

18th January, 2012

Half Year to 31 December 2011

For the half year to 31 December 2011, the Trust has returned 3.62%. This performance is shown in the table below, together with a comparison to the Australian All Ordinaries Accumulation Index (the broadest measure of the performance of the Australian stock market). Please note that as the performance of the Trust over this period was below the performance fee threshold, no performance fee was either earned or provisioned for.

	Trust	All Ordinaries Accumulation Index	Outperformance
1 July 2011	\$1.1374	34,117.52	-
31 December 2011	\$1.1786	30,833.37	-
Return	3.62%	-9.63%	13.25%

While the Trust has performed well on a relative measure, on an absolute scale I feel a little disappointed with the return. This is because my first goal and top priority is to reach the 10% performance fee threshold and then aim to outperform the market.

However in light of the returns achieved by the Trust amid the current investing climate, the subsequent outperformance is at such a level which prompts me to caution against envisaging continued outperformance of this magnitude in the future. This is because any outperformance has often proved to be an unachievable task for the majority of fund managers. Nevertheless, I will continue with our current strategy of pursuing sound businesses to own whilst also taking advantage of any short term pricing opportunities that may arise, in an effort to chase the best absolute return possible.

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The uncertainty regarding the European situation continues to be amplified by the media (who suffer acute and sustained short sightedness), providing the public with a pessimistic mood to an investment in shares. It is however at this very point in time, and because of the prevailing sentiment, that we are able to build positions in quality businesses at attractive prices. These positions will be the foundations for growth, in the medium to long term that is truly unique to an investment in shares. But we must steel ourselves during this period so that in the fullness of time the merits of our investing decisions may shine through. Indeed, opportunities look most appealing after they have passed you by and most frightening when they lay bare, ready for you to seize upon.

Interestingly, during the half year I met with the chief executive of one of our investee companies and part of the discussion covered the area of working with purpose and passion. It was much to my delight that he too saw the importance of having the workplace infused with these qualities. He also described a virtue, which he had tried to imbue into this company, which he founded, which was 'independence'. The ability to think and act differently was captured in his comment; 'If we want to perform like everyone else and achieve the same results as everyone else, then we would follow what they were doing. But we don't want to be mediocre. We are prepared to do things differently

even if analysts or the market might not like it.’ If running a business in a particular fashion is the best way forward, but is out of favour with the market or whatever the current fad may be, this organisation will be undeterred because in the end, the market will have to recognise the merits of the business. There is a wonderful quote by the investing legend, Benjamin Graham, which describes the market’s ability to overlook quality businesses. Graham said, ‘In the short term, the market is a voting machine but in the long term, it is a weighing machine.’ In this analogy the market is much like a teenager that was blinded by vanity and only wanting to hang out with the most popular kid in school, only to realise over time that they would prefer to be friends with someone that would value them and not constantly ask for more lunch money.

This ability to follow their own path is a large part of the reason why this company is able to achieve margins which are significantly larger than what their competitors are able to generate. Also just as pleasing and important was that this chief executive desired the same passion for doing things well in all of his employees, a critical factor in the ongoing strength of any business.

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Blue Stamp Company Pty Ltd

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