2nd November 2020

2020 Financial Year

Performance Measures

2020

Rounding out our first ten years of operation, Blue Stamp Trust (Trust) achieved its best performance during the year, recording a return for Lead Class units of 73.92% before Performance Fees (PF) and 55.59% after Performance Fees. However, this headline result belies the quality of investing that took place during the year – which, frankly, was my worst to date. A summary of the Trust's performance is provided below, with further commentary included in the Operating Review.

		Lead Class Unit Price	Return
01-Jul-19		$4.8016	
30-Jun-20	Before PF	$8.3511	73.92%
	After PF	$7.4708	55.59%
	Distribution per unit	-	
	Closing unit price	$7.4708	

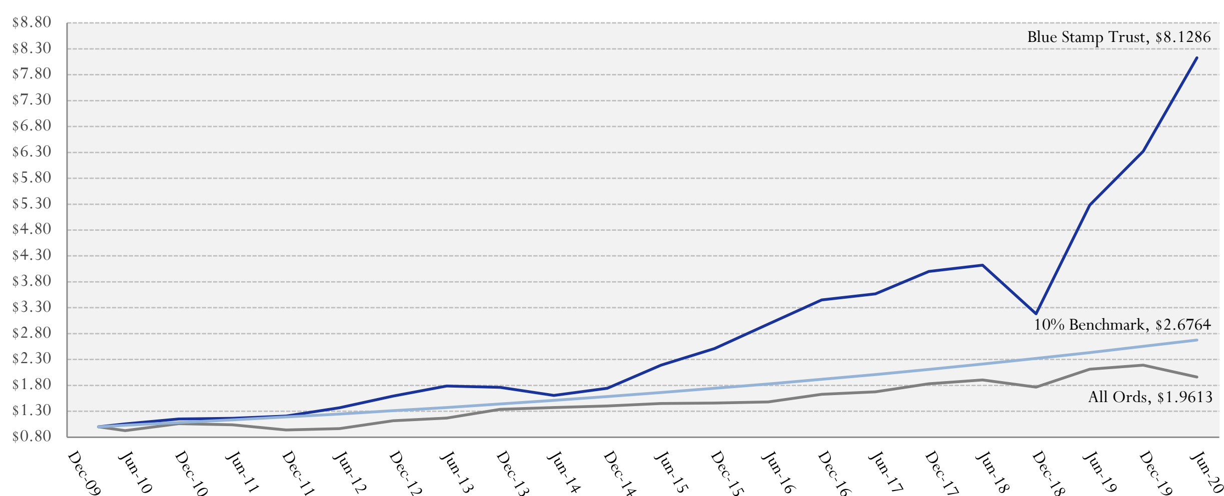
No distribution is payable for the 2020 year. Accordingly, the closing Lead Class unit price at 30 June 2020 was $7.4708.

Historical Performance

Below is a summary of the annual percentage change of the Trust (both before and after Performance Fees) against the 10% Benchmark and the All Ordinaries Accumulation Index (Index) – the Trust's return for 2010 relates to the period from commencement on 2 March 2010, with the Benchmark being adjusted accordingly. 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	Blue Stamp Trust Before PF	After PF	Benchmark	Index	Variance (Trust vs Index)
2010	7.2	5.6	3.2	(7.3)	12.9
2011	10.3	10.1	10.0	12.2	(2.0)
2012	27.0	18.5	10.0	(7.0)	25.5
2013	50.6	30.4	10.0	20.7	9.7
2014	(10.8)	(10.8)	10.0	17.6	(28.4)
2015	36.9	36.9	10.0	5.7	31.2
2016	43.5	36.7	10.0	2.0	34.7
2017	20.8	19.6	10.0	13.1	6.5
2018	17.0	15.4	10.0	13.7	1.7
2019	35.5	28.8	10.0	11.0	17.7
2020	73.9	55.6	10.0	(7.2)	62.8
Average Annual Return	**28.4**	**22.5**	**10.0**	**6.7**	**15.8**

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 for *Lead Class units, after all fees and includes the reinvestment of any distributions*.



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 history of the Trust, an investor at the Trust's commencement would have received an average annual return of 22.49% (after all fees).

We do not try to protect the Trust from short term volatility, instead relying on longer spans of time to reveal the merits of our investment decisions. However, recognising that we report over much shorter time frames, we should be prepared for continued volatility and negative years of performance, especially given the social and economic upheaval currently being experienced.

Operating Review

Income

The most significant component driving the Trust's performance is the change in value of our long-term investments (both realised and unrealised). A summary of the Trust's income during the year is shown below.

	2020	2019
	$	$
Investments - Realised	(24,129,665)	(326,772)
Investments - Unrealised	109,162,942	9,183,555
Dividends	19,319	17,450
Other Income	77,472	11,855
Total Income	**85,130,068**	**8,886,088**

Investments

As has been mentioned in previous letters, having our returns driven by unrealised gains, leads to efficiency in our performance – minimising transaction costs and taxes. This approach also resulted in no tax distribution being payable for 2020, despite achieving a return of 55.6%.

While 2020 was our best returning year, in hindsight it was also my worst performance as an investment manager. Given the many similarities between investing and sport, our 2020 reminds me of a situation Lib experienced when she was competing at the 2006 Commonwealth Games Trials – the national championships that were used to select the team to compete at the Melbourne 2006 Commonwealth Games. By the time her favoured event – the 100m freestyle – came to be raced, she had already demonstrated she was in top form and delivering results. While 'only' competing against fellow Australians, in this event Lib was coming up against the best in the world – the reigning world and Olympic champion (Jodie Henry) and third in the world (Alice Mills). Splitting Jodie and Alice, Lib was ranked second fastest at the time, so having the three girls in the field was a race of the highest standard. Consistent with her form at the time, to qualify for the final Lib ended up breaking the world record in her semi, swimming a time of 53.42s. After completing her poolside interviews, she then walked through to chat to her coach, Stephan Widmer, to get a qualitative and quantitative run down of her performance. Ordinarily, most coaches would have been thrilled with such a result from their athlete, however when Lib reached Stephan, the dialogue went as follows:

Stephan: what was that??
Libby: a PB and a world record!
Stephan: you completely stuffed it up (then launching into a laundry list of errors and shortcomings in her race execution).

