returns on many investments (a practice we believe is systematic). Through the overstatement of AUM and returns, Blue Sky inflates its current revenue and profits, driving up its stock price and attracting further capital.

Blue Sky's main broker, Morgans, claims that AUM ***is the key driver of revenues and ultimately the share price of the Company***. Blue Sky likes to compare itself to US-listed alternative asset managers; Apollo, KKR and Blackstone have an enterprise value which is on average 13% of their *fee earning* AUM. If we apply the same ratio to Blue Sky, and factor in a corporate governance discount, we estimate that the Company's shares are worth at most $2.66 per share.

1. **Blue Sky Wildly Exaggerates its Reported Fee Earning AUM.** Based on our review and analysis of the assets in Blue Sky's portfolio, we believe that Blue Sky's reported fee earning AUM does not reflect the true value of the asset manager's fee-earning invested capital. Breaking down AUM by asset class, ***we estimate that Blue Sky's real fee earning AUM is at most $1.5 billion***, and even this estimate is likely far too generous, because it gives full credit to Blue Sky's claims regarding the performance of its unrealized investments.

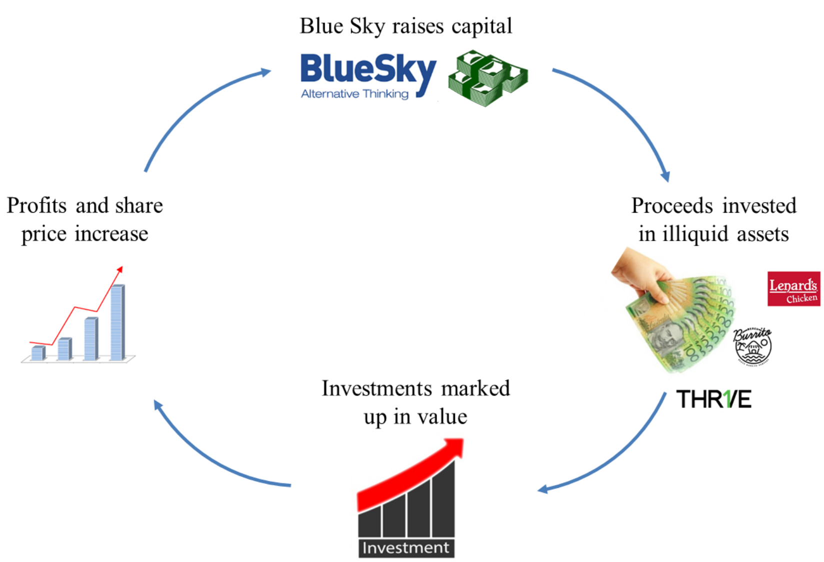
   a. **We Estimate Real Estate AUM is no more than $683.5 million.** Reputable asset managers, including KKR and Blackstone, define fee earning AUM as the fair value of invested capital. We believe that the Company reports real estate fee earning AUM as the ***gross*** value of the assets, **including the indebtedness on its property developments**. By doing so, we believe Blue Sky vastly overstates its reported fee earning AUM.

   According to the Company, real estate related investments comprise 50% of Blue Sky's fee earning AUM, meaning the value of invested capital in such properties should be $1.9 billion. But based on our review of Blue Sky's real estate portfolio, including residential developments, student accommodations, retirement homes, commercial property and other related investments, we believe that Blue Sky is reported the gross value of its investments as its AUM. O***nce we net off third party debt and JV equity, we estimate that the maximum equity attributable to Blue Sky in this segment is just $683.5 million***. In our opinion, Blue Sky overstates its real estate AUM by at least **2.9x**.

b. **We Estimate Agricultural and Resource AUM of $315 million.** Investments in real assets, a term Blue Sky uses to describe agricultural and resource investments ("Agricultural and Resource"), reportedly comprise 25% of its fee earning AUM, meaning the fair value of Blue Sky's equity in such assets should be at least $975 million. This value is purportedly underpinned by Blue Sky's open-ended water fund ("Water Fund"). When we called the Company to inquire about investing in the Water Fund, a sales representative told us it was 'closed' and that the ***AUM was "north of $150 million."*** We have identified four additional single asset funds in this segment. When we break down the maximum amounts invested in these assets using the underlying fund documents and Blue Sky's public disclosures, we estimate that the **maximum** ***AUM for Blue Sky's Agricultural and Resource investments is $315 million.***

c. **We Estimate Private Equity AUM at most $419 million.** Blue Sky claims that private equity comprises the remaining 25% of its AUM, meaning the value of its invested capital in this segment should be $975 million. Blue Sky currently reports 33 PE investments which it categorizes as either growth or venture capital ("VC"). Yet a 2017 investment memorandum for Blue Sky's flagship VC Fund ("VC 2017") reveals that Blue Sky invested only $86 million in 17 businesses, an average of just $5 million per business. If we assume these VC assets appreciate in value at the claimed IRR of 13.9% (and for the record, we doubt it), we estimate an AUM of $136.6 million for the VC asset class. Through additional fund documents and Blue Sky's public disclosures, we estimate an average investment size of $12.7 million for Blue Sky remaining "growth" investments. A similar calculation yields an estimated fee earning AUM of $218.6 million in Blue Sky's growth category. Together we estimate that Blue Sky's fee earning AUM in its private equity segment is no more than $419 million, and this is if we give full credit to Blue Sky's markups of its unrealized investments, which as we will see, is likely far too generous.

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. But there is good reason to be suspicious. Since inception, Blue Sky has only exited 39 investments, an average of 3-4 per year, of which a large number have been residential property developments around Queensland. As a result, the vast majority of Blue Sky's reported performance is based on the markup of unrealized investments still lingering in its portfolio. We believe 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.



a. **Ballooning Receivables and Deteriorating Cash Flows.** Over time, inappropriately inflating the value of unrealized investments begins to distort the financial statements of an asset manager because its receivables balloon with uncollected performance and management fees. In Blue Sky's case, receivables have grown so rapidly that they comprised 129% of revenues as of H1 2018, up from just 45% of revenues as of FY 2015. As receivables have ballooned, Blue Sky's reported free cash flow has deteriorated despite seemingly impressive paper profits. This is, in our opinion, a telltale sign of overstated performance.

b. **Foundation Early Learning is 10.8x levered.** Blue Sky has marked up its investment in Foundation Early Learning (FEL), a roll-up of day care centers, by 42% since 2014. Blue Sky touts FEL as one of its best performing investments. Yet according to its publicly available accounts, FEL's operating cash flows fell 62% year-over-year in FY 2017. We calculate 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. Given FEL's negative cash flow and excessive leverage, FEL looks closer to financial calamity than a successful investment warranting a markup in value.

c. **Billion Dollar Burrito.** Beach Burrito was Blue Sky's first "VC" investment. The Company wrote a $200,000 check in December 2006 to fund the opening of the very first store. Only a handful of investments were made in 2006, hence tweaks to the value of Beach Burrito can skew the "since inception" performance Blue Sky relies on to market its funds *today*. It is therefore alarming that Blue Sky has marked up its initial 2006 investment in Beach Burrito a suspicious *74x*. If we assume no debt, then Blue Sky is claiming that the value of Beach Burrito's 12 sites (one restaurant abruptly shut in October 2017, hardly a sign of growth) is $62 million or 31x the *forecasted* EBITDA. Blue Sky values a fast food Mexican restaurant chain at $5 million per restaurant, which is laughable. Such a valuation strains credulity and casts doubt over Blue Sky's purportedly stellar "since inception" performance.

d. **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. Given that Vinomofo is struggling to grow and hemorrhaging cash, it appears to be underperforming, not meriting a markup in value and a claimed 9.3% IRR.

e. **Failure to THR1VE.** In 2015, Blue Sky invested in THR1VE ("Thrive"), which owns and operates a series of health food stalls scattered across Australian malls. Blue Sky invested at an implied valuation of $8.4 million, 1.0x EV/revenue. In 2017, Blue Sky announced a $10 million follow-on investment in Thrive at an implied valuation of $30 million, and a ludicrous 3.2x EV/revenue multiple. Blue Sky's follow-on investment makes it appear as though its 2015 investment is thriving (pun intended), when in reality Thrive's growth has stalled. 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. By making a follow-on investment at a *valuation determined solely at Blue Sky's discretion*, Blue Sky was free to overstate the value of Thrive and collect an upfront fee of 14% of the total invested capital. We believe the data clearly indicates that Thrive is flailing, and that Blue Sky has overstated the performance of its investment.

f. **Viking Dunnies: Bad Smell.** In 2008 Blue Sky invested $2.7 million in Viking Rentals, an Australian renter of portable toilets. From the start, 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"). Bayfront does not have a website, and the only employee publicly identified with it does not even list Bayfront on his CV. ASIC fillings reveal Bayfront's "principal office" is a modest residential property on the outskirts of Adelaide. Ultimately, we question who really put up the money to fund Bayfront's acquisition and find it suspicious that the buyer has no operating footprint.

g. **Lenard's: Crying Fowl.** 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. Similar to Viking, despite the fact that Lenard's had performed disastrously, Blue Sky significantly marked up the value of its initial investment, then used a follow-on investment to bail out old investors. ***This is quintessentially Quintis.***

h. **HeyLet's Overstate Performance.** Blue Sky invested in HeyLets, a social networking site, in July 2014. In an April 2017 investment presentation, Blue Sky claimed an 8.5% IRR on its investment. This is 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?

3. **Blue Sky Gouges Australian Investors with Extortionate Fees.** Because of fee pressure on asset managers in recent years, only the world's best can charge some variation of 2/20: a 2% management fee and a 20% performance fee. Yet, hidden in the fine print of Blue Sky's investment documents, we discovered that Blue Sky consistently charged Australian investors extortionate management **fees as high as 17%**. 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. Not only are Blue Sky's ludicrous upfront fees an abusive practice that gouges the very investors Blue Sky claims to serve, but Blue Sky's revenues will continue to shrink as it runs out of suckers to pay such exorbitant fees.

4. **Those Who Know Best, Sell**. We believe that as AUM grows, Blue Sky's overstatement of its fee earning assets and returns gets bigger and bigger. We expect that this scheme will soon collapse, so it is a significant red flag that Blue Sky's founder and Managing Director Mark Sowerby abruptly resigned in September 2016 and had sold 50% of his entire holdings that year, pocketing $35 million. To us, the timing is no coincidence. We believe that if Sowerby had confidence in Blue Sky, he would not have exited such a large block position so quickly. But given what we have uncovered in analyzing the Company's disclosures, in our opinion, Sowerby was selling out before the Company's share price inevitably collapses.

VALUATION

Blue Sky's main broker, Morgans, claims that ***AUM is the key driver of revenues and ultimately the share price of the Company***. Blue Sky compares itself to US listed alternative asset managers, which trade at an average multiple on enterprise value to fee earning AUM of 0.13x. By comparison Blue Sky's shares are expensive, as the Company trades at a higher multiple (0.23x) of even its claimed fee earning AUM.

Blue Sky Trades at a Premium to Prestigious US Based Alternative Asset Managers

$ M	Mkt Cap	EV	FEAUM	EV/AUM
Blackstone	51,280	69,631	435,003	0.16x
KKR	22,439	24,391	152,338	0.16x
Apollo	16,463	19,727	219,179	0.09x
Oaktree	8,038	13,184	104,534	0.13x
Ares	6,135	13,446	94,042	0.14x
Carlyle	9,479	14,342	161,623	0.09x
Average	***18,972***	***25,787***	***194,453***	***0.13x***
Median	***12,971***	***17,035***	***156,980***	***0.13x***
Blue Sky	***885***	***916***	***3,946***	***0.23x***

Source: Bloomberg, calculated as of March 27, 2018

Investors are pricing Blue Sky at a premium to the private equity powerhouses such as Blackstone and Apollo. Not only is such a premium entirely unjustified, but in this report, we present an exhaustive body of evidence to support our investment thesis that Blue Sky's real fee earning AUM is a fraction of what it claims. Furthermore, we believe that Blue Sky's revenues are comprised of either extortionate management fees used to gouge unsuspecting investors (which we view as unsustainable) or dubious receivables based on what appears to be Blue Sky's systemic practice of overstating the value of unrealized investments.

Based on our analysis, we think Blue Sky's *maximum* fee earning AUM is no more than $1.5 billion, 63% below the $3.9 billion in fee earning AUM that Blue Sky reports to investors.

Fee Earning AUM is Grossly Overstated

Segment	Funds analyzed	AUM reported	Glaucus Estimate	***Downside on reported AUM***
Real Estate	39	1,950.0	683.5	***-65%***
Real Assets	6	975.0	315.3	***-68%***
Private Equity	33	975.0	418.6	***-57%***
Hedge Funds	1	46.2	46.2	
Total	79	3,946.2	1,463.6	***-63%***

Source: Glaucus Calculation

In addition, we think that Blue Sky should trade at a discount to 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: Glaucus Calculation

Our valuation implies a market capitalization of $256 million and a ***Glaucus adjusted share price of $2.66, 77% below the current share price of $11.43***. That said, we believe that this valuation is likely far too generous to the Company because it gives full credit to Blue Sky's reported performance on its portfolio, which we believe is significantly overstated. We therefore think it would be reasonable for investors to value Blue Sky's shares even lower. Where the bottom is, perhaps not even Blue Sky knows.

BLUE SKY WILDLY EXAGGERATES ITS FEE EARNING AUM

Blue Sky Alternative Asset Management Limited (ASX: BLA) ("Blue Sky" or the "Company") is an Australian fund manager with a purported $3.9 billion of ***fee earning*** assets under management ("AUM") as of December 2017.

Substantial growth in fee-earning assets under management ('AUM')	
	▪ **Fee-earning AUM stood at $3.9b** at 31 December 2017 (up ~$1.2b over the last year)
	▪ **Expected to be between $4.25b - $4.75b at 30 June 2018** (previous guidance was $4.0b - $4.5b at 30 June 2018)
	▪ Target of **$5.5b - $6.0b in fee-earning AUM by 30 June 2019** (previous target was to exceed $5.0b by 30 June 2019)
	▪ Growth supported by **long-term global growth in allocations to alternative assets**

Source: 1H 2018 Investor Presentation

This capital is invested across 80 individual funds spread across three main asset classes; real estate, private equity and agricultural and resource assets (such as water) (which we will define as "Agricultural and Resources"). Blue Sky claims to have achieved a 15% Internal Rate of Return (IRR) *net of fees* since inception. Driven by the supposed rapid increase in "fee earning" AUM, Blue Sky's market capitalization has doubled in two years to nearly $1 billion.

In its prospectus and earlier annual reports, Blue Sky differentiated between fee-earning AUM (then called FUM) and AUM, but the Company has since abandoned such distinctions. For example, on the March 2018 capital raising conference call, Managing Director Robert Shand stated that Blue Sky "only reports the AUM that has been *awarded, deployed, and is therefore fee earning.*"

But all is not as it seems. We believe that Blue Sky is significantly overstating its fee earning AUM by reporting the *gross* value of certain assets as AUM instead of the fair value of the capital invested.

Blue Sky's public filings give very limited disclosure regarding a breakdown of its investments, but even from the Company's financial statements it is obvious that something is amiss. Management fees have consistently lagged the rapid growth of fee earning AUM. For example, from FY 2015 to LTM H1 2018, Blue Sky's reported fee earning AUM increased from $1.35 billion to $3.9 billion, yet management fees only increased from $25 million to $41 million over that same period. If management fees are charged as a flat fee on AUM, why would management fees not increase lock step (or close to lock step) with reported fee earning AUM?

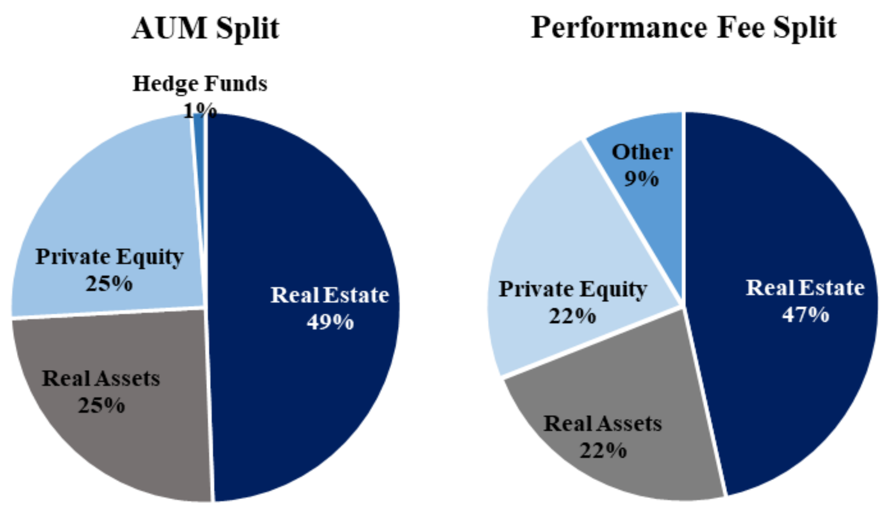
Management Fee Grew Slower than AUM

$ M	FY 2015	FY 2016	FY 2017	LTM 1H 18	Cumulative
Reported Fee Earning AUM	1,350	2,100	3,250	3,900	
Growth %	***108%***	***56%***	***55%***	***20%***	***189%***
Management Fees	25	31	33	41	
Growth %	***78%***	***25%***	***8%***	***23%***	***66%***

Source: Blue Sky Public Filings, Glaucus Calculation

In late 2017, we contacted the Company about making an investment in one of its funds. A sales representative disclosed that 50% of Blue Sky AUM was allocated to real estate investments, with the remainder split between Agricultural and Resource investments and private equity. This split is corroborated by Blue Sky's reported performance fee revenues across asset classes. [1]

[1] Returns are remarkably similar across the three main asset classes. Therefore, performance fee revenues should be a good indicator of the AUM of each asset class.



Source: 1. AUM split: Blue Sky Sales Representative 2017
2. Performance split: [Morgans Presentation 2016][2]

If Blue Sky is telling the truth about its fee earning AUM, then we should be able to verify that the value of its invested capital in real estate investments is $1.95 billion, the value of its invested capital in Agricultural and Resource assets (such as water rights) is $975 million, and the value of its invested capital in private equity (including growth investments and venture capital) is $975 million.

Yet after reviewing the underlying investments we estimate that Blue Sky's actual fee earning AUM is a fraction of this reported figure and that Blue Sky is inflating its reported AUM.

1) We Estimate that Real Estate AUM is no more than $683.5 million

Blue Sky's touts its success as a real estate investor, claiming to generate an internal rate of return (IRR) of 15.8% p.a. net of fees in this segment since 2007.[3] As of December 30, 2017, Blue Sky claimed to have $1.95 billion in real estate assets spread amongst dozens of funds in residential property, student dormitory, retirement living developments and commercial property.

We believe that Blue Sky materially overstates its real estate AUM by counting the ***gross value*** of its real properties as AUM rather than the fair value of its equity investment in such properties.

The basic premise behind real estate or private equity investing is that asset managers borrow much of the capital required to purchase and develop an asset. For example, if an asset manager buys a real estate development worth $100 million, the asset manager will typically invest $30 million in equity and borrow $70 million from a bank.

In our theoretical example, credible asset managers like KKR and Blackstone would report that the ***fee earning*** AUM of the project is $30 million, the value of the invested capital. As the fund manager would not typically earn fees on the $70 million borrowed from the bank to complete the transaction, this borrowed money would not be included in its reported *fee earning* AUM.

[2] Pg. 31
[3] H1 18 Blue Sky Investor Presentation.

Real Estate Fee Earning AUM Example

	Peers	Blue Sky
Gross Value of Property	100	100
Equity (Invested Capital)	30	30
Thrid Party Debt	70	70
LTV	70%	70%
FEAUM Claimed	30	100
Blue Sky FEAUM Overstatement		***3.3x***

Source: Glaucus Calculation

We believe that Blue Sky unjustly inflates its reported fee earning AUM by, using the above example, reporting the AUM of the project as $100 million, including both the $30 million in invested capital (on which Blue Sky earns fees) and the $70 million in debt borrowed from banks to complete the purchase on which, critically, Blue Sky *does not earn fees*.

To our knowledge, no other asset manager defines fee earning AUM in this way. We contacted the leading asset managers who invest in private equity, real estate and alternative assets, including KKR, Apollo and Blackstone. Each of them defines fee earning AUM as the fair value of their invested capital **and not the gross value of assets, companies or real properties**. Blue Sky can't claim this is some sort of Aussie quirk, because ASX listed asset managers Magellan Financial and Rural Funds also use the proper definition of fee earning AUM as the fair value of invested capital.

By overstating its fee earning AUM, we believe that Blue Sky not only defies standard reporting practices followed by major publicly listed asset managers, but it unjustly inflates the Company's stock price. To understand Blue Sky's deception, we believe it is critical to go back to its IPO prospectus, where in our opinion, Blue Sky first began to overstate its fee earning AUM.

In its original[4] IPO prospectus, Blue Sky reported that its real estate AUM was $89 million (40% of Blue Sky's total AUM). Blue Sky's prospectus included the following table, which calculated real estate AUM as the sum of four unrealized investments.

