BLUE STAMP COMPANY

8th November 2017

2017 Financial Year

Performance Measures

2017

The Trust performed well over the year, achieving a return of 20.84% before Performance Fees (PF) and 19.57% after Performance Fees. A summary of the Trust's performance is provided below, with further commentary included in the Operating Review.

		Unit Price	Return
01-Jul-16		$2.8394	
30-Jun-17	Before PF	$3.4310	20.84%
	After PF	$3.3951	19.57%
Distribution per unit		$0.0626	
Closing unit price		$3.3325	

As detailed in the Operating Review, the Trust has made a distribution of $0.0626/unit for the 2017 year. Following payment of this distribution, the closing unit price at 30 June 2017 is $3.3325.

Historical Performance

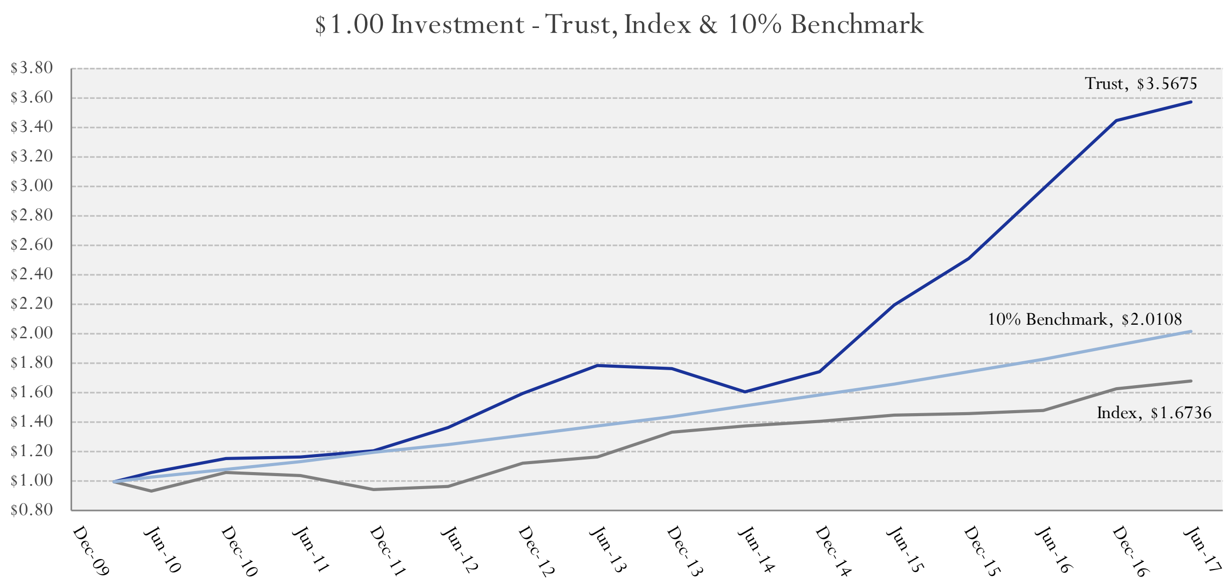
Below is a summary of the annual percentage change of the Trust (both before and after Performance Fees) against the 10% Benchmark – the Trust's return for 2010 relates to the period from commencement on 2 March, with the Benchmark being adjusted accordingly.

	Blue Stamp Trust		
Year	**Before PF**	**After PF**	**Benchmark**
2010.........	7.2	5.6	3.2
2011.........	10.3	10.1	10.0
2012.........	27.0	18.5	10.0
2013.........	50.6	30.4	10.0
2014.........	(10.8)	(10.8)	10.0
2015.........	36.9	36.9	10.0
2016.........	43.5	36.7	10.0
2017.........	20.8	19.6	10.0

The following table shows the annual percentage change of the Trust (after performance fees) against the annual percentage change of the All Ordinaries Accumulation Index (Index). The All Ordinaries Accumulation Index is used because it is the broadest measure of the Australian share market's performance whilst also including the effect of dividends.

