

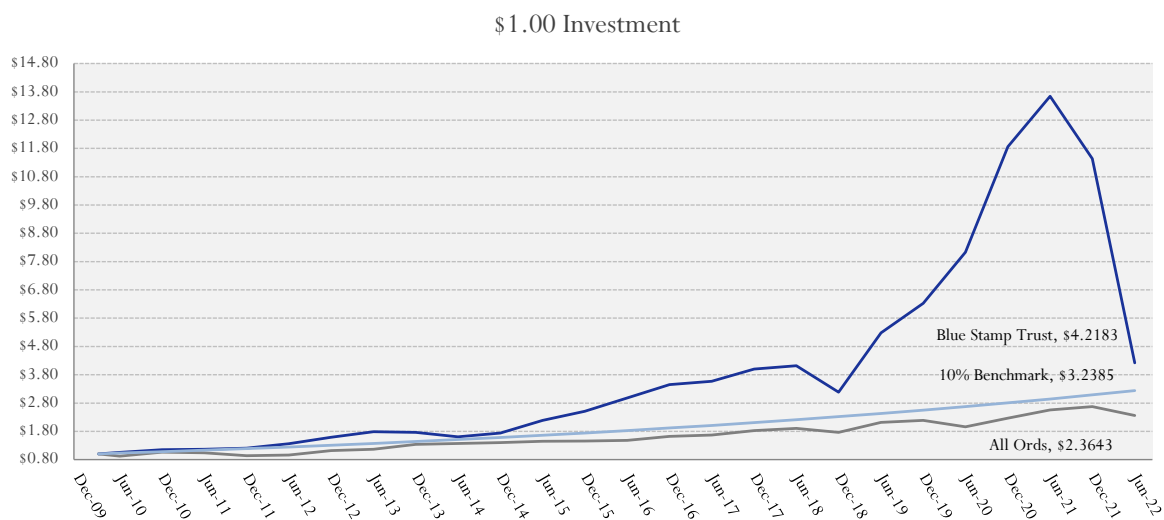
22nd August 2022

To the Unitholders of Blue Stamp Trust,

The Lead Class unit price at the end of June 2022 was \$3.6897/unit – representing a fall of 70.89% for the 2022 financial year to date.

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.

If you hold units in classes other than the Lead Class, please login to your account at www.bluestampcompany.com/investors/ to find the relevant pricing information.



There's no other way to put it, 2022 was a terrible year for the fund's performance, providing me great discomfort on many levels. Firstly, in a professional sense, to see years of work and investing gains evaporate in a rapid six-month period is crushing, to say the least. However, by the same token, to watch the underlying operating results of our businesses continue to grow and strengthen, is exciting and continues to drive our actions and energy, as never has the fund's intrinsic value been higher than today. More on this below.

2022's result was also uncomfortable in a personal sense. Not only did Lib and I invest the overwhelming majority of our net assets at \$12.6007/unit, but more importantly, my family, closest friends and colleagues are also invested in the fund, some of whom invested at those high levels. To lose capital for myself is disappointing, however, to lose capital for anyone that's given me the confidence to invest on their behalf is a far greater dimension of responsibility.

Though it's probably worth pausing there for a moment. While the value of our units has fallen, it doesn't of itself, mean the value of our underlying businesses has fallen. We've seen this play out many times over the past ten years, though admittedly, not to the severity of the six-month period through to June 2022.