* If you were wondering; Yes, Lib did go on to win the final the following night (incorporating Stephan's feedback, of course…), along with the title at the Commonwealth Games (…I am fully aware that 14 years on, I still find myself crowing about her performances). Of the countless world records and gold medals she won over the years, we're still not quite sure if Stephan was satisfied with any of them – but that's what made them one of the all-time best athlete coach combinations! (I digress…).

While our investing performance is nowhere near equivalent to the level of Lib's swimming, these situations are directionally comparable and help to explain how something that may appear as a great result on the surface, can be well short of expectations when you dig into it and reflect on what was possible. And so was our 2020 – when it was raining gold, instead of reaching for a bucket, I found myself grabbing an umbrella.

Covering our performance in more detail, it probably makes sense to discuss the year in roughly a reverse chronological order. As can be seen in the table above, there was a large increase in the absolute numbers of our realised and unrealised gains during the year. Firstly, this was due to the funds under management growing as the Trust partnered with what is quite likely the highest quality institutional investor there is, anywhere (which prima facie, is inconsequential to Unitholders, save for the critical factors of ensuring the Trust's capital remains stable and focused on long term objectives, as well as not having our investment returns suffer due to the larger size). The other driver behind the realised loss was our activity during the volatility in March and April. When the pandemic hit, the implications on the wider underlying economic activity looked severe, with consequential impacts on, amongst other things, employment, asset prices, corporate and personal bad debt rates and quite possibly, social order (without trying to sound too dramatic). That this did not occur is essentially due to governments changing the rules of commerce, rules which as investors we have to abide by, as they inform the consequences of what occurs when customers stop buying, revenues dry up and payables and liabilities can no longer be funded. Some of the changes implemented by governments included landlords not being able to evict tenants that do not pay their rent, permitting tenants to not pay their rent, banks being strongly encouraged to not foreclose on home owners that are in arrears, businesses being able to trade insolvent. If that last one caused you to gasp, I'm not surprised. That the government could allow an unhealthy (or terminally ill) business to trade with and 'infect' other, healthy businesses (who assume their customer is 'good for the money') is remarkable – and echoes another situation I know of… something about a global pandemic where unhealthy people are infecting other, healthy people..? To be clear, these measures are unprecedented and were critical in ensuring our social fabric remains stitched together – without many of them in place (in addition to the significant, direct government support provided to individuals and businesses), the world would look very different than it does today. However the measures weren't in place when we made our decisions to adjust some of our holdings, leaning away from those sectors and businesses which would likely experience headwinds and toward those that would undoubtedly perform well from the circumstances. While this resulted in us buying some '50 cent dollars', in hindsight it turned out to be an inefficient use of our capital, as funds were recycled from holdings that ultimately performed very strongly.

This was the first time in my investing career I have not been aggressive in our positioning, instead finding my gaze straying from a laser focus on company specific fundamentals and instead considering wider economic conditions. Reflecting on this, I still don't have an answer for you. While the 2008 financial crisis occurred early in my professional career and having witnessed the economic and market conditions deteriorate over an 18-month period, I did (and still do) consider the current circumstances to be far more dire than in 2008 (despite not being in a financial crisis) and so an 18-month period of decline did not seem out of the question. To provide some simple examples that demonstrate the relative scale of economic havoc being wrecked by the virus, the Australian government provided consumers with ~\$52b[1] of stimulus in 2008 versus \$299b[2] in 2020 with another \$98b to come in 2021[2]! Our unemployment rate increased to 5.9%[3] at its highest in July 2010 and now it is currently sitting at 6.8%[3] (which no doubt understates what is actually occurring, as JobKeeper is helping to keep people employed that otherwise would not be without direct government support). In 2008 our stock market fell 51.4%[4] from its previous high, and now it has fallen only 13.0%[4] – with the peak to trough period in 2020 taking only 22 trading days! We must hold this picture front and centre in our mind, to remind ourselves that the world is not in an economically healthy place, despite what the market's performance may suggest. Again, that we aren't finding ourselves in the situation of 2008 (or worse) is purely due to the measures taken

[1] Effectiveness of the Australian Fiscal Stimulus Package: A DSGE Analysis, Shuyun May Li & Adam Spencer
[2] Budget 2020-2021
[3] ABS Labour force statistics Australia
[4] S&P Index Data: All Ordinaries Accumulation Index

by governments and central banks, acting in concert, globally. That these institutions are working so closely together and with such significant quantum is breathtaking – I don't know what the endgame is, nor does anyone else.

Back to Blue Stamp's 2020, such was the degree of economic and financial risk caused by the pandemic, we moved into a reweighting of some positions. However, as measures by governments and central banks were unleashed, we recognised some of our earlier decisions were incorrect action and subsequently reversed direction. Almost all of this activity occurred in the second half of the year, with the Trust having recorded only minor realised gains/losses during the first half.

Somewhat ironically, it was Afterpay that was our largest contributor to both realised losses and unrealised gains for the year. During the early stages of the outbreak and lockdowns, Afterpay looked to be one of our more vulnerable positions, with a service that was centered around providing consumers unsecured, short term loans for discretionary purchases and a business model that was as yet, unproven in an economic recession. Though reality has proven management as deft operators and the business model as far more resilient than expected.

On Afterpay's management, they oversaw the Group record its lowest ever rate of gross losses (less than half that of 2016 – whilst still maintaining equivalent levels of provisioning) and acted with compassion toward those customers experiencing financial difficulty, actively encouraging them to move onto a hardship program. They managed these credit control activities all whilst simultaneously balancing the competing objective of growing their user base and transaction volume significantly and continuing their geographic expansion.

An action taken by Afterpay to adapt to the new landscape was reshaping the repayment schedule for ANZ users, where they were now required to pay the initial 25% instalment at the time of purchase rather than two weeks after purchase. Not only did this reduce Afterpay's risk profile, but it also increased the cadence to its capital, improving the underlying economics of their service – so in a time of economic stress, Afterpay's business model strengthened! The COVID environment has also accelerated the tectonic shifts of consumers moving from credit cards to debit cards and the migration of offline and cash payments to online and non-cash payments – all of which contributed to COVID being a tailwind for Afterpay.