Year	Trust	Index	Variance
2010.............................	5.6	(7.3)	12.9
2011.............................	10.1	12.2	(2.0)
2012.............................	18.5	(7.0)	25.5
2013.............................	30.4	20.7	9.7
2014.............................	(10.8)	17.6	(28.4)
2015.............................	36.9	5.7	31.2
2016.............................	36.7	2.0	34.7
2017.............................	19.6	13.1	6.5
Average Annual Return....	**19.0**	**7.3**	**11.7**

The following graph tracks the change in value of $1 invested in the Trust versus the 10% Benchmark and the Index. The value of the investment in the Trust is after performance fees and *includes* the reinvestment of any distributions which have been paid.



As mentioned in prior communication, viewing the return of the Trust against the Index should only act as a supplement in understanding the performance achieved in the prevailing climate. Instead, our main concern should be focused toward beating the 10% Benchmark over the medium term, by an acceptable margin.

As mentioned in prior letters, given that we are investors seeking longer term capital growth, we should eschew the short term and focus on performance over time horizons that are consistent with the period of our investment. Accordingly, expanding our perspective to include the entire operating history of the Trust, an investor at the Trust's commencement would have received an average annual return of 18.95% (after all fees).

While a longer span of time helps reveal the merits of our investments, we nonetheless report over much shorter time frames. Accordingly, to best equip ourselves for the short term, we should be prepared for negative years, which I fully expect the Trust to experience in the near term given the buoyant markets that are prevailing.

Remuneration of Manager

Fee	Description	2017	2016
Performance Fee (paid as)	Cash ($)	50,806	111,506
	Units ($)	88,522	141,249
	Total ($)	139,328	252,754
Management Fee (paid in cash)	Amount ($)	99,377	19,839
	% of net asset value	0.987%	0.785%

Amounts shown above reflect the expense to the Trust – inclusive of Goods and Services Tax (GST) and Reduced Input Tax Credits (RITC). For consistency with 2017, the Management Fee for 2016 has been restated to include administrative expenses.

The value of the Performance Fee was determined by the extent of the Trust's performance that exceeded the annual 10% benchmark. In keeping with the Management Fee Rebate resolution that was passed by Unitholders during the year, the Performance Fee payable for 2017 has been reduced by the value of the Management Fee paid during the year.

For 2017, the rate of this Management Fee was 0.987% of the average net asset value of the Trust. While this is below the limit of 1.025% (including GST and RITC), there is still considerable work to be done to reduce it further.

To help fund the Manager's tax liability that is generated from the payment of the Performance Fee, a portion of this fee is paid in cash. In no way does this cash payment reflect any wavering of Blue Stamp's key tenet of building an alignment of interests between the Manager and Unitholders. Instead, having the 'after tax' component of the Performance Fee being paid in units, continues to underscore the Manager's commitment to the long-term performance of the Trust.

Operating Review

Income

The most significant components to the Trust's performance, are the change in value of our long-term investments (both realised and unrealised) and any dividend income the Trust might receive. A summary of the Trust's income during the year is shown below.

	2017	2016
	$	$
Investments - Realised	570,639	578
Investments - Unrealised	1,145,655	1,040,001
Short term transactions	(4,730)	2,524
Dividends	125,634	54,080
Interest	1,460	793
Sub-underwriting	3,000	2,825
Gross Income	**1,841,658**	**1,100,801**

Investments

During the year, the Trust departed from its typical course of having its performance almost exclusively generated through unrealised gains. This departure was in the form of a takeover offer made for one of our longest held positions in BigAir Group. While we supported the takeover proceeding, which resulted in a realised gain on our investment, it is worth repeating that our objective of accruing performance through unrealised gains remains unchanged. As described in the half year letter, BigAir was a great business and a fantastic investment for the Trust and while it is disappointing to have a big(air) hole to fill, all is not lost. Coincidentally, BigAir was taken over by Superloop – another of the Trust's investments. Before the BigAir acquisition, Superloop's Australian operations consisted of a core fiberoptic network in the metro areas of Brisbane, Sydney and Melbourne. Adding BigAir's fixed wireless capabilities to this core network seems to be a compelling way to improve the economics of BigAir's network whilst also extending and amplifying Superloop's network. This is even more so the case when considered in light of the expanding footprint of the NBN, where having the ability to deliver superfast broadband over a network that is independent of the NBN cost structure is a great advantage. In addition to this now enlarged Australian network, Superloop also owns and operates fiberoptic networks in the key Asian markets of Singapore and Hong Kong. Being a young telecommunications company, unencumbered by a legacy network, Superloop is able to configure its network and deliver services that best meet the connectivity requirements that come with the adoption cloud computing. With a front row ticket to the action, I for one am greatly looking forward to watching the combined Superloop/BigAir business take on the Asia Pacific telecommunications markets over the next few years.

