BLUE STAMP
COMPANY

28th September, 2015

2015 Financial Year

Performance Measures

2015

The Trust experienced a solid performance during the year achieving a return of 36.87% (both before and after Performance Fees). A brief summary of the performance measures for the 2015 year are given below. A more detailed review is provided in the Manager's Report.

	Unit Price	Return
01-Jul-14	$1.5173	
30-Jun-15 before Perf. Fee	$2.0768	36.87%
after Perf. Fee	$2.0768	36.87%

High Water Mark (unit price):

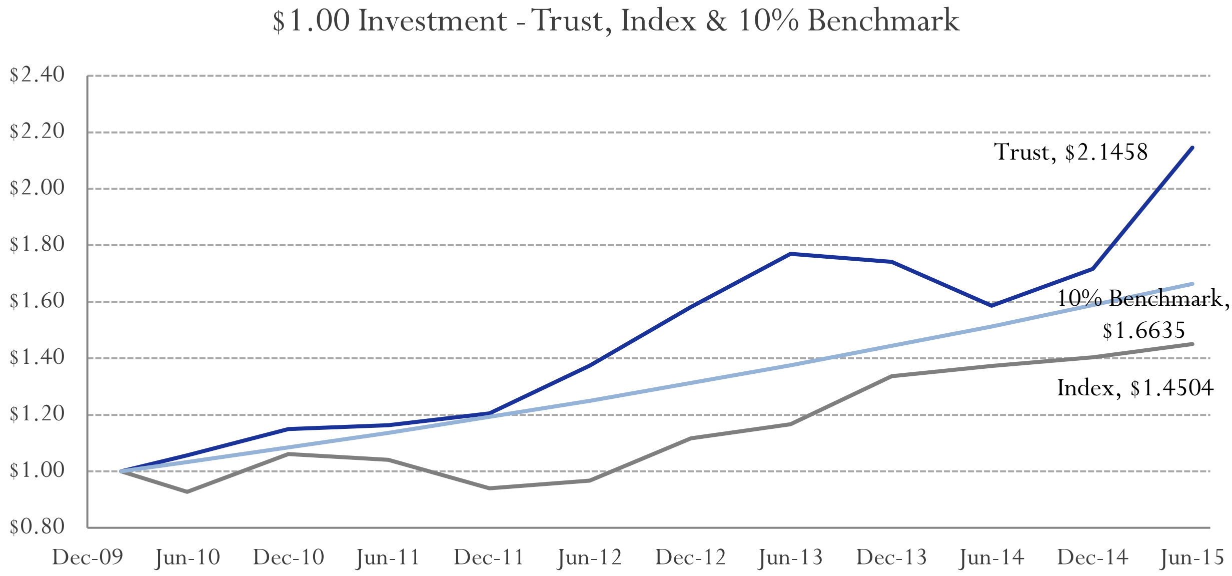
01-Jul-14	$1.7010
01-Jul-15	$2.0768

Historical

Below is a summary of the performance of the Trust (both before and after Performance Fees) against the Benchmark; being an annual 10% return. In this data, the return for the Benchmark in 2010 has been adjusted to reflect the part year of operation.

Year	Trust (pre PF)	Trust (post PF)	Benchmark	Variance
2010	7.21%	5.63%	3.18%	2.45%
2011	10.29%	10.14%	10.00%	0.14%
2012	27.01%	18.50%	10.00%	8.50%
2013	50.57%	30.36%	10.00%	20.36%
2014	-10.80%	-10.80%	10.00%	-20.80%
2015	36.87%	36.87%	10.00%	26.87%

The following graph tracks the change in value of $1 invested in the Trust versus the All Ordinaries Accumulation Index (Index), as well as against the 10% Benchmark. 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 – making it the most comparable to the Trust. The value of the investment in the Trust is after performance fees and *includes* any distributions which have been paid.



This next table shows the yearly return of the Trust (after performance fees and including distributions) against the yearly return of the Index.