Though it wasn't just management nous that shielded Afterpay from poor credit. Having a short loan tenor meant the Group could make decisions in near real-time and adjust according to the economic conditions prevailing in each of their markets. The incredibly short loan duration also protected Afterpay leading into the pandemic, as unlike a bank, they did not find themselves holding loans with 30 year tenors, earning paltry rates of return, that were originated under different assumptions about future economic conditions.

Though in all honesty the quantum and duration of direct government support to businesses and consumers can't be overlooked when understanding how Afterpay fared so well. Not only did this put money in people's pocket, preventing a complete and utter collapse in credit, but puzzlingly it kept consumers spending on discretionary items (and even increased their spending in other areas – looking at you, toilet paper…) and with a business model built on transactions, all of this meant Afterpay could continue to generate revenue whilst also not incur crippling loan losses – again, this was completely unforeseen by me.

Overall, our performance during 2020 was ultimately a product of simply being in the right place at the right time – whereby other of our core holdings, Megaport and NextDC, also found themselves operating with a COVID tailwind at their back, as the synchronised, global adoption of working from home meant those companies that facilitated this shift, saw a number of years of demand brought forward overnight and so also contributed strongly to the year's performance.

While on the topic of luck, we couldn't discuss 2020 without mentioning the gift we were given of being out maneuvered in our effort to recapitalise Silver Chef early in the year. By providing equipment finance to the hospitality industry in Australia, New Zealand and Canada (not to mention aspirations to expand to the US), and with a balance sheet that was in severe distress, Silver Chef was already in a vulnerable position when the pandemic hit, not to mention the unfortunate circumstance of providing their service to an industry that was one of those hardest hit by the lockdowns. Having these conditions occur simultaneously, the world over, meant Silver Chef had no place to hide (nor any place to remarket the returned equipment) – squeezing any remaining oxygen (cash) from their operations. That we managed to dodge the 'Silver Chef bullet' had nothing to do with skill on my part and everything to do with falling over at the exact right time.

Save for my Afterpay-mea culpa, almost every holding of the Trust experienced unrestricted growth, leading us to deliver a return for 2020 unlike any other year we have had.

Far from the problem of having our returns suffer due to a larger amount of funds under management, our size is something that we can now use to our advantage and pursue opportunities that otherwise would not have been possible. Consistent with how we identify new opportunities (which are typically revealed when researching existing positions) during our due diligence investigations for Silver Chef, we identified what we felt was a meaningful opportunity to deliver a new tool for small and medium businesses to help manage their cash flow and operational risks. Enter Marmalade, a B2B payment and cash flow service. While still at a nascent stage, Marmalade has a large market opportunity ahead of itself and by starting it from scratch, the Trust is in the fortunate position of being able to prove up a long term compounder whilst putting little capital at risk, and in so doing, mitigating the growing challenge of finding compelling long term investment opportunities available at attractive valuations.

Marmalade marks the first time the Trust has invested in a company that is not publicly listed. While investing in a privately held startup may seem like a departure from our process, these are more cosmetic differences. Instead, Marmalade is a direct result of our learnings from existing and prior investments, whereby our next idea has typically been informed or otherwise built from our prior work and base of knowledge carried through from a previous idea – allowing our investing to take an iterative approach – which simultaneously reduces risk and improves our chances of success.

Specifically, Marmalade is the product of learnings and insights from Silver Chef and Afterpay. In this case, our discussions with small businesses, learning some of the meaningful problems faced by them, combined with our own experience as a small business owner, together with our knowledge of Afterpay gave us the tools to understand where a new opportunity for substantial long term wealth creation may be hiding. While no doubt there is more risk to executing on this opportunity (as compared to an established business, trading on the stock market), the tradeoff is that we do not have to pay a high priced valuation to own part of the company's future.

Marmalade has assembled a team of high achieving individuals with direct experience in those areas critical for Marmalade's success. As with any investment opportunity we have researched (let alone invested in), the pay-off, if any, is highly uncertain – both in terms of quantity and timing. Marmalade is no different.

At 30 June 2020, the Trust was required to value its investment in Marmalade – based off either an independent valuation conducted by a competent third party or from a recent arm's length transaction. Given Marmalade undertook a capital raise in May 2020, where an experienced, early stage investor purchased a significant stake in the Group, the Trust relied on the arm's length transaction to value Marmalade.

At 30 June 2020, Marmalade comprised 2.1% of the Trust's net asset value (as measured using Marmalade's book value) and contributed $2.75M of the $109M unrealised gains for the year.

So while Marmalade looks different to all our other holdings, it remains a product of our iterative approach, building on the knowledge we have accumulated from existing and historical positions. This is the benefit of keeping our focus on a small number of areas – we can build our understanding to a level that allows us to identify and execute on opportunities that may have otherwise gone unnoticed. Importantly though, we feel these areas of interest offer large addressable market opportunities that are benefitting from structural tail winds. Accordingly, by keeping our research and investing focused tightly around these areas, with a patient approach to allocating capital we are not limiting our capacity to grow far larger than today but instead we're providing a greater chance of delivering performance. Marmalade should therefore be viewed as an example of how our research and investing continues to evolve – which is a necessity for us to be able to maintain performance as the Trust continues to grow.

During the period of volatility in March and April, we recycled almost all the capital that had been invested in international markets back into domestic opportunities. Consequently, the funds invested in international markets fell from an already low 2.7% of the Trust's net asset value at 30 June 2019 to <0.1% at 30 June 2020.

Dividends and Other Income

Dividend income is increasingly a marginal contributor to the Trust's performance, and we expect this to continue as our investee companies remain squarely focused on investing all available capital to best position themselves as a leader in their respective markets. Critical to the long-term merit of the decision to reinvest for growth is how successful those companies will be at generating an adequate return on the retained capital. While we would never flippantly suggest a company retain its operating cash flows, however when their targeted rate of return exceeds ours, it only makes sense for that to occur. We will be watching closely.

The dividend income shown above does not include franking credits.

Other Income relates to interest received on our cash holdings throughout the year.

