BLUEBOAT

April 2018 update

How time flies. Its now been 12 months since inception for Blue Boat and we're pleased to have started positively. Globally, equity markets were down for the last quarter with the major indices all declining by 1% to 9%. Against this prevailing headwind, it was pleasing that our fund could still eke out a slight positive return for the quarter. Our performance since inception along with some major equity indices' results are set below.

Blue Boat Performance vs Indices: 3 April 2017 – 31 March 2018:

Blue Boat Gross Return	Blue Boat Net Return	ASX 200	S&P 500	MSCI World
28.4%	27.7%	2.4%	13.1%	13.3%

Returns presented in AUD. Index returns include reinvested dividends.

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This quarter saw the notable return of volatility in equity markets. A 'known unknown' that we are mindful of is the ever-increasing impact of ETF funds on market prices. Certainly, in the years following the financial crisis, equity markets presented exceptional value to investors. The returns that followed provided strong momentum for ETF funds, building into a torrent of equity market inflows, all despite the fact that most of the markets they are investing in are no longer cheap.

In bullish markets, these inflows have been a stabilising force in markets, manifesting in all-time low levels of volatility in 2017. There were just eight days in calendar year 2017 where the Dow Jones Industrial Index moved by more than 1% either way.

However in times of bearishness, we expect the same ETF funds to be a highly disruptive force as outflows test the liquidity in the stocks they invest in.

During a period of inflows the ETF funds are a constant buyer, a natural offset for any selling. Nobody really knows what a market might look like with a constant seller sitting there, however we suspect we will find out in the next year or two. This is a factor for us to be mindful of, and a source of opportunity for a fund such as ours.

Volatility on stock markets is often blamed on anything other than what is actually happening, the case here being the end of the irrational inflow cycle into ETF products during a period of unnaturally low interest rates. During these times global macro economic and geopolitical issues are over emphasised, often with vague and negative overtones which are given far more air time than the actual impact on individual companies (which is complicated and difficult to quantify).

Since the 2nd of February, 23 of the 41 trading days on the Dow Jones have ended with a gain or loss in excess of 1%. This is 3 times more than all the moves of this size during the 2017 calendar year, and all indices have fallen substantially during this time.

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Lately markets are concerned that Donald Trump has sparked a "trade war", which might disrupt "synchronised global growth" and prompted a steep sell off. These scary sounding buzz words are nothing new. Over the past 7 years we've had the "fiscal cliff" and the "debt ceiling" in the USA occur during a period the media now consider to be one of the years of the current bull market. We also had the 'European Banking Crisis", "Grexit", "Brexit", the "PIIGS" (Portugal, Italy, Ireland, Greece, Spain who were all apparently going broke), and who can forget the China ghost cities. Even now that we have the historical economic and market data it's impossible to quantify the impact these supposed crises had on company earnings.

We are focussed on companies and not investing on the basis of any macro-economic forecasts. Nonetheless, the latest Trump issue seems to be an especially large distraction for markets, and the attractive prices that are on offer for stocks we like has our interest.

We were able to pick up one bargain of note during the February sell off which fell 12% during the volatility ahead of its profit result. Given it earns 100% of its income from Australian media content, which actually received a nice bump during February, we feel we have directly profited from the ever irrational "Mr Market", or in this case "Mr Trump".

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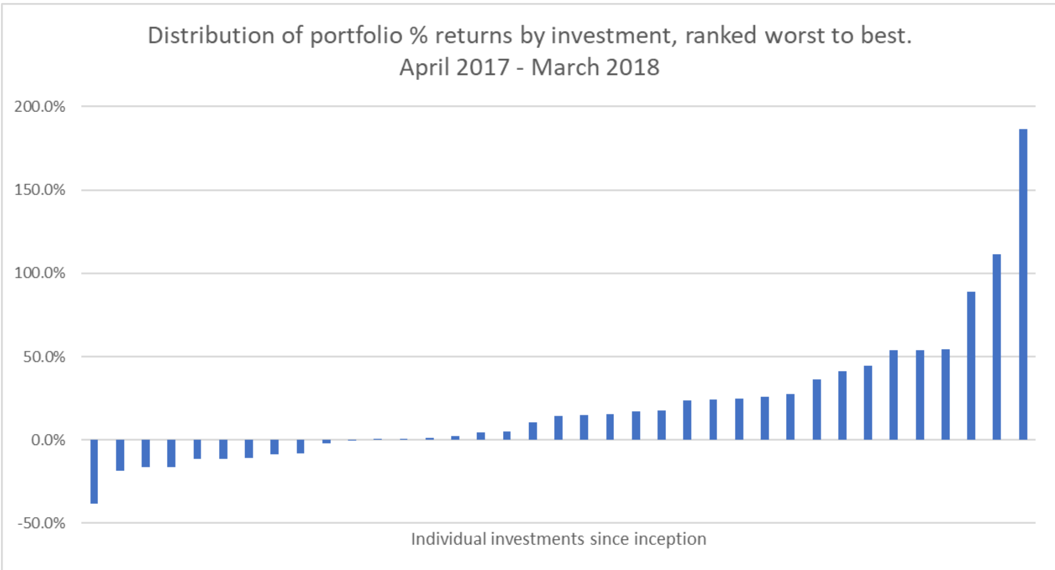
The portfolio had a very positive reporting season overall. Roughly 70% of our stocks reported good numbers, against c20% which disappointed. Across a portfolio this is a happy outcome, but we will always strive for better results. These good results have supported us despite the weak market and is a further indication that the intrinsic value of the portfolio is ever-increasing.

The breadth of our results is highlighted in the chart below. This shows the distribution of returns achieved from each investment we've held. Note that this is for all stocks we've invested in at some point since inception; the number of stocks currently held is roughly half that shown.



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Coming up later this month, US & European companies will be updating the market with their 1Q18 results, which will be a timely reminder of the strength of company earnings, and an impetus for markets to respond to fundamentals.

We feel confident about how the portfolio is positioned and again have elected to invest all management fees back into the fund.

Finally, a reminder that our fund is open for new investment either from existing investors topping up or new unit holders at the current unit price of c$1.27. If you would like to top up your investment or refer someone who would potentially become an investor please don’t hesitate to contact either of us.

Yours sincerely,

David Nelson and Tim Evans