Year	Trust	Index	Variance
2010	5.63%	-7.27%	12.90%
2011	10.14%	12.17%	-2.03%
2012	18.50%	-7.04%	25.55%
2013	30.36%	20.67%	9.68%
2014	-10.80%	17.64%	-28.44%
2015	36.87%	5.67%	31.20%

As mentioned in prior communication, 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 by an acceptable margin.

In evaluating the return of the Trust for 2015, it would be misleading to view this strong performance simply in its own right. While any one year's performance is important to understand, given however, that we are investors seeking long term capital growth, the blinkers to each period's performance must be removed so as we can more accurately evaluate the skill of the Manager in allocating capital. This is a process that should be adopted when appraising the performance of any investment.

In so doing, we can see the average annual return to an investor in the Trust over the past *two* years – that is, including the down year of 2014 – would have been 10.5%. This is a result far more moderated than the performance of either 2014 or 2015 would suggest in isolation and coincidentally, a result that is very close to that of our annual Benchmark. Expanding our perspective even further and including the entire operating history, an investor in the Trust would have received an average annual return of 15.4%.

At 30 June 2015 the assets of the Trust remained fully invested in long term holdings, with no arbitrage positions held.

Remuneration of Manager

Fee	Description	2015	2014
Performance Fee (paid as)	Cash	-	-
	Units	-	-
	Total	-	-
Annual Fee	Eligible	$12,711.81	$5,574.03
	Paid	-	-

Amounts shown include GST.

Despite the return of the Trust comfortably exceeding the 10% Benchmark, a Performance Fee was not paid. The reason for this was largely due to the presence of the high water mark; however this is explained more fully in the Operating Review below.

While the 1% Annual Fee was eligible to be paid to the manager of the Trust, a decision to waive payment of this fee for 2015 was made. Again, the reason for this is detailed in the Operating Review below.

No amounts forfeited for either the Performance Fee or Annual Fee will accrue and become payable in subsequent years.

Operating Review

Income

Given the Trust does not rely on the sale of a product or service to generate its returns, but rather the price movement in financial assets, to appraise the results of the Trust the components outlined below must be considered.

1. Long term investments
    a. Realised positions
    b. Unrealised positions
2. Arbitrage transactions
3. Dividend income

As was the case in the prior year, the component explaining the overriding majority of the Trust's performance was unrealised movements in long term investments.

	2015	2014
Investments - Realised	($ 2,754)	$ 176
Investments - Unrealised	$ 401,958	($ 144,590)
Arbitrage	$ 920	($ 15,925)
Dividends and interest	$ 45,293	$ 26,282
Other	$ 27	($ 5,583)
Gross Income	**$ 445,445**	**($ 139,640)**

This dynamic of having the performance of the Trust influenced in large part by the unrealised movements of investments, is what I expect to continue and indeed aspire to – although there will certainly be times when we may seek to realise some of this value in order to invest elsewhere. However as explained in the half year letter, allowing unrealised gains to continue compounding on themselves provides an effective and efficient way to build wealth and with a weighted average holding period of 3.6 years for the investments held at 30 June 2015, this is exactly how we are investing.

With the 2014 year being a Rubicon moment for the Trust (given its differential performance from both the Benchmark and Index), it is important you reconcile the commentary about that year's performance with the subsequent action. Consistency between message and action is an important yardstick an investor has to detect when management may be painting targets around their arrows.

Long Term Investments

As mentioned earlier, we cannot look at the performance of the Trust's investments in 2015 in isolation, but rather must also consider the result of 2014 as well. Despite the strong franchises and bright prospects of the businesses the Trust invested in during 2014, this sanguine outlook was not shared by the stock market at the time. In 2015 though, this picture was almost entirely reversed, where to an overwhelming degree, these same businesses – receiving a different reception from the market – were responsible for generating the strong return for the year. While the 2014 results were below par, they were nonetheless investments in future performance, however having this performance play out so quickly was unexpected – as was the depth of underperformance in the year prior. Nonetheless I expect these same investments to be driving the returns of the Trust many years into the future.

