21st October 2023

To the Unitholders of Blue Stamp Trust,

The Lead Class unit price at the end of September 2023 was $5.5918/unit – representing a gain of 26.57% for the 2024 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.

Another quarter, another swing in market sentiment.

Throughout the quarter, Marmalade, now a core holding in the portfolio, raised new equity – which we participated in – to support their growing receivables book. While we've talked at length in prior letters about the attractive financial characteristics of Marmalade's business and their large market opportunity, there were two notable callouts that persuaded us to swing hard at this opportunity; 1) the competitive advantages that Marmalade benefits from, and 2) the attractive price we were able to invest at.

Regarding the first point, it's impossible to overstate the importance of competitive advantages in protecting the value a business creates for all stakeholders (including shareholders), should they prove there is a large enough market for their products or services that offer attractive returns on shareholder capital. Even at this early stage, we believe Marmalade benefits from **high barriers to entry**, resulting from the high degree of complexity in providing a seamless invoice payments experience whilst managing their risks, which should serve to defend Marmalade's market opportunity from copy-cats and new entrants. This complexity can't be nailed down to any one aspect of the product but rather a culmination of many inter-locking components of Marmalade's 'innovation stack'.

For instance, without intermediating themselves between the Payer of an invoice and the Supplier's bank account, Marmalade could not make its 'cash-in' feature available to the long tail of SMBs that have traditionally lacked access to this type of funding solution, whilst also protecting themselves from losses. However, by placing themselves between the Payer and the Supplier, timely, accurate and seamless invoice payment reconciliation has become crucial for providing a good Supplier/Payer experience and serves as an initial 'wall' for their next competitor to clear if they want to compete against Marmalade.

Following from this 'reconciliation wall', the most important factor is how long it takes Marmalade to remit these matched and reconciled funds to the Supplier – so the Supplier can use the cash in their business. It is this second factor of making funds available in a timely manner, that Marmalade has had to learn the hard way – through trial and error. Designing and building an invoice payment service that intermediates these transactions in order to offer payment-on-demand (cash-in) in a manner that is operationally scalable, commercially viable (i.e. generates and protects margin), that also removes friction and admin for the Supplier is clearly a high stakes game to be playing with little room for error. We believe Marmalade's cash-in product is the most complex (to build, not use), mass-market financial service that has been developed, the world over.

That is, handling all of an SMB's turnover in a manner that does not frustrate their customers, does not leave discrepancies and inaccuracies on the invoices (even as they are continually updated and amended over time), does not leave discrepancies and inaccuracies in the Supplier's financial statements, does not slow down the flow of funds to the Supplier and is as automated as possible, serving a heterogeneous market in a scalable manner, all while protecting against losses, is no mean feat and serves as a second wall to protect the 'Marmalade keep'.

Due to invoices being paid almost entirely via bank transfer, the payments received are inherently unstructured and human-initiated. Consequently, being able to reconcile these payments quickly and with high levels of accuracy in an automated and scalable fashion requires high volumes of data and investments into data analytics and machine learning. Cautioning this 'need for speed', if Marmalade's risk decisioning cannot keep up with how fast the funds flow between a Payer and Supplier, then the business will be vulnerable to poor underwriting decisions. Therefore, it's also crucial for Marmalade to have robust, real-time, data-driven risk decisioning processes which can support both speed of payments for non-cashed-in invoices whilst protecting Marmalade from losses on invoices that are cashed-in.