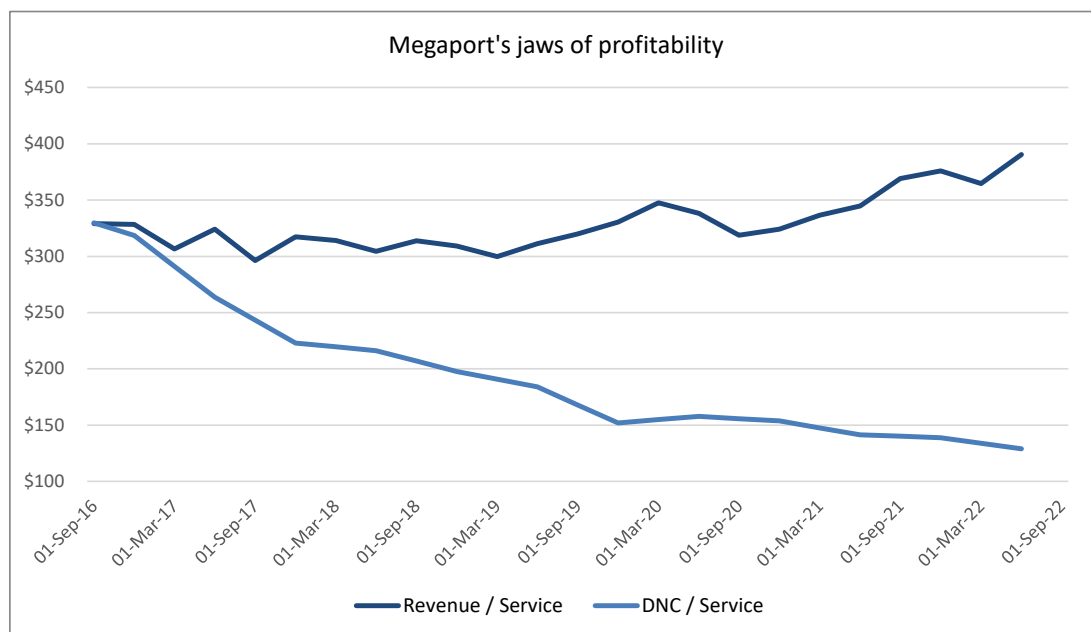
Given the underlying performance of our investee companies continued to march higher, we lurched into action in the second half of FY22, purchasing more stock in that six-month period than we had done in aggregate since June 2020.

While we won't know the merit of those investment decisions for some time, we're excited by the value we scooped up as valuations fell to levels which we have rarely seen before.

A company that we know all too well, Megaport (MP1), is a great example of the value that emerged over the last six-months. Being the global leader in elastic connectivity and cloud networking, MP1's 'jaws' of profitability continue to widen as they gain more leverage over their network footprint. Shown in the chart below, each service they sell is delivering higher amounts of revenue whilst incurring lower direct network costs (DNC), producing increasing gross profit margins to the group.

Over FY22, Megaport gained more customers, sold record numbers of services at record prices, producing record revenue and widening the gap between itself, as the clear market leader in this mission critical area of a company's networking architecture, and the rest.

Megaport advanced its competitive position and financial performance over FY22, all while reducing the cost to provide a service – but yet, Megaport's stock fell 70.4%...



Clearly, we recognise that a shift in interest rate expectations has consequential impacts on company valuations, however we have never invested a dollar of capital based on prevailing or expected levels of interest rates, but instead on what we deem to be fair, that is, a level of interest rate and market multiples that we would expect to receive not in a bull or bear market, but a fair market. And so has been the basis at which we invest in (or continue to hold) Megaport or any other stock.

In their full year results Megaport released for the first time, data which shows how well the business retains and monetises its customers from year to year (also known as unit economics). This is important data for investors to understand because it helps inform whether the company has a 'leaky bucket' or not. That is, we don't want to be invested in businesses that need to spend increasing amounts of capital to find and funnel customers into its bucket, only to have those customers churn away from the business, draining it of revenue and profit. Instead, if those customers are engaged with the business and its product, they will remain in the bucket and continue to deliver value to the business – or in Megaport's case, they not only remain in the bucket, but they also produce increasing revenue and profitability over the years. A dynamic we've also seen in Block's subsidiaries, Square and Cash App.

Up until the most recent full year results (published on 9 August), we hadn't seen Megaport's unit economic data. However, after some persistent lobbying from Brock and myself toward Megaport's CEO and CFO (with ideas and examples about what information investors would value), that changed and the world was given clear insight into just how powerful Megaport's unit economics were – showing some of the best customer retention and monetisation metrics that we've seen of any company, globally. In next quarter's letter, I'll let Brock McCamley, Blue Stamp's Senior Analyst, discuss some of these metrics and the value Megaport is expected to generate for the fund.

Over the June quarter we completely exited our holding in NextDC, as the data centre operator's share price remained relatively strong, while others dramatically fell away – providing us the opportunity to sell 90c dollars, in order to buy 40c dollars. What contributed to such large differences in future return profiles was not simply the performance of NextDC's share price relative to others, but what we consider to be a weakening in NextDC's future earning power, relative to other of our companies.

Over the years, we've seen a change in the profile of the data centre industry that we think will be a headwind for NextDC to earn higher returns on the capital it's invested. When we first started looking at colocation data centres (DC) in 2011, there was a very tangible opportunity to develop an ecosystem of customers, networks, managed service providers and of course private and public cloud service providers within the four walls of a data centre, whereby this ecosystem acts like gravity – the denser it becomes, the greater numbers of new customers it draws in. This is the strategy that Equinix (EQIX.NAS) has executed so well over the past 20 years and has driven them to be the clear global leader of colocation DC space.