The contribution from realised investments during the year was almost exclusively driven by the holding of Titan Energy Services. Titan is in the business of providing services to the onshore oil and gas industry, with particular focus on Queensland's coal seam gas industry. While the Trust normally eschews any investment in an industry or company that has its revenues specifically and conditions generally dictated by commodity prices, I was enticed on this occasion to open our wallet based on what I incorrectly perceived as value for money. With the industry being boosted by record high oil prices, the Trust soon found out that a low multiple affords little protection when applied to cyclically inflated earnings. So when the oil price fell, the shortcomings in their business were exposed leaving the operations in a perilous state. What really pulled the floor out from Titan came from the liabilities they had incurred. While leverage helps to give incremental gains when things are accelerating, when conditions turn down and the brakes are clamped, the presence of debt acts like a dagger on the steering wheel. For a company also exposed to the cyclicality of commodity markets, the knock on effect is to crimp any ability to wait out the ebb as they are forced to raise money at the exact same time as when their assets and equity command their lowest value. As if all this were not enough, a somewhat more subtle but equally devastating situation played out with the off-balance sheet liabilities Titan had incurred. One of the services they offered was providing accommodation for the remote and mobile workers carrying out the drilling activities. This accommodation was provided in the form of reconfigured shipping containers, which Titan would lease off the manufacturer over a period of three or more years. Contrasting this however, the contracts Titan would enter into to supply these portable camps were for short periods, which could be as brief as a few months. This mismatch of maturity left Titan continually wearing the risk of re-leasing and in an industry experiencing a sharp contraction, these assets were often left idle, incurring significant rental payments while at the same time generating little income. With these leases in place for a number of years and little prospect of a quick industry recovery, this liability was going to act like a millstone around the neck for quite some time.

You are probably wondering and rightfully so, given this picture, why the Trust put even a single dollar at risk in this business? Other than being lulled by a seemingly cheap price, I am yet to find an acceptable answer to

this question – however it's now clear, cheap is no protection from weak. This situation also highlights why it is far more preferable to look for simple problems and invest in these low, one-foot hurdles, rather than trying to clear six-foot obstacles – particularly when thanks to the peculiarities of the stock market, an investor can do just as well from simple opportunities as they can from complex ones.
For the first time, the Trust participated in an Initial Public Offering (IPO) during the year. Given that these events normally carry with them the presence (either potential or real) of many undesirable and conflicting incentives that the vendor, spruikers (or both), have with the investor – we ordinarily would abstain from this process.

However, there were a number of features with the float of Superloop that absolved many of these dynamics. With Superloop being a telecommunications infrastructure company, focused on providing connectivity services in the Asia Pacific region, it is a business that is indicative of our preferred industry segment to invest in. Furthermore, the Trust was familiar with the management, operations and underlying assets being sold in the IPO, well before they were destined for the public markets. Most importantly though, I was satisfied with the valuation and comfortable in the mindset that this is an investment we are expecting to hold for many years yet. In any event, the effect of this float on the Trust's performance for the year was very modest, contributing 1.2% toward the year's return – however of more significance, this episode now ensures we can never be accused of being *too* principled!

Arbitrage

For 2015 there was very little event driven activity taking place and accordingly, no arbitrage transactions were invested in at year end. The inertia we have experienced in this area over the past couple of years, stems from the fact that the Trust will always prioritise the allocation of capital into long term, passive and patient opportunities – whenever they offer attractive rates of return – over anything else.

Dividends

Following from the investments made last year, as expected our dividend income for 2015 rose significantly from 2014. The dividend income shown above does not include franking credits.

Other Income

Other Income comprises movements in foreign currency of $27 (2014: ($5,583)). At year end, less than 1% of the Trust's assets were denominated in US dollars. Other than US dollars, the Trust does not own any other foreign currency and does not have any intention to do so.

Expenses

	2015	2014
Investing Expenses		
Brokerage - Investments	($ 1,433)	($ 5,365)
Brokerage - Arbitrage	($ 56)	($ 1,980)
Total brokerage expense	($ 1,489)	($ 7,345)
Interest expense	($ 8,750)	($ 11,098)
Total Investing Expenses	**($10,239)**	**($ 18,443)**
Operating Expenses		
Annual fee	$ -	$ -
Total Operating Expenses	**$ -**	**$ -**
Performance Expenses		
Performance fee	$ -	$ -
Total Performance Expenses	**$ -**	**$ -**
Total Expenses	**($10,239)**	**($ 18,443)**

Investing Expenses

Investing Expenses are costs that relate directly to securing and holding the assets of the Trust, of which drive the investment returns achieved.