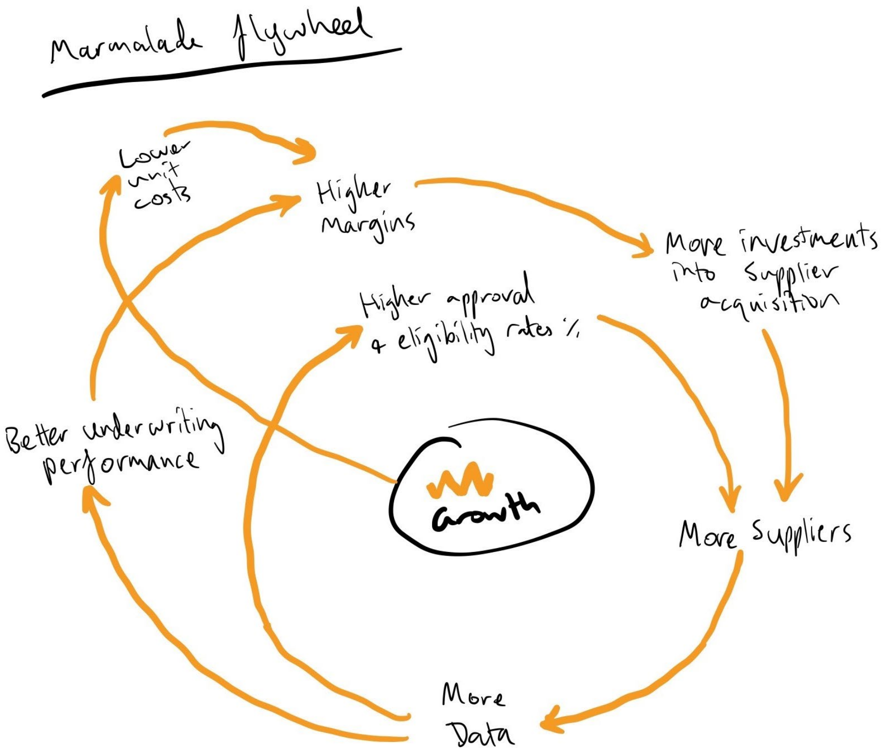
While much harder to pinpoint and describe, we prefer this type of competitive advantage, one that is built around many different dimensions – dubbed by Charlie Munger as the 'Lollapalooza moat' or by Block co-founder Jim McKelvey as the 'innovation stack' – to simpler competitive advantages that are both much easier to identify and, thus, breach, such as patents, licenses, or proprietary distribution. Doing many different things much better than competitors, and in ways that reinforce each other, has shown to be very difficult to replicate over the long run and adds up to create a strong and well-diversified competitive advantage. Patents, on the other hand, inevitably expire.

Drilling further into a sub-component of its competitive advantage, Marmalade's risk capabilities benefit from a strong data flywheel effect that improves their underwriting with scale, making it harder for competitors to earn the same margins as Marmalade whilst matching their accessibility. Accordingly, we think Marmalade is highly likely to maintain superior underwriting capabilities for their cash-in feature and accessibility of their platform due to a) having a larger pool of data from a longer period of operating history and a larger base of Suppliers, and b) more seasoned risk capabilities. In plain speak, given the depth and breadth of its data, Marmalade will be able to make more invoices available to be cashed-in at lower prices, than any new entrant to the market.

This data flywheel is pictured in Figure 1 over the page whereby, the more Suppliers Marmalade has, the more data they have to inform approval and eligibility decisions, which in turn increases the number of Suppliers the business can support (depicted by the inner flywheel, Marmalade's 'first gear'). Additionally, higher volumes of data from a wider base of Suppliers also helps improve the quality of Marmalade's underwriting decisions. The better the underwriting decisions, the higher Marmalade's gross profit margins will be, leading to higher reinvestments into Supplier acquisition to 'feed the beast' that is the heart of the Marmalade invoice payments platform – the risk engine. This is shown in the 'second gear' of the flywheel.

Finally, due to the economies of scale and operating leverage that Marmalade benefits from, growth in Suppliers and, consequently, growth in revenues, allows a largely fixed cost base to be spread over a higher revenue base, driving down unit costs as the business scales. This allows more profit to drop to the bottom line which can be reinvested back into Supplier acquisition, along with continued development of risk technology, product functionality et al., and so spins the Marmalade flywheel.

Figure 1



Marmalade's competitive edge also extends to the demand-side, safeguarding its relationships with Suppliers against potential competitors. To get the maximum value out of the Marmalade platform, Suppliers must motivate their customers (Payers) to change the payment details they have previously used to pay the Supplier, to the new Marmalade account details, creating an initial 'effort barrier'. This barrier, contingent on the Supplier's size, customer base, and the proportion of repeat clients, might deter the Supplier from adopting competing solutions. For many small businesses with a significant share of repeat customers, switching could materially disrupt their operations, preventing them from exploring alternative invoice financing or payment on demand options, even if those alternatives promise cost savings or better service. However, for businesses with fewer repeat clients, transitioning away from Marmalade may be more straightforward. Nevertheless, using multiple invoice funding solutions concurrently proves challenging due to asset security and other control requirements each financier may have. What are we trying to say here? Well unlike BNPL, where a Payer is now overwhelmed with different payment options at the point of checkout, with Marmalade, there is only one option and the cost and friction for the Supplier of switching away from that one option is high.

