BLUE STAMP
COMPANY

19th January, 2018

Half Year to 31 December 2017

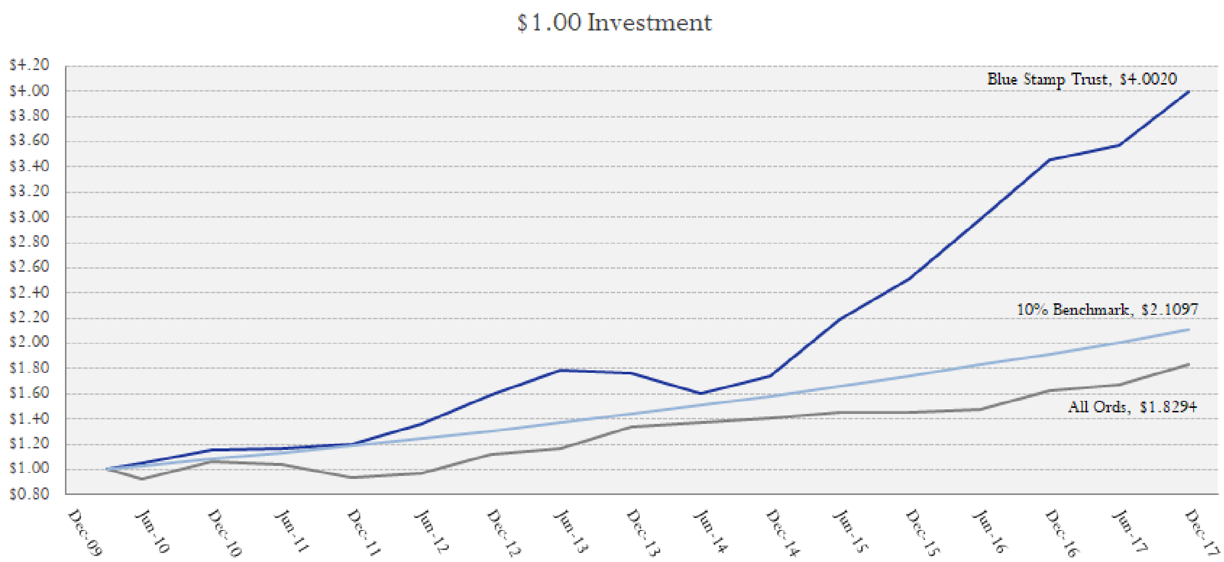
Performance Measures

Blue Stamp Trust performed well over the half year period, rising 12.3% (after all fees) to $3.7418/unit. A summary of this performance 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			
	Before PF	**After PF**	**Benchmark**	**Index**
01-Jul-17	$3.3325	$3.3325	$3.3325	54,897.11
31-Dec-17	$3.8251	$3.7418	$3.4991	60,007.77
Return	**14.78%**	**12.28%**	**5.00%**	**9.31%**

While a performance fee has been provisioned 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.

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 after all fees and *includes any distributions which have been paid*.



Operating Review

Income

The most significant components to the Trust's performance are the change in value of our long-term investments (both realised and unrealised) and any dividend income the Trust might receive.

Consistent with recent history, the overwhelming majority of our performance for the half year was driven by unrealised gains on our long-term investments – which comprised 74% of the Trust's return, as shown below.

	1H 2018	1H 2017
	$	$
Investments - Realised	441,314	142,283
Investments - Unrealised	1,708,975	1,171,938
Short term transactions	1,851	(6,195)
Dividends	146,545	60,622
Interest	1,469	1,254
Total Income	**2,300,154**	**1,369,902**

A major contributor to the Trust's performance over the half year period was our investment in Megaport, which we've held (and built on) for around two years now. Having only been established in 2013, Megaport is a new entrant to the global telecommunications market, focusing on providing interconnectivity within Data Centres (DC) and between DCs. Provisioning connections between DCs was a task previously bogged down by long lead times and inflexible terms, as the customer typically found themselves locked into long-term contracts for fixed amounts of bandwidth, regardless of the size or frequency of their bandwidth requirements. Clearly a dynamic that does not reflect the elastic consumption model offered by the cloud.

Compounding this outdated approach to inter-DC connectivity has been the broad adoption of cloud computing and its deep integration within an organisation's IT architecture, creating an environment where services from many different providers are required to meet an organisation's IT needs. These services may be located in a number of different DCs, requiring the organisation to develop links between these locations to enable connectivity and ensure redundancy. This dynamic has driven many organisations to co-locate in a network neutral DC (such as NextDC, Equinix, Digital Realty etc.) which may also house many of the required service providers – helping reduce the need for inter-DC connectivity, reducing costs and latency and improving network performance. However, not often will all service providers be located in the same DC – something which is becoming more frequent with the increased adoption of cloud computing and the wider array of service providers used.

Being network neutral and DC neutral has allowed Megaport to rapidly build out their presence in over 180 DCs, all over the world – effectively acting as a neutral bridge between all DC operators. Megaport then offers its customers a fast and efficient way to connect and consume bandwidth between two DCs, allowing them to spin up a connection in a matter of seconds, whilst providing flexibility and elasticity in bandwidth consumption that allows users to only pay for what they consume – bringing the cloud's economics to the network.

