23rd January 2023

To the Unitholders of Blue Stamp Trust,

The Lead Class unit price at the end of December 2022 was $3.9998/unit – representing a gain of 8.40% for the 2023 financial year to date.

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.

The calendar year of 2022 will certainly be one to remember for a variety of reasons. The change in investor sentiment from extreme optimism to despair was swift! Kind of like rowing a boat over the edge of a waterfall. However, the most interesting aspect about this swing in sentiment is how significantly it's affected certain pockets of the global economy, particularly companies in more nascent industries.

That is, companies that were once easily able to raise equity or debt in markets where capital was overflowing have suddenly found themselves in the precarious positions of needing to fight for their life (aka capital) as many investors sit on the sidelines after having taken excessive risks chasing paltry returns only 12 months prior. For instance, capital was being virtually thrown at zero-coupon convertible note issues (i.e. debt with a 0% interest rate that has an embedded option to convert into shares of the company if the share price rises above the given 'conversion price'), SPACs (special purpose acquisition companies that pose as alternative vehicles for a company to create a liquid market for their shares), and new equity issued by growing software and technology businesses throughout 2020 and 2021, a stark contrast to the environment we find ourselves in today. Capital that was once cheap and abundant is now scarce and expensive.

The decreasing availability and rising cost of capital in financial markets tend to have a disproportionate impact on the leaders and laggards of a particular industry, which we've seen play out over the last year. Loss-making laggards with small market shares and a dependency on injections of external capital to fund ongoing operations have had to engage in aggressive cost and investment reduction strategies, or otherwise raise capital at a significantly higher cost to continue to trade as a going concern. On the other hand, leaders that can fund ongoing operations and growth through internally generated cash have the benefit of not needing access to external capital, giving them a significant advantage over their less-established competitors that are reliant on the generosity of capital markets for funding.

Already, this is leading to increased consolidation and concentration within certain markets as supply from less-established competitors is withdrawn whilst demand for that particular product or service remains largely constant. Thus, less capital and fewer competitors chasing the same market means higher returns for those remaining (and leading) that market.

None have felt the impacts of the change in availability and cost of capital more so than buy now, pay later (BNPL) companies. As Afterpay proved that there was large and abundant demand for simple, interest-free instalment products and that their growth would be richly rewarded with lofty market valuations, a slew of competitors armed with a 'growth at any cost' mindset came rushing to market aided by overly generous capital markets and relatively low barriers to entry. Thus, online retailer's checkouts became crowded with a smorgasbord of BNPL options and customer acquisition costs sharply rose with Afterpay's marketing spend per net new active customer increasing from **$0** in June of 2017 to a high of **$49** in the six months ended 31 December 2021.

Investor sentiment around BNPL turned from FOMO (fear of missing out) in 2021 to extreme pessimism in 2022 in response to slowing growth, increasing competition from technology giants such as PayPal and Apple and general fears around the economy, all of which caused the tap of free-flowing capital to emerging and established competitors to turn off. This has led to a gradual but widespread rationalisation of footprints and investments for BNPL companies the world over. For instance, the UK region, dominated by Klarna and Clearpay (Afterpay's UK and EU subsidiary) has seen the exit of less established competitors over the last 12 months such as Zip (ZIP.ASX) and Openpay (OPY.ASX). Openpay has also ceased operations in the US, citing difficulties with raising the capital necessary to compete in the region[1]. Additionally, Zip has materially reduced investments in its international markets outside of the UK and US along with a complete exit from Singapore occurring in 2022. Humm group (HUM.ASX) has also engaged in a significant rationalisation of its global footprint and product suite, exiting the UK and New Zealand, as well as initiating the closure of non-core 'BNPL' products such as bundll and hummpro. Meanwhile, Afterpay has not announced any market-closures and is continuing to invest in customer and merchant acquisition to grow their global presence.

We expect further consolidation in BNPL to continue as new entrants without significant competitive advantages fail and profitable unit economics are prioritised in the remaining players. With access to a wide base of potential merchants at Square, visibility and integration within Cash App and funding from cash generated by Block's more mature businesses, Afterpay is well positioned to drive efficiencies on acquisition spend and scale to profitability.