Expenses

	2020	2019
	$	$
Investing Expenses		
Brokerage expense	(231,648)	(34,376)
Interest expense	(174,699)	(153,838)
Other expense	(2,690)	(2,257)
Total Investing Expenses	**(409,037)**	**(190,471)**
Management Expenses		
Management fee	(1,520,324)	(228,033)
Performance fee	(12,878,506)	(1,151,708)
Total Management Expenses	**(14,398,830)**	**(1,379,741)**
Total Expenses	**(14,807,867)**	**(1,570,212)**

Investing Expenses

Investing Expenses are costs that relate directly to securing and holding the assets of the Trust.

The increase in fund size was the primary factor driving the amount of brokerage incurred during the year and to a lesser extent, the volatility experienced in March and April also contributed. For 2020, the average rate of brokerage paid on each transaction was 0.118% (2019: 0.079%).

Over the year, the Trust maintained an average leverage ratio[5] of 8.2% (2019: 22.7%). Due to the increase in fund size and cash on hand, the Trust maintained relatively lower levels of borrowings throughout the year. Through the second half of the year, the Trust carried an average leverage ratio of 13.4%, which was higher than the first half but comfortably below prior years. The Trust's leverage ratio at 30 June 2020 was 12.7% (2019: 25.9%), which is below our limit of 25% of net asset value.

The Trust's borrowings are incurred through a margin lending facility. The reason the Trust uses a margin loan is to allow it to maintain a fully invested portfolio – provided individual opportunities justify it. With the stock market rising on average over long spans of time, a fully invested portfolio (i.e. zero cash and zero borrowings) is our preferred state, with the margin loan providing increased liquidity when we feel the circumstances warrant the increased exposure and higher cost of funding. However as we know, the market's performance in any one period may vary wildly, so we maintain a relatively conservative, self-imposed borrowing limit. Certainly, when borrowings are used to finance an investment it is done with a clear understanding of the Trust's ability to maintain and service those borrowings through various market cycles and operating conditions, along with how the borrowings will be paid down over time.

[5] Leverage ratio calculated as total borrowings add liabilities (including subscriptions received in advance, payables and 50% of performance fee provision) less assets (cash and receivables) all divided by net asset value (including 50% of performance fee as equity and removing the book value of any privately held investment).

Management Expenses (Manager Remuneration)

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 are effectively paying is the Performance Fee – in this case, the Management Fee simply becomes 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 our commitment to minimise 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 2020 to the average net asset value over the year was 0.984% (2019: 0.984%).

With a larger fund size and commitment to reducing the Management Fee, you might be wondering why the Management Fee rate has not fallen? The chief reason for this is due to our taking on slightly different forms of investments, which carries a higher cost to execute. Speaking more specifically, during 2020 the Trust engaged in a degree of shareholder activism, as we looked to block a private equity bid for Silver Chef and instead progress our own agenda. With our approach being to limit the fees levied on the Trust to only the Management Fee and Performance Fee (as far as is reasonably possible), the Manager then shouldered the entire cost of carrying out the Silver Chef shareholder activism. Though in order to fund the cost of this work, the Manager was required to maintain the Management Fee rate at the prevailing level. Also, the Manager's regulatory obligations under its Australian Financial Service Licence prescribes a level of cash that is required to be held by the Manager, providing another factor that is slowing the decline in the Management Fee rate.

Notably though, 2020's Management Fee rate is below the limit of 1.025% (including GST and RITC), and while we would love to reduce the rate further, we expect in the near term, it will likely remain near current levels.

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 rightly be considered a success fee as it represents the creation of absolute wealth for Unitholders.

The value of the Performance Fee was determined by the extent of the Trust's performance that exceeded the 10% Benchmark. Importantly, with the Management Fee Rebate in place, the full amount of the Management Fee paid over the year has been applied to the gross Performance Fee and in so doing, reduced the Performance Fee payable to a net amount (as reported above).

With a Management Fee Rebate in place, the Performance Fee becomes the most critical fee for Unitholders to concern themselves with and the means of payment of the Performance Fee – being either cash or units – signals the Manager's commitment to the Trust as well as their conviction in the assets of the Trust. In essence, the degree to which Performance Fees are paid in units rather than cash demonstrates the degree of alignment that is building between the Manager and Unitholders. And alignment is the bedrock to which every financial service should be built from.

As the Trust has matured, Libby and I can no longer elect to have the entire Performance Fee paid in units (then funding the tax liability from our savings), as we have done previously. Now, the highest amount of Performance Fee that we can have paid in units (and reinvested back into the Trust) is limited to the after-tax value of the

Performance Fee – where 'after-tax' relates to our personal tax circumstances. As uncomfortable as it feels to talk about our personal tax situation (and I'm sorry to have to drag you through it!), it is unfortunately a pre-requisite in describing the alignment that is occurring – which again, is a founding tenet of the Trust. Accordingly, 93.5% (2019: 73.2%) of the after-tax value of the 2020 Performance Fee has been reinvested in the Trust – I'd like the biggest possible slice of what we're serving up! Regarding 2019's Performance Fee, a lower amount was reinvested as the Manager retained some cash to help fund the expenses of pursuing the opportunity with Silver Chef early in the 2020 year.

No amounts other than those stated above were paid to the Manager from the Trust's assets over the year.

Net Income

	2020	2019
	$	$
Total Income	85,130,068	8,886,088
Total Expenses	(14,807,867)	(1,570,212)
Net Income	**70,322,201**	**7,315,876**

In line with the earlier discussion, the net income for 2020 led to a 55.59% rise in the Lead Class unit price to $7.4708.

General Discussion

Warning This section is on the long side… But then it was an eventful year that was the capstone to our first ten years – so we have a bit to reflect on.

Our first 10 years

The 2nd of March 2020 marked the completion of the Trust's first ten years of operation. Though emerging from the half year reporting season and with the rumblings of a global pandemic starting to build, the date came and went (it wasn't until weeks later we realised we'd passed the milestone). At risk of being 'so 2019', perhaps one day we'll all be able to get together and celebrate (that is, physically.. in the same room.. without masks.. even if that means standing two arm lengths apart)!

Below is a discussion of the key learnings and experiences we've been through over the last ten years and how they have shaped the Trust and its performance.

