BLUEBOAT

July 2017 update

Welcome to the Blue Boat Investment Trust. We are extremely grateful of your support. With this letter we are pleased to report the fund's first quarter of results and we hope this will be the first of a long series of regular reporting giving transparency to our results, costs and insights into our investment strategies.

Our aspiration is to develop a long term partnership, during which time we can generate handsome returns for our investors achieved conservatively by investing in businesses which have good future prospects and are offered at attractive prices in the market. As managers we are heavily incentivised to accomplish this for the sake of our own invested funds, performance fees and the success of the fund itself, which all depend on the strength of our results.

The results show that for the past quarter the fund achieved a positive gross return of +1.4%, a pleasing debut quarter in what was a very volatile period.

Benjamin Graham said the market is a short term voting machine and a long term weighing machine. Likewise, over a short time frame we would expect our results to be heavily influenced by the general trend of the market, whilst our long term performance will be dictated by the intrinsic value of our investments. Furthermore, many of the businesses we have invested in have been out of favour in the market and we do not expect instant gratification once we have bought in.

Over the same time period the ASX 200 returned a negative result of -2.6%. Despite some turbulence in the general market, we are encouraged that things are going according to plan and we are off to a smooth start.

It is also pleasing to see the underlying progress of our invested businesses. The vast majority of our companies made positive announcements during the quarter, indicating to us that intrinsic value is growing.

We would also like to remind you of the ground rules of the fund:

- We aim to generate strong returns over time by investing in sound assets. We are not trying to pick the general direction of markets or indices.
- The fund managers need to be aligned with the investors. We are significantly personally invested in the fund and the fees are heavily performance orientated - 0.5%pa base fee and a performance fee of 25% of the excess above 6%pa.
- We are not benchmarked against any index. We are only interested in achieving absolutely positive returns, not relative to an index which might produce negative returns.
- If we fail to achieve the 6%pa performance fee threshold one year, a high water mark is set which we have to beat the next year before any performance fee is earned.
- New applications, top ups or income reinvested is priced at the end of quarter NAV.
- Withdrawals are priced at end of quarter NAV less 2%. We request at least 30 days notice prior to quarter end.

In coming weeks we will pay out or reinvest the fund distribution in accordance with your preferences. We will also be sending you tax information which you will require for your own tax returns.

Finally in the interests of transparency, a note on possible conflict. This quarter we have used Morgans exclusively as our broker and those associated with Morgans stand to benefit from the brokerage fees earned on the fund. However, we believe that this arrangement is mutually beneficial for the fund's investors as well. The fund has access to attractive brokerage rates, research, company management meetings and deal opportunities, all of which we have utilised to our benefit. The deals we have participated in so far have, in a short space of time, generated returns to the fund greater than all brokerage paid in our first quarter and in setting up the fund. Moreover our access to the management of companies we invest in is a key competitive advantage. Hence, we think this is a good relationship for everyone.

Please feel free to contact us if you would like to discuss any matter with us. Thanks for your support.

Yours sincerely,

David Nelson and Tim Evans