As management teams across the world become more disciplined regarding capital allocation and elect to reduce investments in initiatives and markets with less attractive or predictable returns on investments when compared to their cost of capital, returns for companies leading their respective markets and industries will naturally increase, leading to higher profitability and greater long-term returns for shareholders. Coupled with the fact that share prices are far lower today with respect to each dollar of future earnings, **we believe that the returns available today from investing in high-quality businesses are the highest they've been for many years**. It's an exciting time to be investing in shares!

We look forward to watching our core portfolio holdings, who are leaders in their respective industries with robust balance sheets, benefit from a material reduction in the number of well-funded competitors nipping at their heels over the coming years.

During the quarter we began accumulating shares in Toast (TOST.NYSE), a company we mentioned in the Sep'22 quarterly letter. Providing integrated point-of-sale hardware, software, payment processing and financial services to restaurants in the US, TOST was a business we came to know quite well due to our research of Block's subsidiary, Square. The more we learned about TOST, the more we were attracted to its product and competitive position, whilst also admiring their management team. After releasing yet another quarter of increasing momentum that far surpassed our expectations, we were compelled into action as the value on offer far exceeded our benchmark return – and left us salivating. With each passing quarter, it's increasingly clear that the explosive growth they experienced throughout 2020 and 2021 is structural rather than transitory, and we continue to hear great feedback from restaurants that have implemented their products. The uncertain economic environment has done little to stem demand for their leading all-in-one technology platform. In fact, software modules such as

[1] Source: Openpay (OPY.ASX) announcement made on 1/7/22 – link

xtraCHEF, which allow restaurants to better understand the cost structure and profitability of their menu items, become even more attractive in the face of the inflationary pressures that many restaurants in the US are experiencing.

A recent entrant to listed markets, Toast was a beneficiary of the IPO gold rush of 2021, having been able to raise US$1 billion in new equity at a very low cost to shore up their balance sheet for future growth. With no long-term debt and break-even at the free cash flow level now within striking distance, Toast is incredibly well-positioned to continue acquiring customers and execute on the large opportunity ahead. Given the business exhibits many of the characteristics of a high-quality compounder (see the checklist below), we'll be looking to add to this position as and when favourable prices prevail.

- ✓ Great products and loyal customers
- ✓ Attractive unit economics
- ✓ Sensible capital allocation
- ✓ Competent and aligned managers
- ✓ Large opportunity to keep reinvesting capital into new products and/or customer acquisition at high rates of return
- ✓ Wide (or widening) economic moat
- ✓ Robust balance sheet and financial position

Changing topic, given recent developments in the 'crypto' ecosystem and Block's association with bitcoin specifically, we thought it might be helpful to shine a light on Block's emerging bitcoin initiatives, the problems they aim to solve and why they are evidence that Block continues to be focused on building real-world utility and shareholder value for the long term.

The adoption of mobile phones and the internet has generally outpaced the adoption of, and inclusion into, the internet-based financial system, with huge swathes of the global population still using physical cash to store, save and spend. Over 1 billion people globally remain un-banked despite having access to an internet-connected mobile device[2]. This problem is not evenly distributed though as many developed nations such as Australia, the United Kingdom and Canada have very small 'under-banked' population penetration rates due to their well-functioning financial system and widespread availability of low-cost financial services and banking products, not to mention relatively stable currencies. Looking to less-developed nations such as those in South America, Africa and parts of Asia however, the un-banked rates are much more pronounced, with high percentages of the populations not having access to an electronic bank account despite having access to an internet-connected mobile phone. For instance, 55% and 79% of the populations of Nigeria and Pakistan respectively, home to a combined ~427 million people, were without a bank account or digital mobile money account in 2021[3].

The reasons for these high underbanked population rates vary, ranging from the high costs of banking, lack of identification required for onboarding, hyper-inflation of the domestic currency and general economic mismanagement, low trust in traditional financial institutions, gender inequalities, financial colonialism and more. Additionally, many of the countries with high unbanked rates suffer from corrupt

[2] Source: The World Bank – Financial Inclusion on the Rise, But Gaps Remain – link
[3] Source: The World Bank – 2021 Findex Report – link

governments or authoritarian regimes who often 'weaponise' their financial systems (through freezing funds held in accounts with financial institutions[4]) in order to suppress protests and opposition.

