BLUE STAMP
COMPANY

19th September, 2016

2016 Financial Year

Performance Measures

2016

The Trust had another solid year of performance, achieving a return of 43.50% before Performance Fees and 36.72% after Performance Fees. A brief summary of the performance measures for the year are given below. A more detailed review is provided in the Manager's Report.

	Unit Price	Return
01-Jul-15	$2.0768	
30-Jun-16 before Perf. Fee	$2.9802	43.50%
after Perf. Fee	$2.8394	36.72%

High Water Mark (unit price):

01-Jul-15	$2.0768
01-Jul-16	$2.8394

Historical

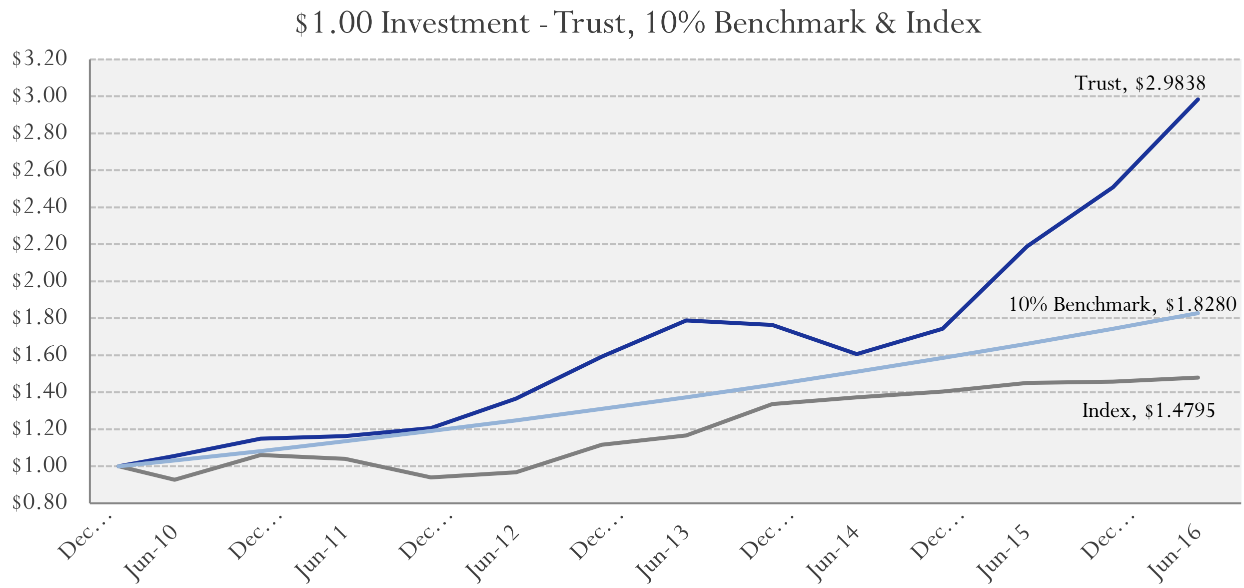
Below is a summary of the performance of the Trust (both before and after Performance Fees) against the Benchmark; being an annual 10% return. In this data, the return for the Benchmark in 2010 has been adjusted to reflect the part year of operation.

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%
2016.........	43.50%	36.72%	10.00%	26.72%

The next table shows the yearly return of the Trust (after performance fees and including distributions) against the yearly return of the All Ordinaries Accumulation Index (Index). 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.

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%
2016	36.72%	2.01%	34.71%
Average Annual Return	**18.85%**	**6.38%**	**12.47%**

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 after performance fees and *includes* the reinvestment of any distributions which have been paid.



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.

Despite the performance of 2016 not being representative of what we can expect going forward, we will certainly take it when we can get it. As mentioned in prior letters, given that we are investors seeking long term capital growth, we should eschew the short term and focus on performance over time horizons that are consistent with the period of our investment. With this in mind and expanding our perspective to include the entire operating history since commencement in 2010, an investor in the Trust would have received an average annual return of 18.85% (after all fees).

At 30 June 2016 the assets of the Trust remained fully invested in long term holdings, with no arbitrage positions held.

Remuneration of Manager

Fee	Description	2016 ($)	2015 ($)
Performance Fee (paid as)	Cash	111,506	-
	Units	141,249	-
	Total	252,754	-
Management Fee (paid in cash)	Eligible	17,869	12,712
	Paid	14,330	-

Amounts shown above reflect the expense to the Trust; inclusive of Goods and Services Tax (GST) and Reduced Input Tax Credits (RITC).

The value of the performance fee was determined by the extent of the Trust's performance that exceeded the annual 10% benchmark.

When a performance fee is earned, regardless of its size, a tax liability (for both GST and income tax) is incurred by the Manager. Irrespective of whether the performance fee is paid in units or cash (or any combination), this same tax liability is still payable to the ATO, in cash.

