22nd April 2024

To the Unitholders of Blue Stamp Trust,

The Lead Class unit price at the end of March 2024 was $7.2271/unit – representing a gain of +63.59% 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.

A summary of the Trust's performance – before and after Performance Fees (PF) – for the FY24 year to date is shown in the table below, together with a comparison to the 10% Benchmark and the All Ordinaries Accumulation Index (Index), the broadest measure of performance for the Australian stock market.

	Blue Stamp Trust (Lead Class units)		**Benchmark**	**XAOI**
	Before PF	**After PF**	**10% p.a.**	**Index**
1-Jul-23	$ 4.4178	$ 4.4178	$ 3.5623	88,991.44
31-Mar-24	$ 7.2271	$ 7.2271	$ 3.8266	101,304.46
Return	**+63.6%**	**+63.6%**	**+7.5%**	**+13.8%**

Since inception (over 14 years ago), the Trust has provided an after-fee return of 16.00% p.a. to Lead Class Unitholders compared to the Index return of 8.34% p.a. over the same period. From another lens, a $100,000 investment made at inception is now worth $808,050 against $308,845 for the Index and $382,661 at the Benchmark rate of return of 10% p.a.

The following graph compares the historical performance of $1 invested in the Trust versus the Index and the 10% p.a. Benchmark. The investment in the Trust is for *Lead Class units, after all fees and includes the reinvestment of any distributions which have been paid*.

Growth had a swift resurgence over the past few months, though the market certainly seems to be more discerning than in the zero-interest rate era of 2020 and 2021. Many businesses of above average quality – i.e. displaying durable competitive advantages and high returns on invested capital – with sizeable growth opportunities have been bid up to eye-watering valuations over the last few months while many lower quality businesses have seen their share prices stagnate in comparison.

We needn't look much further than a company we've discussed in the last few quarterly letters, yet still don't own, for a prime example – **Lovisa (LOV.ASX)**. Over the last four years, Lovisa's earnings have grown at quite a rapid pace, doubling from $38.5 million in calendar year 2019 to $76.7 million in CY2023 – a compound annual growth rate of +18.8% p.a. – while shares on issue have barely changed and significant portions of cash generated have been returned to shareholders by way of dividend. This is an impressive result, no doubt, but how much should an intelligent investor pay for this fast-growing earnings stream to earn a reasonable return on their capital? Well, as at the end of Mar-24, market participants were paying the equivalent of roughly $3.6 billion for the Lovisa's equity, approximately **47 times** their current earnings! Unlike many other businesses, Lovisa's reported earnings figure is a reasonably good proxy for their 'owner earnings' – the dollar figure of earnings that may be distributed to an owner after all maintenance expenditures and other investments required to maintain current unit volumes have been made or provisioned for. Thus, this price hardly leaves investors with much room for error.

Of course, investing is about the future, and to the future we should look. We find it hard to believe that Lovisa *won't* have a store network and earning power that is at least four times current levels in ten years' time (+15% CAGR) given the significant store-rollout opportunity they have remaining in their existing markets as well as an early, but uncertain, beachhead in China. Nonetheless, we view 47x earnings as a hefty price to pay for this growth and it may leave some investors with a disappointing result over time.

In equity markets, beauty (or value) is in the eye of the beholder. What looks like an attractive rate of return for some would be disappointing for others. Many of the high-quality businesses that sit on Blue Stamp's 'bench' – companies which we would love to call onto the field at the right time (and the right price) – are quite richly valued and the prospective returns we could earn from them does not comfortably exceed our benchmark return of 10% p.a. (after all fees).