FUND	FUND TYPE	DATE OF COMMENCEMENT	DATE FUND REALISED	AUM (AS AT 30 JUNE 2011)	IRR (%) (AS AT 30 JUNE 2011)
BLUE SKY PRIVATE REAL ESTATE					
Paddington Terraces	Syndicated Direct Investment	May 2007	June 2008	$3m	41.6%
Kelso Investment Unit Trust	Trust (closed)	January 2007	November 2008	$4m	21.5%
Milky Way Development 1 Unit Trust	Trust (closed)	July 2007	April 2010	$8m	1.0%
Milky Way Development 2 Unit Trust	Trust (closed)	August 2007	Unrealised	$25m	11.2%
Milky Way Development 4 Unit Trust	Trust (closed)	March 2009	Unrealised	$36m	19.0%
Blue Sky RAMS Plantations Fund	Trust (closed)	April 2010	Unrealised	$12m	15.6%
Brisbane Eight Mile Plains Trust	Trust (closed)	June 2011	Unrealised	$15m	n.a.
AUM as at 30 June 2011 (excludes realised investments)				$89m	
				Average IRR (%)	14.1%

Source: Blue Sky 2011 IPO prospectus

[4] Blue Sky included this AUM breakdown in its first IPO prospectus, dated November 16, 2011, which can be found on Bloomberg. Suspiciously, a week later, this information was taken out of a subsequent IPO prospectus submitted to the Australian Securities Exchange.

Our analysis shows that Blue Sky was overstating its real estate AUM in its prospectus by including the **gross** value of the properties and not, as is proper, simply the value of invested capital.

In the Company's IPO prospectus, Blue Sky reported that the AUM for the Milky Way Development 2 ("Riverway Point") was $25 million as of June 2011. But the investment memorandum for Riverway Point, dated October 31, 2007, clearly stated that the future **gross value of the development will be $24.4 million, and that Blue Sky invested only $4 million of equity in the development.**

Revenue

Total Sales – 70 units	**24,400,000**
Interest Received	66,619
Less GST	(1,981,818)
Less Selling Costs	(1,164,000)
Net Revenue on Sale of Units	**21,320,801**
Equity	**4,000,000**
Debt	**8,000,000**
Return on Project	**20.0%**
Return on Equity to Investors	**77.6%**
IRR (over 26 months)	**35.4%**
IRR (after Performance Fee)	**30.0%**

Source: Riverway Point Supplementary Investment Memorandum 2007

Put simply, when Blue Sky referred to the AUM of its real estate investment in Riverway Point in its initial IPO prospectus, it was mischaracterizing AUM as the gross value of the property, not the equity invested in the project by the fund.[5]

This overstatement appears systematic. Blue Sky stated in its initial prospectus that the AUM for the Kelso Investment Unit Trust ("Kelso") was $4 million, as of June 2011. The investment memorandum for Kelso dated January 3, 2007, stated that Blue Sky invested only $1 million of equity to develop the property, and raised $1.8 million in debt to complete the project. The **total project value**, as reported by Blue Sky in 2007, was $2.8 million.

Project Value	$2,800,000
Investment	$1,000,000
Project Manager	Blue Sky Private Equity
Structure	Unit Trust
Return on Shareholders Funds	37.4%
Forecast IRR	21.4%

Source: Kelso Investment Memorandum 2007

We think it is obvious that the Company's reported AUM of $4 million for the Kelso investment in its IPO prospectus, like Riverway Point, was Blue Sky's estimate of the gross property value, not the value of its $1 million equity investment.

We find the same pattern in analyzing the remaining real estate investments disclosed in the Company's IPO prospectus even though we were unable to obtain the underlying investment memoranda. In its prospectus, Blue Sky stated that the Brisbane Eight Mile Plains Trust development, known as Centrus One ("Centrus"), had an AUM of $15 million as of June 2011. Blue Sky disclosed that Centrus is a 38-unit apartment block completed in February 2013. Blue Sky's disclosures imply an average value per apartment of $394,737. Centrus is located 16 kilometers away from Brisbane City. Domain provides transaction history of properties in Australia. The record showed that the

[5] This is corroborated by comparing the reported Riverway Point unit sale price $348,571 with the actual average sale price of units in that development; $354,000

units of Centrus were sold, on average, at $339,357, meaning that Blue Sky was clearly, in our opinion, conflating the fee earning AUM of Centrus with the gross value of the entire development.

Blue Sky completed the RAMS Plantations Fund development ("Plantations") in October 2011. As of June 2011, the property was still under construction. Blue Sky stated that the AUM for the Plantations in its IPO prospectus was $12 million. This implies a value per apartment of $285,714. The Plantations is located 37 kilometers from Brisbane. An Australian property website shows the units of Plantations were sold for $310,824 on average. Again, to us it is obvious that in its prospectus, Blue Sky reported the AUM of Plantations as the value of the entire development upon completion (equity investment plus debt), even though it does not earn fees on debt raised to build the apartments and had yet to finish construction.

The same is true for the fourth and final IPO real estate asset, Milky Way Development 4 Unit Trust, ("Castle Point"). Blue Sky reported an AUM of $36 million for Castle Point in its IPO prospectus. This implies a value per apartment of $352,941. Australian property website shows the units of Castle Point were sold at 353,500 on average.

AUM Per Unit *Is* Value Per Unit

Residential Development	Fund	Reported AUM ($ M)	Number of units	Implied value per unit ($)	Avg. Price Sold	Postcode
Riverway Point	Milky Way Development 2	25	70	357,143	353,519	Condon, QLD 4815
Castle Point	Milky Way Development 4	36	102	352,941	353,500	Belgian Gardens QLD 4810
Plantations	Blue Sky RAMS Plantations	12	42	285,714	310,824	Beenleigh, QLD 4207
Centrus One	Brisbane Eight Mile Plains	15	38	394,737	339,357	Eight Mile Plains, QLD 4113
Total		89	252	353,175	344,260	

Source: Blue Sky IPO Prospectus, domain.com.au, realestate.com.au, Glaucus Calculation

Blue Sky reported a real estate IPO AUM of $89 million from the four developments we discussed above: Riverway Point, Plantations, Centrus and Castle Point. From our analysis, it is clear that Blue Sky's reported AUM is the Company's assessment of the gross value of those developments. In order to estimate Blue Sky's actual fee earning AUM associated with its residential developments, we can extrapolate based on the ratio of equity to project value in Blue Sky's projects for which the underlying investment documents are available.

The investment memorandum for the Riverway Point development shows an Equity to Value ("ETV") ratio of 31% for the project (i.e., $7.7 million in fair value of equity on a $24.4 million project).

Equity To Value Of Riverway Point Project Is 31%

	$ M	% of Value
Riverway Point Reported Property Value	24.4	100%
Less:		
GST & Selling Costs	(3.1)	-13%
Costs of Project/Other	(17.6)	-72%
Total deductions from Reported Property Value	(20.7)	-85%
Net Development Profit	3.7	15%
Project debt	8.0	33%
Equity Invested	4.0	16%
Fair Value of Equity	***7.7***	***31%***

Source: 1. Riverway Point Supplementary Investment Memorandum 2007
2. Glaucus Calculation

Blue Sky, like other real estate developers, tends to borrow a significant portion of the construction costs for their property developments. Accordingly, in our analysis we assume that the Equity-to-Value ratio for the Riverway Point development is likely consistent across Blue Sky's other developments.

By applying a 31% ETV ratio to Blue Sky's other real estate developments, we estimate that **Blue Sky's real estate AUM was a maximum of $27 million at the time of the IPO (69% lower than reported). This implies that Blue Sky's IPO prospectus overstated its real estate AUM by at least 3.3x**.

Real Estate AUM Is 69% Lower Than Reported At IPO

Residential Development	Stated AUM	Equity Value (ETV 31%)	***AUM adjustment***
Riverway Point	25	8	***-69%***
Castle Point	36	11	***-69%***
Plantations	12	4	***-69%***
Centrus One	15	5	***-69%***
Total	89	27	***-69%***

Source: Blue Sky Prospectus, Glaucus Calculation

Independent data corroborates our conclusion. In 2014, Microequities Research published its initial report on the Company. In its research, Microequities estimated the gross realizable value of the Company's real estate investments.

Figure 2: **Examples of past and current development projects**

Project Name	Forecast/Actual Gross realisation ($)	Notes	Project Timeframe	Location
Castle Point	$35.5m	98 apartments 1, 2 and 3 bedrooms	Stage 1: May 13 – Jan 14	Belgian Gardens, Townsville
Centrus One	$15m	38 apartments 1, 2 and 3 bedrooms	Feb 13	Eight Mile Plains, Brisbane
Riverway Point	$25.4	70 apartments 2 and 3 bedrooms	Dec 11	Condon, Townsville
Plantations at Beenleigh	$12.5m	41 apartments 1, 2 and 3 bedrooms	Aug 11	Beenleigh, Logan City
Kelso Townhouses	$4m	12 townhouses	Oct 09	Kelso, Townsville
Skyring Terraces	$8.8m	28 townhouses	Jun 09	Bundaberg
Paddington Terraces	$4m	8 townhouses	Mar 08	Douglas, Townsville

Source: Company data

Source: Microequities initiating coverage report May-14[6]

The numbers reported by Microequities as the *gross* value of Blue Sky's real estate investments matched (almost exactly) Blue Sky's reported AUM for such investments in its prospectus.

[6] Sourced from Bloomberg

Blue Sky Reported *Gross Realization* to Microequities Which Match *Exactly* with AUM

Fund	Residential Development	Microequities Gross Realizations ($M)	BlueSky Stated AUM ($M)
Milky Way Development 2 Unit Trust	Riverway Point	25.4	25.0
Milky Way Development 4 Unit Trust	Castle Point	35.5	36.0
Blue Sky RAMS Plantations Fund	Plantations	12.5	12.0
Brisbane Eight Mile Plains Trust	Centrus One	15.0	15.0
Total		***88.4***	***89.0***

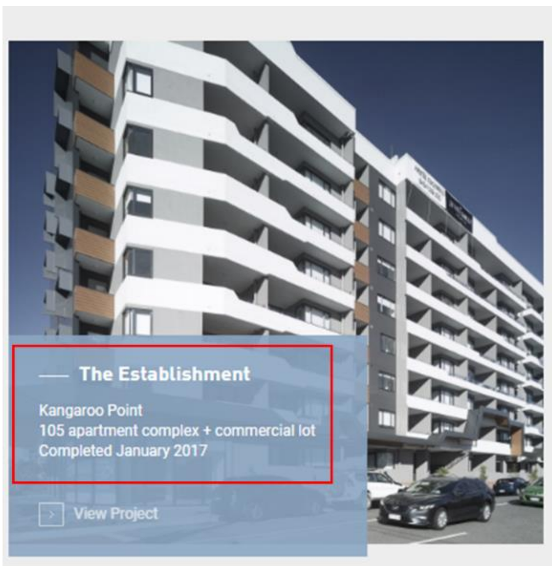
Source: Glaucus Calculation

The Microequities estimates, prepared at the behest of Blue Sky, corroborates our analysis that Blue Sky's reported real estate AUM in its IPO prospectus was significantly inflated.

Today there are several key segments that supposedly make up Blue Sky's $1.9 billion in reported real estate AUM: residential properties, student accommodations, retirement living homes and commercial property. We think it is clear, on an inspection of 39 Blue Sky real estate related investments, that the Company is playing the same tricks today as it did at IPO.

a. Residential Real Estate AUM at most $135 million.

Blue Sky's residential property website lists investments in 24 residential properties. Blue Sky lays out the location, completion date and number of units per property on this website. For instance, the development referred to as the Establishment is located in Kangaroo Point, has 105 units and was completed in January 2017.



Source: The Establishment, residential property website

In compiling our estimate of Blue Sky's true fee earning AUM, it is necessary to remove from our calculation the residential properties that were already sold and are no longer part of Blue Sky's real estate portfolio.

Blue Sky's prospectus lists three projects that were completed prior to the Company going public: Paddington Terraces, Kelso and Milky Way 1. In addition, a publicly traded related party named the Blue Sky Public Access Fund (ASX: BAF), ("Access Fund"), which invests exclusively in funds managed by Blue Sky, reveals other residential property developments which have been sold.[7]

[7] The Access Fund is a public investment vehicle floated by Blue Sky in 2014 to invest exclusively in Blue Sky managed investments. As of October 2017, the access fund has raised $224 million from the Australian public markets. The Access Fund has a market capitalization of $249 million.

For instance, in the 12-months ending June 30, 2017, three properties were sold according to the Access Fund monthly reports: Alice Street Kedron Trust, Main Street Kangaroo Point Trust and Regina Street Greenslopes Trust. [8]

- **Alice Street Kedron Trust**

  The Alternatives Fund received a $1.44 million first and final distribution from the Alice Street Kedron Trust during June, comprising a return of the original $1.0 million capital outlay, a profit distribution and performance fee rebate. The profit component of this distribution is fully franked.

  This represents a 36.3% IRR and 68.5% return on equity, net of fees and inclusive of franking credits, since investment in July 2014.

  Investing in July 2014, the Alternatives Fund's capital assisted the Alice Street Kedron Trust to develop a boutique 38 apartment development known as Harvest, in the north Brisbane suburb of Kedron. After reaching construction completion in April 2016, all apartments were successfully settled during June.

Source: Access Fund Monthly Report December 2016

- **Residential development projects**

  Prior to the end of the financial year, the Alternatives Fund received cash distributions from the following residential development funds:

  - **Main Street Kangaroo Point Trust** – this project is fully exited having generated a return of 1.84x invested capital (inclusive of franking credits and fee rebates) over a <3 year hold period;
  - **Regina Street Greenslopes Trust** – this project is largely exited with 1.62x invested capital received to date. With a final profit distribution and fee rebates to be received in the coming weeks, this fund is expected to generated a total return of > 1.7x invested capital;

Source: Access Fund Monthly Report June 2017

From public disclosures we estimate that Blue Sky has sold at least 11 of these property developments as of December 31, 2017. Accordingly, we can remove these 11 realized residential property developments from our estimate of Blue Sky's fee current earning AUM, as these assets should no longer be included in the calculation.

Realized Residential Developments

Propery	Completion Date	Location	Realized Date
Bastion	Feb-17	Windsor	Nov-17
The Establishment	Jan-17	Kangaroo Point	FY2016
Cedar	Jan-17	Greenslopes	FY2016
Empire	Aug-16	Woolloongabba	FY2016
Harvest	Mar-16	Kedron	FY2016
Centrus One	Feb-13	Eight Mile Plains	Feb-13
Riverway Point	Jan-12	Codon, Townsville	Dec-11
Plantations	Oct-11	Beenleigh	Aug-11
Skyring Terraces	Jan-09	Bundaberg	Jun-09
Miles Place	Aug-08	Kelso, Townsville	Oct-09
The Paddington Terraces	2007	Douglas, Townsville	Mar-08

Source: Blue Sky Residential Real Estate Website, Access Fund monthly updates, Microequities initiating coverage report May-14

In order to value the remaining unrealized properties in Blue Sky's real estate portfolio, we can extrapolate based on the gross value of one of Blue Sky's poshest developments, Flora Street Greenslopes Trust, The Florence, ("Flora"). In its investment memorandum for Flora, Blue Sky forecasted to sell Flora's 112 apartment units for a gross sale price of $54.7 million ($488,214 per apartment).

[8] We can tie these property trust names to the specific properties on the Blue Sky residential website. This is relatively simple, for instance, it is clear that the Establishment is Kangaroo Point Trust. They share the same name, location and number of units. Disclosures in Microequities research reports also provides information on which properties have been sold.

REVENUES

Apartments	54,680,000
Management Rights	1,232,000
Total Revenue	55,912,000
Less GST	5,032,080
Less 50% of Selling Commissions	1,677,360
Less 50% of Project Manager Commissions	56,000
Less Settlement Legals	61,600
Allowance for Rates and Body Corporate	112,000
Net Revenue	**48,972,960**

Source: Flora Information Memorandum 2015

Blue Sky invested only $8 million of equity into the Flora project.

INVESTMENT HIGHLIGHTS

TARGETED RETURN ON EQUITY	51.4%
TARGETED IRR	20.2%
TOTAL EQUITY RAISING	$8,045,000 The Trustee is also proposing to raise an additional $5,520,000 for the Project through Apartment Transfers (refer to Section 3 for further details).
SENIOR DEBT FACILITY	Maximum of 70% of total Project costs.
MINIMUM INVESTMENT	$50,000
INVESTMENT TERM	Minimum term of 27 months.

Source: Flora Information Memorandum 2015

On an $8 million equity investment in Flora, Blue Sky projected a 20% IRR which would grow its investment to $12.8 million upon completion.

IRR ANALYSIS

	30-JUNE-2015	30-SEPT-2017
Money In	-8,045,000	
Money Out		12,835,198
Performance Fee		-652,913
Total	**-8,045,000**	**12,182,285**
IRR	20.2%	

Source: Flora Information Memorandum 2015

Flora borrowed 70% of the project costs, equal to an LTV of 52%[9] of Flora's value.

PROJECT COSTS	$40,589,659
FACILITY LIMIT	$28,412,762
TERM	14 months from commencement of construction.
MAXIMUM LOAN TO PROJECT COST COVENANT	70%

Source: Flora Information Memorandum 2015

In addition to debt, Blue Sky deducted apartment transfers and other project cost to arrive at a value of equity upon the sale of Flora of $12.8 million; this yields an ETV ratio of 23% for the Flora project.

Equity To Value Of Flora Project is 23%

	$ M	% of Value
Flora Final Property Value	54.7	100%
Less		
GST, Commissions, others	(5.7)	-10%
Costs of Project/Other	(40.6)	-74%
Net Development Profit	8.4	15%
Source of Capital		
Facility limit	28.4	52%
Apartment Transfer	5.5	10%
Equity Invested	8.0	15%
Fair Value of Equity	***12.8***	**23%**

Source: Flora Information Memorandum 2015, Glaucus Calculation

According to Blue Sky's website, the Company has made a total of 24 investments in residential real estate and is currently raising capital for two additional residential projects. After subtracting the realized investments, we estimate that Blue Sky has 15 current residential properties included in its fee earning AUM.

If we analyze Blue Sky's 15 property investments on a unit basis we can estimate the true residential fee earning AUM. Blue Sky reports the number of apartments per property. To estimate gross property value, we multiplied the number of units per apartment building by the average unit price Blue Sky forecasted for one of its poshest property, the Flora, of $488,214. Using this logic, we calculate that the **gross value** of Blue Sky's portfolio, which we believe is at most $540.5 million (1,107 units multiplied by $488,214).

To get an equity value of Blue Sky's residential portfolio, we combined our estimate of the gross value of Blue Sky's properties with the ETV ratio of 25%, which is the ETV ratio of Blue Sky's Flora development. From there, we estimate that Blue Sky's fee earning AUM associated its residential portfolio is $135.1 million.

[9] 52% = ($40.6 million x 70%)/$54.7 million

Residential Developments AUM Is $135 Million

Completion Date	Propery	Location	# of unts	Est. Property Value ($M)	ETV Ratio	Equity Value (Adj. AUM) ($M)
n/a	Wellington Road East Brisbane Trust		71	34.7	25%	8.7
n/a	Wellington Road East Brisbane Trust II		75	36.6	25%	9.2
n/a	Florence	Greenslopes	107	52.2	25%	13.1
n/a	Aura	Milton	82	40.0	25%	10.0
Aug-17	The Duke	Kangaroo Point	125	61.0	25%	15.3
Mar-17	Stone & Co	Greenslopes	53	25.9	25%	6.5
May-16	Arbor	Milton	70	34.2	25%	8.5
Mar-16	Archive	Woolloongabba	69	33.7	25%	8.4
Dec-15	Mirra	Toowong	20	9.8	25%	2.4
Jul-15	The Governor	Bowen Hills	40	19.5	25%	4.9
May-15	Regents Lane	Woolloongabba	57	27.8	25%	7.0
Aug-14	Pavilion	Bowen Hills	36	17.6	25%	4.4
Feb'14/Sep'14	Lake Haven	Sunshine Coast	90	43.9	25%	11.0
Apr'14/May'15/ 17	Riverside Gardens	Douglas, Townsville	110	53.7	25%	13.4
Oct-14	Castle Point	Belgian Gardens, Townsville	102	49.8	25%	12.4
	Total		***1,107***	***540.5***	***25%***	***135.1***

Source: Blue Sky Website, Access Fund Monthly Report, InvestSMART, Glaucus Calculation
Note: We apply an ETV ratio of 25% (The Flora Project ETV ratio is 23%) to Blue Sky's other residential property developments

The point is that even if we make generous assumptions in favor of the Company's portfolio (by ascribing the value per unit of the Flora development to Blue Sky's other residential developments), we calculate that the maximum AUM from its residential real estate portfolio is **$135 million**.

We cross checked our estimates of the specific gross property values against the gross realizable property values reported by Microequities in its May 2014 research. If anything, we are giving Blue Sky too much credit in our valuation.