Investing

During his 2005 Stanford Commencement Address, Steve Jobs said:

> *You can't connect the dots looking forward; you can only connect them looking backward. So you have to trust that the dots will somehow connect in your future. You have to trust in something — your gut, destiny, life, karma, whatever. This approach has never let me down, and it has made all the difference in my life.*

I do not think there is a better way to describe how our investing has progressed over the years – hopefully the discussion below shows how the dots have led us to where we are today.

When I started stock broking in 2007, one of the first management presentations I listened to was from Bevan Slattery, when he was Managing Director of PIPE Networks (PWK) and looking to raise equity capital for the Sydney to Guam subsea cable that PIPE was building. At the time, being far more inclined to financial service and industrial type companies, I didn't have any background or experience with telco or technology focused companies, but Bevan's presentation did grab my interest as it seemed like PIPE was building an asset that looked quite different from anything else I'd seen before and in an area that was delivering rapid and significant amounts of value – the internet.

However with my roots firmly set in the school of 'value', PIPE always seemed to be an expensive company – but yet still kept delivering more and more wealth for its owners as its earnings grew and the share price soared. Having little experience and knowledge in the telco/tech area, I tried to turn my attention in that 'general' direction, whilst also focusing on a company that was easier for me to understand and available at a more reasonable price (as well as paying out healthy dividends!), the IT service provider, DWS Advanced Business Solutions.

Shortly after, the global financial crisis (GFC) started to rattle markets, causing stock prices to fall and value to rise – though PIPE never seemed to offer the same value as other companies. Accordingly, I stuck with what I knew and continued to invest (personally) in DWS through 2008 and 2009 as its price continued to fall.

Concurrently, in the process of setting up Blue Stamp in 2009, I felt that not only was it important to ensure the structure of the Trust was conducive to delivering an attractive, absolute, average annual, after-fee rate of return

over the medium to long term, but to otherwise make that task as easy as possible. And what seemed natural was to direct our time, attention and capital toward those sectors that were growing, and within those sectors, to identify companies that enjoyed some sustainable differentiation that may result in a durable stream of growing earnings. Being purchased by TPG Telecom in 2010, PIPE came to represent many of these aspects that were going to be important to the Trust, as it was already clear the value PIPE was creating versus DWS – despite the relative differences in price.

Combined with a sense of proximity to Bevan (even if at the time that was only based on seeing him present once in 2007), I then started to follow Bevan far more closely, as over the course of 2010, he went about procuring the land for what was going to be NextDC's first generation of data centres. Naturally, this led us to begin our research on data centres and everything related to them. At the time, the cloud was only just beginning to make headlines and based on our growing knowledge of the internet's architecture, data centres seemed like they were shaping up to be a significant component of the internet and the cloud and an area where differentiation could emerge and value accrue.

Though with the echoes of incredibly cheap stocks from the GFC still ringing in my ears and a tendency to stick to the cheap stuff that I already knew, the first purchase the Trust made was 5,180 DWS shares on 7 May 2010 for $1.345/share, deploying – in one line – a huge 8.7% of the Trust's $80,000 of total capital.

While we've always been focused on the patient allocation of capital, in these earlier years my mindset was directed at finding cheap companies, which naturally, were lower quality. Dovetailing into this approach was a large number of corporate transactions that were taking place as businesses regained confidence following the GFC and begun to invest again – producing a healthy deal flow of mergers and acquisitions that we were able to participate in, receive a small uplift and move to the next.

Though what quickly became clear was the inefficiency of arbitrage (in terms of time, cost and ultimately scalability), as well as the inefficiency of our patient investing process at the time, where prioritising cheap stocks that ostensibly offered value, was coming at the expense of having our capital being lifted by the growing earnings of a high quality business – which ultimately determines the efficiency and scalability of the investment operation.

It took almost two years to accumulate enough knowledge of the internet, data centres and the cloud, as well as challenging ourselves about how to assess and value a company with growing earnings (that may or may not be profitable) – before the Trust was ready to invest in NextDC, buying its first parcel of shares in November 2011.

Leaning into this theme of the internet and building from our work on NextDC, PIPE (and the myriad other internet service providers we'd looked at), the Trust then made an investment in BigAir – a fixed wireless provider – in March 2012. NextDC and BigAir were going to be two long term holdings of the Trust.

Over this period, we were also beginning to make some investments in financial service firms, which was also an area of the economy that seemed likely to grow over time and one which we were already somewhat equipped to understand. The main investment we held in this area was Silver Chef, where we first became a shareholder in September 2011.

Looking for businesses with long runways of growth and reflecting on our investment in DWS, it became clear that while DWS was operating in a market that was generally large (IT consulting services), they were not particularly unique, meaning DWS was likely going to find growth hard to come by. And even though DWS was profitable and paying dividends, it was not demonstrating the characteristics that was going to make us wealthy – again, with the intention of deploying capital for long stretches of time, what we needed were companies operating in large markets (relative to our aspirational size), whereby those markets were growing, the

company's product or service was differentiated and this differentiation was sustainable – all leading to a growing stream of revenues and earnings.

Taking a long term perspective to investing in these types of companies, meant the instance of earnings became less important than the inertia of earnings – that is, a company's current earnings (or lack of profitability) was less important than where earnings were going to be in say five or ten years' time (certainly with the caveat of having regard to how the company would fund any operating deficits in the interim and beyond). However, to get comfort in earnings that far out, we had to feel like we had decent knowledge of the relevant industry, the company's competitive position within the industry and how this might change over time, along with the stability of our own capital. Though this realisation around the requirements of our investee companies conflicted with our holding in DWS, which was not differentiated and was not growing. Or more specifically, DWS's share price was not going to grow because its earnings were not growing because there was no real reason why an organisation should (or needs to) engage DWS over any other IT consulting firm. While we were receiving dividend income from DWS, we were then required to find a place to reinvest that income to try and get some growth from the investment (again, all of which was in conflict with trying to make my job as easy as possible)! And if we needed to find companies that were growing in order to grow the income received from DWS, it did not make sense to maintain our holding – so in December 2012, we begun selling our position in DWS.

