

BLUE SKY WATER FUND

FUND OVERVIEW

The Blue Sky Water Fund (Fund) provides an opportunity for wholesale investors to invest directly in the Australian water market and derive returns from the ongoing management of an increasingly scarce and vital resource; fresh water.

The Fund will invest in a regionally diversified portfolio of Australian water entitlements using a long term buy and hold approach, with capital gains expected to accrue as water is priced more appropriately to reflect its relative scarcity. Water volumes allocated to the Fund's water entitlements will be sold to agricultural and urban users, deriving a regular annual yield.

The Fund will fulfil a market need, and its investments are consistent with the objective of Australia's National Water Initiative to value water appropriately and allow it to be traded to its highest economic use.

BENEFITS OF BLUE SKY WATER FUND

- Target return of 10%-14% per annum (net of fees and before tax)² over a 5-7 year holding period, comprising yield and capital growth.
- Diversification of water entitlements across a number of geographies, zones and agricultural industries.
- Low correlation of returns to other traditional financial markets.
- An alternative investment with some liquidity; an open ended fund with quarterly redemption opportunities.
- Annual volatility not dissimilar to Australian equity markets.
- Managed by a highly experienced team of water industry professionals with a demonstrated experience in the water sector.
- An emerging asset class with solid long term drivers; water is a scarce resource increasingly in demand for the production of food, fibre and renewable energy.
- A finite number of water entitlements assets are on issue in Australia, and Governments are seeking to reduce the number on issue in the Murray-Darling Basin through a voluntary buy-back program extending to 2019.

WATER IN AUSTRALIA

Australia is a world leader in the regulation and trade of water entitlements (water rights). Since 2004, Governments have progressively decoupled water entitlements from land titles to encourage a greater market for water to develop.

Australian water markets are well established, large (greater than \$25 billion in size) and liquid. They are supported by a robust regulatory framework, infrastructure and market mechanisms that facilitate efficient water trade.

TRUSTEE

Blue Sky Private Equity Limited
ABN 45 125 223 958 | AFSL 314 177

INVESTMENT MANAGER

Blue Sky Water Partners Pty Limited (BSWP)
ABN 63 127 513 099

FUND STRUCTURE

Open-ended, distributing unit trust.

FUND SIZE (TARGET)

\$50M. Minimum \$30M.

MINIMUM INVESTMENT

Minimum initial investment of \$50,000.

TARGET RETURN

10%-14% per annum (net of fees and before tax)² over the medium term.

RECOMMENDED MINIMUM INVESTMENT TERM

5 to 7 years.

DISTRIBUTIONS

Paid annually, or more frequently at the Trustee's discretion. Distributions may be paid as annual or interim dividends. Unitholders may elect to re-invest distributions.

MANAGEMENT FEE

Management Fee of 1.99875% per annum (inclusive of the net effect of GST).

PERFORMANCE FEE

- 17.9375% (incl. GST) above a hurdle rate of 8% per annum, subject to a High Water Mark.
- Accrued monthly and paid annually based on final audited valuations.

APPLICATIONS

Applications can be made up until the 20th of the last month in any calendar quarter.

WITHDRAWALS AND LIQUIDITY

- Initial lock-up of 12 months.
- Withdrawals can be made as of the last business day of any calendar quarter (subject to 60 business days notice).

UNIT PRICE FREQUENCY

Monthly.

- 1 For the full terms and conditions please refer to the Information Memorandum for the Fund.
- 2 Equivalent to 7.0% - 9.8% per annum net of 30% tax and Management Costs, with franking credits available as a tax offset. The Fund will be taxed as if it were a company and will pay tax at the corporate rate of 30% on net income.

FOR INFORMATION CONTACT:

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WHAT ARE WATER ENTITLEMENTS?

Water entitlements are perpetual rights to access a share of a defined water resource such as a river system or aquifer (Water Entitlements). They are issued, regulated and registered by State Governments similar to land titles. Holders of Water Entitlements are allocated a volume of water each year (Water Allocation) which can be sold to agricultural, urban and commercial water users.

BSWP believes Australian Water Entitlements will experience long term capital growth primarily driven by incremental fresh water scarcity as a key input to food, fibre and energy production required by a growing world population.