Previously when a performance fee was earned, the Manager elected to be paid entirely in units – funding the value of any tax liability through its own means. However, this approach is no longer feasible as the value of the 'unfunded' tax liability has grown beyond the Manager's funding capabilities.

Accordingly, the cash component of the performance fee provides the funding for the Manager's GST and income tax liabilities that were generated through the presence of the performance fee and does not reflect any wavering of Blue Stamp's key tenet of building an alignment of interests between the Manager and investors. Instead, the presence of the entire 'after tax' component being paid in units, continues to underscore the Manager's commitment to the long term performance of the Trust.

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

Operating Review

Income

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. Short term transactions
3. Dividend income

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

	2016	2015
	$	$
Investments - Realised	578	(2,754)
Investments - Unrealised	1,040,001	401,958
Short term transactions	2,524	920
Dividends	54,080	45,151
Interest	793	142
Sub-underwriting	2,825	-
Other	-	27
Gross Income	**1,100,801**	**445,445**

By allowing prior year's unrealised gains to continue to compound, we are not only building wealth in an efficient way, we are also (unashamedly) making things as easy as possible for ourselves, as we are not required to continually come up with new ideas to generate our gains. And in the current investing climate, where opportunities continue to dry up with each 'sunny day' of market performance, I consider this a sustainable approach to building wealth. While we are always alert for new opportunities, so long as the businesses we are invested in continue to perform (and remain reasonably valued), we will continue to follow this method of allowing our unrealised gains to compound.

At 30 June 2016, the weighted average holding period of our investments was 3.4 years (2015: 3.6 years). The reason for the contraction in this measure was the relatively large inflow of capital the Trust received during the year, which when invested in new opportunities diluted the average holding period. Nonetheless, more than two thirds of the Trust's assets continue to be invested in positions that have been held for over four years.

Long Term Investments

With interest rates low (and somehow heading lower) and asset prices high, we certainly have a preference toward any business that is growing or pursuing opportunities to grow; as growth is the most effective weapon to guard the value of our capital. Investing with a mindset of capital preservation should ordinarily be something that is as natural and effortless as breathing, although in this prevailing climate of rarified financial markets it is something which we are certainly labouring on.

Accordingly, when the tide of liquidity recedes, any asset price inflation that has occurred without a corresponding expansion in a firm's asset base and profitability, will be found out. This mindset of capital preservation is a major reason behind the significant investments the Trust has made in businesses that are making considered efforts to grow both organically and inorganically. An example of this is the Trust's investment in NextDC, a provider of network neutral, colocation data centres. As the function of our daily personal and professional lives becomes more reliant on digital functions and the internet, NextDC's data centre assets are analogous to typical infrastructure such as a ports, rail or roadway assets. Specifically, these data centre assets allow for the secure and efficient storage and access of anything that is digital. Importantly, they also display a durable competitive strength over their brethren in that they are not owned and run for the benefit of a telecommunication carrier, but have many carriers running services into their buildings, providing NextDC's customers with a neutrality that is unmatched by any incumbent carrier. In addition to this neutrality, NextDC also offers a broad geographic footprint, with facilities in Sydney, Melbourne, Brisbane, Canberra and Perth. This allows for the storage of content closer to the end users, which not only reduces latency but also reduces transit costs; both important factors for the many service providers that rely on NEXTDC's data centres.

The Trust has been invested in NextDC for a number of years now, as their differentiated approach combined with the large upfront capital investments and long lead times required to build a data centre was a dynamic that perfectly suited our patient approach to allocating capital – where our long holding period ensures the performance of our investment is tied to the performance of the business. With the earning power of these assets being recognised by the market during the year, NextDC comprised an important part of the Trust's performance.

Not only do we seek out growth to protect the value of our capital, but we also seek out this growth at an acceptable price. To achieve this acceptable price, we are certainly prepared to wait, of which we did when seeking to invest in the veterinary and pet care company, Greencross. This was a business that we initially looked at in 2010, however at the time, baulked at the price. Late in 2015 we were given an opportunity to swing, of which we did. However, no sooner had we connected bat with ball than a takeover offer was made on them. While takeover offers are gleefully cheered by the market, providing a short term boost to the price, they are lamented here at Blue Stamp HQ, as they push the price higher and squeeze any potential future returns. Even more painfully though, the takeover of one of our long term investments would rob us of a business that is compounding our capital and doing all the heavy lifting of generating our returns – leaving us with a hole to fill with another 'compounder'.

In the case of Greencross, despite the takeover offer being rejected and abandoned by the bidder, it nonetheless certainly pushed the price to levels beyond our interest and once more we are left standing on the sidelines, waiting for an appropriate time to swing again. Waiting over five years for our first opportunity demonstrates that we are not afraid of a little abstention and are prepared to wait another five if need be.

