BLUE STAMP
COMPANY

22nd January, 2013

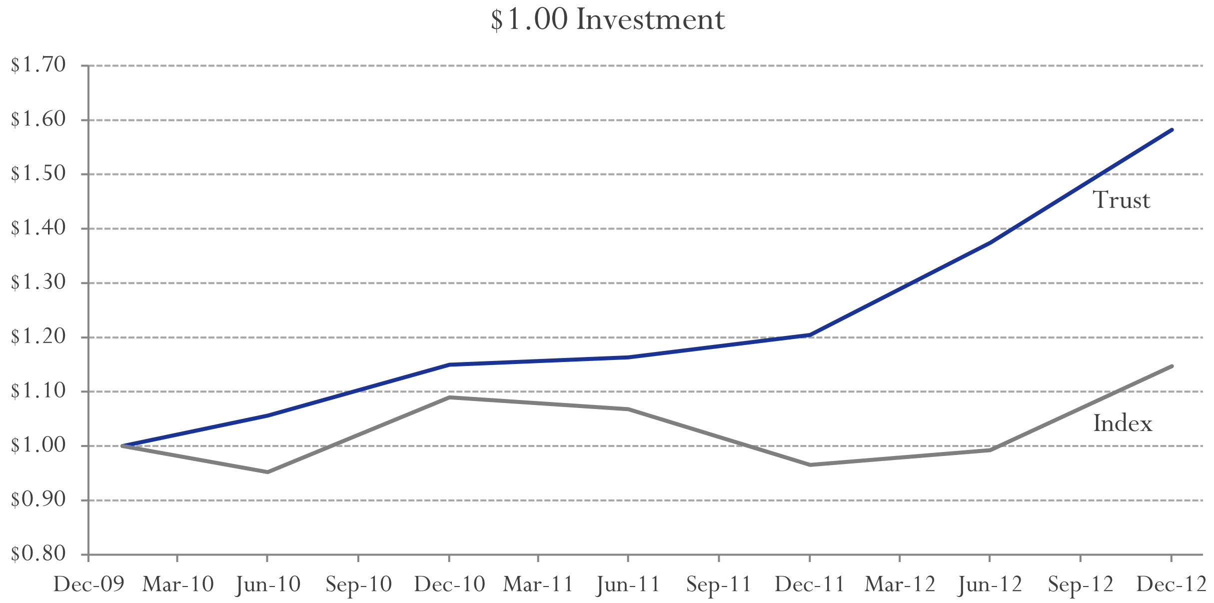
Half Year to 31 December 2012

The Trust performed strongly over the half year, achieving a return of 26.86% before performance fees and 15.95% after performance fees. A summary of this result, together with a comparison to the All Ordinaries Accumulation Index (Index), which is the Trust's preferred measure of the market's performance, is shown in the table below.

	Trust (before Perf. Fee)	Trust (after Perf. Fee)	Index
01-July-2012	$1.3049	$1.3049	31,714.27
31-December-2012	$1.6555	$1.5131	36,642.63
Return	**26.86%**	**15.95%**	**15.54%**

While a performance fee has been provisioned for at 31 December, it is important to note that it is the Trust's policy to only pay the performance fee (if any) on an annual basis, after the end of the full year. This allows for alignment between the 10% hurdle used to calculate the performance fee and the payment of this performance fee.

Finally, the following graph illustrates the historical performance, beginning on 3 February 2010 and up to the end of this half year, of $1 invested into the Trust versus the Index. The value of the investment in the Trust is after performance fees and includes any distributions which have been paid.



The overall market performed strongly during the half year period, benefiting from an improvement in sentiment and reduced levels of volatility. This improvement in the mood of the market has been a significant factor in explaining the performance of the Trust.

Although the Trust's result is for a half year period, I must caution against extrapolating it out into a possible full year result. The primary reason for this is because the market can move swiftly and significantly, potentially reversing any prior gains. However a more fundamental reason for my restraint is due to the breakdown of the Trust's performance for the half year. Unlike the full year result for 2012 which was comprised from roughly equal contributions from our three main areas of income, being dividends, profit on arbitrage transactions and the change in value of our investment holdings, the half year result was, by an over-riding majority, propelled from rising values of our investment holdings. While this can be expected when considered against the overall market movements, I now cannot see much more room for a continuation of these movements without a fundamental change in the earnings and therefore value of the underlying companies. In addition to this, while the Trust continues to earn solid income from its dividends, with rising values however, this income continues to fall in its contribution to the overall result of the Trust. Further, as the mergers and acquisition activity has fallen off an 'M&A cliff', the income the Trust has previously been able to generate from arbitrage situations has almost ground to a halt.