Interestingly, in September 2020 DWS received a 'takeover' offer from HCL Technologies for $1.23/share (including a $0.03 dividend). Over the period from our investment in 2010 to today's date, DWS paid out $0.9875 in dividends (or $1.362 if each of those dividend payments were reinvested into more DWS shares). Considering a hypothetical sale to HCL at $1.23/share, our first investment in DWS in 2010 would have generated an average annual return of 6.85% - as compared to the 22.5% achieved by the Trust (or 28.4% pre-performance fee). If DWS represented our thinking and approach toward investing in 2010 (which it did), clearly that thinking had to mature in order to deliver the result we were hoping for.

Investing in companies that are growing their earnings is in our view, the lowest risk, most scalable way to invest for value – all other methods of finding value come at too higher cost to offer long term compound opportunities (i.e. sustainable and scalable returns), whether that's due to transaction costs from constantly recycling capital from one short term opportunity or lower quality business to the next or an inability to scale the time required to find those shorter dated/lower quality opportunities. Accordingly, to deliver long term value to Unitholders, it was clear in 2012 we had to continue to progress our investing, within our areas of competency.

Selling our position in DWS during FY13 probably marked the point where we became almost exclusively focused on investing our capital into companies that were likely to display long term, per share, earnings growth. The flipside of this was no longer directing attention to arbitrage opportunities, which are inherently transactions that do not have the return profile we were now seeking – a return profile which we were still developing the tools to identify and value – within our areas of competence, largely being at the time, telco and financial services.

At this point, it's probably worth saying that while there's been numerous other companies we've invested in over the years, they have not been positions we have built on – typically because they were not in our areas of competency. Accordingly, these companies were kept at small positions within the Trust and were almost always exited relatively quickly, leading them to contribute inconsequential performance. So, for the purpose of reflecting on how the dots have connected for us over time, I've only discussed those big points that have defined where we are today – I understand all of this may seem like rambling, but it should come together soon. Trust me though, reading this (meandering) story is far more efficient than what it was to live through…

We continued down the route of focusing on the areas of telco and financial services for a few more years, adding Superloop in May 2015 and Megaport in December 2015 – both of which were companies founded by Bevan Slattery. While Superloop was very much a telco infrastructure stock, Megaport on the other hand was a telco

with a unique blend of infrastructure and software. Importantly, its service was not one that was simply overlaying software onto infrastructure with little incremental value being created, but instead the nature of the software allowed Megaport to achieve the valuable feat of creating an ecosystem within the service that ran over their network.

By the time Megaport listed in December 2015, we had spent more than two years tracking it and were champing at the bit trying to get as much of it as possible – as it seemed clear how valuable it was going to be in a cloud-era, particularly where the software overlaying its network could differentiate its service. With it now being a publicly listed company, we finally had a chance.

Being fully committed to the idea that the internet and financial services offered us great opportunities for growth, whilst also being areas I felt comfortable in, my knowledge of the internet was still more limited to its tangible infrastructure, rather than the intangible software running over that infrastructure – which seemed far more attractive as it provided greater opportunities for differentiation, had near-zero marginal costs to delivering an additional service and could be rapidly scaled the world over with trivial amounts of capital, all contributing to a growth profile that was very steep. So, compared to the capital hungry and geographically constrained internet infrastructure I was used to investing in, reading the financial statements of software companies was beckoning – accordingly, I fell under the spell of technology.

By 2016 we were really starting to push the edges of our circle of competency toward technology, with the aim of providing more long-term opportunities for the Trust to continue to compound its capital. In terms of user growth and financial performance, there are few companies that compare to Facebook. Combine this with the higher degree of comfort and familiarity I had with how Facebook's product worked and was monetised (compared to other arcane software providers) and the Trust made its first investment in a technology company in August 2016, when it purchased shares in Facebook.

Building our knowledge in the area of tech, also occurred at a similar time as being introduced to Mick Dempsey in 2015. At the time, Mick was trying to understand what his next course of action was going to be, having recently sold his company for $305M – a company which was bootstrapped in 1999 and painstakingly built up over the following years. This company was Ezidebit – Australia's first provider of outsourced direct debit services. From 1999 and until it was sold to Global Payments in 2014, Ezidebit was a strongly growing, profitable, private company. And while Ezidebit was never an investment of the Trust, this proximity to Mick and Ezidebit, provided our first in-depth exposure to the payments industry and opened our eyes to the size of the market and the significant growth that was occurring as businesses and consumers moved away from cash and toward more convenient, digital transactions. All of these characteristics matched what the Trust was looking for – only now to be able to identify opportunities in this new space we had to begin pushing our circle of competency in the direction of payments. While it was still a number of years before we were ready, Ezidebit was one of the first major building blocks to our investment in Afterpay – not that we knew it at the time.

Being a unique blend of technology, payments and financial services, Afterpay's business fell into the space where our key areas of focus and competency overlapped. Also coincidentally, it was my old broking firm that was one of two houses taking Afterpay public in May 2016, with my mentor, Andrew Dalziel, being the analyst responsible for covering it. Even with all of these circumstances favouring our ability to identify and invest in Afterpay, along with Andrew imploring me at the time to look at them (which I did and decided to pass) it took just under two years for us to hand over cash and buy some stock!

With Afterpay debuting on the ASX in May 2016 and with each passing quarter printing numbers that showed breakneck growth, I was now trying to grapple with how to value this new and very young stock that was clearly demonstrating they were the beneficiary of some significant shifts amongst society (that is, the move away from traditional forms of credit and toward short term, non-interest bearing loans). Despite Afterpay's strong growth,

my tendency for familiarity largely confined our financial service exposure to Silver Chef – which was an established, profitable, growing company that on the surface was easier to value. In fact, the catalyst for making our first investment in Afterpay in January 2018 was the implosion of Silver Chef's business – apparently I learn the hard way…

Most recently, it wasn't until we were making our attempt to recapitalise Silver Chef that the idea for Marmalade came to be. That is, combining the B2B financial service mindset that came from Silver Chef, with our knowledge of Afterpay's business model, gave us a new way to solve an old pain point for many small businesses – getting paid and unlocking the cash flow that so easily gets tied up in invoices. While Marmalade has necessarily required us to undertake tasks that are new, we are still guided by the same philosophy (patience, performance and alignment), we're pursuing the same investment objective (identifying and allocating time and attention to those opportunities that may compound our capital at attractive rates for many years yet) and are following the same iterative approach to proving out and leaning into our investments.