Short term transactions

While we have previously been referring to this form of income as 'arbitrage', given these opportunities are typically based on event driven activity taking place within a short, finite period of time, the more general title of 'short term transactions' has been adopted.

For 2016, the main component of short term income was from an event driven investment we made in 2011, in Centrebet. At the time, Centrebet had paid too much GST to the ATO (as determined by the Courts), and were awarded a substantial refund which was to be paid out over the years – as the rebates are offset against current tax paid. While it is certainly enjoyable watching these payments turn up, given the size of the Trust has expanded since the time of the investment, their contribution to our performance has accordingly fallen.

As mentioned previously though, 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

There was a modest increase in dividend income in 2016, stemming from the organic growth of the existing positions we held in 2015. Consistent with Blue Stamp's approach of generating capital gains (rather than focusing on income), the underlying businesses we own are also reinvesting for capital gains – which naturally restrains the total value of dividend income the Trust receives.

The dividend income shown above does not include franking credits.

Sub-underwriting

Sub-underwriting offered a new stream of earnings for Blue Stamp during the year. This opportunity arises when a public company may seek additional capital for their operations and accordingly undertakes a private placement of shares. The underwriting component involves our commitment to buy a specified number of these private placement shares, if need be. As consideration for providing this commitment, Blue Stamp is paid a fee based on the value we have agreed to underwrite.

This opportunity becomes very attractive when the company undertaking the capital raising, is also one of our long term holdings. Given our passive, long term approach, offering these underwriting services is a natural path for Blue Stamp to pursue – provided we are comfortable with the implied valuation. This also provides the opportunity to acquire additional shares free from transactional fees – whilst also being paid a margin for the service. This is money for jam.

Expenses

	2016	2015
	$	$
Investing Expenses		
Brokerage - Investments	(5,873)	(1,433)
Brokerage - Arbitrage	-	(56)
Total brokerage expense	(5,873)	(1,489)
Interest expense	(29,464)	(8,750)
Total Investing Expenses	**(35,337)**	**(10,239)**
Operating Expenses		
Management fee	(14,330)	-
Administation expense	(5,510)	-
Total Operating Expenses	**(19,839)**	**-**
Performance Expenses		
Performance fee	(252,754)	-
Total Performance Expenses	**(252,754)**	**-**
Total Expenses	**(307,931)**	**(10,239)**

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.

As mentioned earlier, the Trust received some relatively large contributions of new capital during the year, which when invested led to the increased brokerage expense incurred.

Also contributing to the higher investing expense was an increase in interest payments. The borrowings were incurred in order to take advantage of investment opportunities throughout the year. The interest rate on this facility at 30 June 2016 was 5.09% (2015: 5.35%). Borrowings were kept at a prudent level and at year end represented 3.1% of net assets (2015: 14.1%).

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 delivering the proper functioning of the Trust, as economically as possible.

It is my intention to ensure the effect of these fees is kept as low as possible and as far under the 1% limit as possible.

The operating cost of the Trust for 2016 as a proportion of the average net assets prevailing over the year was 0.79% (2015: 0.0%).

Performance Expenses

By virtue of its structure the Performance Fee 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.

The Performance Fee was the component explaining much of the Trust's expenses for 2016, and as the Trust's returns vary from year to year, so too will the value of this fee.

With unrealised gains almost exclusively driving the value of the Performance Fee, an important feature of the Trust is that the 'after tax' amount of the Performance Fee is paid in units of the fund. This keeps the Manager 'on the hook' for the quality of the Trust's investments and therefore aligned with the interests of Unitholders.

Operating Profit

	2016	2015
	$	$
Gross income	1,100,801	445,445
Total expenses	(307,931)	(10,239)
Net Operating Profit	**792,870**	**435,206**

In line with earlier discussion, the net operating profit for 2016 led to a 36.72% rise in the unit price to $2.8394.

General Discussion

As has been detailed in this letter and prior letters, we seek to accrue capital growth over long periods of time in a sustainable and scalable way. To achieve this, our approach is to invest in businesses which are able to allocate increasing amounts of capital, whilst at the same time, maintain an acceptable rate of return on their capital – essentially to find businesses that can reinvest their profit at rates of return which we cannot replicate and to invest in these businesses at a reasonable price.

By having this long term approach to allocating capital, we are freed from the task of picking stocks and can focus our attention on buying businesses – businesses which we intend to hold for long periods of time, allowing our investment experience to be dragged along by the earning power of each of these businesses. Essentially, we're just riding the coat tails of company management and allowing their businesses to compound our wealth. I see this as a sustainable path to wealth creation – as well as being efficient, in terms of reducing transactional fees and taxes. Also, this approach of viewing our holdings as co-owners of a business – rather than simply a marketable parcel of shares – lends itself to scalability as we seek out longer holding periods and less movement from larger allocations of capital. We enjoy smelling the roses.

Luke Trickett