That the assets held at the end of 2014 to an overwhelming degree, drove the performance achieved in 2015, is largely reflected in the marked reduction in brokerage expenses incurred. Taking action and investing in attractive opportunities during 2014 meant that 2015 became a year of rest for the Trust. This patient approach to investing has many benefits, some of which include; lower frictional fees and taxes, allowing larger amounts of capital to be invested in any one opportunity as well as freeing up management's time to research more opportunities – there aren't too many jobs where to do them well, requires more time on the (proverbial) golf course than in the office.

While our investing style seeks to ensure brokerage costs are kept to a minimum, the efficiency of this expense – when it is incurred – is equally important to measure. This efficiency is calculated as the total brokerage charge for each transaction as a proportion of the value of that transaction. For 2015, the proportion of brokerage paid on each transaction was 0.243% (2014: 0.280%).

Also contributing to the lower investing expense was a decrease in interest payments. This was the result of a lower balance of borrowings held throughout the year. The borrowings were incurred in order to take advantage of investment opportunities and were made on a non-current basis with a weighted average time to maturity of 3.9 years (2014: 4.6 years), and a weighted average interest rate of 5.35% (2014: 5.35%). Borrowings were kept at a prudent level and at year end represented 14.1% of *net assets* (2014: 15.4%).

Operating Expenses

Operating Expenses are those expenses that arise from maintaining the operations of the Trust and are therefore distinct from the investments and their performance. As such, given these expenses relate to the operating efficiency of management, it is important they are considered separately from all others, to evaluate the manager's effectiveness in ensuring the proper functioning of the Trust whilst at the same time defending it from those relentless, turgid fees that so often follow the honeypot.

Given the attractive investment opportunities that prevailed during the year, no amount was paid for the 1% Annual Fee. Instead this same capital was used to invest rather than remunerate – using capital in this way will have a compounding effect on the performance of the Trust in years hence. This approach however is not expected to occur in future years.

As the Trust continues to grow, other operating expenses it may incur include office lease, accounting services, legal fees and any other expense required to carry out the operations of the Trust. However it is the intention of your manager to ensure the cumulative effect of these fees is kept as low as possible, with the specific goal of seeking to limit their weight to as close to 1% of the net assets of the Trust as possible.

The operating cost of the Trust for 2015, as a proportion of the net assets at 30 June 2015 was 0% (2014: 0%).

Performance Expenses

The Performance Fee is the only Performance Expense that the Trust will incur and by virtue of its structure, will only become payable when the unitholder's equity (measured on a per unit basis) has increased by more than the Benchmark of 10%. Following on, this fee would rightfully be considered a success fee as it represents the creation of absolute wealth for unitholders, rather than any sort of punitive drag on the Trust.

Despite the performance of the Trust comfortably exceeding the 10% Benchmark, a Performance Fee was not paid for the 2015 year. The chief reason explaining this abstention was because the strong return achieved for 2015 was a direct result of the soft year preceding it. Protecting unitholder wealth in this way is exactly what the mechanism of the high water mark is designed to do – ensuring that any fees paid for 'performance' hinge on the prerequisite of exactly that, performance, which is defined by the Trust in absolute terms. Furthermore, as the manager of the Trust it has never been my intention to be remunerated from volatility but instead to profit, alongside unitholders, from the long term wealth creation enabled by the Trust. Thus, the non-payment of a Performance Fee for 2015 should be viewed as the mandate and culture of the Trust being well executed. However don't think my intentions are too noble – as I am the largest unitholder, I thereby gain the most from the non-payment of any fee.