While this dynamic certainly played out, what became apparent in recent years, was the need to drive scale as NextDC's customers scaled. That is, while there is a tectonic shift that continues to take place, with more workloads being driven from on-premise, self-hosted servers to off-premise, cloud-based environments, this demand is being aggregated by the large public cloud service providers (e.g. Amazon's AWS, Microsoft's Azure and Google Cloud Platform), rather than individual environments in each of the DCs – meaning NXT is not selling to and negotiating with a large number of smaller enterprise customers, but a small number of very large cloud service providers.

This has driven the need for NXT to move from building 2-15 megawatt (MW) sized DCs, to now be building on the scale of 100+MWs. For comparison, NXT's first-gen Melbourne facility was originally planned for 12MW, now compare this to their third-gen Melbourne facility of 150MW. Or their first-gen Sydney facility was originally planned for 14MW, as compared to the monster 300MW fourth-gen facility they're now scoping out for Sydney. *Toto, I've a feeling we're not in Kansas anymore...*

While it sounds like business is booming for NXT (which it is), it doesn't necessarily mean value is accruing at the same rate, as the scale of demand is changing the composition of demand – that is, demand for MWs is not being driven by 10x more customers, but 3-4 large customers seeking ~10x larger allocations of MWs.

You may ask, why wouldn't this increase in demand not translate into a significant increase in value for NXT? Well, DCs offer incredible operating leverage and margins, however where different operators separate themselves is through the ecosystem of tenants they are able to cultivate. Higher density ecosystems are typically characterised by tenants scrambling to gain access to a given DC so they can have proximity and a direct connection to other tenants (which reduces latency and improves performance),

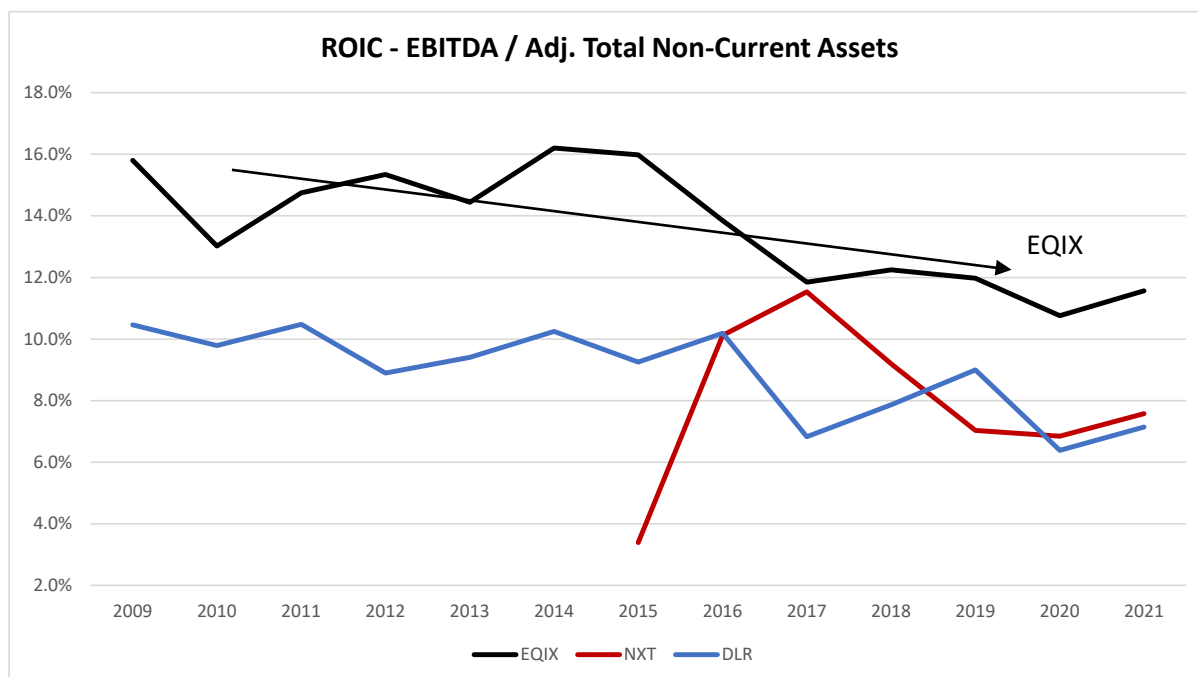
translating into higher prices being charged for space and power and more attractive returns on capital for the data centre operator.