For individuals in these countries, a currency that is resistant to seizure and mismanagement by authoritarian governments is a necessity, not a novelty. Bitcoin, a currency without borders or a governing body to control its supply and accessibility, is increasingly being utilised to send remittances across borders (a task that proves expensive and slow at best in the existing financial system), maintain purchasing power of savings and to opt out of authoritarian regimes by increasing their own financial security. For instance, if an individual controls the private keys to their bitcoin – a practice known as 'self-custody' – no person, government, dictator, or financial institution can stop them from spending it, a feature which is lacking in the traditional financial system.

Whilst there are existing bitcoin hardware wallets that enable self-custody (ie. where the user holds and controls their own bitcoin instead of trusting a third-party like Coinbase or Cash App to hold your private keys for you), they are both overly complex and far too expensive for the average individual in Africa (or any other region to be frank!) to adopt. The high complexity and costs associated with self-custody has also led to many individuals storing their bitcoin on largely un-regulated cryptocurrency exchanges – and as we've seen from recent events, many can't be trusted with customer deposits (FTX comes to mind here…). To that end, Block is building a simple, low-cost, self-custodial bitcoin wallet (a mobile app and hardware device that securely stores a user's private keys) to address this gap and ensure that the next 100 million users of the currency can have full control and security over their own funds regardless of whether they live in California or Nigeria. Block's bitcoin wallet is equivalent to storing cash in a safe in your house, but much more secure and easy to use in the digital economy. Set to launch in late 2023, Block's bitcoin wallet will likely be their first product to be available in any and all countries at once (pending logistics and distribution of course), which is only possible due to being built on top of the world's greatest (by virtue of being the largest, most widely adopted, most durable, most secure, most decentralized and most accessible) global open monetary protocol.

We believe the potential business model that supports Block's bitcoin wallet will be similar to Square's business model – selling affordable hardware to customers at an upfront gross loss which is then monetized over the life of their continuing use, in the form of transaction processing fees and software and services. In the case of their bitcoin wallet, this may include bitcoin to fiat exchange services and subscriptions to additional services such as enhanced recovery and the ability to pass on funds to a beneficiary upon death (a capability not present at any other bitcoin wallets today). Partnerships with local bitcoin exchanges will play a key role in both distributing the Block bitcoin wallet, as well as providing fiat to bitcoin exchange services to their customers, of which Block will likely monetize through a commission.

[4] For more on this topic, we highly recommend reading 'Check Your Financial Privilege' by Alex Gladstein from the Human Rights Foundation.

Prototypes for the hardware component of Block's self-custodial bitcoin wallet launching late 2023.

Block has avoided much of the speculative excess of 2020 and 2021 with respect to cryptocurrency and related asset markets (ie. Ethereum and other 'alt-coins', NFTs, DeFi, 'web3', crypto-lending, etc.), remaining focused on building real-world utility only for the most durable cryptocurrency: bitcoin. As an aside, bitcoin has just passed its 14th anniversary with organic adoption continuing to increase despite the efforts of many governments, dictators and central banks to suppress access and adoption of the currency[5]. For comparison, the euro has only been in circulation for 21 years[6]. Created to be a global currency that is available to all people regardless of their religion, race, political ideologies or financial circumstances, bitcoin's purpose neatly overlaps with Block's overall purpose of economic empowerment. Similar to how Square and Cash App made accepting card payments and simple financial services more accessible, Block is committed to providing more individuals across the world with better tools to allow them to save, store, spend, and send their money safely and securely. This passion is displayed admirably right from the top of the organisation, with Block Head, Jack Dorsey, spending much of his own time talking to individuals and human rights activists on the ground in Africa to understand their problems and how Block can help solve them – regardless of whether the solution includes bitcoin or not[7].

Block has several other initiatives aimed at making bitcoin more secure and easier to access, use and develop on top of, such as Spiral, TBD, Cash App bitcoin exchange and wallet, along with their mining hardware project. Personally, Jack Dorsey and Shawn Carter (better known as "Jay-Z") have founded and funded not-for-profits aimed at improving bitcoin education as well as giving entrepreneurs based in Africa initial funding to create tools to make it easier to use and access bitcoin.

---

[5] Source for 14th year anniversary of bitcoin: Genesis block, and source for bitcoin ban-list: Cryptonews.
[6] Source: European Union – History and purpose of the Euro – link
[7] See this talk with Jack Dorsey at the Africa Bitcoin Conference '22 (which Block was a key sponsor of) for more.