Glaucus Property Values Are Generous Compared To Microequities

Residential Developments ($ M)	Gross Realization (Microequities)	Gross Property Value (Glaucus)	Difference
The Governor	16.9	19.5	16%
Regents Lane	25.9	27.8	7%
Railway Terrace (Arbor)	32.5	34.2	5%
Pavilion	15.7	17.6	12%
Lake Haven	17.7	43.9	148%
Castle Point	35.5	49.8	40%
Riverside Gardens	35.0	53.7	53%
Total	***179.2***	***246.5***	***38%***

Source: Microequities May 2014, Glaucus Calculation

Blue Sky claims that its real estate AUM is 50% of its total fee earning AUM, or $1.95 billion. But if residential properties contribute at a maximum, only $135 million in fee earning AUM, can the remainder be accounted for by the Company's investments in student accommodations, retirement homes, commercial property and other real estate investments? The answer is no.

b. Student accommodation fee earning AUM at most $198 million

In its H1 18 presentation, Blue Sky discloses that its student accommodation portfolio consisted of "5,200 beds across nine sites in Australia."

Private Real Estate

Student Accommodation:

- Portfolio of >5,200 beds across nine sites in Australia
  - Four sites now complete and operational; remaining sites in development and becoming operational from 2019 onwards
- No new investments made in 1H FY18, but continuing to seek opportunities to grow
- Appointed Michael Heffernan as CEO of Atira (former CEO of Campus Living Villages' Australian business)
- Increased ownership of Atira to 50%[2]

Source: Blue Sky H1 18 Presentation

Blue Sky discloses details of seven of these nine projects in Access Fund's monthly report.

SUMMARY OF CURRENT INVESTMENTS (CONT.)

Fund name	Amount invested[6]	Date invested[7]	% allocated capital	Target IRR[8]	Anticipated exit[9]	Description
STUDENT ACCOMMODATION INVESTMENTS						
Student Accommodation Fund	1,500,000	Dec-14	0.9%		CY20 - CY22	A project to develop and operate a purpose-built, 286 bed student accommodation precinct in the Brisbane suburb of Woolloongabba, close to several large tertiary education institutions.
Student Accommodation Fund II	5,000,000	Mar-15	2.9%		CY20 - CY22	A project to develop and operate a purpose-built, 733 bed student accommodation precinct in the Brisbane suburb of South Brisbane, close to several large tertiary education institutions.
Student Accommodation Fund III	6,000,000	Jun-15	3.5%		CY20 - CY22	A project to develop and operate a purpose-built, 789 bed student accommodation precinct on La Trobe Street in the Melbourne CBD and in close proximity to six university campuses.
Student Accommodation Fund IV	3,500,000	Jun-15	2.1%		CY20 - CY22	A project to develop and operate a purpose-built, 415 bed student accommodation precinct on Waymouth Street in Adelaide's West End, close to Uni SA, Adelaide Uni and a new $3b health and biomedical precinct.
Student Accommodation Fund V	3,000,000	Nov-15	1.8%		CY20 - CY22	A project to develop and operate a purpose-built, 574 bed student accommodation precinct on Peel Street, North Melbourne opposite the University of Melbourne Parkville Campus.
Student Accommodation Fund VI	2,500,000	May-16	1.5%		CY20 - CY22	A project to develop and operate a purpose-built, 546 bed student accommodation precinct in the Brisbane suburb of Toowong, a short distance from the University of Queensland.
Student Accommodation Fund VII	2,500,000	Dec-16	1.5%		CY20 - CY22	A project to develop and operate a purpose-built, 544-bed student accommodation precinct on A'Beckett Street in Melbourne, bordering RMIT and within walking distance to The University of Melbourne.
Student Accommodation Fund VIII	5,000,000	Dec-16	2.9%		CY20 - CY22	A project to develop and operate a purpose-built student accommodation precinct at a prime inner-Sydney site, in close proximity to several teritary education institutions.
Total Student Accommodation investments	**29,000,000**		**17.0%**	**13.0% - 18.0%**		

Source: Access Fund Monthly Report June 2017

We were able to obtain the underlying documentation for the Student Accommodation Fund IV ("SA 4"). The SA 4 fact sheet states Blue Sky invested capital of $21 million and intended to raise debt of $30 million for a total project cost of $51 million. It also states that the projected LTV for SA4 is 55% and that the development will have 415 beds.

intends to develop an architecturally designed c.415 bed purpose built student accommodation facility on the site.

Source: SA 4 Fact Sheet

Investment highlights

Targeted IRR	15%-18% per annum (after all fees and expenses but before tax), comprised of an operating phase cash yield and capital growth.
Targeted return on equity	2.2x-2.5x (net of all fees and expenses but before tax).
Targeted cash yields	To commence once facility is operational (anticipated opening January 2018).
	Year 1 – 8%
	Year 2 – 9%
	Year 3 – 12%+
Total equity raising	$21,000,000
Minimum investment	$50,000
Investment term	Anticipated to be between 3 to 7 years.

Anticipated debt funding	c.55% of 'as if complete' asset value. Financing terms are indicative and are anticipated to be completed in early 2016.
Total project cost	$51.0 million comprised of $21.0 million in equity and $30.0 million in debt.*

Source: SA 4 Fact Sheet

We were also able to glean the key details for the Student Accommodation Fund IV ("SA 6"). Blue Sky sought to raise equity of $15.75 million and debt of $39.5 million, Blue Sky also anticipated funding of $15.75 million from Goldman Sachs, for a total project cost of $71 million. The projected LTV for SA 6 is 50% and the development is anticipated to have 546 beds at a gross value of $144,689 per bed.

TCI ROI Income + Growth, Unlisted October 28, 2016

The Blue Sky Student Accommodation Fund Number 6 is the latest in a string of purpose built student accommodation (PBSA) developments put forward by Blue Sky. As the name would suggest, Blue Sky has other PBSA developments built or under construction. These include facilities in Melbourne, Brisbane and Adelaide. This particular fund supports the building of a development to accommodate around 546 students in central Brisbane. The offer seeks to raise $15.75 million dollars out of a total cost for development of $71 million. Blue Sky is partnering with Goldman Sachs in this development.

Another thing to be aware of is that the project will be funded partly through equity ($15.75 million from Blue Sky funds, $15.75 million from Goldman Sachs venture capital) and partly through debt ($39.5 million). The senior debt facility is anticipated to be a 50% of final asset value. Bear in mind that in the event of the project being wound up prematurely the debtor is secured and will rank above unit holders.

Source: Constant Investor October 2016

To understand the maximum equity value across Blue Sky's student accommodation fund, we first calculate the average gross value per bed for SA 4 and SA 6 ($138,062).

Value Per Bed Is Comparable Across Funds

$ M	SA 4	SA 6
Equity Contributed		
Blue Sky	10.5	15.8
Goldman Sachs*	10.5	15.8
Total Equity Contributed	21.0	31.5
Debt Raise	30.0	39.5
Total Costs	51.0	71.0
LTV %	55%	50%
Forecast Property Value	54.5	79.0
# of Bed	415.0	546.0
Average Value per Bed ($)	***131,435***	***144,689***

**Note: Goldman Sachs was required to contribute equity to 3 existing projects*
Source: Glaucus Calculation

We then multiply by 5,200, the number of beds Blue Sky claims in its H1 2018 results presentation. From there, we assume a generous 50% LTV on the finished property to calculate the maximum equity value of invested capital in this segment.

But there is a final step. In March 2016, Blue Sky partnered with Goldman Sachs to build a portfolio of 10,000 student beds. The JV with Goldman Sachs is structured as a typical 50/50 joint ownership.[10] Blue Sky recently confirmed in its March 2018 capital raising presentation that it splits ownership of its ~5,200 beds in its student accommodation segment 50/50 with Goldman Sachs.

Source: Blue Sky Equity Raising Presentation March 2018

Public disclosures indicate that Goldman provided 50% of the invested equity in Blue Sky's student accommodation developments in Australia (with the possible exception of Blue Sky's first fund). From the estimate of the average value per bed, we can use Blue Sky's total number of reported beds to estimate total project value. From there, we apply a generous estimate of 50% LTV, we can calculate the equity value of the projects and the amount likely invested by both Blue Sky and Goldman in these projects.

[10] A press release from Norton Rose, Blue Sky's lawyer, stated that Goldman Sachs was required to provide equity to 3 *existing* student accommodation projects as well as new projects.

Student Accommodation AUM Is $189 Million

Fund	Beds	Finished Property Value	Debt LTV (50%)	Equity Value Maximum	Equity Value Goldman Sachs	Equity Value Blue Sky
Student Accommodation Fund	286	39	20	20	0	20
Student Accommodation Fund II	733	101	51	51	25	25
Student Accommodation Fund III	789	109	54	54	27	27
Student Accommodation Fund IV	415	57	29	29	14	14
Student Accommodation Fund V	574	79	40	40	20	20
Student Accommodation Fund VI	546	75	38	38	19	19
Student Accommodation Fund VII	544	75	38	38	19	19
Student Accommodation Fund VIII	626	86	43	43	22	22
Student Accommodation Fund VIIII	687	95	47	47	24	24
Total	**5,200**	**718**	**359**	**359**	**170**	**189**

Note: Goldman Sachs was required to contribute equity to 3 existing projects
Source: 1. Access Fund Monthly Report June 2017
2. InvestSMART
3. Glaucus Calculations

Based on the calculation above, we estimate that the maximum equity value for the Student Accommodation portfolio is $189 million. This generously assigns the completed value to all the properties in the student accommodation portfolio despite Blue Sky assigning a blanket 2020-2022 exit date across eight properties.[11]

c. Retirement Living AUM at most $149 million.

In 2017, Blue Sky also began raising capital for a retirement living investment called Parkwood. We have obtained the underlying fund documentation for this investment.

According to the fund documents for Parkwood, Blue Sky plans to invest only $12.6 million of equity into the Parkwood fund to build 261 Independent Living Units ("ILU"). Blue Sky estimates that Parkwood will have an estimated total project value of $144 million. This equates to an average value of $551,935 per ILU.

SOURCES		USES	
INVESTOR EQUITY UNDER THIS IM	$12,600,000	OFFER COSTS	
PROPOSED JV PARTNER EQUITY	$12,600,000	Total Offer Costs	$1,194,372
ROLLOVER SETTLEMENT PROCEEDS[19]	$37,600,000		
SENIOR DEBT FACILITY[20]	$64,700,000		
		Total Development Costs	$126,305,628
Total Funds	$127,500,000	Total Uses	$127,500,000

SUMMARY		PROJECT	PHASE 1	PHASE 2	PHASE 3
Total ILUs		261	80	89	92
Revenue (net of 2% settlement sales commission)					
Total	A$	144,055,100	44,266,600	49,142,100	50,646,400

Source: Parkwood Retirement Living Information Memorandum September 2017

The table above shows that while Blue Sky reports a total project value of $144 million, Blue Sky has invested only $12.6 million in Parkwood. If Parkwood is any indication, Blue Sky's fee earning AUM for retirement living investments is only 9% of total project value ($12.6 million divided by $144 million), with the rest made up of JV

[11] *Access Fund Monthly Report June 2017*.

partners, bank debt and rollover settlement proceeds.[12] Other fund documents indicate that this investment structure is typical across other Blue Sky retirement investments.

Blue Sky disclosed to the Financial Review that the Corinda Fund, ("Corinda") will be a ILUs property with a completion value of $130 million. This implies a value per unit of $520,000. Aura's LinkedIn page states that the Maroochydore Fund will consist of 117 ILUs with a final value of $67 million. This equates to $572,650 per unit. From the above values per ILU stated for Parkwood, Corina and Maroochydore, we assume an average ILU upon completion of $543,081.

Estimated Retirment Living Unit Value

	Property Value ($M)	Units	Value per Unit ($)
Parkwood	144.1	261	551,935
Corinda	130.0	250	520,000
Maroochydore	67.0	117	572,650
Total	***341.1***	***628***	***543,081***

Source: 1. Parkwood Information Memorandum September 2017
2. Financial Review
3. Aura LinkedIn

Like student accommodation developments, Blue Sky also develops retirement living properties with a JV partner, SC Capital, a real estate investor. According to the Company's disclosures, SC Capital provides 50% of the equity for Aura's retirement projects and Blue Sky funds the other 50%.

AURA

- **Aura Holdings ('Aura')** is the operating business that manages each retirement living project developed by Blue Sky
- Blue Sky has a current development portfolio of 1,100+ independent living units across eight sites
- Blue Sky owns 50% of Aura

Source: March 2018 Investor Presentation

Blue Sky states that it has > 1,100 ILU in its portfolio as of H1 2018.

Retirement:

- Significant increase in portfolio, with >1,100 independent living units now in development across eight sites

Source: Blue Sky H1 18 Presentation

If we assume the value of ILUs is consistent with values per ILU stated for Parkwood, Corina and Maroochydore, then the gross realizable value of these 1,100 ILU would be $597 million.[13] If we generously apply a 50% LTV on the gross property value, which is consistent with the Parkwood fund documentation,[14] we can estimate the equity portion of these retirement property projects. As Blue Sky contributes only 50% of the equity portion, we estimate that Blue Sky's AUM in retirement living segment as $149 million.

[12] Settlement proceeds are forecasted future profits made by Blue Sky which the Company intends to reinvest in the Parkwood project. As such, settlement proceeds are contingent on the success of earlier phases in the project, and are not invested capital.
[13] 1,100 ILUs multiplied by $534,081
[14] Note that a 50% LTV for Parkwood is exceptionally generous. Blue Sky only invested $12.8 million of equity to arrive at a project value of $144 million. The 50% LTV is based on Blue Sky receiving future proceeds from the first and second phase of sales in Parkwood and reinvesting the proceeds in Parkwood as equity.

Retirement Living AUM is $149 Million

$M	
# of ILU	1,100
Est. value per ILU ($)	543,081
Property Value	597
LTV	50%
Debt	299
Equity (50/50 JV)	299
SC Capital	149
Blue Sky	***149***

Source: 1. Blue Sky H1 18 Presentation
2. March 2018 Capital Raise Presentation
3. Glaucus Calculation

Residential Developments, Student Accommodation and Retirement Living represent the three largest areas for Blue Sky. We also believe that these three segments represent the key areas where Blue Sky has chosen to grossly exaggerate AUM. Yet, as should be obvious based on the underlying investment documents and our calculations, Blue Sky's fee earning AUM (or the fair value of the invested capital in these assets), is only a fraction of the total value of these projects. We believe that, when reporting fee earning AUM to the market, Blue Sky fails to deduct debt and capital from JV partners like Goldman and SC Capital.

Our sum of the parts analysis relies on estimates because Blue Sky is not transparent with investors about its portfolio. However, we believe that our analysis is likely overly generous to the Company because we have made a number of assumptions in the Company's favor.

In order to be as comprehensive as possible, we will also include our estimate of other real estate related assets in our calculation of what we believe to be Blue Sky's true fee earing AUM, including investments in commercial property, student accommodations in North America and management rights.

d. Other Real Estate Related Investments

Blue Sky has also invested in commercial property, a category by which Blue Sky refers to its 38% ownership stake in the Cove Property Group (the "Cove"). Blue Sky claims that the Cove is "currently *managing* >USD $1 billion of equity and debt capital" across two properties, the Hudson Commons and 2 Rector St.

COVE PROPERTY GROUP

- **Cove Property Group** ('Cove') is a New York based property funds management group that owns, develops and operates institutional-grade commercial real estate assets
- Currently managing >$US1 billion of equity and debt capital across its first two projects (101 Greenwich St and Hudson Commons)[2]
- Blue Sky owns 38% of Cove

1. 38% of Cove's fee-earning AUM and 60% of Student Quarter's fee-earning AUM is included in Blue Sky's fee-earning AUM
2. Cove's first investment at 2 Rector St has been rebranded and is now referred to as '101 Greenwich'. Similarly, Cove's second investment at 441 Ninth Avenue, Hudson Yards, has been rebranded and is now referred to as 'Hudson Commons'

Source: March 2018 Capital Raise Presentation

The Hudson Commons at 441 Ninth Avenue was acquired by the Cove for USD $330 million ($450 million) in a joint venture with Baupost Group. A debt facility of USD $220 million ($300 million) was provided by Deutsche Bank to purchase the property. We calculate an LTV of 67% at acquisition in December 2016.

We advised on the $330 million acquisition and leaseback to health insurer EmblemHealth and on a $220 million financing transaction from Deutsche Bank. The building, a former warehouse at the corner of West 34th Street and adjacent to the city's Hudson Yards redevelopment project, was originally constructed in 1953 and was converted to office space during the 1980s by developer Harry Macklowe.

Source: Cole Schotz website

The second property, 2 Rector St (also referred to as 101 Greenwich), was purchased by the Cove at a gross property value of USD $225 million ($300 million).

> In June 2013, Kushner and CIM Group, a Los Angeles-based real-estate investor, bought an office building in Manhattan's financial district. Though documents filed with New York show Deutsche Bank AG issued the group an $88 million loan for the property at 2 Rector St., Blackstone was also among the project's lenders, according to a person familiar with the transaction. CIM and Kushner repaid the loan in full in March 2016 with the roughly $225-million sale of the property to investors, including Cove Property Group and Bentall Kennedy.

Source: Bloomberg Article

The Cove also secured a property loan from Apollo of USD $479 million ($628 million) to expand the Hudson Commons property. From these disclosures, it appears that Blue Sky are once again conflating gross value, including debt capital provided by other asset managers, as the fee earning AUM of the Company.

Cove Currently Managing > $1.3 billion Properties	*$ M*
Gross acquisition value	
441 Ninth Avenue	450
2 Rector Street	300
Gross property value at acquisition (2016)	749
Apollo construction financing	628
Gross value of Cove properties	1,378
Blue Sky stated value of Cove properties (USD 1 bn)	1,288
Difference %	7%

Source: Company Filings, Bloomberg, Glaucus Calculation

Blue Sky claims that it reports 38% of the fee earning AUM in the Cove. If Blue Sky is up to its old tricks, then Blue Sky's "fee earning AUM" would be $489 million ($1,288 million multiplied by 38%). We calculate that the genuine fee earning AUM attributable to Blue Sky from its Cove investment is just $50 million.

Fee Earning AUM of the Cove Is $50 Million

$ M	**441 9th Ave.**	**2 Rector St**	**Total**
Gross acquisition value	450	300	749
LTV at 65%	292	195	487
Equity contribution	157	105	262
Third parties equity (Baupost, Bentall Kennedy)	79	52	131
Cove equity	79	52	131
Blue Sky AUM (38% of Cove)	***30***	***20***	***50***

Source: Glaucus Calculation

Blue Sky has also invested in student accommodations in the United States with an American joint venture partner, Student Quarters. We have obtained underlying documentation pertaining to two such investments: Student Quarters Yield Trust 2 and Student Quarter Property Trust 2. The underlying fund documents show that debt comprises 65% of the projected value of these investments and an average value per bed of USD $98,287 ($123,362).

Feature	Description
Investment Manager	Student Quarters Blue Sky LP ('SQ Blue Sky'), a partnership between Blue Sky and Student Quarters, an established student accommodation provider in the United States
Portfolio	613 beds across seven properties at four US Universities: - Oxford Properties (University of Mississippi) - The Balcony Starkville (Mississippi State University) - The Balcony Auburn (Auburn University) - The Lookout on Cragmor (University of Colorado, Colorado Springs)
Portfolio Cost	US$60.25 million[1]
Target Capital Raise	The anticipated offer is to raise US$24.8 million via two separate vehicles: - US$12.4 million Student Quarters Yield Trust 2 ('Yield Trust') - US$12.4 million Student Quarters Property Trust 2 ('Property Trust')
Currency	Investor can pay in USD or AUD. Units will be issued at $1.00 USD = 1 Unit. Investors that pay in AUD, will have their money converted into USD at the relevant exchange rate to determine the number of Units issued to them. Refer to the Information Memorandum for further information.
Senior Debt	65% of asset value

Source: Student Quarter Fund Document September 2017

Again, Blue Sky uses a joint venture structure. Blue Sky states that it owns 60% of Student Quarters. Blue Sky claims it has invested in 4,600 beds across 12 campuses in the United States.

Student Quarters (Blue Sky owns 60% of Student Quarters)

- Invested in **seven assets across four locations** in 1H FY18
- Has **>4,600 beds across 12 campuses**, and is now one of the 25 largest owners of student accommodation in the USA

Source: H1 18 Result Presentation

From these disclosures, we calculate that Blue Sky's fee earning AUM from Student Quarters is likely around $119 million.

Student Accommodation North America	*$ M*
Portfolio Value (4 US Universities)	75.6
# of Beds	613
Value per bed ($)	123,362
# of Beds under Student Quarters	4,600
Total Portfolio Value	567.5
Stated LTV	65%
Equity	198.6
% ownership of Student Quarters	60%
Blue Sky Student Accommodation NA AUM	***119.2***

Source: Glaucus Calculation

Finally, Blue Sky also owns a category of real estate assets it refers to as management rights. At a basic level, these assets are property managements rights to rent out apartments via its subsidiary, Vivo Property ("Vivo"). InvestSMART, an Australian listed company which provides stock research tools to investors, details the invested capital of three management rights funds.

Fund Objective	The Blue Sky Management Rights Income Fund ('Fund') is targeting a total capital raise of $2,650,000.00 with returns of 15% - 20% per annum, comprised of a cash yield of 10% per annum and capital growth of 5% - 10% per annum.