Historically, providers of whitespace DC capacity have been able to fill vary large data centres, however their returns on capital have been weighed by the commoditised nature of their service, whereby one customer, or a small number of customers lease the entire facility as they soak up all the power and space available. This has largely been the area that Digital Realty (DLR.NYSE) focused on. In contrast, colocation providers that are focused on building ecosystems of network service providers, cloud service providers, managed service providers, enterprises and government, have pricing power, as they not only avoid a small number of customers wielding significant influence, but the ecosystem differentiates and draws in those prospective customers wanting to interconnect with the existing tenants.

So while NXT's average facility size has increased between 10-20x what their first-gen facilities were, their revenue/MW has fallen ~10% as the large CSPs have greater weight in negotiations, while the cost of building the infrastructure to support 1MW of capacity has remained largely flat over the years at \$10m. Meaning NXT is beginning to show the characteristics of a whitespace provider, and not the characteristics of a colocation provider. Though to be fair, this is not a dynamic that's unique to NXT...

As shown in the chart below, Equinix has by far the strongest returns on capital, which historically has been facilitated by their ecosystem of tenants, providing the group pricing power and significant high margin interconnection revenue. However, each operator is demonstrating a downward trend in the returns generated on capital deployed, as the industry slowly consolidates around the largest public cloud providers. With such large volumes of compute and storage being drawn into the public clouds, no DC that wants to scale their operations can ignore them and so falls victim to having an imbalance of negotiating power, which compromises the returns on capital. Of course, a colocation DC operator can choose to build their ecosystem without courting the interests of cloud providers, however this will put an early cap on how large they will be able to grow. This impact of cloud providers is so significant that even the return on invested capital (ROIC) of Equinix is coming under pressure.

To make this point even clearer, for the period 2009-2015, EQIX's ROIC averaged 15.1%, however for 2016-2021 this has fallen precipitously, to 12.0%. Over the same time period, DLR's ROIC has fallen from 9.8% to 7.9% - which is less of an absolute impact given their business was already 'suffering' from the economics of selling large allocations of space and power to single tenants anyway. We feel NXT is also singing to the tune of the public cloud providers, as they look to build facilities that are 10-20x larger than their first-gen facilities and so will also find their returns on capital being squeezed. And with a business that is heavily dependent on debt funding, having an imbalance in pricing power in an increasing interest rate environment, does not sound like the recipe for attractive absolute returns for Blue Stamp Unitholders – despite how stable the underlying customer demand is.



PPK continues to progress the commercialisation of its boron nitride nanotube (BNNT) technology. With its thermal and electrical insulation properties, combined with strengthening capabilities when added as a composite material to metals, the application of BNNTs is wide and varied – which PPK continues to progress its own research together with various partnerships and JVs so it can best enable the monetisation of the technology.

However, while COVID was a boon to almost any consumer facing business, it did no favours to PPK, as research projects from private enterprise and universities were put on hold for over 12 months, while supply chain constraints limited their ability to procure the components to build the equipment to produce BNNT. However this research activity is back underway and the group has made significant progress in its ability to produce BNNT in commercial scale quantities.

By way of example, some of the partners PPK is conducting joint research projects with include Boeing and Raytheon, testing the ability for BNNT to be used as heat diffusers on aerospace equipment. While engaging with such large commercial partners is attractive, one trade-off PPK must manage is the ability to produce enough BNNT to make it worthwhile for these partners, and to produce it at a price level that is commercially viable.

On this note, over the past 18 months the group has moved to a new manufacturing facility (shown below) with 20 fully automated furnaces, operated by nine people, that is capable of producing 650kg p.a. of BNNT. Again, by way of context, three years ago, PPK had one furnace, operated by seven people that could produce ~1kg of BNNT per annum – while the aggregate global output of BNNT in 2018 was ~36kg.

The group has invested \$6m to build this manufacturing capacity, where each furnace’s lifecycle is expected at 5 years+. With 650 kg p.a. of BNNT production, the aggregate value of BNNT produced is ~AUD\$53m p.a. (at current cost) or a cost per gram of AUD\$80.

If demand necessitates it, with an increased investment in additional furnaces, PPK has the ability to double capacity from this same facility. The operating leverage for a data centre is attractive, however PPK's production of BNNT is on another level again.