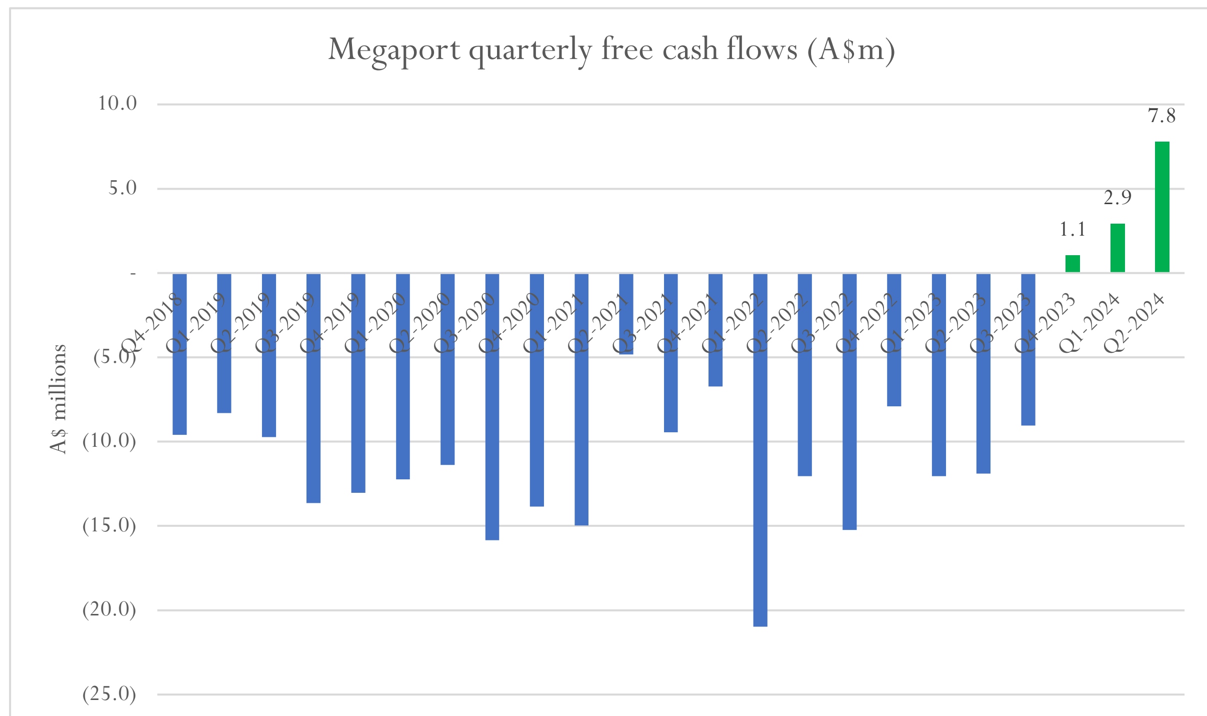
Of course, given your Manager looks to earn its revenue from Performance Fees above anything else, our true 'hurdle rate' (ie. the minimum rate of return required to justify an investment) is much higher than 10% p.a. In fact, the hurdle rate we use on average to value an opportunity is +15% p.a. pre-fees. Using conservative forecasts layers in an *additional* margin of safety that should see, on balance, the after fee return to our investors handily exceeding our benchmark of 10% p.a. over the long-term should our assessments of the underlying businesses, earning power, and management teams we invest in prove to be correct.

So, what might be the source of the strong recent price performance of equities generally and the valuation of high-growth businesses specifically? Armed with lower hurdle rates due to *expectations* of rate cuts by central banks and decreases in long-term bond yields, many institutional market participants, whose status quo is expanding the assets that they manage regardless of prospective returns (and who are suddenly experiencing increased inflows due to improving market sentiment), are able to pay higher prices for the same asset or dollar of earnings. Simplistically, this means investors are plugging in lower interest rates into their valuations, and voila! Higher asset values! Though, this doesn't impact all companies or assets equally and, in fact, assets whose cash flows are growing faster are more sensitive (on both the downside and upside) to changes in interest rates. We'll spare you the math but given the businesses in our portfolio

are growing much faster than those that make up the overall stock market, expect volatility in the Fund's performance to persist as the broader market continues to digest ever-changing long-term interest rate expectations.

Portfolio commentary

A robust trading update in January saw strong share price performance throughout the quarter for **Megaport (MP1.ASX)**, up +51.7% for the Mar-24 quarter, a significant contributor to the Fund's overall performance. Profitability by all measures reached an all-time high within the Dec-23 quarter, with the company producing adjusted earnings before interest, taxes, depreciation, and amortisation (or "EBITDA", sorry for the industry garble…) of $13.4 million and free cash flow of $7.8 million against revenues of $48.6 million. Though we expect this to be a short term high in profitability as the company bears the full cost burden of the recent hires in their sales team. Encouragingly though, we believe this is indicative of the margins that Megaport may easily achieve at scale with a much larger customer base. Given the mostly fixed cost nature of the business, each incremental dollar of revenue will largely flow straight to the bottom line.



Also of note, Megaport landed their largest ever deal in the business's history in the Dec-23 quarter, signing $1.4 million in annual recurring revenue (ARR) over three years, for a total contract value of $4.2 million – which is more than over 35 times larger than Megaport's average deal size. This deal was a result of a Megaport sales representative speaking to an existing customer which, surprisingly, is something that the company had historically done very little of, where the majority of their focus was on growing *new* customers and *new* Ports.