The composition of the Trust's performance for the half year period begins to show how powerful a change in investor sentiment can be in the allocation of wealth. For instance, the movement of the market and indeed the Trust has not been so much from an increase in the earnings or outlook of the underlying businesses, but more from a change in the market's attitude toward those earnings. When the investing community's mood lifts, they are willing to pay more for each dollar of profit than they are prepared to pay when they felt glum, even though there may be no change in the underlying business. This whim of the market is something to be both fearful of and motivated by.

In short, given the prevailing environment to which businesses are operating in and the corresponding earnings being generated, it is becoming increasingly difficult to identify attractive investment opportunities. Obviously, this will not slow the search for them, however with these factors continuing, I feel that the Trust would have performed soundly if it can achieve a full year result at or near this half year performance (with a big qualification regarding material movements in the market).

While the global markets have had a good run of late, a clear path forward for the global economy may not emerge for many years to come, despite unprecedented monetary stimulus measures. While the immediate downside risks have noticeably reduced, the underlying challenges still very much remain. For example, with the US attempting to negotiate an increase to its borrowing limit, it is worth keeping in mind that the last time the US federal debt, as a percentage of GDP was as large as it is today, was during World War II. However the expanded government spending that occurred in the 1940's was contributing to the economy by stimulating the many industries that were facing the war whilst at the same time, promoting an intense period of research and development, contributing to some of the strongest gains in productivity the US has seen since the mid-20th century. Further to this, when the US government was accumulating these significant encumbrances, the generation of baby boomers were starting to appear. So not only was this expanded government balance sheet stimulating the economy, it also fortuitously lined up with a surge in population and later, output. If there is anytime you want to take on debt, it is when your income is rising and for the purposes of growth creation. This is a contrast to today's picture where the current IOUs have been accumulated from, among other things, bailing industry out (to ensure it merely exists). Another important difference to the 1940's is the migration of the baby boomers out of the work force, where they were net contributors to output, and into retirement, where they will be net recipients of output.

What makes this shift of labor from the baby boomers important is because the size of that generation is so much larger than those that followed. In terms of population demographics, what makes for sustainable government financing is to have a pyramid shaped structure, with the elderly at the top, followed by a larger block of working age citizens below them and finally at the bottom, to have an even broader base of people yet to move into the workforce. This allows each generation to underwrite the social welfare of those before them. However, when the generation above is larger in size than the subsequent, it places a much greater strain on government finances to ensure those in the more populous generation still receive the same level of social welfare as those before. Although, this will play out over many years to come and will only capture the attention of the market when it is all too clear that for a financially stretched government, future obligations far outweigh future receipts. And even then, it will probably need someone to coin an acronym or catchy term for it to be given the attention it deserves. This is despite the seeds for this crisis being sown from today's decisions.

Unfortunately this position of the US is not unique. Rather, many of the major economies around the world are in similar positions. The GFC came at a sensitive time for the global economy, a time when the proportion of working age population was beginning to decline, causing sovereign finances to be materially weakened even before the major challenge of an ageing population had been addressed. The cost of making decisions based on short term motives can be extraordinary. Not making tough decisions now to ensure a stable footing in the future, is only delaying and increasing the burden that will be felt later.

In reflecting on the Trust's investment decisions over the past few years and applying this requirement for considered, independent long term decision making, I feel that I too have been caught with my gaze not set far enough ahead. I can't help but feel as though early on, I allocated too much of my time toward arbitrage type transactions at the expense of identifying sound long term investments. Even though those returns achieved from the event driven situations were attractive at the time, having now seen the trajectory of the market recently, those same returns seem pallid at best. While we have secured some wonderful businesses, it is hard not to look at what may have been had I been able to cover more territory. However I can only acknowledge and recognise this now and guard against making the same mistake in the future.

Luke Trickett