Source: InvestSMART

Fund Objective	The Blue Sky Management Rights Income Fund 2 ('Fund') is targeting capital of up to $5,500,000.00 and targeted Internal Rate of Return (IRR) of 14% - 20% per annum, comprised of a cash yield of 10% per annum and capl growth of 4% - 10% per annum.

Source: InvestSMART

Fund Objective	The Blue Sky Management Rights Income Fund ('Fund') 3 is targeting a total capital raise of up to $10,000,000.00 and an internal rate of return of 15% - 20% with a 10% cash yield per annum paid monthly.

Source: InvestSMART

From the Access Fund,[15] we know that a fourth management rights fund exists, however, disclosures state that the fourth fund has sold its rights in the Southport Residential Apartments to the Mantra Group. Therefore, this fund has likely been realized and is excluded from our calculation of fee earning AUM.

According to the Australian Business Register (ABR), the first management rights income fund was registered in May 2012.

ABN details	
Entity name:	The Trustee for Blue Sky Management Rights Income Fund
ABN status:	Active from 14 May 2012
Entity type:	Fixed Unit Trust
Goods & Services Tax (GST):	Registered from 14 May 2012
Main business location:	QLD 4000

Source: ABR Website

If we assume *all* funds were started on the same day as the first fund, clearly a generous assumption, then the current value of invested capital at Blue Sky's stated IRR of 15.8% for real estate implies an AUM contribution for management rights of $40.7 million.

Management Rights AUM Is $40.7 Million

$ M	Invested Capital
Management rights income fund 1	2.7
Management rights income fund 2	5.5
Management rights income fund 3	10.0
Management rights income fund 4	0.0
Total invested capital	18.2
Assumed investment date of total capital	May-12
Current value @ 15.8% IRR	***40.7***

Source: Glaucus Calculation

A sum of the parts analysis of Blue Sky's portfolio is notoriously difficult because the Company is **deliberately vague** about the composition of its portfolio and its various investments. Because it is hard for investors to pin down exactly how Blue Sky calculates its fee earning AUM, it is difficult for the market to check the Company's representations.

Blue Sky's representative told us on a recorded phone call that real estate related investments comprise 50% of the Company's reported $3.9 billion in fee earning AUM, or $1.95 billion in fee earning investments. Yet of the 39 real estate funds included in our estimate, we calculate that the maximum fee earning AUM of Blue Sky's real estate related investments is no more than $683.5 million. By our estimate, Blue Sky's real estate AUM is 65% less than it claims.

[15] Blue Sky Access Fund, August 2016.

Blue Sky Systematically Overstates Real Estate AUM

	Funds included in AUM	Fair value of invested capital (Fee Earning AUM)
Residential real estate	15	135.1
Student Accommodation	9	189.4
Retirement Living	8	149.3
Commercial Property (Cove)	2	49.8
Student Accommodation North America	2	119.2
Management Rights	3	40.7
Total	***39***	***683.5***

Source: Glaucus Calculation

2) We believe Real Asset AUM is $315 million

Blue Sky's public filings give limited information regarding its alternative assets, which the Company confusingly refers to as real assets. For clarity, we refer to this category as Agricultural and Resource investments. The Company's H1 18 presentation boasts a 16% IRR in this category since inception, highlighting the performance of its water fund. When we called to enquire about investing in Blue Sky's Agricultural and Resource funds, a Blue Sky representative told us that this segment contributed 25% of total AUM, which would amount to $975 million in fee earning invested capital as of December 31, 2017.

The Blue Sky Water Fund is marketed as open ended. Yet when we called Blue Sky, a sales representative stated it was closed, and would remain closed for further investment for the next year or so. The representative went on to reveal, in a recorded conversation, that ***the AUM of the Water Fund is "north of $150 million**."*

This statement puts Blue Sky in a difficult spot as the remaining Agricultural and Resource funds are tiny single asset investments. We obtained the underlying investment memorandum for the Blue Sky Premium Beef Development Fund ("Beef Fund"), which provides a breakdown of the remaining Agricultural and Resource investments made by Blue Sky.

INVESTMENT MANAGER - BLUE SKY WATER PARTNERS

Blue Sky Water Partners Pty Limited ACN 125 513 099 ('BSWP') is a wholly owned subsidiary of BSAIL.

BSWP collectively has more than 180 years' experience in agribusiness, water markets and regulation, commodity trading, environment regulation, and funds management. As Investment Manager, BSWP manages the Blue Sky Real Asset's strategy.

The Blue Sky Real Assets team manages existing investments including:

- **The Blue Sky Water Fund ('Water Fund')** Blue Sky Real Assets launched the Water Fund in 2012 to provide investors with the opportunity to derive returns from Australia's emerging water markets. The Water Fund owns and actively manages a portfolio of Australian water entitlements;
- **Water Utilities Group ('WUG'):** In 2012, Blue Sky Real Assets created WUG as an investment vehicle to pursue investments in water infrastructure assets. WUG acquired Willunga Basin Water Company ('Willunga') in 2013. Willunga owns a water distribution network providing water for irrigation of vineyards. This investment was exited in December 2016.
- **Blue Sky Agriculture Fund I - Gundaline:** In 2014, the Blue Sky Real Assets team invested in Gundaline, the owner, developer and operator of agricultural land and water assets in the process of conversion from broadacre to row-crop irrigation.
- **Blue Sky Agriculture Fund II – Hillston Citrus:** In 2015, the Blue Sky Real Assets team invested in Hillston Citrus, the owner and operator of agricultural land, water and citrus trees in the process of conversion from juicing varieties to eating varieties.
- **Blue Sky Agriculture Fund III – Kialla Group:** In 2016, the Blue Sky Real Assets team invested in Kialla Group, an organic grain milling and marketing business which is also the owner, developer and operator of agricultural land and water in the process of conversion to organic grain farming systems.
- **Institutional Real Asset investment mandates:** Blue Sky Real Assets manages Australian institutional mandates focused on real assets. In 2015, the Blue Sky Real Assets team sourced and executed a c. $150 million investment in the ownership and development of Australian almond orchards as part of a mandate. Additionally, Blue Sky Real Assets manages a portfolio of water entitlements and other agricultural assets under these mandates.

Source: Beef Fund Information Memorandum May 2017

From the Access Fund disclosures, we get a description of certain Agricultural and Resource assets. All are described, as is typical across Blue Sky's investment portfolio, as single asset investments bar the strategic Australian agriculture fund.[16]

[16] The purpose of Beef Fund is to acquire a 60% shareholding in 3DF1 Pty Ltd. A complete start up.

OTHER REAL ASSETS						
Agriculture Fund	4,365,000	Jun-14	2.6%		CY17	Holds equity in Gundaline Pty Ltd, the owner and operator of a large-scale irrigated cropping business east of Hay in NSW.
Agriculture Fund II	4,000,000	Oct-15	2.4%		CY22	Holds the freehold property and business assets comprising Hillston Citrus, an irrigated citrus orchard near Hillston in NSW.
Premium Beef Development Fund	2,000,000	Dec-16	1.2%		CY22 - CY25	A fund to invest in certain elements of Australia's premium beef value chain.
Strategic Australian Agriculture Fund	15,000,000	Jun-17	8.8%		CY25	A fund to acquire and manage a diversified portfolio of agricultural assets in Australia.
Total Other Real Assets	**25,365,000**		**14.9%**	**15.0%**		

Source: Access Fund June 2017 Monthly Update

First, the Agriculture Fund, which made an investment in a company named Gundaline Pty Ltd in March 2014, via Southern Agricultural Resources, ("Southern"). Southern purchased Gundaline for $25 million. News articles reported that Southern is backed by undisclosed, "overseas investors." But we know from the Access Fund disclosures that this "undisclosed" investor is likely Blue Sky.

We generously assume that Blue Sky is the *only* investor in Southern. We further generously assume that Blue Sky has generated a 16% IRR on this investment, in line with the stated Agricultural and Resource return claimed by Blue Sky. This implies an AUM attributable to Blue Sky from the Agriculture fund of $44 million as of December 2017.

Agriculture Fund II's only investment was into Hillston Citrus ("Hillston"), an irrigated citrus orchard new Hillston in NSW. According to InvestSMART, Agriculture Fund II planned to raise $10 million in August 2015. We apply the 16% return to this fund, and get an AUM of $14 million as of December 2017.

Fund Objective The Blue Sky Agriculture Fund II is targeting a capital raise of $10,000,000.00 and targeted Internal Rate of Return (IRR) of 18% over a 7 to 9 year period (net of Transaction Fees, Fund expenses and Tax).

Source: InvestSMART

Agriculture Fund III's only asset is a $12 million investment in Kialla Pure Foods ("Kialla") in May 2016. Blue Sky owns 33% of the company. Kialla is a flour processing facility. Again, we assume Blue Sky achieved its stated 16% return. We estimate AUM of $15 million as of December 2017.

Finally, with respect to the Beef Fund, we have obtained the underlying documentation for this fund. Blue Sky claims to have raised $10 million for the Beef Fund in May 2017.

The sources and uses of funds raised under the Offer are outlined in the table below:

SOURCES	$	USES	$
Blue Sky Premium Beef Development Fund[5]	$10,465,000	Transaction Fees and Costs (excluding GST)	$750,000
		First and Second Year Management Fees (excluding GST)[6]	$400,000
		Fund Working Capital	$115,000
		First Instalment	$6,000,000
		Second Instalment	$3,000,000
		Third Year Management Fees (excluding GST)[7]	$200,000
Total Sources	**$10,465,000**	**Total Uses**	**$10,465,000**

Source: Beef Fund Information Memorandum May 2017

We assume, between May 2017 and December 2017, the Beef Fund achieved the segment IRR of 16%. This implies an AUM of $11 million for the Beef Fund. Note that this estimate gives full credit to Blue Sky's claimed returns, which, as we will see, merit considerable skepticism. But for the purposes of calculating Blue Sky's AUM, it is important to note that even if we assume Blue Sky has achieved its stated IRR on all its Agricultural and Resource assets, its AUM cannot even be close to what the Company claims. Nor do we deduct the exorbitant upfront fees totaling 13% of the capital raised from our generous estimate of Blue Sky's Beef Fund AUM.

There is a final consideration. Blue Sky is in the process of raising what it refers to as a Strategic Australian Agriculture Fund (SAAF). Blue Sky states it is ***expected***[17] to raise $300 million in 2018, and therefore for the purposes of calculating the Company's reported fee earning AUM as of December 31, 2017, we exclude SAAF in our estimate of fee earning AUM because has the fund has not yet closed. We were able to find two contributions for a total of $81 million to SAAF.[18] We generously include these contributions in our calculation of AUM.

- On track for **final close of the Strategic Australian Agriculture Fund** during FY18 with $300m+ expected to be committed to this strategy

Source: H1 2018 Result Presentation

If we add up the estimates for the invested capital across Blue Sky's Agricultural and Resource assets, we calculate that Blue Sky's AUM in this segment is at most, $315 million, 68% less than the Company claims.

Agricultural and Resource Asset (Real Assets) AUM Is No More Than $315 Million

	Invested Date	Invested Amount ($ M)	Investment period (years)	IRR	H1 18 AUM ($ M)
Water Fund					150
Agriculture Fund I	Mar-14	25	3.8	16.0%	44
Agriculture Fund II	Aug-15	10	2.3	16.0%	14
Agriculture Fund III	May-16	12	1.6	16.0%	15
Beef Fund	May-17	10	0.6	16.0%	11
Strategic Australian Agriculture Fund (Yet to close)					81
Institutional Real Asset investment mandate	2015	150			na
Total					315
AUM claimed by Blue Sky representative					975
Downside vs reported AUM					***-68%***

Source: Glaucus Calculation

Blue Sky might grumble that we have failed to include the "institutional mandate" in our calculation, which the Company acquired in 2015. But on review, we see that this "institutional mandate" has little to do with fee earning AUM or the actual management of funds. Blue Sky was acting as a mere advisor to a fund manager, First State Super.

The $53 billion First State Super has made its first agricultural investment in Australia buying more than $150 million worth of almond plantations across three states from listed agriculture company Select Harvests.

workers. First State Super was advised by a division of Blue Sky Alternative Investments.

Source: Financial Review

At IPO, Blue Sky included a "Sub-investment advisory" mandate with asset manager, Summit Water Asset Management in its calculation of AUM.

[17] Blue Sky often claims to be in the process of raising significantly more capital than the Company manages to eventually raise. The VC 2017 fund is a case in point, Blue Sky claimed to be raising $200 million for the VC 2017 Fund but the same fund is still open for investment *today* and the information memorandum for VC 2017 reveals a minimum raise target of just $20 million.
[18] $15 million was contributed by the Access Fund.

FUND	FUND TYPE	DATE OF COMMENCEMENT	DATE FUND REALISED	AUM (AS AT 30 JUNE 2011)	IRR (%) (AS AT 30 JUNE 2011)
BLUE SKY WATER PARTNERS					
Summit Water Asset Management, LLC	Sub-investment advisory for offshore fund (closed)	1 May 2008	30 June 2011	$81m	Cannot be disclosed
Blue Sky Water Partners – Model Core Portfolio	Open ended fund	1 July 2007	Open	n.a.	6.9%
AUM as at 30 June 2011 (excludes realised investments)				$81m	
				Average IRR (%)	6.9%

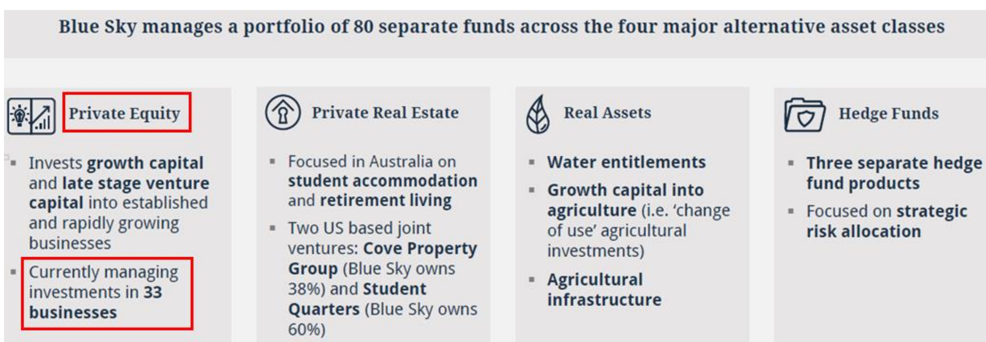
Source: IPO Prospectus 2011

We suspect that Blue Sky may be conflating "advising" with actual fund management. Blue Sky published a press release stating a "strategic agreement"[19] with Canadian pension fund, PSP, but failed to disclose the nature of such an agreement. We suspect that Blue Sky may be up to its old tricks of overstating AUM, but this time, by classifying advisory "mandates" as fund management mandates; two very different things.

Our estimate of the real estate ($684 million) and Agricultural and Resource AUM ($315 million) puts the burden on the private equity segment to provide the vast majority of the remaining claimed $3.9 billion AUM. But as we will show, it is not even close.

3) Our Estimate of Private Equity AUM is a Maximum of $419 million

Blue Sky claims that private equity comprises the remaining 25% of its fee earning AUM, meaning the value of its fee earning invested capital in this segment should be $975 million. Blue Sky currently reports 33 private equity invested businesses which it categorizes as either growth investments or venture capital.



Source: Blue Sky H1 2018 Presentation

a. 2017 fund document reveals only $86 million of equity invested in VC funds

VC is supposed to contribute a large portion of AUM, yet underlying fund documentation for Blue Sky's VC2017 ESVCLP Fund ("VC2017") reveals that Blue Sky invested only $85.8 million into 17 VC stage businesses; an average of just $5 million per company.

[19] This was predictably, albeit incorrectly picked up by the financial press as "Blue Sky scores major pension fund mandate"

BSVC track record as at 31 December 2016

	Committed capital	Current status	Money multiple
2006 VINTAGE			
Beach Burrito Company 1	$0.2 million	Part realised	74.0x
Viking Rentals	$4.7 million	Realised	2.2x
Total			**4.8x**
VC2012 FUND			
Hatchtech	$1.0 million	Part realised	2.8x
Pet Circle	$4.0 million	Realised	2.0x
Conventus Orthopaedics[3]	$3.1 million	Unrealised	1.1x
HeyLet's	$0.5 million	Unrealised	1.2x
Serene Medical	$1.8 million	Unrealised	2.7x
Total			**2.2x**
OTHER 2012 VINTAGE INVESTMENTS			
Alcidion	$2.5 million	Unrealised	3.2x
Beach Burrito Company 2	$2.8 million	Unrealised	2.0x
Total			**2.5x**
VC2014 FUND			
Parcel Point / Fluent Retail[5]	$4.5 million	Unrealised	1.0x
Vinomofo[3]	$25.0 million	Unrealised	1.1x
THR1VE	$2.2 million	Unrealised	1.3x
Shoes of Prey[3]	$9.1 million	Unrealised	1.1x
Eloquii	$2.7 million	Unrealised	1.2x
Serene Medical	$0.4 million	Unrealised	1.1x
GO1	$0.5 million	Unrealised	1.0x
Lexer[5]	$2.5 million	Unrealised	1.0x
Total	$ 67.5 M		**1.1x**
Total realised and unrealised returns[4]			**1.6x**

aCOMMERCE
Standalone investment

aCommerce Group is one of South-East Asia's leading end-to-end ('E2E') eCommerce solutions providers based in Bangkok. With over 1,400 staff and operations in Thailand, the Philippines, Indonesia and Singapore, aCommerce provides robust localised eCommerce solutions for over 150 local and global brands such as L'Oreal, LINE, HP, Huawei, Kiehl's and more.

The company offers E2E retail services, which include eCommerce platform design and development, order fulfilment and warehousing, payment gateways, cross-border management, localisation strategy, delivery and logi centres, creative production, and char

Total Invested Amount: USD 13.5 M ($ 18.3M)

Blue Sky had the opportunity to get to know the management team over a period of 18 months and made the decision to invest US$3.5 million into aCommerce's first bridge financing round (July 2016) and, based on continued robust growth, deployed another US$10 million six months later (December 2016).

Source: Blue Sky VC2017 Investment Presentation April 2017, VC2017 Information Memorandum March 2017

Because Blue Sky provides money multiples on its venture capital investments, we can therefore calculate the fair value of VC investments as $115.1 million as of December 2016. The Company reports in its H1 18 Presentation that the return in its private equity segment is 13.9%. Therefore, we assume that the $115.1 million grew, at the rate of 13.9%, a highly generous assumption,[20] to $136.6 million as of H1 2018.

[20] As we show in section 2, far from high performing VC investments, assets such as Thrive and Beach Burrito are absurdly valued.

Blue Sky Venture Capital AUM

	Committed Capital ($M)	H1 2017 (12/31/2016) Money Multiple	H1 2017 (12/31/2016) AUM ($M)	H1 2018 (12/31/2017) Return	H1 2018 (12/31/2017) AUM ($M)
Beach Burrito Company 1	0.2	74.0x	14.8	13.9%	16.9
Viking Rentals	4.7	2.2x		13.9%	
Hatchtech	1.0	2.8x		13.9%	
Pet Circle	4.0	2.0x	8.0	13.9%	
Conventus Orthopaedics	3.1	1.1x	3.4	13.9%	3.9
HeyLet's	0.5	1.2x	0.6	13.9%	0.7
Serene Medical (VC2012)	1.8	2.7x	4.9	13.9%	5.5
Alcidion	2.5	3.2x	8.0	13.9%	9.1
Beach Burrito Company 2	2.8	2.0x	5.6	13.9%	6.4
Parcel Point / Fluent Retail	4.5	1.0x	4.5	13.9%	5.1
Vinomofo	25.0	1.1x	27.5	13.9%	31.3
THR1VE	2.2	1.3x	2.9	13.9%	3.3
Shoes of Prey	9.1	1.1x	10.0	13.9%	11.4
Eloquii	2.7	1.2x	3.2	13.9%	3.7
Serene Medical (VC2014)	0.4	1.1x	0.4	13.9%	0.5
GO1	0.5	1.0x	0.5	13.9%	0.6
Lexer	2.5	1.0x	2.5	13.9%	2.8
aCommerce	18.3	1.0x	18.3	13.9%	20.8
THR1VE follow on	9.9			13.9%	11.3
Shopback	3.2			13.9%	3.3
Total	***98.9***	***1.6x***	***115.1***	***13.9%***	***136.6***

Source: Blue Sky VC 2017 Investor Presentation May 2017, Financial Review, crunchbase, Glaucus Calculations
Note: 1. we think the actual returns for each investment are much lower than reported, but for the purposes of estimating fee earning AUM, we conservatively give Blue Sky credit that its VC investments have generated an IRR of 13.9% after fees.
2. Disposed investments are excluded from AUM (grey shaded)
3. Shopback raised $32 million (USD 25 million) from 10 investors in November 2017.

b. Growth Capital AUM is at most $219 million.

In addition to its VC investments, Blue Sky lists 11 current "growth capital" investments. We were able to find the invested amount for six businesses. The remaining businesses; Sunfresh Salads, Active Adventures, Better Medical and QFS are small businesses (hence the lack of information). We generously assume Blue Sky invested at the average value of $10 million for these remaining four businesses.