A major contributor the Trust's unrealised gains was the performance of our investment in NextDC. While I mentioned NextDC in last year's report, given the Trust only held ten stocks at 30 June 2017 (value is hard to find), combined with our long holding periods, you should expect to hear a degree of repetition in the discussion on our companies. When a business has a durability in its earning power but volatility in its price, opportunities are created and this occurred in NextDC during the year. While we maintain an investing style that would best be described as inert, action will be swiftly taken when circumstances warrant it – such as a drastic rise or fall in the market price that is not likewise reflected in the operations or outlook for the business (that is, its intrinsic value) or some structural change, favourable or not, in the operations of the business or its industry. The volatility that NextDC experienced during the year was used as an opportunity to further invest in the business at prices which were attractive in meeting our medium-term horizon.

On the other side of the performance scales was our investment in Silver Chef, which had the largest negative contribution to the Trust during the year. Silver Chef provides asset backed financing for small and medium sized businesses looking to purchase equipment. Through their ability to recondition and remarket returned assets, Silver Chef can provide this financing to businesses that otherwise find it difficult to obtain funding. However, during the year the company was the subject of a fraud event, whilst also experiencing a spike in bad debt and impairment charges in a new line of business – financing for light commercial vehicles – which weighed heavily on their 2017 result and will likely continue well into 2018. While the underlying earning power of the business appears intact, these operational issues will be monitored closely to assess whether they truly are transient factors or indicative of some fundamental deterioration in the quality of business financing they are underwriting. Given the group has provided this financing for over 30 years (12 of which have been as a listed entity), whilst also delivering strong profitability and consistent returns on their capital, together with the founder remaining the largest shareholder (and chairman), as significant as the events of 2017 were (and continue to be), I do expect these operational issues to be more transient than structural. However time will tell and we will be taking a vigilant approach in monitoring management's progress.

Finally, with the Trust able to allocate up to 15% of its net assets into international opportunities, in August 2016 we invested in Facebook. Admittedly I am a very light consumer of social media, so when considering the investment merit of Facebook, it did take me a while (around 3 years) to throw off my own prejudice and consider it with fresh eyes – and an incredible business was revealed. Facebook is in every way as much of a media property or a medium for the broadcast of content – and subsequently adverstising space – as are the more traditional media properties of newspapers, television networks or radio stations. However, Facebook has a number of significant advantages over its traditional brethren.

Before the internet, ownership of traditional forms of media were an attractive proposition and with the right circumstances, they could be a phenomenal investment. Warren Buffett shrewdly recognised this when, through a jointly owned entity, Berkshire Hathaway purchased the Buffalo Evening News in 1977. However, at the time of purchase the Buffalo News had another local paper it was competing with which contributed to very challenging conditions for a number of years. However with this competing paper closing down, the Buffalo News was the only remaining masthead and Buffalo, New York was left as a one paper town. While the Buffalo News still had to compete with other media, such as television and radio, Buffett nonetheless described the paper as like a toll road that advertisers had to pay to reach their targeted customers.

Digital companies and social media platforms have eroded much of the earning power of traditional media organisations and comparing these side by side shows clearly the significant advantage the digital properties have over their predecessors. Firstly, the curation of Facebook's content is done by Facebook's own audience, rather than journalists and editors, meaning that its content is perpetually relevant to its users – because it's the 'story' to their own lives. The universal nature of Facebook's content combined with its digital delivery, allows the 'publication' to be rolled out globally, rather than being confined to one geographical area (such as Buffalo, New York) – relying on a network of data centres and fibre optic cables instead of printing presses and delivery people. Furthermore, Facebook's large user base is itself a strong economic moat, acting like gravity – attracting new users and retaining existing ones – providing a compelling option for advertisers hoping to reach a large audience base as efficiently as possible. Amplifying this attractive base of users is the granular information Facebook has on these users, allowing advertisers to not only rollout campaigns to large audiences through a single media property, but paradoxically, also allowing advertises to target niche pockets of users that may fit certain characteristics (such as geography, age, gender and even interests). Once an advertising campaign has been rolled out, the digital nature of Facebook's platform provides advertisers greater insights about the performance of the campaign, allowing the success of different approaches to be measured, further building the value of advertising through this property. Facebook's platform and user base have grown into a systemically important piece of global social infrastructure and an important property for advertisers – in turn, making much of the world a one paper town for Facebook.