The benefits of fostering an alignment of interests are manifold and it is perplexing to understand why it is so rarely implemented. The Trust was established to have the wealth creation goals of fund manager and fund investor, inextricably linked – to the point where one cannot exist without the other. Whilst stating the goals of a fund manager and their investors' so explicitly and simplistically may make them seem like an obvious truism, unfortunately having this alignment of interests is the exception rather than the rule. Instead, the financial services industry has a strong track-record of cultivating structures and relationships where the interests and incentives of client and adviser are distinct; to the extent that success for an adviser is often based on measures that are completely independent to those which a client would use to determine it. Further and even more remarkably it is not uncommon for these two perspectives of success to completely conflict each other and to have this dynamic accepted as the norm.

In the presence of asymmetric information between two parties – which in the financial services industry almost always occurs, regardless of the level of investor sophistication – then having this alignment of interests is critical. Indeed, despite having less information, where an alignment exists, a client can take comfort in the knowledge that their interests will always be looked after and that their adviser will be paid when they have delivered value. That any other remuneration framework would exist is a difficult pill to swallow.

Operating Profit

	2015	**2014**
Gross income	$ 445,445	($ 139,640)
Total expenses	($ 10,239)	($ 18,443)
Net Operating Profit	**$ 435,206**	**($ 158,083)**

In line with earlier discussion, the net operating profit for 2015 led to a 36.87% rise in the unit price to $2.0768.

General Discussion

Having the ability to stand back and take in a wider perspective is one of the more important tools available to the patient investor. By approaching an investment with this mindset, the Trust can allocate capital, comfortable in the knowledge that the long holding period adopted will tie the performance of our investment to the underlying performance of the business, rather than being unduly influenced by short term market fluctuations. By extension, it only makes sense that the unitholders in the Trust share this same patient approach, so likewise their investment in the Trust will reflect the underlying performance of the businesses selected by the Manager, rather than having their investment overly influenced by volatility prevailing at any one point in time.

Extending the idea of symmetry between the term of capital and the underlying investment, having consistency between the time horizons of investment and measurement allows us to tune out of much of the noise that drives prices and performance over the short term, so as we may focus on the underlying prospects and merits of the investment. Just like it wouldn't make sense to use a calendar to record the performance of a 100m track race, it would be similarly unhelpful to measure the performance of long term investments with a stopwatch. Being able to make long dated decisions, with the knowledge that the capital will be available for this same period of time and indeed that the performance of this capital will also be measured over this same length of time, affords absolute flexibility (and allows us to exploit market volatility) as we seek to achieve above average long term wealth creation. Anyone engaging in more short term investment operations (whether that is due to short term financing, short term measurement or short holding periods) is making the pursuit of outperformance unnecessarily difficult. Having alignment between the holy trinities of long term investing – term of capital, investment and performance, lowers the hurdles to consistent, long run outperformance. The best-laid plans and most intelligent operators will not overcome inconsistency between these three pillars.

As the Trust found out this year, investing is most successful (and enjoyable) when it is most simple. The methods used and goals put in place should not be complex as this will lead to inconsistency in the method and obscurity in the goal. In its most pure form, investing should be about utilising the skills and knowledge available (that is, your own area of competence) to achieve the highest average annual return possible.

Imbedded in this average annual return goal is not only the requirement to swing for the best return possible in any given year, but importantly, to moderate this yearly chase by ensuring it is achieved in a sustainable and replicable way – protecting the value of the capital is an inescapable pillar of this. For long term investors seeking value with each purchase, the opportunities which offer the most attractive returns, often yield the simultaneous benefit of the lowest risk and greatest safety of principal – providing the best chance of achieving our goal. These are the one foot hurdles we look for. To simply aim for the highest return will not serve you well, neither will participating in such a guarded way that merely ensures you will be at the starting line next year – if you want to win the race, then first, you must finish.

Ultimately though and much like life, successful and consistent investing is a journey inward. Understanding ourselves helps us to be aware of any bias in the way we perceive the world, decoupling our actions from reactions and enabling them to be most reflective of the situation and therefore most businesslike. If we are aware there is more to the situation than merely what we think, then there is the chance that we will see things as they are, rather than as we are.

Luke Trickett