Blue Sky "Growth Capital" Investments

$ M	Date of Investment	Committed Capital	# of Year Invested	Assumed Return %	AUM H1 18
Shopper Media Group	Feb-17	10.0	0.9	13.9%	11.3
Aquila	Apr-16	30.0	1.8	13.9%	37.7
GM Hotels	Sep-15	38.5	2.3	13.9%	52.2
Origo Education	Sep-15	11.2	2.3	13.9%	15.2
Wild Breads - 1	Jun-14	15.0	3.6	13.9%	23.9
Wild Breads - 2	Apr-17	4.7	0.8	13.9%	5.2
Foundation Early Learning	2015	20.0	3.0	13.9%	29.6
Sunfresh Salads	Jun-17	10.0	0.6	13.9%	10.8
Active Adventures	Aug-17	10.0	0.4	13.9%	10.6
Better Medical	May-17	10.0	0.7	13.9%	10.9
QFS	Dec-16	10.0	1.0	13.9%	11.4
Total		***169.4***			***218.6***

Source: Blue Sky Website, News Articles, Glaucus Calculations
Note: Grey shaded assumes $10 million investment

Blue Sky made follow on investments in Thrive, Wild Breads, Serene Medical and Beach Burrito. Therefore, we have identified 28 of the 33 businesses currently managed by Blue Sky, with an estimated average AUM of $13.3 million across both VC and Growth Capital.

Private Equity AUM per Investment

$ M	VC	Growth	Total
# of Investments	20	11	31
# of businesses	18	10	28
Calculated AUM	137	219	355
AUM per business	***7.6***	***21.9***	***12.7***

Source: Glaucus Calculations

As to be as comprehensive as possible, we add an additional $63.4 million (5 unidentified business multiplied by estimated AUM per investment of $12.7 million) to arrive at a total private equity AUM of $418.6 million.

AUM Is A Fraction of Reported Figures

$ M	
Venture Capital AUM	136.6
Growth Capital AUM	218.6
Other businesses AUM	63.4
Estimated AUM	418.6
Reported AUM	975.0
Downside on reported AUM	***-57%***

Source: Blue Sky Website, News Articles, Glaucus Calculations

4) Hedge Funds add only $47 million of AUM

Blue Sky operates a hedge fund known as the Blue Sky Alliance Fund; it consists of three sub units; Dynamic Macro, Absolute Return and Real Return.

> To make an investment into the Dynamic Macro, Absolute Return or Real Return Strategies of Blue Sky Hedge Funds, simply complete the application form which accompanies the PDS at right. See the application form for lodgement details. Payment may be made by cheque or by electronic funds transfer ('EFT'). Applications are subject to cut-off times and other conditions. Please refer to the PDS at right for further details.

Source: Blue Sky Website: Hedge Funds

Blue Sky monthly fact sheets reveal that as of December 31, 2017, the combined AUM for these three funds comes to just $46.8 million.

About Absolute Return Portfolio

As at 31 December 2017

Fund Name	Blue Sky Alliance Fund
ARSN	140 253 685
APIR Code	COL0018AU
Responsible Entity	One Managed Investment Funds Limited
Investment Manager	Blue Sky Investment Science Asset Management Pty Ltd
Administrator	National Australia Bank
Custodian	National Australia Bank
Auditor	HLB Mann Judd (NSW Partnership)
Brokers	Credit Suisse, Societe Generale, Morgan Stanley
Inception Date	30-Apr-10
Applications/Redemptions	Weekly
NAV	$0.8115
Buy/Sell Spread	0.22%/0.22%
Application Price	$0.8133
Redemption Price	$0.8097
Entry / Exit Fee	None
Income Distribution[1]	Semi - annually
Management Fee[2]	0.90%
Performance Fee	None
Fund Size[3]	$46.8 million
Unit Class Size	$7.7 million

About Real Return Portfolio

As at 31 December 2017

Fund Name	Blue Sky Alliance Fund
ARSN	140 253 685
APIR Code	COL0019AU
Responsible Entity	One Managed Investment Funds Limited
Investment Manager	Blue Sky Investment Science Asset Management Pty Ltd
Administrator	National Australia Bank
Custodian	National Australia Bank
Auditor	HLB Mann Judd (NSW Partnership)
Brokers	Credit Suisse, Societe Generale, Morgan Stanley
Inception Date	30-Apr-10
Applications/Redemptions	Weekly
NAV[2]	$1.1962
Buy/Sell Spread	0.22%/0.22%
Application Price	$1.1989
Redemption Price	$1.1936
Entry / Exit Fee	None
Income Distribution[1]	Semi-annually
Management Fee[2]	0.90%
Performance Fee	None
Fund Size[3]	$46.8 million
Unit Class Size	$10.6 million

About Dynamic Macro Portfolio

As at 31 December 2017

Fund Name	Blue Sky Alliance Fund
ARSN	140 253 685
APIR Code	COL0020AU
Responsible Entity	One Managed Investment Funds Limited
Investment Manager	Blue Sky Investment Science Asset Management Pty Ltd
Administrator	National Australia Bank
Custodian	National Australia Bank
Auditor	HLB Mann Judd (NSW Partnership)
Brokers	Credit Suisse, Societe Generale, Morgan Stanley
Inception Date[1]	22-Nov-07
Applications/Redemptions	Weekly
NAV	$1.1045
Buy/Sell Spread	0.13%/0.13%
Application Price	$1.1060
Redemption Price	$1.1031
Entry / Exit Fee	None
Income Distribution[2]	Semi-annually
Management Fee[3]	1.10%
Performance Fee[4]	20.50%
Unit Class size	$28.4 million

Source: *Absolute Return Monthly Fact Sheet (Dec-17)*, *Real Return Monthly Fact Sheet (Dec-17)*, *Dynamic Macro Monthly Fact Sheet (Dec-17)*

The AUM of these hedge funds has actually been stagnant due to poor performance.

Declining Hedge Fund AUM

$ M	Jan-15	Jun-15	Dec-15	Jun-16	Dec-16	Jun-17	Dec-17	Jan-18	Cumulative
Dynamic Macro	28.3	26.4	23.6	30.6	26.3	28.8	28.4	27.5	*-3%*
Absolute Return	28	26	21	21.9	19.5	11.2	7.7	7.5	*-73%*
Real Return	11	11	11	10.5	10.4	10.4	10.6	11.1	*1%*
Total Hedge Fund AUM	67.3	63.4	55.6	63	56.2	50.3	46.8	46.2	*-31%*
Decline in AUM	-	***-6%***	***-12%***	***13%***	***-11%***	***-10%***	***-7%***	***-1%***	***-31%***

Source: Blue Sky Website: Hedge Funds, Glaucus Calculation

Ultimately, when we analyze each of Blue Sky's segments (real estate, Agricultural and Resource and private equity), we estimate that **Blue Sky's fee earning AUM is at *most* $1.5 billion; 63% less than its stated fee earning AUM of $3.9 billion.**

Fee Earning AUM Is Grossly Overstated

Segment	Funds analyzed	AUM reported	Glaucus Estimate	***Downside on reported AUM***
Real Estate	39	1,950.0	683.5	***-65%***
Real Assets	6	975.0	315.3	***-68%***
Private Equity	33	975.0	418.6	***-57%***
Hedge Funds	1	46.8	46.8	
Total	79	3,946.8	1,464.2	***-63%***

Source: Glaucus Calculation

However, we believe that even this estimate is far too generous to the Company because we believe that Blue Sky has exaggerated the performance of many of its unrealized investments.

EVIDENCE THAT BLUE SKY OVERSTATES 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. But there is good reason to be suspicious of such claimed performance. Since inception, Blue Sky has only exited 39 investments,[21] an average of 3-4 per year, of which the majority have been residential property developments around Queensland. As a result, much of Blue Sky's reported performance is based on the markup of unrealized investments.

Because its investments are illiquid and not traded on any verifiable stock exchange, management has considerable discretion over the valuation of its unrealized investments. Even though Blue Sky claims that it retains internal and external "valuation specialists" to "assist" in valuing its investments, such evaluators are paid by Blue Sky and thus are not incentivized to disagree with management; lest they forfeit fat fees or future business.

3. Valuation of investments

Refer to note 23 of the financial report

Why significant

The Group holds investments in certain funds that are equity accounted. Some of the underlying investments that these funds have invested in are recorded at fair value.

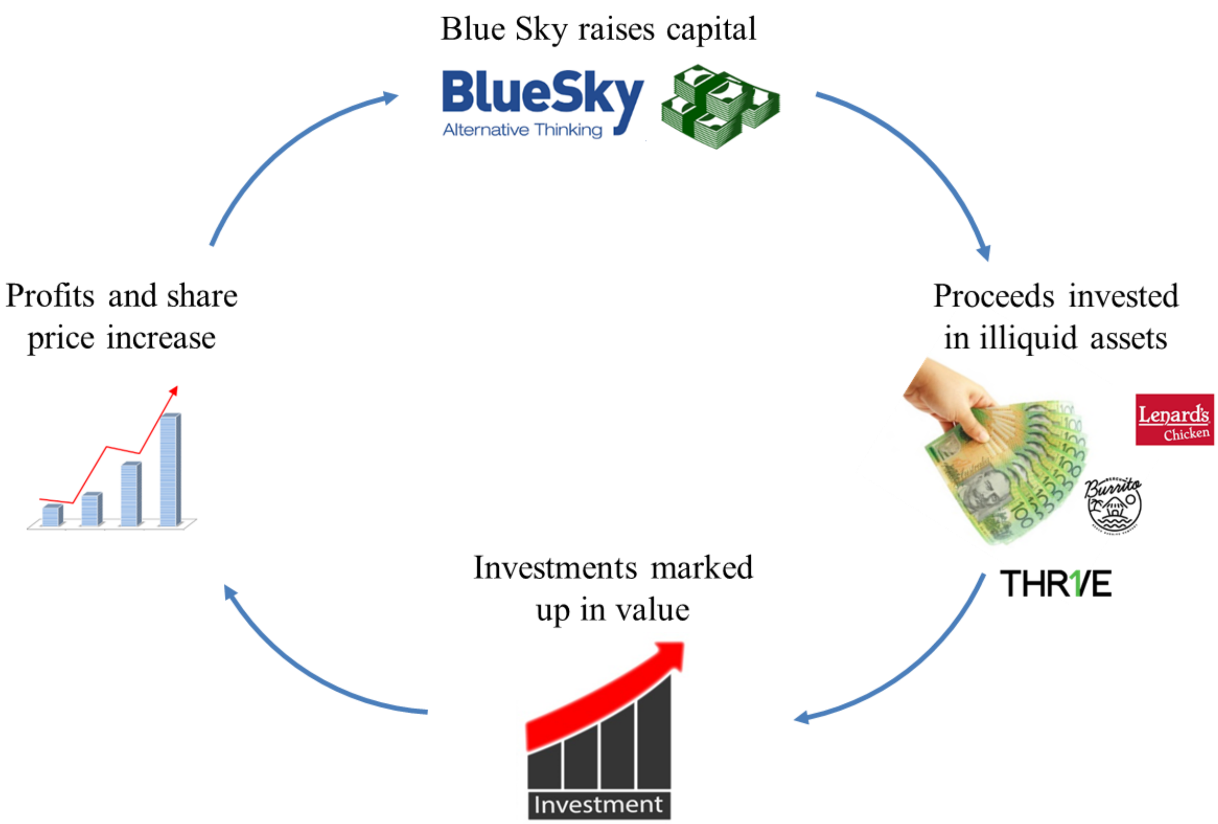
The valuation process involves significant judgement as these investments are classified as "level three" securities in accordance with Australian Accounting Standard - AASB 13 *Fair Value Measurement*, as there are no observable market inputs for valuation.

The Group uses internal and external valuation specialists to assist in determining the appropriateness of fair value, as explained in note 3 of the financial report. Due to the significant judgement involved, the valuers generally provide a range of estimated values.

Source: Blue Sky Annual Report 2017

The higher Blue Sky's management marks its unrealized assets, the more performance and management fees the Company can "recognize" in its financials. The more fees it recognizes, the larger the Company's reported profits, and the higher its share price. Aggressively marking up the value of its assets also allows the Company to claim fantastic investment returns, which Blue Sky uses to attract new investors; pushing up AUM and thereby increasing the Company's stock price. This creates a feedback loop by which management can enrich themselves simply by pushing for the markup in value of unrealized investments.

[21] H1 18 Blue Sky Investor Presentation



We believe that Blue Sky has been overstating its financial performance by aggressively marking up the value of its unrealized investments. 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 inflated the performance and value of certain assets in its portfolio.

Blue Sky's consolidated financials provide the first clues. Over time, inappropriately inflating the value of investments begins to distort the financial statements of an asset manager because its receivables balloon with uncollected performance and management fees. In Blue Sky's case, the shoe fits.

We believe that Blue Sky has marked up many of its investments to levels for which an exit is not possible without recording a loss or write-down. Therefore, as marked-up assets cannot be realized (without recognizing a loss), the Company's receivables balance grows and grows. In Blue Sky's case, 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

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. We believe that it will be impossible for Blue Sky to exit many of such investments without recognizing significant losses or impairments. But this thesis is not only based on the consolidated financials; underlying documentation for Blue Sky funds reveal, in our opinion, that the Company has inflated the value of certain private equity investments in its portfolio.

a. FOUNDATION EARLY LEARNING: FLOUNDERING, EXCESSIVE LEVERAGE

Blue Sky presents Foundation Early Learning ("FEL"), a roll-up of child day care centers, as one of its top performing private equity investments. The Company has long claimed FEL is moments away from IPO. The Access Fund reveals that the Foundation Early Learning fund has been marked up 42% since the investment was made in 2014. Yet the latest annual report for FEL shows a business that, in our opinion, is excessively levered with little chance of being sold anywhere close to its current mark.

Blue Sky paid $22 million for a 74% stake in FEL. Blue Sky claims that FEL has performed strongly since acquisition. Access Fund monthly updates reveal that FEL was marked up by 12.37% in November 2014. Blue Sky boasted that an exit was possible "in the second half of calendar 2015."

Private equity and venture capital: The value of the Alternatives Fund's units in the Blue Sky Private Equity Early Learning Fund (which holds shares in Foundation Early Learning Limited ('FEL')) increased by 12.37% in November. Under the Alternatives Fund's valuation policy (available on our website) private equity assets must be valued annually, and more frequently if it is considered that the value has changed to an extent that would be material to the Alternatives Fund's NTA. In November, units in the Blue Sky Private Equity Early Learning Fund were revalued.

In the case of FEL, the Blue Sky Private Equity Early Learning Fund attracted additional capital at a valuation higher than the Alternatives Fund's original investment, with this higher valuation supported by the growth and operating metrics within FEL. We are pleased with the management team's progress in acquiring and integrating new child care centres, and we view an exit in the second half of calendar 2015 as a potential outcome.

Source: November 2014 Access Fund Monthly Update

Blue Sky marked FEL up a further 26.3% in January 2017.

Blue Sky Early Learning Fund

The carrying value of the Alternatives Fund's investment in the Blue Sky Early Learning Fund increased by 26.3% in January. This fund holds a private equity investment in Foundation Early Learning, a premium Australian childcare operator.

The acquisition of several early learning centres in December and January, as well as a particularly pleasing operating performance through the first half of FY17, has led to a step change in run rate operating earnings. With further business development opportunities progressing, and positive early signs for centre occupancy in 2017, Foundation Early Learning is well placed to continue to deliver its investment case this year.

Source: February 2017 Access Fund Monthly Update

This aggressive mark up in value does not tie with FEL's annual reports, which show a business flirting with financial calamity. According to its publicly available accounts, FEL has $18.7 million of debt and has a liability of $2.6 million related to acquisition payments.

FOUNDATION EARLY LEARNING LIMITED

Notes to the Consolidated Financial Statements for the year ended 30 June 2017

Note 13: Borrowings (cont.)

(ii) Weighted average interest rate

The weighted average interest rate on borrowings was 3.0% (2016 3.1%).

(iii) Financing arrangements

The Group had access to the following borrowing facilities at the end of the reporting period:

	Total facility $'000	Used at reporting date $'000	Unused at reporting date $'000
Bank loan	16,924	16,838	86
Rental bond facility	2,000	1,885	115
Balance at 30 June 2017	18,924	18,723	201

The facility is renewable on 27 September 2018, with a one off repayment of $700,000 due on 31 March 2018

Source: FEL Annual Report June 2017 (Available from ASIC)

Note 12: Trade and other payables

Current	
Trade payables	426
Accrued expenses	1,242
Deferred contingent consideration	2,581
Other payables	822
	5,071

Source: FEL Annual Report June 2017 (Available from ASIC)

According to FEL's financials, it will struggle to generate the cash necessary to pay off such liabilities. FEL's cash flows from operations fell a staggering **62% from the previous year in FY 2017**.

FOUNDATION EARLY LEARNING LIMITED
Consolidated Statement of Cash Flows
for the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash Flow From Operating Activities			
Receipts from customers		37,606	29,682
Payments to suppliers and employees		(34,354)	(26,237)
		3,252	3,445
Acquisition and integration costs		(729)	(764)
Interest and other costs of finance		(662)	(470)
Income tax paid		(1,125)	(283)
Net cash provided by / (used in) operating activities		736	1,928
Cash Flow From Investing Activities			
Payments for purchase of businesses		(4,993)	(10,875)
Payments for acquisition of subsidiary, net of cash acquired		(1,378)	-
Proceeds on disposal of childcare business		220	-
Payments for property, plant and equipment		(1,166)	(1,739)
Proceeds on disposal of property, plant and equipment		30	-
Payments for intangibles		(17)	(343)
Net cash provided by / (used in) investing activities		(7,304)	(12,957)
Cash Flow From Financing Activities			
Proceeds from issue of shares		118	-
Payments for shares bought back		(297)	-
Proceeds from borrowings		7,175	7,435
Repayment of borrowings		(156)	(19)
Net cash provided by / (used in) financing activities		6,840	7,416
Net increase / (decrease) in cash held		272	(3,613)
Cash at the beginning of the year		1,148	4,761
Cash at the end of the year	6	1,420	1,148

Source: FEL Annual Report June 2017 (Available from ASIC)

We calculate that FEL's EBITDA was just $1.8 million in FY 2017 and that it is excessively levered with a net debt to EBITDA ratio of 10.8x.[22]

[22] We define EBITDA as profit before tax after adding back finance costs and non-cash charges.

FOUNDATION EARLY LEARNING LIMITED
Consolidated Statement of Comprehensive Income
for the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Revenue			
Operating revenue	3	37,827	29,579
Expenses			
Employee and director benefits expense	4	(26,061)	(19,502)
Occupancy expenses		(5,560)	(4,306)
Direct costs of providing services		(1,523)	(1,391)
Travel		(260)	(315)
Legal and professional fees		(262)	(308)
Administration expenses		(1,347)	(1,192)
Depreciation, amortisation and impairment	4	(1,214)	(1,272)
Acquisition and integration expenses		(731)	(879)
Net loss on divestment of loss making business		(251)	-
Finance costs	4	(675)	(542)
Profit / (loss) before income tax		**(57)**	**(128)**
Income tax (expense) / benefit	5	(485)	(259)
Profit / (loss) after income tax for the year		**(542)**	**(387)**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income / (loss) for the year		**(542)**	**(387)**

Source: FEL Annual Report June 2017 (Available from ASIC)

FEL is a floundering roll up of day care centers. FEL's accounts show at least two acquired day care centers that have now been disposed of for little value or were just shut down entirely.

During the financial year, the group took a decision to rationalise loss making businesses, with one divested and the other closed shortly after year end. The goodwill impairment charge in the prior year reflects a change in strategic focus for the management business, with new management agreements only entered into for centres representing a future acquisition opportunity for the Group.

Source: FEL Annual Report June 2017 (Available from ASIC)

These day care centers have little tangible value with goodwill representing >100% of net asset value.

	Fair value 2017 $'000	Fair value 2016 $'000
Assets and liabilities acquired:		
Cash	270	-
Trade and other receivables	35	-
Other current assets	13	-
Furniture and equipment	64	222
Deferred tax asset	181	66
Trade and other payables	(72)	(69)
Other liabilities	(733)	-
Current tax liability	(97)	-
Employee benefits	(495)	(219)
Net assets acquired	(834)	-
Goodwill	14,056	10,875
Acquisition date fair value of consideration transferred	13,222	10,875

Source: FEL Annual Report June 2017 (Available from ASIC)

We believe Blue Sky has over paid for small, barely profitable day care centers. For example, in FY2017, FEL spent $13 million to acquire 7 day care centers which collectively generated only a 1% pre-tax margin.

Note 20: Business combinations

On 20 December 2016, the company acquired 100% of the ordinary share capital of Caerus Childcare Pty Ltd, which owns and operates a single child care centre, for a total consideration of $2,045,000. On 12 March 2017 and 17 May 2017, companies within the Group acquired a further 6 child care centres for a total consideration of $11,177,000 (2016: $10,875,000 for 8 child care centres).

The goodwill of $14,056,000 (2016: $10,875,000) arising from these acquisitions represents the future positive cash flows from the underlying child care centres. The acquired businesses contributed revenues of $4,915,000 and a profit before tax of $56,000, after taking into account all acquisition expenses. Due to the nature of the acquisitions it is impractical to disclose the revenue and profit or loss as if the acquisitions had occurred at the beginning of the period.