Pleasingly, under CEO Michael Reid's leadership, the company is now focused on driving growth from all angles, including re-engaging churned customers or selling additional services to existing customers. Accordingly, the remuneration structure of Megaport's sales team has been reset to better align with this renewed approach. Often, it can be far cheaper and easier to grow revenue from existing customers than

from a new customer entirely, and the previous remuneration structure unfortunately did not incentivise this activity. With over 2,800 customers currently using at least one Megaport service, the opportunity to grow revenues by improving customer awareness of the full breadth of services available on the Megaport platform is immense. With a lot of the recent hires now in seat, we should start to see a more meaningful reacceleration in services growth rates from their current lows, in the next year or so.

On a related note, the team has been incredibly busy with an overhaul of the go-to-market strategy with a focus on simplifying the messaging relating to Megaport's services and reframing them around customer problems (i.e. 'cloud connectivity', 'private cloud', 'data migration', etc.) rather than the solution-based selling Megaport had traditionally engaged in which involved prospective customers having to learn new terms that Megaport had invented such as 'MCR', 'MVE', etc. Whilst hard to quantify, we are confident that this refined and simplified messaging will lead to tangible improvements in the sales funnel and, consequently, new customer and revenue growth over time.

Given Megaport is well capitalised and has a few quarters of positive cash generation under its belt, they will no longer be providing quarterly updates to the market. The job of preparing and reporting results to investors can be quite time intensive and divert management's attention away from higher ROI activities. So, while we do love the opportunity to 'look under the hood' on a quarterly basis, what we prefer is a management team that is laser focused on building long-term shareholder value. Moving to semi-annual reporting is entirely aligned with that. Don't worry… we're not looking to roll Blue Stamp back into semi-annual rhythms too.

Similarly, another of our core holdings has also opted out of quarterly investor reporting, with **Marmalade** choosing to wind back investor reporting to twice a year, corresponding with the business's increasing maturity. Unfortunately, this means that we won't be able to provide *quarterly* updates on Marmalade's key performance indicators and financial performance, and it may be another six months until you see any additional data as Marmalade aligns its reporting periods more closely with those of a company listed on the ASX.

Early in the quarter, Marmalade underwent a significant rebrand which has seen the company emerge with a refreshed logo, website, and Supplier portal that should hopefully resonate with the many small businesses that Marmalade is targeting over the years to come. Also in the quarter, Marmalade invested in its first significant public relations campaign, which was aimed at raising the awareness of capital market investors about Marmalade and its progress to date. Marmalade's message was spread across all corners of Australian business news from the Australian Financial Review, Smart Company, and everything in between. Given the more capital-intensive nature of the business, finding new and competing sources of capital will be incredibly important for reducing Marmalade's overall cost of capital whilst also diversifying and shoring up its access to capital – providing the business with more stability to pursue value enhancing growth. While this PR campaign may not have an immediate return on investment, over time it will help build the profile of the business which assists in attracting high quality debt and equity investors. As for Blue Stamp, this will inevitably result in us needing to compete with other investors in future capital raises, however we are conscious of the fact that as the business scales its capital requirements may surpass our capacity to fulfil them.

Over time, a component of Marmalade's success will be a result of the quality of the capital partners it is able to attract. To that end, CEO Luke Trickett has written an incredibly inspiring and clear 'Owners' Manual' which outlines Marmalade's shareholder engagement principles and ambitions to build durable long-term value for those who co-own it, – in a tone and style that you will all be quite familiar with! I highly recommend that you read it, and you can find it here.

The Dec-23 quarterly report of **Block (SQ.NYSE)** revealed some interesting insights into the business. On the financial performance front, growth remains strong however with widely varying results across the business. Gross profits from Cash App grew +47% YoY to US$2.67 billion in 2023 as monetisation per customer increased faster than the costs of servicing them. Square, which has been impacted by reduced consumer demand weighing on transaction volumes, grew recurring gross profits by only +14.5% YoY to US$3.24 billion in 2023, a far cry from the over 30% growth rates they were achieving in 2018 and 2019. Afterpay volume growth reaccelerated in 2023, growing +23% YoY to US$27.3 billion, nearly 2.5x 2020 volumes of US$11.2 billion and equating to a 3-year CAGR of +34.7% per annum. Pleasingly, this growth was achieved with healthy receivables performance as provisioning remained conservative whilst bad debts expense relative to GMV came in at 0.96% for the year.