Such is the value produced by a modest investment, with a 10% gross profit margin, the group can achieve full payback of its investment in one year. With PPK having \$55m of cash, no debt and \$5m of annual operating expenses, there is little risk for PPK needing to go to market to raise additional capital. While PPK currently remains a small component of the fund, we will continue to monitor their progress in monetising their increased production capacity.



PPK's new BNNT manufacturing facility at Deakin University, Waurn Ponds, VIC.

Shown in the table below, Marmalade delivered record volumes in the June quarter.

	Sep-21 Qtr	Dec-21 Qtr	Mar-22 Qtr	Jun-22 Qtr
Active Suppliers	34	40	68	92
Total Invoice Value (TIV)	\$16,568,277	\$23,664,147	\$38,063,713	\$63,188,924
Gross Invoice Value (GIV)	\$10,700,036	\$18,656,401	\$27,664,917	\$43,886,119
GIV / TIV	64.6%	78.8%	72.7%	69.5%
Gross Cash-in Value (GCV)	\$4,745,537	\$9,426,258	\$9,340,204	\$13,919,085
GCV / GIV	44.4%	50.5%	33.8%	31.7%
Invoices Cashed-in (#)	1,185	2,405	2,491	3,963
Avg. Cash-in Value	\$4,005	\$3,919	\$3,750	\$3,512

Over FY22, Marmalade recorded \$37.4m of GCV, a strong increase from the \$3.4m recorded during the nine months of operations in FY21. The group also generated \$1.03m of revenue during FY22, up from \$112k that was generated in the nine months of FY21.

With increasing numbers of Suppliers using the platform, the Group implemented a stream of work during the quarter to automate as much payment volume as possible. While that might sound like an obvious requirement for Marmalade, up until now it has been difficult to understand what, and how, to automate. For example, over 90% of invoice payments are made using bank transfer, which is a payment method that's subject to a great deal of ambiguity as the payer can determine who, how much and with what reference a payment is made. This ambiguity often leaves the payee with a great deal of work to reconcile a line in their bank statement to an open invoice, and when a payer combines a number of invoices into a single payment, the amount of work required for the payee to reconcile their accounts is increased further. However, before we could build technology to automate this workload, we had to first understand the behaviour of Suppliers and their customers, to ensure we were building the right solution to the problem.

Up until this stream of work was commenced, every single payment that was received by Marmalade, had human interaction to match it to an invoice and pay the funds out. However, only a matter of days ago, Marmalade released the first version of its automated matching capability, aiming to match ~30% of all invoice payments without any human intervention and without error. In time, the group's goal is to increase the number of auto-matched and auto-paid invoices to as close to 100% as possible, without error and without compromising the safety of our capital. I believe this is the first automated invoice matching and payment capability that is being developed anywhere. Marmalade is leading the world with its invoice payment service and solving a very large and very old problem for many SMBs.

Gross Cashed-in Value (GCV) is the value of invoices cashed-in by Active Suppliers

Active Suppliers - A Supplier who in the last 30 days has issued an invoice with Marmalade as the payment service

Total Invoice Value (TIV) is the value of invoices created by Active Suppliers

Gross Invoice Value (GIV) is the value of invoices with Marmalade payment details created by Active Suppliers

Judging by the operating performance of our holdings, our future is bright. But when that light will blaze through again, I do not know. In the meantime, your investment will continue to be protected by an increasing high-water mark, which requires a compound annual 10% return to be achieved before any performance fee can be levied again. All of this means that I won't be paid for performance until your capital has grown at a good clip, measured from the time you last paid a performance fee, or the price you entered the fund. And there's nothing for me to believe that I won't be earning performance fees again.

Thank you for the opportunity to invest on your behalf.

Kind regards,

Luke Trickett
Blue Stamp Company Pty Ltd

Performance Summary (Lead Class units)

	<u>Jun-22 Qtr</u>	<u>FYTD</u>	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>2-Mar-10*</u>
BST^	(54.80%)	(70.89%)	(70.89%)	(8.40%)	3.48%	12.38%
Benchmark	2.50%	10.00%	10.00%	10.00%	10.00%	10.00%
AOAI	(12.91%)	(7.44%)	(7.44%)	3.80%	7.15%	7.23%

^Blue Stamp Trust returns are net of all fees and charges and assume the reinvestment of distributions. Annualised returns are shown for periods of 1 year or greater.

*Blue Stamp Trust commenced on 2 March 2010

AOAI – All Ordinaries Accumulation Index

FYTD – Financial Year To Date

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