Source: FEL Annual Report June 2017 (Available from ASIC)

Over-levered and overvalued, FEL's woes will have likely been further exacerbated by a worsening of industry trends since the publication of its June 2017 annual report. Industry leader, G8 Education("G8"), reported "supply issues" and "regulatory requirements in relation to staffing ratios" in its latest trading update. Since November 2017, G8 Education's share price has almost halved from $4.56 to $2.71. Yet Blue Sky has marked up its investment to an EV/EBITDA multiple of 33.7x, a mighty premium to the 9.4x EV/EBITDA multiple at which industry leader (G8) trades.

FEL is Excessively Levered

$ M	FY2017
Rental Bond	1.9
Debt Facility	16.8
Acquisition liability payable	2.6
Gross debt	21.3
Cash	1.4
Net debt	19.9
PBT	(0.1)
Add backs	
Finance Costs	0.7
Depreciation and Amortization	0.7
Impairments	0.5
EBITDA	1.8
Net Debt/EBITDA	***10.8x***

Absurb Valuation

$ M	
Invested Capital (Blue Sky)	22.0
November 2014 mark up (12.37%)	24.7
January 2017 mark up (26.3%)	31.2
% Blue Sky Ownership	74%
Equity Value of FEL	42.2
Net debt	19.9
Enterprise Value	62.1
EBITDA	1.8
EV/EBITDA	33.7x
EV/EBITDA (G8 Education)	9.4x
Premium to industry leader	***3.6x***

Source: FEL Annual Report 2017, Bloomberg, Glaucus Calculation
Note: G8 Education's EV/EBITDA is on March 23, 2017

A comparison between FEL and industry leader G8 shows that FEL's valuation is absurd. FEL, despite smaller size, has lower EBITDA margins and generates negative free cash flow. It is also substantially more levered. We calculate that FEL has a net debt/EBITDA ratio of 10.8x, compared to 1.5x for G8.

FEL is not Worth 3x G8 Education

	FEL		G8 Education	
$ M	FY2016	FY2017	FY2016	FY2017
Revenue	**29.6**	**37.8**	**771.7**	**789.0**
Sales Growth		28%		2%
EBITDA	**1.7**	**1.8**	**173.4**	**166.1**
Margin	6%	5%	22%	21%
Cash from operations	**1.9**	**0.7**	**108.6**	**92.0**
PPE Capex	(1.7)	(1.2)	(25.0)	(18.4)
Free cash flow	**0.2**	**(0.4)**	**83.6**	**73.6**
Interest	(0.5)	(0.7)	(47.1)	(34.4)
Net Free Cash Flow	**(0.4)**	**(1.1)**	**36.5**	**39.2**
Net Debt	8.6	19.9	384.2	254.3
Net Debt/EBITDA	***5.1x***	***10.8x***	***2.2x***	***1.5x***

Source: FEL Annual Filings, G8 Education Filings

The only positive going for FEL is its supposed sales "growth," but we know that such growth is attributable to acquisitions funded with excessive leverage. We struggle to see how FEL will pay off such liabilities with negative net free cash flow, let alone be valued at a significant premium to a much healthier industry leader like G8.

News articles claim that FEL is struggling to be sold with Blue Sky extending the deadline for the realization of the fund, just as the Company has done with other investments. Blue Sky has marked up the value of its investment in FEL, yet the underlying business is dangerously over levered and based on the rapid decline in reported operating cash flows, FEL appears to be lurching towards calamity.

If we valued FEL at the same multiple as G8, then we calculate that FEL is worth only $17.3 million, meaning investors in Blue Sky's FEL Fund are likely sitting on a loss of invested capital rather than the 42% gain reported by Blue Sky.

FEL Performance is Grossly Exaggerated	*$ M*
FEL EV/EBITDA Claimed by Blue Sky	33.7x
G8 Education EV/EBITDA	9.4x
FEL FY2017 EBITDA	1.8
FEL Enterprise Value at G8 Multiple (EBITDA x 9.4x)	17.3
Net debt	19.9
Glaucus Esitmated of equity value (EV less net debt)	(2.6)
Blue Sky Claimed Value of Invested Capital	31.2

Source: FEL Annual Filings, Glaucus Calculation

Rather than reporting impressive returns by marking up the value of FEL, we believe that Blue Sky should be impairing its investment.

b. The Billion Dollar Burrito

Beach Burrito was Blue Sky's first "VC" investment. The Company wrote a $200,000 check in December 2006 to fund the opening of the very first store in January 2007. Blue Sky then made a $2.8 million follow on investment in December 2012. While Blue Sky prides itself on its stellar returns since "inception" we believe that the Company is distorting performance for its early years by using Beach Burrito's valuation as a plug to generate an inflated IRR across its entire private equity portfolio.

The VC performance track record of 25.4% is just the simple average IRRs of four categories: 2006 Vintage (26.7%), VC 2012 Fund (40.2%), Other 2012 Vintage Investments (26.9%) and VC 2014 Fund (8.1%).

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

We suspect that Beach Burrito is an even bigger contributor to overall performance "since inception" as Blue Sky made only a few investments in 2006/2007 and therefore tweaking the performance of just one investment can have a big impact on the overall 2007 performance and therefore a big impact on reported total returns since inception.

It is thus alarming that Beach Burrito is so egregiously overvalued. Blue Sky holds a 33% equity stake in what the Company calls a fast casual chain of Mexican restaurants. Blue Sky *expects run rate*[23] EBITDA to be $2 million by the end of FY2017 across 12 restaurants.

> 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 2017

[23] We have seen countless instances were Blue Sky's claimed "run rate" EBITDA is much higher than what the underlying financials show. Therefore, we are being exceptionally generous by valuing Beach Burrito off of Blue Sky's claimed "run rate" EBITDA.

If we assume no debt, then the implied value of Beach Burrito's 12 restaurants (one restaurant abruptly shut in October 2017, hardly a sign of growth) is an absurd $62 million or 31x the *forecasted* EBITDA.[24]

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

The absurdity of Blue Sky's valuation is evident when compared with other publicly listed fast casual dining chains specializing in Mexican food such as Pollo Loco or Del Taco.

Beach Burrito is Grossly Overvalued

$ M	Beach Burrito	Del Taco	Pollo Loco
Restuarants	12	554	475
Enterprise Value	62	731	592
Value per restaurant	5.2	1.3	1.2
EBITDA	2	82	77
EV/EBITDA	31.0x	8.9x	7.7x
EBITDA per restaurant	166,667	147,644	161,838

Source: Bloomberg, Company filings

Despite generating comparable EBITDA per store, Blue Sky has valued Beach Burrito at a massive premium to more established, fast growing brands. We calculate that at current markup, Blue Sky values each of Beach Burrito's fast food counters at $5 million per restaurant, which is laughable.

Why has the Company marked up Beach Burrito so egregiously? With so much riding on Blue Sky's reported returns "since inception," it is one of the early investments whose valuation can be tweaked to inflate Blue Sky's reported performance. As other investments underperform, more heat is put on Beach Burrito's valuation to pick up the slack. Hence the bizarre circumstance where one of Australia's leading asset managers with a $1 billion valuation is at least partially propped up by its markup of a $200,000 "VC" investment in a beach burrito fast food joint.

c. VINOMOFO: STRAPPED FOR CASH AND MISSING GROWTH FORECASTS

Vinomofo, an online wine retailer, is meant to be a rapidly growing flagship investment for Blue Sky. Instead, Vinomofo's latest annual report reveals a floundering business. According to the VC 2017 Investor Memorandum, Blue Sky invested $25 million[25] for a 22.7% stake in Vinomofo in February 2016.

[24] We suspect that like Thrive, Beach Burrito is loss making at the EBITDA level, but we do not have the underlying financials so we are forced to use the "run rate" EBITDA figure of $2 million as claimed by Blue Sky.

[25] AFR reported that the Blue Sky investment memorandum for Vinomofo sought fees of $3.9 million including $1.3 million of "transaction fees" and 5 years of upfront management fees. This equates to 16% upfront fees! No wonder Blue Sky invested in Vinomofo.

Blue Sky invested $25 million into the business in February 2016.

Ownership and governance

Blue Sky invested as equity and holds 22.7% of Vinomofo on a fully diluted basis. Blue Sky holds a board seat and has two further observers attend each meeting.

Source: VC 2017 Investor Memorandum

By December 2016, in just a few months Blue Sky had marked up the value of its equity in Vinomofo by 1.1x and claimed a 9.3% IRR on its original investment.

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
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	-	-

Source: VC 2017 Investor Presentation

Such returns seem improbable given that Vinomofo almost immediately missed its revenue growth target, it continues to burn cash at a torrid pace, and appears to be dependent on further financing or investment to survive. According to the AFR, Blue Sky forecasted that Vinomofo would generate $81.2 million of revenues in the fiscal year ending June 2017.

But publicly available financials state that Vinomofo's revenues were only $43.7 million, 46% below Blue Sky's forecast for that year.[26]

In addition to missing revenue forecasts by a wide mark, Vinomofo reported a massive pre-tax loss of $6.7 million (almost double the year prior). In December 2016, Blue Sky had marked up the value of its investment. But at this time, Vinomofo was already halfway through a disastrous fiscal year in which revenue growth had stalled and losses had almost doubled! Vinomofo's sluggish growth was even more disastrous considering it doubled marketing expenses over the previous year ($6 million in FY 2017 vs. $3.2 million in FY 2016). This suggests that despite investing more resources, customer acquisition costs are surging.

[26] Vinomofo claimed a "run rate" revenue of $70 million, but the financials belie this claim.

Statement of profit or loss and other comprehensive income for the year ended 30 June 2017

	Notes	2017 $	2016 $
Revenue	4	43,694,551	39,297,923
Cost of sales		(28,283,559)	(25,825,720)
Gross profit		15,410,992	13,472,203
Other income	4	58,793	49,535
Distribution costs		(3,906,313)	(3,550,600)
Marketing expenses		(6,075,713)	(3,232,801)
Occupancy expenses		(622,669)	(498,136)
Administrative expenses		(9,516,073)	(8,539,193)
Bad debt expense		(329,356)	(580,000)
Other expenses		(1,766,986)	(862,431)
(Loss)/Profit before income tax expense		(6,747,325)	(3,741,423)
Income tax refund/(expense)		2,005,415	503,953
(Loss)/Profit for the year	5	(4,741,910)	(3,237,470)
Other comprehensive income		-	-
Other comprehensive income for the year, (net of income tax)		-	-
Total comprehensive (loss)/income for the year		(4,741,910)	(3,237,470)

Source: Vinomofo Annual Report 2017 (ASIC Website)

Rather than a successful investment justifying a markup, Vinomofo's cash crisis is alarming. At the end of FY 2017, Vinomofo only had $2.2 million in cash left.

Statement of cash flows for the year ended 30 June 2017

	Note	2017 $	2016 $
Cash flow from operating activities			
Receipts from customers		47,986,275	39,473,346
Payments to suppliers and employees		(54,644,538)	(41,381,420)
Interest and other finance costs		(8,276)	(24,099)
Interest received		58,793	49,535
Income tax paid		(335,386)	(211,972)
Net cash used in operating activities	16(b)	(6,272,360)	(2,094,610)
Cash flows from investing activities			
Payments for property, plant and equipment		(263,568)	(400,335)
Payments for intangible assets		(219,688)	(39,667)
Net cash used in investing activities		(483,256)	(440,002)
Cash flows from financing activities			
Dividends paid		-	(804,065)
Proceeds from Borrowings		-	10,038,306
Net cash generated by financing activities			9,234,241
Net (decrease)/increase in cash and cash equivalents held		(6,755,616)	6,699,629
Cash and cash equivalents at the beginning of the financial year		8,949,397	2,249,768
Cash and cash equivalents at the end of the financial year	16(a)	2,193,781	8,949,397

Source: Vinomofo Annual Report 2017 (ASIC Website)

Vinomofo Burns Cash

$ M	FY2016	FY2017
Revenue	39.3	43.7
Growth	*43%*	*11%*
EBITDA	(3.6)	(6.6)
Margin	*-9%*	*-15%*
Free cash flow	***(2.5)***	***(6.8)***
Cash balance	8.9	2.2

Source: Vinomofo Annual Report 2017

At that cash burn rate, we estimate that Vinomofo will likely run out of cash this fiscal year without further borrowings or investment. Compounding our suspicion that the business is struggling, Vinomofo's sole independent director, Rob Chapman, who was only appointed in August 2016, resigned just prior to year end.

Directors

The names of the directors of the company during or since the end of the financial year are:

- Justin Luke Dry
- Nicholas Paul Dignam
- Andre Hermann Eikemeier
- Rob Ian Chapman (resigned on 7 June 2017)

Source: Vinomofo Annual Report 2017

Based on our review of Vinomofo, we struggle to see how Blue Sky could claim an 9.3% IRR on startup which was badly missing growth forecasts (despite a doubling of marketing expenses) and hemorrhaging cash.

d. Failure to Thrive

In December 2015, Blue Sky invested in THR1VE ("Thrive"), a small chain of healthy food stalls. Eighteen months later, in June 2017, Blue Sky announced a follow-on investment of up to $9.9 million for an additional 33% interest in Thrive.

Source: Blue Sky Investor Presentation June 2017

The investment memorandum reveals that after the follow-on investment, Blue Sky's ownership stake in Thrive went from 26.3% to 50.6%.

OWNERSHIP FOLLOWING COMPLETION OF THE FUND'S INVESTMENT

Blue Sky (through its investment via VC2014 and the Fund) will hold approximately 50.6% of THR1VE's equity, with Josh Sparks (CEO) holding 15.0% and a newly created, unallocated Employee Share Option Plan ('ESOP') of 5.0% designed to incentivise and retain executive staff. The remaining capital is held by other strategic stakeholders. It is important to note that ~50% of Josh's shareholding is subject to a vesting schedule to ensure alignment and retention through exit.

Shareholder	Ownership (%)
Josh Sparks	15.0%
Mike Green	5.3%
Other Shareholders	24.1%
VC2014 Blue Sky	17.6%
Blue Sky Private Equity THR1VE Growth Fund	33.0%
ESOP (Unallocated)	5.0%
Total	**100.0%**

Source: Blue Sky Information Memorandum June 2017

THR1VE Shareholders

	Ownership	
	Before	After
THR1VE Growth Fund	0.0%	33.0%
VC2014	26.3%	17.6%
Josh Sparks	22.4%	15.0%
ESOP (Unallocated)	7.5%	5.0%
Other shareholders	43.9%	29.4%
Total	100.0%	100.0%

Source: Glaucus Calculation

Note: We calculate Blue Sky's ownership interest prior to the follow-on investment

Based on the amount invested and shares received at the time of the follow-on investment, Blue Sky had marked up Thrive to a point implying a total return of 257% and an IRR of 134% for its original investment, which closed a mere 18 months earlier.

Implausible Valuation for THR1VE

	VC2014	**THR1VE Growth**
	Dec-15	Jun-17
Capital Invested	2.2	9.9
% of THR1VE owned	26%	33%
Implied equity value	8.4	29.9
Implied IRR		***134%***
Total Return		***257%***

Source: Blue Sky Investor Presentation June 2017, Glaucus Calculation

In just 18 months, Blue Sky had marked up the value of its unrealized investment in Thrive to the point where it could claim a 134% IRR on its original investment. This valuation was not determined in a market but, because Blue Sky was the only investor in the follow-on funding (and was diluting other shareholders), Blue Sky had sole discretion to set the price at which it would re-invest; and thus determined the return reported to original Thrive investors.

Although such a markup may be justified if Thrive was indeed thriving, the financials indicate that *Thrive's underlying performance has stalled*. Although Thrive operates a simplistic business model, a few food stalls scattered across shopping malls, the business continued to hemorrhage cash and operated at an increasingly large *operating loss*. Revenue grew by just $2.4 million despite a doubling of the store count. Yet Blue Sky still saw fit to increase its investment in Thrive at a valuation of 3.2x EV/revenue, even though it originally invested at a multiple of 1x EV/revenue just 18 months prior.

Absurd Valuation

$ M	2015	2016
Revenue	7.0	9.4
EBITDA	(1.8)	(2.1)
Valuation (Blue Sky)	8.4	29.9
EV/Revenue	***1.2x***	***3.2x***

Source: Thrive Investment Presentation June 2017, Glaucus Calculation

We question how Blue Sky can justify its decision to mark up the value of its investment by 257% in 18 months under such circumstances. We suspect that rather than Thrive being a good candidate for growth and further investment, the business was actually running out of cash and needed Blue Sky to inject further funds to perpetuate the façade. We believe that Blue Sky marked up the value of its Thrive investment and announced a follow-on investment at a valuation which made its prior investment appears successful, even though in reality, the underlying financials suggest that the business had stalled.

e. VIKING DUNNIES: A BAD SMELL

Viking Rentals, ("Viking") is a portable toilet business and was one of Blue Sky's earliest private equity investments. The performance of Viking is held up as one of just three VC exits since 2006. Blue Sky purportedly sold its stake in Viking to Bayfront Capital Management ("Bayfront"), an Adelaide investment group, for $11 million in July 2015. Our due diligence of this transaction raises more questions than answers: we can find no evidence that Bayfront has any operations, and the only person publicly affiliated with Bayfront fails to list his involvement on his CV. Although we hesitate to characterize the exit as a sham transaction without more information, it certainly appears suspicious. Yet the transaction also highlights what we believe to be a recurring pattern: that despite poor underlying performance, Blue Sky appears to have marked up the value of its investment to a valuation that looks inappropriate.

Blue Sky touts Viking as one of its successful private equity exits. Blue Sky claimed in its VC 2017 presentation to have invested $4.7 million into Viking and achieved an impressive 15.8% IRR, net of fees.

BSVC track record as at 31 December 2016 BlueSky Alternative Thinking

			Gross[1]		Net[2]	
	Committed capital	Current status	IRR	Money multiple	IRR	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**

Source: VC 2017 Presentation

According to the investment documents available on the website of Pamplona (affiliated with Blue Sky's chairman),[27] Blue Sky initially invested a total of $2.7 million in Viking across different funds at three different points between 2007 and 2008.

[27] Pamplona is a private investment company which was chaired by John Kain (Blue Sky shareholder and Chairman), and which has invested in Blue Sky funds.

Key Investment Facts

Sector:	Toilet Rental
Date Invested	1) Viking 1 Fund – June 2007 2) Viking 2 Fund – February 2008 3) Viking 3 Convertible Note – November 2008
Amount Invested	1) $1,053,000 2) $550,000 3) $1,109,164
Structure	1) Ordinary Shares 2) Ordinary Shares 3) Convertible Note
Ownership	Ordinary Shares 1) & 2) for 42.2%.

Source: *BSPE Investor Update August 2009*

But Viking materially underperformed Blue Sky's forecasts almost from the start. According to the investment memorandum dated December 2007, Blue Sky forecasted that Viking would generate an EBITDA of $1.6 million in 2009, and $2.9 million in 2010.

Profit and Loss Forecasts

	Actual FY06	Actual FY07	Nov 08 YTD	Forecast FY08	Forecast FY09	Forecast FY10
Revenue						
Brisbane		330	700	1,040	1,340	1,500
Gold Coast		-	-	120	220	350
Sunshine Coast		-	-	90	165	250
Melbourne		-	-	-	300	700
Sydney		-	-	-	-	350
Regions		-	-	-	-	100
		330	**700**	**1,250**	**2,025**	**3,250**
Revenue						
Sales – Toilet Hire and Assoc Services	40,387	401,188	501,886	1,648,375	3,938,831	6,825,000
Other Income	4,631	10,260	84,922	260,000	0	0
Revenue	**45,018**	**411,448**	**586,808**	**1,908,375**	**3,938,831**	**6,825,000**
Expenses						
Operating Costs	(24,084)	(137,488)	-256,623	(711,681)	(1,496,756)	(2,525,250)
Overhead Expenses	(14,614)	(99,396)	(143,123)	(596,094)	(866,543)	(1,365,000)
Total Expenses	(38,698)	(236,884)	(399,746)	(1,307,775)	(2,363,299)	(3,890,250)
EBITDA	**6,320**	**174,564**	**187,062**	**600,600**	**1,575,533**	**2,934,750**
EBITDA %	14%	42%	32%	31%	40%	43%

Source: *Viking Follow On Investment Memorandum 2007*

Actual performance fell far short of Blue Sky's projections. Investor updates show that Viking's EBITDA was just $1.1 million in 2009 (29% less than forecasted), and $1.7 million in 2010 (41% less than forecasted that year).

FINANCIALS

PROFIT AND LOSS STATEMENT

FOR THE PERIOD UP TO 31 DECEMBER 2010

All figures in AUD 000's

	FY09	FY10	H1 FY10	H1 FY11	Change vs. H1 FY10
Revenue	3,470	5,382	2,504	3,646	46%
Expenses	2,330	3,635	1,702	2,666	57%
EBITDA	1,140	1,747	802	980	22%
EBITDA margin	33%	33%	32%	27%	n.a.