While not to suggest in any way that our conviction and energy in identifying undervalued publicly listed companies has waned, as mentioned earlier, with a growing fund and somewhat distorted market conditions, it behooves us to keep maturing our investing, so that we may continue to deliver performance over the years ahead, whilst also limiting our risk as much as possible. Our active approach to Silver Chef was one instance of this and now our work with Marmalade is another.

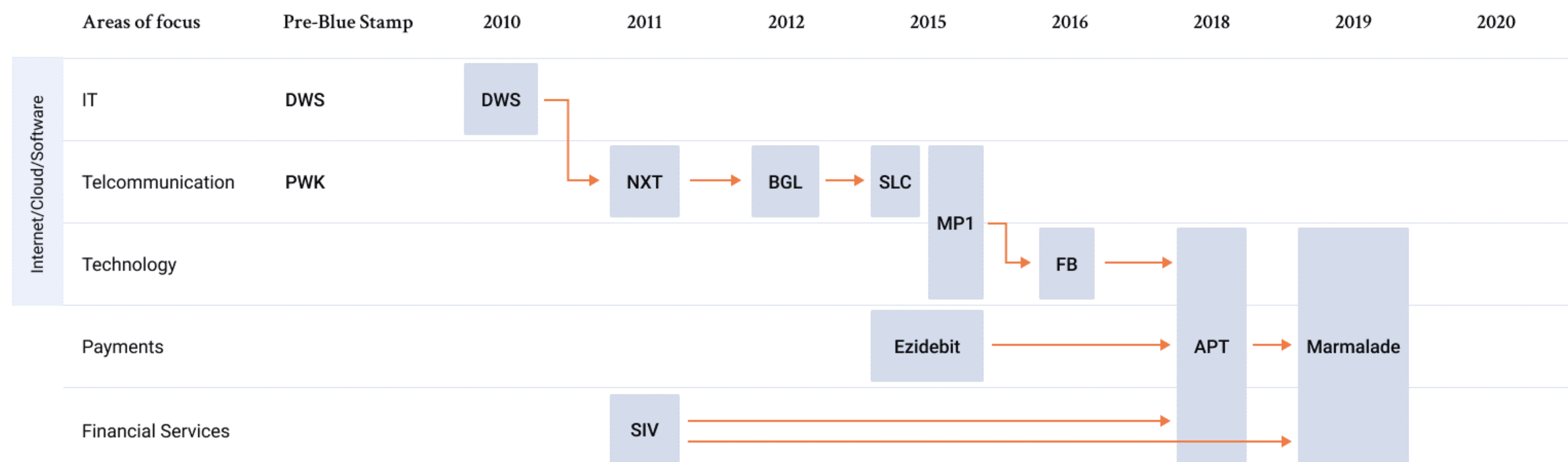
Reflecting on this entire period, it seems there has been a material shift in the types of companies we now look at and invest in – from cheap cigar-butt types of businesses that were good for only one more puff or event driven opportunities (that had a capped upside), to eventually arriving at where we are today – investing in high quality, long-term growth (and ostensibly, highly valued) business. Though importantly, we still remain value investors, where each dollar we hand over today is done so on the expectation of receiving a far higher amount tomorrow – and in doing so, produce a rate of return that in hindsight suggests we bought something with tremendous value inherent in it.

As value investors, I don't believe we're heretics by investing in companies that are growing. It is a little strange to think you need to invest in a business going nowhere to be considered an investor that is concerned about value. The future of any business needs to be considered when making an investment. The north star for any investor is the future earnings (or assets) of the business – growing or not – and how they relate to the current price. That is the relationship that creates absolute value today and nothing else.

Hopefully you can see the organic and iterative approach our investing follows, whereby we maintain a focus on very specific areas of the market which we feel will do well over time, then trying to build our knowledge about the strongest competitors, to understand where the best place to allocate our capital would be. And to then use that knowledge to inform our next action, directly building from what we already know, to protect against the situation where our capital is allocated to opportunities that are decoupled from our experience and knowledge. This way we have a better shot at identifying opportunities that others may walk past, whilst also helping to improve our chances of success and reducing our exposure to risk.

The following diagram attempts to illustrate all of what we've described above – that looking back on the past ten years, we can see the connection between key events and how that has informed our decisions, shaped our performance and determined what the Trust looks like today.

Blue Stamp Trust - Connecting the dots



Companies

APT
Afterpay
ASX listed
BST first invested in Jan 2018

BGL
BigAir
ASX listed
BST first invested in Mar 2012

DWS
DWS Advanced Business Solutions
ASX listed
BST first invested in May 2010

Ezidebit
Ezidebit
Private company. Not ASX listed
BST did not invest in EZI

FB
Facebook
NASDAQ listed
BST first invested in Aug 2016

Marmalade
Marmalade
Private company. Not ASX listed
Founded by Blue Stamp in Nov 2019

MP1
Megaport
ASX listed
BST first invested in Dec 2015

NXT
NextDC
ASX listed
BST first invested in Nov 2011

PWK
PIPE Networks
ASX listed
BST did not invest in PWK

SIV
Silver Chef
ASX listed
BST first invested in Sep 2011

SLC
Superloop
ASX listed
BST first invested in Jun 2015

Luck and People

No doubt you can see we've enjoyed more than our fair share of luck to get us to where we are today. It's important we recognise where our skills end and luck begins, so that we don't find ourselves pursuing opportunities that are beyond our capabilities to deliver on.

Our appreciation toward the importance of people and the impact that quality executives have on operational outcomes, has progressed a long way. In earlier years, all we wanted to know about a company was numbers, numbers and more numbers. This quantitative first approach then shifted to one with more consideration toward the qualitative aspects of a business, including analysis of its product or service (on the assumption that the company's product or service will carry it through almost every situation), irrespective of any shortcomings in the person (or people) sitting at the top of the organisation.

However, the competitive landscape that businesses now operate in has steepened so much that there seems less tolerance for poor operational execution than might have been the case some decades ago. Indeed, Buffett mentioned in his 1991 letter;

> An economic franchise arises from a product or service that:(1) is needed or desired; (2) is thought by its customers to have no close substitute and; (3) is not subject to price regulation. The existence of all three conditions will be demonstrated by a company's ability to regularly price its product or service aggressively and thereby to earn high rates of return on capital. Moreover, franchises can tolerate mis-management. Inept managers may diminish a franchise's profitability, but they cannot inflict mortal damage.