Short term transactions

As mentioned in the half year report, the Trust's loss from short term transactions was largely driven by our early exit from the takeover of Galileo Property Trust, with the proceeds being reinvested into a longer dated investment opportunity.

Dividends

The increase in dividend income in 2017, stemmed from larger holdings in existing positions. Consistent with Blue Stamp's focus on generating capital gains (rather than dividend income), the underlying businesses we own are also reinvesting a large portion of their profits in order to further develop their operations and grow their profitability. This naturally restrains the total value of dividend income the Trust receives.

The dividend income shown above does not include franking credits.

Sub-underwriting

Blue Stamp continued its modest sub-underwriting activities from 2016. This opportunity arises when a public company may seek additional capital for their operations and accordingly undertakes a private placement of shares. The underwriting component involves our commitment to buy a specified number of these private placement shares, if a shortfall exists. As consideration for providing this commitment, Blue Stamp is paid a fee based on the value we have agreed to underwrite.

This opportunity becomes very attractive when the company undertaking the capital raising is also one of our long term holdings. Given our passive, patient approach, offering these underwriting services is a natural path for Blue Stamp to pursue – provided we are comfortable with the implied valuation and the possibility of owning more of the stock. If we are comfortable with both of these aspects, then sub-underwriting also provides the opportunity to acquire the additional shares free from transaction costs – whilst also being paid a margin for the service.

Expenses

	2017	2016
	$	$
Investing Expenses		
Brokerage - Investments	(23,587)	(5,873)
Brokerage - Arbitrage	(1,243)	-
Total brokerage expense	(24,830)	(5,873)
Interest expense	(61,751)	(29,464)
Total Investing Expenses	**(86,581)**	**(35,337)**
Management Expenses		
Management fee	(99,377)	(19,839)
Performance fee	(139,328)	(252,754)
Total Management Expenses	**(238,704)**	**(272,594)**
Total Expenses	**(325,285)**	**(307,931)**

Investing Expenses

Investing Expenses are costs that relate directly to securing and holding the assets of the Trust, of which drive the investment returns achieved.

The Trust received some relatively large contributions of new capital during the year, which when invested led to the increased brokerage expense incurred. For 2017, the average rate of brokerage paid on each transaction was 0.141%, however this was diluted by the takeover of BigAir, which did not incur any brokerage expense. Excluding the BigAir takeover, the average brokerage rate paid by the Trust for 2017 was 0.184% (2016: 0.211%).

Also contributing to the higher investing expense was an increase in borrowings the Trust carried throughout the year, which corresponded to an increase in interest expense. The borrowings were incurred through a margin lending facility, with an interest rate at 30 June 2017 of 4.55% (2016: 5.09%). In order to provide an appropriate degree of confidence that in most market conditions the margin loan will not be called, we have resolved to implement a self-imposed loan to value limit of 25% of the net asset value of the Trust. There is no prescribed leverage rate that we wish to maintain, but instead any levels of borrowing will be determined by the opportunities considered available at any point in time. However, as mentioned earlier, we will always have regard for our ability to, at minimum, maintain the Trust's holdings (and borrowings) through market cycles, as well as the avenues available to reduce these borrowings if need be. At year end the Trust's borrowings (including trade creditors) were at the upper limit of our ceiling, representing 22.8% of net asset value (2016: 7.6%; note, the 2016 leverage rate has been adjusted to reflect the impact of trade creditors). Over the year, the Trust carried average borrowings of 13.1% of net asset value.

Certainly, when borrowings are used to finance an investment it is done so to take advantage of what is considered an opportunity suitably attractive enough to justify the higher holding cost and increased risk to the portfolio. It is also done with a clear understanding of the Trust's ability to service those borrowings through various market cycles and operating conditions, along with how the borrowings will be managed and paid down over time. Given it is my preference to have the fund either fully invested or close thereto – so long as the opportunities justify it – this margin lending facility essentially allows the Trust to remain fully invested, whilst still having the funding to take advantage of opportunities should they arise.