In summary, the extraordinary returns on capital that we believe is possible for Marmalade, should be protected by several durable competitive advantages and behavioural dynamics including but not limited to their high barriers to entry, economies of scale, powerful data flywheel and switching costs. This is all before considering the compounding effects of the distribution advantages that may be possible through Marmalade's emerging integrations strategy.

The final noteworthy point that underpinned our recent investment relates to the dichotomy between price and value. Given its young age, our estimation of Marmalade's intrinsic value is less precise than those of other much more mature businesses in our portfolio, however we believe that poor investor sentiment towards the fintech sector, particularly the more capital-intensive ventures, allowed us to acquire shares in the company at quite an attractive price.

While we've talked about this dynamic many times before, it can't hurt to repeat a well-known quote by Warren Buffett – "price is what you pay, value is what you get". In other words, the price you pay for a business won't change the value that you receive or the earnings produced in the future, therefore it's always better to invest at lower valuations than higher valuations, all else being equal. The corollary of it though, is that low prices are usually only available when investor sentiment towards that company or industry is sufficiently negative, affording a rational and level-headed long-term investor with little competition to acquire a significant ownership interest.

On that note, Marmalade has been in talks with many different prospective investors, including notable Australian venture capital firms, over the last year, many of whom passed on the opportunity for various reasons including; Marmalade's capital intensity (relative to the software business they usually look at) coupled with decreases in valuations of fintechs and problems with raising capital of their own to be able to invest. While this dynamic has been frustrating for the team at Marmalade, it's a blessing to us, being one of the only participants in capital markets that can see the opportunity so clearly and take advantage of that asymmetry. A variant perception to the market is crucial for identifying great opportunities that may drive extraordinary returns for our investors, and we believe we have a big one here.

The source of our variant perception stems from the deep and objective research we've done on the opportunity as well as our focus on absolute returns, afforded by our predictable 10% pa. benchmark, rather than the relative approach that often forces venture capitalists and other investors into paying high prices when markets are buoyant and sitting out of the market when prices are low – a recipe for investment mediocrity and the destruction of capital.

For Marmalade's updated quarterly financial performance, please see the attached Appendix.

<u>Operational update and other portfolio commentary</u>

Going forwards we intend to only accept capital from existing and prospective investors on a much more guided basis – by 'gating' inflows when we deem the investing environment to be much less favourable. Meaning that when we don't see attractive opportunities to invest capital, we do not want to accept new capital into the fund. While we've never invested a dollar of Unitholder capital just because it's burning a hole in our pocket, a big lesson from the last few years has been around accepting new capital from investors.

Although we were aware that prospective returns were lower and risks higher in the late 2021 period, we did not stop some existing and new investors from investing in the fund at that time. Combined with some other mistakes we made, such as not positioning the portfolio more defensively in response to this observation, and those investors have had a considerably negative experience (and performance) since investing, which we are greatly disappointed about. When you or anyone invests in our fund (or any other fund for that matter), you're implicitly buying the portfolio of companies at the prevailing market valuations. While the construction of the portfolio can change, simplistically, an investment in the fund can only be successful over the long run if you happen to invest when our portfolio companies are valued in the market at or below what we think they're worth – requiring you to independently appraise the intrinsic value of the companies in our portfolio yourself in the absence of any indication from us as to the price-value relationship of the fund's assets. At that point, however, you would be doing our jobs for us!

Thus, we have a fiduciary obligation to protect existing and prospective investors from the information asymmetry that is present in a manager-investor relationship, where us as the managers know far more about the value (or otherwise) inherent in the portfolio than you, the investor. Therefore, we expect to open the fund only when we have ample capacity to achieve our desired rate of returns and new investment dollars increases the expected rate of return ahead of the fund whilst adding to overall investor quality. In the absence of attractive opportunities to invest capital, or when there are material divergences between the carrying value of our unlisted assets and where we otherwise believe they might be valued in the market, we will close the fund to new investments.