Having seen how poor governance and management can allow competition to bridge what were previously wide economic moats, I'm not as confident in the above paragraph anymore.

Consequently, the performance that the Trust has enjoyed over the years is less a result of any of my abilities and far more linked to the talent of the following individuals. In somewhat of a chronological order, these include, Bevan Slattery, founder of Next DC, Superloop and Megaport. Without Bevan, the Trust would be a shadow of itself. Then came Craig Scroggie, who took the reins of NextDC in 2012 and provided the leadership and direction to move it from an operator of one 2.3MW data centre (and a project manager of four other data centres under construction), with barely two cents to rub together, into the well-oiled hulking machine that it is today with nine data centres operational and two more under construction that will have hundreds of megawatts available to sell to anyone needing secure, reliable, redundant, proximate and neutral colocation space. Compared to when we first purchased our shares, impressively NextDC now serves local and national businesses and governments, large domestic and multi-national enterprises and the largest cloud providers in the world.

Charles Gregory did a wonderful job managing Silver Chef in the earlier years of our holding in the company – growing its industry presence, increasing the equipment financed but prudently managing the Group's credit risk exposure.

Taking over as Megaport's CEO in 2016, Vincent English has done – and continues to do – a remarkable job, as he quietly goes about building the world's leading interconnection fabric. In addition to consistently delivering operational results, Vinny's understated, no-fuss way of working served us well, as it kept Megaport to a relatively low profile amongst investors and the media, giving the Trust more time to lean into its shareholding while relatively few were watching.

Finally as co-founders and executives of Afterpay, Anthony Eisen and Nick Molnar have achieved something which I never expect to see again in my lifetime. Their operational execution has been of the highest order whilst the company grew at one of the fastest rates. And they delivered these results whilst the company's business model was tested by investors, regulators and the government at the same time as receiving a significant amount of rhetoric from the media and industry, as they threw rocks at a new business model (and form of credit) that was ruffling feathers.

The efforts of these people and the teams they have around them have been instrumental in building the Trust up to where it is today. However, there is no rule or formula that identifies who is a capable manager or when a situation may be successful or not – making investing challenging, but also creating opportunities. For example, we've invested in a company where the sole founder has moved from an executive director to a non-executive director, to then leave the board, selling their entire holding in the company and starting a new venture that is somewhat competitive to the earlier one – all within four years after it was listed and six years after it was founded! All these actions by a key 'insider' provided very poor signals to outside investors, but nonetheless, these circumstances prevailed while we remained shareholders (even increasing our shareholding throughout), and it worked quite well for us. If you're interested, this described Bevan Slattery and his relationship with NextDC. On the flip side though, we've also been invested in a business where the founder oversees operations for decades, during which time the company went from strength to strength, the founder remained actively engaged with the company (to the point where they moved from a non-executive chairman role back to an executive capacity), and not only retained their shareholding but committed to donating it to charity! Ordinarily, these factors provide favourable signals to 'outsiders', but it did not transpire like that in the real world as they proved dramatically inconsistent with Silver Chef's future.

As we found out the hard way (through Silver Chef's management and board), accountability comes free, but it does not come cheap – looking in the mirror can be an uncomfortable experience, often causing us to look away and avoid squaring up to a reality more unsightly than the image we form of ourselves (I've got a face for radio). Recognising an error, then requires the deeply uncomfortable role of owning that error, whilst also allowing the space for acceptance and non-judgement, so that learnings and growth can be achieved. Just like the executives of our investee companies, the responsibility to hold the mirror up on our own actions and call out the imperfections we see, falls on us too.

Who knows what if anything may come of my latest error of judgement when the pandemic panic hit the market, but you can be sure I'll be working as hard as I can to try and squeeze some lemonade from that lemon.

Grow Slowly (or, pick your partners wisely…)

If you asked me in 2010 whether I would've accepted a cheque for $1 million from someone looking to invest in the stock market, you can bet I would've been doing backflips to get the deal done. However, now with the benefit of hindsight I know that accepting 'any money' would have very likely come at the Trust's expense. So as tough as it was grinding through 44 months to get to that $1 million mark, we came away with something money couldn't buy.

That is, experiencing a relatively flat curve in bringing in new capital meant that we did not have the luxury of being able to outsource any administration, leaving every aspect of managing the Trust to an internal function – where amongst other things, every debit and credit for every transaction was manually keyed in. While that was challenging, it dramatically improved my proficiency in accounting (the language of investing), whilst also building my understanding about every detail concerning the Trust, including having the highest regard to the impact that new capital could have on the interests of existing Unitholders – and trying to balance the need to grow the fund, prevent dilution of returns and focus on scalable performance.

Growing slowly also provided us the time and space for our investing to develop and mature – from the earlier focus on 'cheaper' lower quality businesses to one that is built around identifying high quality businesses and arbitraging time, as we look to deploy capital for decades whilst the market focuses on the next six and twelve months.

Finally, having a strategy that looked different, acted different and sounded different to most other investment funds meant that only those people that shared the same philosophy and were aligned with our objective, felt comfortable enough to become a Unitholder – meaning the Trust has been blessed with investment partners that provide us with stable capital to allocate. This is probably the most important dimension in our ability to decouple from the industry and invest with independence from the market.

Clearly, our performance stands on the shoulders of Unitholders.

Summary

Possibly the most important thing we can take from this is to learn from our experience, so that we don't become brittle, finding ourselves defined by the way in which we have identified opportunities previously or where those opportunities were identified, so that we don't become stationary and blinkered and unable to move with the dynamic nature of a capitalist system and the incredible companies that are produced from that system. So we remain malleable to the world, allowing us to bend and grow, so we can educate ourselves around the areas that are proving important for business and society and future wealth creation, helping us to identify opportunities and continue to compound our capital for many years yet. And yes, to always make sure we're getting more than a dollar's worth of value for each dollar we hand over.

Hopefully this provides you the confidence to keep your capital with us for the next ten years as we set our sights high by aiming for more of the same.

Thank you for your support and confidence.

Luke Trickett

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