Whilst fast provisioning and elastic consumption is an attractive feature for Megaport's customers, for the Trust, what is more interesting is the growing importance of the DC interconnection service – again, something that is becoming more critical as IT architecture becomes more complex. Using the analogy of a human brain we can illustrate the growing importance and complexity of the DC interconnection environment. That is, much like the brain, a DC allows for IT information to be stored and accessed from one central location. The efficient use of this information is then made possible by the trillions of nerve fibres or 'axons' that connect the brain's neurons – which in our analogy, these axons are comparable to the role that DC interconnections serve for IT information. Despite being a crude comparison to such a miraculous organ, it is clear the DC and interconnection environment are critical infrastructure components for what is fast becoming an 'AI brain'.

Megaport, I believe was one of the first (if not the first), organisation to deliver this software defined, inter-DC connectivity service. While the major co-location providers (such as Equinix) have been providing interconnectivity within their own global DC footprint for many years, little focus had been directed toward connections between DC operators – a natural outcome given it's not necessarily in a DC operator's interests to build bridges to other DC operators. However, with their footprint growing and customer numbers building, Megaport is beginning to benefit from a network effect, where a customer may be drawn to subscribe for a 'Megaport' because on the Megaport fabric they may have access to the deepest ecosystem of DCs, carriers, cloud providers, internet exchanges, content providers, service providers and other enterprises – much like someone might be compelled to join Facebook because all of their friends and family are on the platform.

Megaport's neutrality from DC operators and carriers, along with the growing number of locations and service providers available on the Megaport fabric is building a sustainable differentiation in Megaport's offering from other forms of interconnection.

At 31 December 2017, 10.4% of the Trust's net asset value was invested in foreign listed companies and the Trust had borrowings equal to 11.3% of its net asset value.

Expenses

	1H 2018	1H 2017
	$	$
Investing Expenses		
Brokerage - Investments	15,748	14,313
Brokerage - Arbitrage	-	1,243
Total brokerage expense	15,748	15,556
Interest expense	29,059	15,753
Other investing expenses	149	-
Total Investing Expenses	**44,956**	**31,308**
Management Expenses		
Management fee	73,678	44,027
Performance fee	369,147	230,619
Other fees	125	-
Total Management Expenses	**442,949**	**274,645**
Total Expenses	**487,905**	**305,954**

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

The management fee is paid monthly and based on the net asset value of the Trust. The management fees paid for the half year equate to 0.48% (2016: 0.48%) of the average net asset value of the Trust over the period. While this is broadly in line with the annual 1% limit, there is still work to be done, as our objective is to have this fee as far below the annual 1% ceiling as reasonably possible.

As mentioned earlier, a provision has been made for the Performance Fee however no amount (if any) will become payable until after the end of the full year. Further to this, the performance fee provision includes a rebate for the full amount of management fees paid during the half year. This management fee rebate further strengthens the alignment between the Manager and Unitholders and reinforces the Manager's focus on reducing, as much as possible, any fee that does not relate to the creation of Unitholder wealth.

Net Income

	1H 2018	1H 2017
	$	$
Total income	2,300,154	1,369,902
Total expenses	(487,905)	(305,954)
Net Income	**1,812,249**	**1,063,948**

The net income for the half year period drove a 12.28% increase in the unit price to $3.7418.

General Discussion

Having such a large proportion of our return being driven by unrealised gains leads us (as Unitholders) to have a material deferred tax liability accruing. While this deferred tax liability is not recognised in the balance sheet of the Trust, it is nonetheless an obligation that must fall due at some point. However this form of liability, is one that I would be very happy to see grow to much higher levels – as its growth not only indicates the continued appreciation of our investments, but it also effectively provides us an interest free, non-callable line of credit from the government. In other words, a deferred tax liability allows the magic of compound to work not only on our initial capital, but also on the unrealised gains on our investments – a significant factor that only grows more significant over time and one that would be unavailable were we to follow a short-dated investment philosophy.

Admittedly though, this 'deferred tax tailwind' is not the result of some exceptional foresight on my part, but rather something we fell into – a fortunate by-product of our approach to allocating capital. With our approach to allocating capital best described as; initially looking for industries or sectors of the economy that are likely expected to experience favourable operating conditions in the future and then seeking to identify any companies operating within those industries that possess a sustainable differentiation in their product or service. Hopefully this sustainable differentiation will lead to earnings that demonstrate growth and durability – at which point, we would then aim to buy a slice of this future earning stream at a price that provides a degree of confidence that in five or ten years' time, the original capital value of our investment would have been protected as well as receiving a satisfactory rate of return on that capital.

If reading these words makes you feel warm and fuzzy inside, providing rock solid confidence about investing in the stock market – then I unreservedly apologise for misleading you. Our investment philosophy and approach to allocating capital has the corollary of a concentrated portfolio (we only held ten stocks at the end of the half year period with the clear majority invested in the top five). This means the unrealised gains that have followed our approach continue to expose (and indeed can amplify) the Trust to any under and over valuations that might prevail. While it is certainly my job to identify new opportunities, any instances of manifest under or over valuation in our current holdings or any structural deterioration in the future earning power of our current holdings and to adjust the portfolio accordingly, by the same token, I do not consider it a sustainable, scalable or efficient approach to routinely buy and sell companies which had an initial investment decision based on a long span of time.

At risk of sounding cliched, to paraphrase Warren Buffett; a patient approach affords the ability to tolerate volatility, so long as the swings carry with them the prospect of superior long-term results – a lumpy 15% is preferable to a smooth 12%.

Luke Trickett