Management Expenses

The Management Fee is the fee charged to manage the operations of the Trust, with any amount paid being rebated back against any Performance Fee accrued. If, over time, a Performance Fee is being earned by the Manager, then with the rebate in place, the only fee Unitholders should effectively be paying is the Performance Fee – with any amounts paid under the Management Fee acting like an advance on any future Performance Fee. This helps ensure the Manager of the Trust will be adequately resourced whilst at the same time, maintaining the commitment to minimising the drag of any management expenses on the Trust's performance.

With the performance of the Trust being calculated after the payment of any Management Fee, it is in the interests of the Manager to keep any Management Fee as low as possible, as a lower Management Fee will lead to a greater return for the Trust and naturally, a higher Performance Fee.

The ratio of the Management Fee paid for 2017 as a proportion of the average net asset value over the year was 0.987% (2016: 0.79%). While this was below the 1.025% limit (including GST and RITC), there is considerable work to be done to reduce it further.

By virtue of its structure the Performance Fee will only become payable when the Unitholder's equity (measured on a per unit basis) has increased by more than the Benchmark of 10% p.a. Following on, this fee would rightfully be considered a success fee as it represents the creation of absolute wealth for Unitholders.

As a large component driving the value of the Performance Fee was unrealised gains, an important feature of the Trust is that the 'after tax' amount of the Performance Fee is paid in units of the fund. This keeps the Manager 'on the hook' for the quality of the Trust's investments and therefore aligned with the interests of Unitholders.

Operating Profit

	2017	2016
	$	$
Gross income	1,841,658	1,100,801
Total expenses	(325,285)	(307,931)
Net Operating Profit	**1,516,373**	**792,870**

In line with the earlier discussion, the net operating profit for 2017 led to a 19.57% rise in the unit price to $3.3951.

General Discussion

The Trust's investing operations are aimed to be kept as simple as possible, where our patient approach to allocating capital leads us to invest amongst industries that are expected to experience favourable operating conditions and in companies that have a durable differentiation in their product or service which leads to a sustainability in their earnings. And then to invest at prices that are attractive relative to our absolute return goal.

However, growth alone is not enough to justify the Trust making an investment. Given we are investors seeking returns over long stretches of time, if in pursuit of growth, a company's operations cause manifest vandalism to society, the environment or the economy, then the value of an investment in that company will at some point be at considerable risk when its conduct and the damage it causes, are no longer accepted. As technology quickens the dissemination of information and the mobility of capital and labour improves, any apathy to which the company's operations may have experienced in the past will only erode, leaving it at an increasing risk of disruption, either through a competitor's offering that might not have the same adverse consequences or a change in accepted norms – through regulation or customer disengagement.

While a black mark against any one of the three areas above would naturally cause reticence, what constitutes a negative impact can be quite subjective – as is the case with most aspects to investing (and life). Nonetheless, we view all prospective and current investments through this lens, hoping to continually improve our understanding of their operations, so as we can best gauge how their product or service will be required not just today, but many years from today.

Given the internet, technology and digital applications are on a seemingly inexorable growth path, driving deeper into our personal and professional lives, the telecommunications and technology industries are important areas for the Trust to search for investments in. Demonstrating the subjectivity of assessing the qualitative impact of a business's operations, technology in general and Facebook specifically, can be seen to offer both desirable and undesirable social contributions – having the enormous potential to bring society closer, whilst also having the ability to strengthen the sense of 'individuality' and cynically, egoic behaviour. I recognise this is starting to depart from the quantitative grind that ostensibly characterises investing and moves us into subjective, philosophical areas; however if we are truly long-term investors, then we must have regard and consideration for these aspects.

To be clear though, these challenges and our consideration for them are not limited to any one industry but they are a natural state of the world, as processes and outcomes are continually improved. In today's environment where technology is often used to either improve existing operations or engineer completely new processes, the commercial and social environments are seemingly experiencing a faster rate of change – and so too are the organisations operating within them. While this poses an additional risk for the long-term investor to consider, it also creates opportunities for large value creation to occur. With many of the organisations causing this flux still in their relative infancy, I consider ourselves very fortunate to be investing at this point in time, where we have the opportunity to identify and invest in some of these companies and share in the growth that they experience.

Luke Trickett