The current environment, however, continues to be a highly attractive time to be investing capital. It's so attractive that we're *passing* on opportunities where we're confident we could achieve long-term returns exceeding 15% p.a. as we expect the businesses we're already invested in, as well as some newer opportunities, to produce much higher risk-adjusted returns. Even if inflation 'runs hot' over the long-term, we're quite confident that the investments we're making today in high quality businesses with durable earnings growth are highly likely to produce extraordinary *real* growth in the purchasing power of our wealth.

Because of today's highly opportunistic investment environment, we're keeping the fund open until 31 December 2023, unless circumstances change that cause us to leave it open for longer or close sooner. Despite the recovery in the fund's unit price from recent lows, we feel comfortable that any new incremental capital that comes into the fund today will be invested at, and achieve, attractive rates of returns over the ensuing years.

Importantly though, this approach does not bear any impact on your ability to redeem your investment from the fund. You will still have access to withdraw on a monthly basis.

<u>A note of thanks</u>

Lastly, we would like to thank each and every one of you, with all Unitholders showing great patience through this tumultuous period. While we always remain available to discuss the current environment at any point in time, we received very few enquiries into the fund's performance despite the significant volatility – we'll take this silence as a sign of the strong alignment between us as managers, and yourselves as investors. *If the phone ain't ringing, it must be a Blue Stamp Unitholder…*

Our ability to take a patient and long-term approach to the allocation of capital is tightly linked to Unitholders' ability to do the same. In a highly competitive industry utilising the world's most commoditised resource (money), the quality of one's investor base can provide an incredible advantage in the market at raising and allocating capital successfully over long periods of time, and by this measure, Blue Stamp ranks amongst the best there is. By entrusting us with your capital for extended periods of time and tolerating relative portfolio inactivity (especially compared with the rest of the funds management industry), you enable us to think and act differently from the herd – crucial requirements to generate outperformance over the long-term.

Just as any new investment we make must first offer a rate of return that's accretive to what the fund already owns, any new Unitholder must match the quality of our existing investor base – a high bar to pass – so we can continue to spend as much of our time as possible finding new opportunities.

While our research activities were very productive over the quarter as we turned over some new rocks, we aren't yet in a position to report our findings – though watch this space.

Thank you for the opportunity to invest on your behalf.

Kind regards,

Luke Trickett and Brock McCamley
Blue Stamp Company Pty Ltd

Appendix – Marmalade quarterly performance[1]

		Sep-22 Qtr	Dec-22 Qtr	Mar-23 Qtr	Jun-23 Qtr	Sep-23 Qtr	YoY %
Active Suppliers	#	93	102	114	134	154	+ 66%
Gross Payment Value (GPV)	$ millions	46.7	56.1	53.0	70.2	82.9	+ 78%
Total Invoice Value (TIV)	$ millions	75.1	80.4	85.4	128.3	130.8	+ 74%
Gross Invoice Value (GIV)	$ millions	57.3	67.1	71.8	106.2	108.4	+ 89%
GIV / TIV	%	76.3%	83.5%	84.0%	82.7%	82.9%	
Gross Cash-in Value (GCV)	$ millions	19.1	19.8	21.1	25.9	26.4	+ 38%
GCV / GIV	%	33.3%	29.4%	29.4%	24.4%	24.4%	
Revenue	$	630,549	669,010	731,750	886,266	980,739	+ 56%
Average cash-in fee % of GCV	%	3.30%	3.38%	3.46%	3.42%	3.71%	

[1] 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.

Performance Summary (Lead Class units)

	Sep-23 Qtr	FYTD	1 year	3 years	5 years	2-Mar-10*
BST^	26.57%	26.57%	28.01%	(15.81%)	8.24%	14.52%
Benchmark	2.50%	2.50%	10.00%	10.00%	10.00%	10.00%
AOAI	(0.66%)	(0.66%)	13.09%	10.77%	6.80%	7.57%

^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