Source: EC2010 Investor Update February 2011

Viking Rental Missed Targets

$ M	FY2009	FY2010
EBITDA (Memorandum)	1.6	2.9
EBITDA (Actual)	1.1	1.7
Shortfall	***-28%***	***-41%***

Source: Glaucus Calculation

Despite falling short of Blue Sky forecasts, Blue Sky decided to raise a new fund named EC2010 Institutional Trust ("EC2010"), whereby new investors would buy out initial investors at a much higher valuation.

Seed Investments

To provide investors with immediate investment exposure to high quality private equity investments, the Manager has agreed to transfer the following investments to the Master Fund upon Final Closing Date at a combined value of approximately $15 million, consisting of:

- 42.2% of total shares in Viking Rentals; and
- 35.0% of total shares in Lenard's Group Holdings.

Source: EC2010 Placement Memorandum June 2010

After this transfer, a Blue Sky investment update stated that the fund had invested a total $7.2 million into Viking for a 51% ownership.

KEY INVESTMENT FACTS

SECTOR
Toilet and related equipment rental

DATE INVESTED
- Initial investment: November 2010
- Follow-on investments: December 2010 and February 2011

TOTAL AMOUNT INVESTED
Total investment of $7,212,255, comprised of:
- Initial investment (at first close): $5,009,100
- Follow on funding (provided in December 2010 and February 2011): $2,203,155

STRUCTURE
Ordinary shares

OWNERSHIP
51.3%

Source: EC2010 Investor Update March 2011

This transaction reminds us of Quintis. Blue Sky used new funds raised from investors (EC 2010) to buy out old investors at a dubious valuation, even though Viking had underperformed Blue Sky's financial forecasts. Over the 17 months between the November 2008 investment and the transfer to EC 2010, Blue Sky marked up the value of its investment by 3.7x, which allowed the asset manager to claim a 75% IRR on its initial investment.

Expensive Dunnies

$ M	Feb-08	Jun-10
Equity invested	1.6	7.2
Ownership	42.2%	51.3%
Equity value	3.8	14.1
IRR		***75%***

Source: Blue Sky Investment Documents; Glaucus Calculation

We do not see how Blue Sky could justify such a markup given Viking's significant underperformance of Blue Sky's financial forecasts. Indeed, Blue Sky originally projected that it would exit Viking in 2010, but for years could not find a buyer at such an absurd valuation.

But a mysterious buyer eventually arrived. According to Blue Sky, it sold EC 2010's stake in Viking to Bayfront in July 2015, for $11 million, implying an equity to EBITDA ratio of 7.0x.

VIKING RENTALS
Pre-VC2012

Viking Rentals is Australia's market leader in the hire of portable toilets and showers, with a focus on offering a premium quality of service to its clients across:

- **Construction:** Hire and servicing of portable toilets to the Australian residential construction industry.
- **Events:** Complete toilet and shower solutions to the Australian events industry.

Blue Sky initially invested in Viking Rentals in 2008 when the business had a fleet of 200 portable toilets, and it provided additional funding to the business in several follow-on rounds between 2008 and 2012.

Ownership & governance

Blue Sky invested as equity over a number of funding rounds and held 56.9% of the issued share capital of Viking at completion (fully diluted). Blue Sky held one of two board seats over the course of its investment in Viking.

Path to exit

Blue Sky exited the investment in July 2015, at which point the business had grown to provide a fleet of 4,100 single portable toilets and 110 portable buildings across a network of depots in every Australian mainland state capital, as well as several large regional centres. BSVC exited its investment in Viking Rentals through the sale to Bayfront Capital Management, a financial investor, in July 2015.

The final sale of Viking was completed on the following terms:

- An upfront payment made at completion of $11 million less net debt at completion and;
- A deferred payment of $3 million if the business generates $3.8 million in EBITDA in the 12 months immediately following completion. The deferred payment decreases by $3 for every $1 shortfall in actual EBITDA versus the $3.8 million target.

Blue Sky's investment in Viking delivered original investors an IRR of 14.8% and a money multiple of 2.2x gross of fees.

Source: VC2017 Information Memorandum

$ M	Feb-08	Jun-10	Jun-15
Equity invested	1.6	7.2	11.0
Ownership	42.2%	51.3%	56.9%
Equity value	3.8	14.1	19.3
EBITDA	0.2	1.7	2.8
Equity/EBITDA	***21.0x***	***8.0x***	***6.9x***

Source: Glaucus Calculation

But this transaction has many suspicious features. First, Bayfront does not appear to have a website.[28] Second, Blue Sky's press release announcing the transaction quoted Daniel Hill, Bayfront's "spokesperson," as stating that "we are very much looking forward to the opportunity presented in the business." When we pulled the publicly available ASIC company information for Bayfront Capital Management Pty Ltd, the same Daniel Hill was listed as both the sole director and Company secretary.

Officeholders and Other Roles		**Document Number**
Director		
Name:	DANIEL HILL	1F0433333
Address:	21 Medindie Lane, MEDINDIE SA 5081	
Born:	23/06/1976, PORT PIRIE, SA	
Appointment date:	18/07/2011	
Secretary		
Name:	DANIEL HILL	1F0433333
Address:	21 Medindie Lane, MEDINDIE SA 5081	
Born:	23/06/1976, PORT PIRIE, SA	
Appointment date:	18/07/2011	

Source: ASIC Company Information

Yet Hill does not mention Bayfront or his role as its director or spokesperson, on his LinkedIn page (although he does claim to be a director for Viking). Hill states that he is currently the Company secretary of LBT innovations *and* the CFO of AEM Cores.

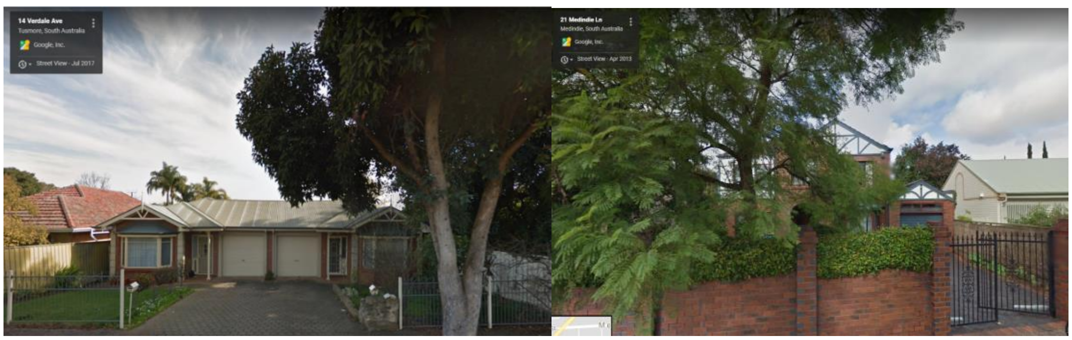
If the only person publicly affiliated with Bayfront does not see fit to mention it on his CV, we begin to wonder who exactly funded the Viking buyout? Adding to our suspicion, the ASIC company registrar states that Bayfront's

[28] Like Blue Sky, Bayfront is a popular name for finance related businesses. There is a website for a boutique Canadian advisors (Bayfront Capital Partners) and a Bayfront Capital in Singapore but these do not appear to be related to the purported Adelaide based investment manager; Bayfront Capital Management.

principal place of business is a very modest residential building on the outskirts of Adelaide, presumably Hill's residence.

Address Details		Document Number
Current		
Registered address:	21 Medindie Lane, MEDINDIE SA 5081	1F0433333
Start date:	06/11/2012	
Principal Place Of Business address:	21 Medindie Lane, MEDINDIE SA 5081	1F0433333
Start date:	22/10/2012	
Historical		
Registered address:	11 Verdale Avenue, LINDEN PARK SA 5065	1E7578951
Start date:	18/07/2011	
Cease date:	05/11/2012	
Principal Place Of Business address:	11 Verdale Avenue, LINDEN PARK SA 5065	1E7578951
Start date:	18/07/2011	
Cease date:	21/10/2012	

Source: ASIC Company Information



Sources: Google Maps; Google Maps

In our view, the transaction appears deeply suspicious. If Bayfront was a legitimate third-party investor, why does it not have a website? Why can't we find any evidence that Bayfront is an operating business with employees or a physical address? The only individual publicly affiliated with Bayfront does not even list his involvement on his CV. Furthermore, Bayfront is registered to a modest residence in Adelaide, not what we would expect from an investor with sufficient resources to pay $11 million to Blue Sky for a 56% stake in a port-o-potty business.

Ultimately, the Viking transaction leaves investors with more questions than answers. Blue Sky created three separate vehicles to invest in Viking. Despite the fact that Viking underperformed, by some margin, Blue Sky's projections, Blue Sky continued to mark up the value of the business in its portfolio. In 2010, Blue Sky transferred its stake in Viking to itself (the EC 2010 fund) at a markup of 3.7x over the previous 28 months, a ludicrous upward revaluation. Reminiscent of Quintis, Blue Sky used new investors to buy out old investors at a premium valuation (set by the asset manager), only to turn around and claim fantastic performance on the underlying investment.

Then, Blue Sky appears to have miraculously offloaded its stake in Viking to a mysterious investor in 2015 (five years after it projected to exit), of whom little information is known. Other than Blue Sky's press release, we could find no evidence to suggest that Bayfront is an operating business. This raises the possibility, in our opinion, that perhaps Blue Sky (or investors affiliated with Blue Sky) were really behind Bayfront. The truth, we expect, will come out.

f. LENARD'S CHICKEN: CRYING FOWL

Another one of Blue Sky's larger initial investments, Lenard's Chicken ("Lenard's") operates a string of chicken shops across Australia. We believe that Lenard's presents another example in which Blue Sky overstated the performance of its unrealized investment. Despite evidence that Lenard's has underperformed Blue Sky's projections, Blue Sky raised new money from the market to buy out old investors at an absurd premium, which again, is quintessential Quintis.

Blue Sky initially invested $3.3 million for a 30% stake in Lenard's, implying a total equity value of $11 million ($3.3 million divided by 30%), in June 2008.

Key Investment Facts

Sector:	Fresh Food Retail Franchise
Date invested	June, 2008
Amount Invested	$3,300,000
Structure	Preference shares
Ownership	30%

Source: *Investor Update August 2009*

The capital was supposedly used in part to provide capital for further expansion through a chain of new concept stores known as Lenard's Extra.[29] At the time of Blue Sky's initial investment, it forecasted that Lenard's EBITDA would grow rapidly, even *before* factoring in franchise buyback write-offs.

Lenard's Group Holdings Pro-forma

	June 06 Actual	June 07 Actual	June 08 Forecast	June 09 Forecast	June 10 Forecast	June 11 Forecast	June 12 Forecast
Lenard's Pty Ltd							
Revenue	9,303	10,775	11,071	13,488	14,280	15,751	16,833
Direct Costs	(5,855)	(6,055)	(6,491)	(8,076)	(8,485)	(9,017)	(9,583)
Gross Profit	**3,449**	**4,719**	**4,579**	**5,412**	**5,795**	**6,734**	**7,250**
Gross Profit %	37%	44%	41%	40%	41%	43%	43%
Indirect Costs	(3,880)	(3,838)	(3,608)	(3,472)	(3,620)	(3,960)	(4,048)
Lenard's Pty Ltd – EBITDA	**(431)**	**881**	**971**	**1,939**	**2,175**	**2,774**	**3,202**
EBITDA %	-5%	8%	9%	14%	15%	18%	19%
Other Subsidiaries							
Lenard's Ingredients – EBITDA	10	(16)	-	-	-	-	-
Lenard's NZ – EBITDA	86	105	138	172	176	121	-
Lenard's Extra							
Revenue	-	-	46	2,812	6,758	15,910	28,678
Direct Costs	-	-	(25)	(1,687)	(4,055)	(9,546)	(17,207)
Indirect Costs	-	-	(182)	(1,213)	(2,401)	(5,224)	(9,220)
Lenard's Extra EBITDA	-	-	(161)	(88)	302	1,140	2,251
Total Subsidiary Companies – EBITDA	96	89	(23)	84	479	1,260	2,251
Lenard's EBITDA – before Master Franchise Buyback write-off	**(335)**	**971**	**948**	**2,024**	**2,653**	**4,034**	**5,453**

Source: *Investment memorandum 2008*

However, by 2009, (just six months after their initial investment), Lenard's performance had become an unmitigated disaster. Lenard's reported only $82,043 of EBITDA in H1 19, **92%** less than the consolidated EBITDA of $1.1 million forecasted by Blue Sky at the time of their initial investment.

[29] *Source:* *Investment memorandum 2008*

Lenards Group – Profit and Loss for the period 1 July 2008 to 11 January 2009

YTD - 11 Jan 2009	Actual	IM	Variance
Lenards Pty Ltd			
Revenue	2,832,962	2,914,154	(81,192)
Expenses	(2,059,882)	(1,870,077)	(189,805)
Lenards Pty EBITDA	773,080	1,044,077	(270,997)
Other Subsidiaries			
Lenards Ingredients - EBITDA	(12,221)	-	(12,221)
Lenards New Zealand - EBITDA	39,604	92,615	(53,011)
Lenards Extra			
Revenue	514,815	1,514,154	(999,339)
Expenses	(1,233,235)	(1,561,538)	328,303
Lenards Extra EBITDA	(718,420)	(47,385)	(671,035)
Lenards Group EBITDA	**82,043**	**1,089,308**	**(1,007,265)**

Source: Investor Update January 2009

Blue Sky complained that Lenard's Extra had been a "complete drag" on earnings, forgetting that a few months earlier, Blue Sky had pitched prospective investors on its ability to grow Lenard's EBITDA by investing in the roll out of Lenard's Extra, a line of new concept stores.[30]

Lenards Extra is a complete drag on earnings.

- A loss of $718k has netrualised the performance of the core business

Source: Investor Update January 2009

By the end of the year, 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.

FY09 Revenue & EBITDA	$9.2 million and $0.7 million.

Source: Investor Update August 2009

Yet in June 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 essentially doubled in value within 29 months.

Seed Investments

To provide investors with immediate investment exposure to high quality private equity investments, the Manager has agreed to transfer the following investments to the Master Fund upon Final Closing Date at a combined value of approximately $15 million, consisting of:

- 42.2% of total shares in Viking Rentals; and
- 35.0% of total shares in Lenard's Group Holdings.

The seed investments will be transferred at valuations conducted by an independent valuer. The seed investments are currently held by unit trusts managed by Blue Sky Private Equity.

KEY INVESTMENT FACTS

SECTOR
Fresh food retail franchise

DATE INVESTED
November 2010

TOTAL AMOUNT INVESTED
$6,969,132

STRUCTURE
Ordinary shares as well as an option to buy additional shares (currently 'in the money')

OWNERSHIP
35%

[30] *Source:* Investment memorandum 2008

Source: EC2010 Memorandum, Investor Update EC 2010 March 2011

In order to market the follow-on investment, Blue Sky reported that Lenard's EBITDA was $1.8 million, because Blue Sky added back any losses attributable to the failure of the Lenard's Extra business. We find this decision highly questionable, because the Company included the revenues attributable to Lenard's Extra for FY 2009 but eliminated the losses.

Profit and Loss Statement
To June 30, 2009

	2006A	2007A	2008A	2009A*	IM**
System Sales ($M)	139.7	141.5	145.8	144.7	*148.3*
Stores	183	181	180	179	*190*
Core Business					
Revenue	**5,107**	**6,414**	**6,520**	**8,176**	***9,040***
Growth		*26%*	*2%*	*25%*	
EBITDA	**(335)**	**970**	**1,115**	**1,829**	***2,112***
Margin	*-7%*	*15%*	*17%*	*22%*	*23%*
Lenard's Extra					
Revenue				**1,023**	***2,812***
Growth					
EBITDA			**(190)**	**(1,111)**	***(88)***
Margin				*-109%*	*-3%*
Combined					
Total Revenue	**5,107**	**6,414**	**6,520**	**9,199**	***11,852***
Total EBITDA	(335)	970	925	718	*2,024*
Total EBIT	(578)	732	810	541	*1,460*

FINANCIALS

PROFIT AND LOSS STATEMENT

FOR THE PERIOD UP TO 31 DECEMBER 2010

All figures in AUD 000's

	FY09	FY10	*H1 FY10*	*H1 FY11*	*YoY change*
Revenue	9,199	8,066	*3,779*	*4,099*	*8%*
Expenses	7,370	6,211	*2,873*	*3,202*	*11%*
EBITDA	1,829	1,855	*906*	*897*	*-1%*
Margin	20%	23%	*24%*	*22%*	
EBIT	1,652	1,838	*898*	*875*	*-3%*
Margin	18%	23%	*24%*	*21%*	
EBIT (excl. Singapore and US)	1,652	1,838	*898*	*936*	*4%*
Margin	18%	23%	*24%*	*23%*	

Source: Investor Update August 2009, Investor Update EC 2010 March 2011

Yet even using the cherry-picked EBITDA figures, the mark up in the value of Lenard's strains credulity. Despite dire underlying performance of the business, measured on an EV/EBITDA basis, Blue Sky's was claiming that its original investment had doubled in value.

Pricey Poultry

$ M	2008	2010
Total Investment	3.3	7.0
% Ownership	30%	35%
Implied equity value	11.0	19.9
IRR (June 08 - Nov 10)		*29%*
EBITDA reported original H1 2009 (annualised)	0.08	n.d
EBITDA reported FY2009	0.72	n.d
EBITDA reported FY2010 (cherry picked)	1.83	1.86
Equity/EBITDA reported original H1 2009 (annualised)	134.1x	n.d
Equity/EBITDA reported FY2009	15.3x	n.d
Equity/EBITDA reported FY2010 (cherry picked)	6.0x	10.7x

Source: Glaucus Calculation

In our opinion, Blue Sky materially exaggerated the performance of its investment. The math is simple. Blue Sky claims that its initial investment doubled in value in 29 months, even though Lenard's missed its financial performance forecasts by a wide mark. The evidence indicates that Lenard's was struggling, yet Blue Sky raised money from new investors to buy out its initial investors at a hefty premium.

Once Lenard's was transferred to EC 2010, information has been hard to come by. Blue Sky removed Lenard's from its list of private equity investments. News articles suggest that Lenard's continued to struggle. The *Courier* ran a story in September 2017 stating that Lenard's EBITDA went to negative $300,000 in 2015, and only positive $1 million in 2017. This suggests Lenard's EBITDA has barely grown since 2008. But that did not stop Blue Sky from marking up the value of Lenard's in its portfolio.

g. HeyLets Ignore Liquidation

Blue Sky invested in HeyLets, a social networking site, in July 2014. In an April 2017 investment presentation, Blue Sky claimed an 8.5% IRR on its investment.

			Gross[1]	
	Committed capital	Current status	IRR	Money multiple
VC2012 FUND				
Hatchtech	$1.0 million	Part realisec	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**

Source: VC2017 Fund Presentation April 2017

This is remarkable as HeyLets was in the process of being *liquidated* as of March 2017! Blue Sky trashes the performance of HeyLets one month *before* the Company reported the marked-up performance.

Ownership & governance

Blue Sky invested $0.85 million in July 2014. Blue Sky invested via a convertible note structure. Blue Sky held a board seat (however this has since been relinquished).

Recent developments

HeyLets's key ongoing weakness was growing its user base. Customer acquisition cost was significantly higher than originally anticipated. Blue Sky formed the view that this challenge was insurmountable for HeyLets after several attempts to reduce customer acquisition cost. As a result, Blue Sky formed the view that HeyLets would be highly unlikely to reach a sufficient number of users to raise Series A funding – notwithstanding further funding from Blue Sky. Despite several attempts by the founders and Blue Sky to sell HeyLets and/or the underlying assets (i.e. the company's intellectual property) to strategic buyers, HeyLets was unable to generate a satisfactory outcome and is currently in the process of being liquidated.

Source: VC2017 Fund Information Memorandum March 2017

Examples like HeyLets would be comical if not so tragic. How could Blue Sky mark up the value of its investment at the same time it admitted that HeyLet's was in the process of being liquidated? It may sound obvious, but shouldn't such a failed investment be marked to zero?

Selling Winners; Keeping Losers

A final wrinkle deserves mention. Blue Sky attempts to bolster its credibility by claiming that it has exited 39 investments since inception (in 2006) and that the "realized track record of 16.7% per annum (net of fees) is superior to overall track record.[31] We anticipate that Blue Sky will once again cite this statistic as a rebuttal to our opinion that the Company overstates the performance of its investment. But far from contradicting our thesis, this detail strengthens it: but of course the returns for realized investments are superior.[32] That is precisely why Blue Sky realized them. In other words, in order to boost credibility, we believe that Blue Sky has sold (realized) its successful investments while it keeps the failures on its books.

The result, we believe, is adverse selection in which Blue Sky's portfolio becomes increasingly dominated by its duds. We suspect that Blue Sky sells its good investments to justify its reported returns, while keeping its failed or underperforming investments on its books. As long as such underperforming assets are never realized, Blue Sky is free to mark them up over time in order to generate paper profits and fees.

[31] Blue Sky 1H 18 Interim Report

[32] Blue Sky claims an AUM for private equity of $975 million but most of the realized private equity investments have been tiny. For instance, Blue Sky's H1 18 Presentation trumpets "successful exits" of Pet Circle and Hatchtech. But Blue Sky invested only $4 million and $1 million respectively in these businesses. Investors should be skeptical of Blue Sky's reported performance as a private equity investor given that so few of its investments have been realized in this category.