Importantly, whilst we're excited about Block's bitcoin initiatives and their potential to reshape the way people interact with money and financial services globally, we've ascribed them – including the soon-to-be-launched Block bitcoin wallet – a *negative* value in our assessment of the company, whereby we've recognised their associated ongoing expenditures without any corresponding revenue. Nonetheless, the presence of these initiatives provides us with immense confidence that Block is willing to disrupt itself and adapt to a changing environment, key characteristics of a business aiming to endure and build value over the long term. Accordingly, throughout the December quarter we acted on favourable market prices by adding to our holding in Block (SQ.NYSE).

Similar to last quarter, Marmalade had yet another record quarter in terms of their key KPIs including GPV and GCV, as shown below[8].

		Dec-21 Qtr	**Mar-22 Qtr**	**Jun-22 Qtr**	**Sep-22 Qtr**	**Dec-22 Qtr**	**YoY %**
Active Suppliers	#	40	68	92	93	102	+ 155%
Gross Payments Value (GPV)	$ millions	$ 15.1	$ 18.8	$ 33.4	$ 46.7	$ 56.1	+ 272%
Total Invoice Value (TIV)	$ millions	$ 23.7	$ 38.1	$ 63.2	$ 75.1	$ 80.4	+ 240%
Gross Invoice Value (GIV)	$ millions	$ 18.7	$ 27.7	$ 43.9	$ 57.3	$ 67.1	+ 260%
GIV / TIV	%	78.8%	72.7%	69.5%	76.3%	83.5%	
Gross Cashed-in Value (GCV)	$ millions	$ 9.4	$ 9.3	$ 13.9	$ 19.1	$ 19.8	+ 110%
GCV / GIV	%	50.5%	33.8%	31.7%	33.3%	29.4%	

The team at Marmalade made meaningful progress throughout the quarter with regards to product enhancements such as increasing 'auto-matching', essential for processing payments efficiently and quickly without needing much human intervention, as well as building an integration with Quickbooks (their first accounting integration outside of Xero). We think that Marmalade's integration strategy will be an important component for unlocking and accelerating growth as each additional invoicing app or accounting software integration expands their brand visibility and the accessibility of the product, whilst also decreasing dependencies on any one channel or platform to access or service customers.

Finally, throughout the quarter we were busy with updating our leg-work on core holdings by speaking with customers, industry experts, competitors, customers of competitors and more, all aimed at ensuring that the data we receive to guide our judgement is as objective as possible. Understanding the problems that individuals (or businesses) face, the solutions available to them and why they chose that particular solution, provides us with greater confidence as to the likely trajectory of a particular company's products, customer bases and future operating earnings. The value of this time-consuming activity is unparalleled as it often results in a rare insight that helps make a seemingly uncertain future much more predictable. We will continue repeating this activity frequently and whilst it may limit how fast we move and the rate of adding new positions into the portfolio, it does ensure that we deeply understand the area that we're fishing in.

[8] Active Supplier is defined as a Supplier who in the last 30 days has issued an invoice with Marmalade as the payment service
Gross Payment Value (GPV) is defined as the value of payments received by Marmalade and matched to an invoice.
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.
Gross Cashed-in Value (GCV) is the value of invoices cashed-in by Active Suppliers.

Having said that, we did also spend a significant amount of time this quarter looking at new opportunities which for long periods of time have seemed out of reach due to their share prices widely departed from the business's underlying fundamentals. We hope to have more to discuss next quarter, however with the market still whipsawing about – and not in the direction we would like given we're a net buyer and holder of high quality businesses – we have to work fast.

Thank you for the opportunity to invest on your behalf.

Kind regards,

Luke Trickett and Brock McCamley
Blue Stamp Company Pty Ltd

PS. None of this letter was written by ChatGPT, however we can't guarantee this for future communication!

Performance Summary (Lead Class units)

	Dec-22 Qtr	FYTD	1 year	3 years	5 years	2-Mar-10*
BST^	(8.44%)	8.40%	(62.00%)	(11.49%)	1.99%	12.56%
Benchmark	2.50%	5.00%	10.00%	10.00%	10.00%	10.00%
AOAI	8.77%	9.65%	(2.96%)	5.79%	7.22%	7.71%

^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