INVESTMENT APPROACH

BSWP will acquire and manage a portfolio of Water Entitlements for the Fund that offers the greatest prospects for long term capital growth and a reliable ongoing yield. The construction and maintenance of the Fund is centred on: a portfolio well diversified across States, regions, types and security classes; prudent asset selection; a long term buy and hold approach; a focus on annual yields; and, the judicious purchase and sale of assets over time to ensure the portfolio remains well positioned for growth.

WHY IS THIS A GOOD TIME TO INVEST?

BSWP considers this an ideal time to invest based on:

- A sustained upward re-rating in global food prices to supply large markets (India, China, Indonesia) with increasing per capita incomes;
- A continuing transition of water use from lower value to higher value crops as farmers adapt their enterprise and cropping mix;
- Improving farmer cash flows following the breaking of the decade-long drought will soon stimulate more active farmer participation in water markets;
- The on going resolution of uncertainty which prevailed prior to the release of the draft Murray-Darling Basin Plan and Federal Election in 2010;
- The implementation of a final Basin Plan which will result in water for consumptive use becoming more scarce and more highly valued as it is bid to its most economically productive uses;
- The Commonwealth's commitment to continue to buy-back Water Entitlements in the market to meet the eventual outcomes of the Basin Plan.

ABOUT BLUE SKY WATER PARTNERS

BSWP will manage the deployment of the Fund and its ongoing water allocation sales program.

BSWP is the leading independent manager of investments in Australian water markets, having advised on the deployment of an Australian Water Entitlements portfolio for a leading international water investor since 2008. BSWP is presently pursuing a number of investment mandates on behalf of Australian and international investors and is expecting to soon launch its own Australian Water Entitlements Fund for institutional investors.

BSWP's Directors, Investment Committee and key officers collectively have more than 90 years' experience in water markets and regulation, agribusiness, commodity trading, environmental regulation and funds management.

TEAM MEMBERS

GRAHAM DOOLEY CHAIRMAN

Over 40 years' experience in the water industry. Previously Managing Director of United Utilities Australia (1991 to 2008), senior manager at Sydney Water (1970 to 1988). Past president of the Australian Water Association, present Chairman of Osmoflo Holdings Limited, Australia's leading supplier of reverse osmosis desalination technology. Former member of the National Water Commission's Urban Water Advisory Group.

KIM MORISON MANAGING DIRECTOR

A 20 year career specialist in Australian agribusiness and commodity trading. Previous roles include: General Manager, Marketing at CSR Sugar, Australia's largest raw sugar manufacturer; Division Director at Macquarie Bank's international cotton trading business; General Manager of Colly Cotton Marketing, part of the Twynam Agricultural Group.

ROB THOMAS INVESTMENT DIRECTOR

Over 30 years' career experience including engineering, environmental management, water regulation and public service with the Government of South Australia. Former chief executive of the Environment Protection Agency (EPA) in South Australia. Established South Australia's Department for Water Resources in 2002 with responsibility for policy, regulation, assessment and monitoring of water resources in that state. Previously a Murray-Darling Basin Commissioner, he championed completion of the Basin Salinity Management Strategy and the inter-state water trading pilot scheme which led to the development of the present southern interconnected water markets.

JIM PAPANICOLAOU CHIEF OPERATING OFFICER & COMPANY SECRETARY

Provides valuable funds management administration experience: a qualified CPA; a senior funds management administrator for Bankers Trust and JP Morgan from 1997 to 2005; and recently General Manager and Company Secretary for Kinsmen Securities Limited, a property funds manager.

IMPORTANT NOTE

This Fact Sheet (the 'Fact Sheet') is not an offer or solicitation with respect to the purchase or sale of any investment. This Fact Sheet is intended only for the person to whom it has been delivered. While we believe that this material is correct, no warranty of accuracy, reliability or completeness is given and, except for liability under statute which cannot be excluded, no liability for errors or omissions is accepted. This Fact Sheet is for discussion purposes only and is being made available to you on a confidential basis to provide summary information regarding Blue Sky Alternative Investments Limited and Blue Sky Water Partners Pty Limited. The Information Memorandum and Trust Deed for the Fund should be read in their entirety before making a decision to invest. The Fact Sheet may not be reproduced or used for any other purpose. You should not construe the contents of the Fact Sheet as legal, tax, investment or other advice.