Losses narrowed for the business, with earnings before interest and tax (EBIT – more garble..) margins coming in at (0.83%) of net revenues in 2023, as the company pared back their investments in lower ROI opportunities, mostly relating to the global expansion of Cash App and Afterpay, and became much more focused on managing share-dilution as senior managers' incentives became linked to profitability metrics including share-based compensation expense. We expect profitability to materially improve over the coming years as Block reduces its headcount by ~8% and the company focuses its investments on areas that, in our opinion, will provide the highest returns and largest longer-term impact on the defensibility of the business.

2024 will see the business execute on its early strategy to 'own both sides of the counter' as Block releases features that will more tightly connect their large US-based consumer (Cash-App and Afterpay) and seller (Square) ecosystems. In this respect, the most compelling opportunity for Block centres around local commerce discovery – i.e. leveraging the large size of their US-based ecosystems to provide unique and differentiated value by more efficiently matching consumers looking for things to buy (demand) with businesses looking to sell (supply). The aggregation of demand and supply has been at the cornerstone of some of the most high-quality global businesses – think Google (GOOGL.NAS), Facebook (META.NAS), Amazon (AMZN.NAS), Airbnb (ABNB.NAS), and more – and at scale, these kinds of services provide immense value to both sides of the network whilst simultaneously being quite difficult to disrupt. Therefore, turning Cash App into a frequent destination for individuals to discover local businesses around them such as beauticians, restaurants, cafés, bars, and more, could prove quite valuable for the company and its customers, and provide the opportunity to earn additional high-margin and defensible revenue streams. However, while Block has a strong presence amongst local sellers in the US and has over 80 million US-based consumer customers, success in linking the two customer bases in a valuable and defensible manner is far from guaranteed and carries a high degree of execution risk.

Throughout the quarter, we again chose to fund some liquidity requirements and move the portfolio to a more defensive position (net cash was 4.4% of total assets at the end of Mar-24) by further reducing our position in Block based on our updated assessment of the competitive position and risks ahead of the business considering its shares were approaching our appraisal of fair value.

Operational update

Our research efforts were quite productive again this quarter and we managed to add at least three new businesses to the list of high-quality businesses that we would like to own at more attractive prices. Two of these are the dominant players in a growing industry with significant barriers to entry that can't help but produce truckloads of cash while benefitting from intelligent and rational management teams. The third was a labour-services business providing critical services to large mine owners and operators that has generated quite attractive returns on invested capital over very long periods of time while maintaining

high growth rates that have required very little equity capital to support. Similar to Lovisa, this business also benefits from a tenured management team with lots of skin in the game and a rational approach to allocating capital.

The bench of companies we would like to invest in is growing much faster than the rate at which we can add them to the Fund, with the key bottleneck being price. Should there be a material downturn in general equity markets that sees prospective returns push past our 15% hurdle rate in at least one of these businesses, you should expect the diversification of the Fund's assets to increase materially – and you will start hearing about some new names in these letters!

However, given the current opportunity set to deploy capital at our desired rates of return has narrowed (by virtue of increasing stock markets), we're temporarily closing the Fund to new investments. It's important to note that this won't impact liquidity and Unitholders may still redeem the full value of their holding. We have received some interest from new potential investors over the last few months which is pleasing, though, consistent with our approach outlined in the Sep-23 quarterly letter, we want to ensure that any new investment dollars in the Fund are invested at attractive rates of return while being accretive to existing investors. Put simply, there's no point in us accepting additional investments, if that money will just sit in our bank account – diluting the investment performance of existing Unitholders.

Having said that, these market conditions are never permanent and should prices of the high-quality businesses we would like to own, or the general price to value ratio of the Fund's portfolio decline to attractive levels, we will swiftly open the Fund back up again and call upon many of you to take advantage of any potential opportunities. If you would like to add to your investment in the Fund or, for those who are new here, make your first investment in Blue Stamp Trust, please don't hesitate to reach out to indicate your interest and we'll follow up when we find the environment to be more favourable.

Thank you for the opportunity to invest on your behalf.

Kind regards,

Brock McCamley
Blue Stamp Company Pty Ltd

Performance Summary (Lead Class units)

	Mar-24 Qtr	FYTD	1 year	3 years	5 years	2-Mar-10*
BST^	21.26%	63.59%	98.43%	(9.82%)	12.85%	16.00%
Benchmark	2.50%	7.50%	10.00%	10.00%	10.00%	10.00%
AOAI	5.45%	13.84%	14.98%	9.51%	9.51%	8.34%

^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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