BLUE SKY GOUGES AUSTRALIAN INVESTORS WITH EXTORTIONATE FEES

Alternative asset managers typically charge two fees: a fee tied to the performance of their investments and a management fee which is typically a flat percentage on invested capital. For a long time, fund managers held to the traditional 2 and 20 structure: 20% performance fee and a 2% management fee.

Management fees are ostensibly designed to "keep the lights on" by ensuring that regardless of performance, a fund manager can pay for expenses. Today, only the world's top fund managers can charge close to 2/20, and even the best are fighting a rearguard action to preserve their fees.

Yet our review of Blue Sky's fund documents suggest that Blue Sky is a massive outlier 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.

For example, in 2017, Blue Sky announced a $9.9 million follow-on investment in the struggling health food chain, Thrive. Recall that Blue Sky had invested in Thrive in 2015, so it was already intimately familiar with the restaurant chain. Yet for its follow-on investment, Blue Sky charged $1.4 million in upfront fees to investors under the guise of various "due diligence" and "M&A advisory" fees. Blue Sky also deducted management fees for three years, up front. On a $9.9 million follow on investment, Blue Sky deducted, upfront, management and establishment fees equal to **14% the invested capital**!

SOURCES AND USES OF FUNDS

The expected sources and uses of funds raised under the Offer are outlined in the table below:

Sources	A$	Uses	A$
BSPE Equity	$8,500,000	Growth Capital	$8,500,000
BSPE Fees	$1,379,400	Equity raising fee	$99,000
		Legal fee	$75,000
		M&A Advisory fee	$300,000
		Due Diligence Fee	$150,000
		Management fees (x3 years)	$630,000
		GST	$125,400
Total (gross of fees)	**$9,879,400**	**Total (gross of fees)**	**$9,879,400**

Source: Blue Sky Private Equity Thr1ve Growth Fund, Information Memorandum

This was obvious to investors only if they read the fine print, as Blue Sky pocketed these establishment and transactional fees as the "trustee."

FEES AND OTHER COSTS	AMOUNT	HOW AND WHEN PAID
TRANSACTION FEES (EX-GST)		
Equity Raising Fee	$99,000	This is a once-off fee paid by the Fund to the Trustee upon the first issue of Units in the Fund. The fee is used by the Trustee to pay commissions to advisers who promote the Fund and other expenses associated with capital raising.
Legal Expenses	$75,000	This is a once-off payment by the Fund to the Trustee upon the first issue of Units in the Fund. This payment is used by the Trustee to cover legal expenses associated with the establishment of the Fund and legal documentation in relation to the Transaction.
M&A Advisory Fee	$300,000	This is a once-off fee paid by the Fund to the Trustee upon the first issue of Units in the Fund for originating and executing the Transaction.
Due Diligence Expenses	$150,000	This is a once-off payment by the Fund to the Trustee upon the first issue of Units in the Fund. This payment is used by the Trustee to cover third-party costs associated with legal, accounting and commercial due diligence in relation to the Transaction.
Total Transaction Fees	**$624,000**	

Source: Thr1ve follow-on fund Information Memorandum

TRUSTEE

Blue Sky Private Equity Limited ACN 125 223 958, which holds AFSL 314 177

Source: Blue Sky Private Equity Thr1ve Growth Fund, Information Memorandum

Blue Sky categorizes such fees as "management fees" for the purposes of its consolidated financial statements, even one-off transactional and establishment fees.

Management and establishment fees	Management fees for ongoing management services are charged on a regular basis and recognised as revenue at the time the services are provided.
	One-off transactional fees (establishment fees) are charged to compensate Blue Sky for costs associated with establishing funds and acquiring the associated assets. Revenue is recognised as per the contractual arrangements in each fund's constituent documents, and is typically upon the issue of units to investors in that fund.

Source: Blue Sky 2017 Annual Report

Such extortionate fees do not appear to be unusual, but rather standard practice for Blue Sky. Blue Sky announced that it was raising USD $23.7 million for an investment for an Energy Storage Infrastructure Fund to invest in a nascent start up called Es-volta. On this investment, Blue Sky's disclosed that it would charge upfront fees of USD $3.7 million, **16% of the capital raised!** Included this amount were 5 years of annual management fees, paid upfront, and various other establishment, advisory and transactional fees.

FEES PAID TO BLUE SKY

The following table sets out the fees and other costs that may be paid to Blue Sky or its related entities. These fees and costs will be paid from funds raised by the trust and will be calculated and paid in US dollars.

FEE	AMOUNT	HOW AND WHEN PAID
UPFRONT FEES		
TRANSACTION FEE	US$575,000	This is a one-off fee paid by the Holdco to Blue Sky upon the issue of Units in the Fund. This payment is used by the Holdco to cover external legal and tax expenses associated with structuring and documenting the Transaction, and third party due diligence expenses associated with purchasing the seed assets. If external expenses exceed US$575,000, the Investment Manager will recover the shortfall from the Fund. If external expenses amount to less than US$575,000, the Investment Manager will retain the difference.
EQUITY RAISING FEE	US$225,000	This is a one-off fee paid by the HoldCo to Blue Sky upon the issue of Units under this IM. The payment is used by the Blue Sky to cover expenses associated with capital raising. If these expenses exceed US$225,000, the Investment Manager will recover the shortfall from the Fund. If these expenses amount to less than $US225,000, the Investment Manager will retain the difference.
M&A ADVISORY FEE	US$700,000	This is a one-off fee paid by the HoldCo to Blue Sky upon the issue of Units under this IM to cover costs associated with commercial due diligence in relation to the transaction.
ONGOING FEES (5 YEARS RAISED UPFRONT)[14]		
MANAGEMENT FEE	US$400,000 per annum / US$2,000,000 collected upfront	This fee will be paid by the Holdco to Blue Sky to compensate Blue Sky for the time and effort spent managing the Fund. Management fees will be collected upon the first issue of units in the Fund for the first five years of the investment. Collected fees will be held in the Holdco and drawn down by Blue Sky annually through the term of the investment.
ADMINISTRATION FEE	US$30,000 per annum/ US$150,000 raised upfront	This fee will be paid by the Holdco to Blue Sky to cover costs associated with administering the Fund. Administration fees will be collected upon the issue of units in the Fund for the first five years of the investment. Collected fees will be held in the Holdco and drawn down by Blue Sky annually through the term of the investment.
AFSL COMPLIANCE FEE	$10,000 per annum/ $50,000 raised upfront	This fee will be paid by the HoldCo to the Trustee upon the issue of units under this IM to cover costs associated with maintaining an AFSL. Fees will be collected upon the issue of units in the Fund for the first five years of the investment. Collected fees will be held in the Fund and drawn down by the Trustee annually through the term of the investment.

Source: Blue Sky Energy Storage Infrastructure Fund, Information Memorandum

Blue Sky will likely object that other asset managers charge such due diligence and advisory fees associated with closing a transaction or investment. This is true, but the key difference is that even for the world's best asset managers, transactional fees (advisory, M&A and due diligence fees) charged by the asset managers are **offset against** management fees.

Our investment funds, separately managed accounts and other vehicles are generally advised by a Blackstone entity serving as investment adviser that is registered under the U.S. Investment Advisers Act of 1940, or "Advisers Act." Substantially all of the day-to-day operations of each investment vehicle are typically carried out by the Blackstone entity serving as investment adviser pursuant to an investment advisory (or similar) agreement. Generally, the material terms of our investment advisory agreements relate to the scope of services to be rendered by the investment adviser to the applicable vehicle, the calculation of management fees to be borne by investors in our investment vehicles, the calculation of and the manner and extent to which other fees received by the investment adviser from funds or fund portfolio companies serve to offset or reduce the management fees payable by investors in our investment vehicles and certain rights of termination with respect to our investment advisory agreements. With the exception of the registered funds described below, the investment vehicles themselves do not generally register as investment companies under the U.S. Investment Company Act of 1940, or "1940 Act," in reliance on the

Source: Blackstone 10-K 2017, p. 12

delegated to the funds' respective investment managers pursuant to an investment management (or similar) agreement. Generally, the material terms of our investment management agreements relate to the scope of services to be rendered by the investment manager to the applicable funds, certain rights of termination in respect of our investment management agreements and, generally, with respect to certain of our credit and real assets funds (as these matters are covered in the limited partnership agreements of the private equity funds), the calculation of management fees to be borne by investors in such funds, as well as the calculation of the manner and extent to which other fees received by the investment manager from fund portfolio companies serve to offset or reduce the management fees payable by investors in our funds. The funds themselves

Source: Apollo 10-K 2017, p. 20

Based on our review of the industry, transactional fees are deducted from management fees and not double counted. 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 is guarded about sharing its underlying investment documents, probably because it wants to conceal its fee structure. Of the information memorandums we reviewed, we calculate that upfront management fees and related "establishment" charges account for an average of ***14% of the capital raised*** by Blue Sky managed funds, suggesting this practice is systemic.

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

Such practices are abusive and gouge the very investors Blue Sky claims to serve. Blue Sky's fee structure is also unconscionable in the context of other asset managers.

So how does Blue Sky get away with it? We believe that Blue Sky has historically raised capital from Australian retail and "wholesale" investors, many of whom lack the experience to decipher the fine print or the sophistication to know they are being ripped off.

Wholesale and Retail Investors Still Account For Over 60% of AUM

$M	FY 2015	FY 2016	FY 2017	H1 18
Institutional	122	525	1,235	1,560
Wholesale/Sophisticated	1,053	1,365	1,788	2,067
Retail	176	210	228	273
Total AUM	1,350	2,100	3,250	3,900
% Wholesale & Retail	***91%***	***75%***	***62%***	***60%***

Source: Company Filings

Charging such extortionate upfront fees to relatively unsophisticated investors is not only abusive but unsustainable. We believe that Blue Sky was able to get away with it at small capital levels, but that there are simply not enough suckers for Blue Sky to continue to charge such fees as it tries to raise larger and larger slugs of capital. This means that even as Blue Sky grows its fee earning AUM, its earnings generated from the capital it raises are likely to struggle because the asset manager will be unable to charge such extortionate fees to a larger investor base.

Indeed, there is already evidence that Blue Sky's days of charging exorbitant management and establishment fees are fast ending. In its 2017 financials, Blue Sky reported that its management fees dipped to around 1% of its "reported" (i.e., what we believe to be an exaggerated figure of fee earning AUM). No such decline occurred at Blue Sky's self-selected peers.

Management Fee & Transaction Fee Revenue % of Fee-earning AUM

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	LTM
Blackstone	1.2%	1.1%	1.2%	1.0%	0.9%	0.8%	0.8%
KKR	0.8%	0.8%	1.0%	1.0%	1.1%	1.4%	1.4%
Apollo	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Oaktree	0.2%	0.3%	0.2%	0.2%	1.0%	0.9%	0.9%
Ares	n/a	n/a	1.0%	1.1%	1.1%	1.0%	1.0%
Carlyle	0.8%	0.7%	0.9%	0.8%	0.9%	0.8%	0.8%
Average	***0.8%***	***0.8%***	***0.8%***	***0.8%***	***1.0%***	***1.0%***	***1.0%***
BlueSky	***2.8%***	***2.5%***	***1.9%***	***1.8%***	***1.5%***	***1.0%***	***1.1%***

Source: Company Annual Filings, Peer Annual Filings

A smart reader of this investment opinion may wonder, if Blue Sky's management fee was supposedly 1% of AUM in 2017, then how can we claim that Blue Sky is charging up to 17% management fees on investments? The answer, in our opinion, is that it only appears to be a 1% management fee because Blue Sky is overstating its fee earning AUM. Rather than charging 1% on a large fee earning AUM, we believe Blue Sky is actually charging extortionate fees on a much smaller base of invested capital.

But there is a further wrinkle. Blue Sky and its promoters ask investors to value its shares on a multiple of what it characterizes as "recurring" management fees. The logic is that such management fees are charged as a flat fee on the value of invested capital, thus investors can confidently expect Blue Sky to collect such revenues every year going forward until such time as the underlying investments are realized. But this is not the case.

To the contrary, we calculate that the bulk of the Company'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.

Establishment Fees Dominate "Management Fee" Revenues

$ M	Annualized Management Fee	Other "Establishment" Fees	Total 1st year Management Fee	MGMT Fees/Total First Year Fees	**Establishment Fees/Total First Year Fees**
Lenards	0.1	0.2	0.2	26%	**74%**
Residentail Asset Income Fund 1	0.1	1.1	1.1	7%	**93%**
Flora	0.1	1.1	1.2	10%	**90%**
Vinomofo	0.5	1.3	1.8	29%	**71%**
Parkwood	0.1	0.9	1.0	5%	**95%**
Beef Fund	0.2	0.8	1.0	21%	**79%**
THR1VE	0.2	0.7	0.9	25%	**75%**
es-Volta	0.6	1.9	2.5	23%	**77%**
CDRU	0.3	1.0	1.4	23%	**77%**
Total	2.1	9.0	11.1	19%	**81%**

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

This explains why Blue Sky forms so many single asset funds. As of December 31, 2017, Blue Sky reported 80 different funds, a 19% increase in just six months. Blue Sky is heavily incentivized to form a separate vehicle for each investment because on each new fund, Blue Sky levies extortionate establishment fees irrespective of quality or performance.

Based on our estimate of Blue Sky's actual fee earning AUM, we calculate that recurring management fees are at most $15 million (1.0% of $1.5 billion), and this is likely far too generous because it gives full credit to Blue Sky's claimed performance. The larger 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, frontloaded establishment fees charged to unsuspecting investors on new investments. But evidence indicates Blue Sky is running out of suckers, meaning its days of getting away with this fee structure are numbered.

Sustainable Management Fees are a Fraction of Reported Fees

	$ M
Reported Fee Earning AUM	3,946
Glaucus Estimate of Fee Earning AUM	1,464
Sustainable management fees (1.0%)	14.6
Annual Management fees reported	41.0
Downside on reported management fees	***-64%***

Source: Glaucus Calculation

THOSE WHO KNOW BEST, SELL

Mark Sowerby founded Blue Sky in 2006, and until his abrupt resignation in September 2016, was the managing partner and CEO of the Company. He was also Blue Sky's largest shareholder until he resigned and cash out a significant amount of his shares. We believe that his departure was the first step in the unraveling of Blue Sky's scheme.

Sowerby decided to abruptly sell 47% of his shares in a year before resigning in September 2016.

e. 20 Largest Shareholders – Ordinary Shares

	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	BLUE DOG GROUP PTY LIMITED	9,400,000	16.62%
2	ADCOCK PRIVATE EQUITY PTY LTD	5,005,527	8.85%
3	CITICORP NOMINEES PTY LIMITED	1,984,187	3.51%

Source: Blue Sky Annual Report FY 2015, p. 86

e. 20 Largest Shareholders – Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
J P MORGAN NOMINEES AUSTRALIA LIMITED	6,511,315	9.66%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,389,681	8.00%
BLUE DOG GROUP PTY LIMITED	5,000,000	7.42%
ADCOCK PRIVATE EQUITY PTY LTD	4,801,615	7.12%

Source: Blue Sky Annual Report FY 2016, p. 81

Direct or indirect interest	**Indirect**
Nature of indirect interest (including registered holder) Note: Provide details of the circumstances giving rise to the relevant interest.	**Blue Dog Group Pty Limited ACN 099 973 458, an associated entity of Mark Stewart Sowerby.**

Source: Blue Sky Announcement

We believe that as AUM grows, Blue Sky's overstatement of its fee earning assets gets bigger and bigger. We expect that this scheme will soon collapse, so it is a significant red flag that Sowerby abruptly resigned in September 2016 and had sold 47% of his entire holdings that year, pocketing $35 million. To us, the timing is no coincidence.

Sowerby Lined His Pockets

Date	# of shares Disposed	Value per Share ($)	Value ($)
10/28/2015	100,000	6.3	625,276
3/29/2016	300,000	7.2	2,148,609
6/23/2016	635,000	8.0	5,080,000
8/29/2016	3,365,000	8.0	26,920,000
Total	**4,400,000**	**7.9**	**34,773,886**

Source: 1. Blue Sky Announcement October 30, 2015
2. Blue Sky Announcement March 30, 2016
3. Blue Sky Announcement August 29, 2016

As the founder and CEO, Sowerby was best placed to know the true value of Blue Sky. We believe that if Sowerby had confidence in the Company, he would not have exited such a large block position so quickly. But given what we have uncovered in analyzing the Company's disclosures, in our opinion, Sowerby was selling out before the collapse of Blue Sky's share price.

VALUATION

Publicly traded asset managers are typically valued on a percentage of their fee earning AUM. The larger the fee earning AUM, the larger the revenue stream and the higher the valuation for the asset manager's shares.

Illiquid and unrealized investments are, by nature, difficult to value and therefore, much trust is placed in asset managers to value such assets in good faith. We believe Blue Sky abuses this privilege. Even at its reported fee earning AUM, Blue Sky's shares are expensive, as the Company trades on a premium to even the best publicly traded alternative asset managers.

Enterprise Value to Fee Earning AUM

	FY2016	FY2017	LTM
Blackstone	0.13x	0.09x	0.16x
KKR	0.12x	0.10x	0.16x
Apollo	0.06x	0.09x	0.09x
Oaktree	0.12x	0.13x	0.13x
Ares	0.12x	0.10x	0.14x
Carlyle	0.08x	0.05x	0.09x
Average	***0.11x***	***0.09x***	***0.13x***
Median	***0.12x***	***0.09x***	***0.13x***
Blue Sky	***0.24x***	***0.19x***	***0.23x***

Source: Bloomberg, calculated as of March 27, 2018.

Blue Sky's shares are already valued at a premium to blue chip asset managers such as Blackstone, Apollo, Ares and Carlyle. Blue Sky has nowhere near the skill, reputation or resources of such top-flight asset managers, so even on its reported AUM, we would expect its share price to decline from reversion to the median multiple of EV to reported fee earning AUM.

But as we discuss extensively in our report, we believe that Blue Sky has materially exaggerated its reported fee earning AUM in order to attract capital and boost its share price. Blue Sky's reported fee earning AUM has supposedly grown by 2,000% since IPO. During that period, its enterprise value has increased a staggering 4,027%.

AUM Growth Drives Enterprise Value Growth

$ M	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**H1 2018**	**Mar-18**	**Cumulative**
Fee Earning AUM	200	350	700	1,350	2,100	3,250	3,900	4,000	
Enterprise Value	22	39	192	249	517	624	1,029	875	
AUM Growth		***75%***	***100%***	***93%***	***56%***	***55%***	***20%***	***3%***	***2000%***
Enterprise Value Growth		***82%***	***386%***	***30%***	***108%***	***21%***	***65%***	***-15%***	***4027%***

Source: Company Filings, Bloomberg

Indeed, Blue Sky's brokers even identify AUM growth as the primary catalyst for the asset manager's rapidly appreciating share price. Morgans' November 2017 note was titled "Institutional AUM lifting off," and its February 2018 follow-on note was titled "Long runway for AUM growth."

Based on our review of the publicly available information regarding Blue Sky's investments, which includes an exhaustive sum-of-the-parts analysis of the assets in its portfolio, we believe that Blue Sky's ***maximum*** fee earning AUM is likely no more than $1.48 billion, which is 62% below the $3.9 billion fee earning AUM figure reported by the Company.

Fee Earning AUM Is Grossly Overstated

Segment	Funds analyzed	AUM reported	Glaucus Estimate	***Downside on reported AUM***
Real Estate	39	1,950.0	683.5	***-65%***
Real Assets	6	975.0	315.3	***-68%***
Private Equity	33	975.0	418.6	***-57%***
Hedge Funds	1	46.2	46.2	
Total	79	3,946.2	1,463.6	***-63%***

Source: Glaucus Calculation

Yet we believe that even this analysis is likely far too generous. We suspect much of the capital invested by Blue Sky has been squandered in extortionate one off "management fees," charged up front to investors. There is also evidence to support our investment thesis that Blue Sky has significantly overstated the performance of its investments. For these reasons, we suspect that Blue Sky's true fee earning AUM is much smaller than even our maximum estimate.

It is important to note that we are playing the role of financial detective, reconstructing Blue Sky's fee earning AUM from the limited disclosures by the Company about the exact composition of its AUM and the performance of its investments. We suspect that Blue Sky is cagey and opaque about its assets and performance because it wants to avoid scrutiny of its investments.

For simplicity, we value Blue Sky's shares on a multiple of enterprise value to our estimate of its maximum fee earning AUM of $1.5 billion. In addition, 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: Glaucus Calculation

Our valuation implies a market capitalization of $343 million and a ***Glaucus adjusted share price of $2.66, 77% below the current share price of $11.43***. That said, we believe that this valuation is likely far too generous to the Company because it gives full credit to Blue Sky's reported performance on its portfolio, which we suspect is inappropriately exaggerated. We therefore think it would be reasonable for investors to value Blue Sky's shares even lower. Where the bottom is, perhaps not even Blue Sky knows.

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We are short sellers. We are biased. So are long investors. So is Blue Sky. So are the banks that raised money for the Company. If you are invested (either long or short) in Blue Sky, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions about the public companies we research is in the public interest.

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