BLUEBOAT

March 2019 update

This note comes a little earlier than usual. Previously we have reported roughly one week after the end of the quarter once all the figures are in and we can provide an accurate set of results. However as we discuss below market volatility has been notably more pronounced over the last 6 months or so. For this reason we have decided to trade off completeness for timeliness and send out the update just ahead of the quarter end.

As we mentioned in the last update and reiterate here, we see great opportunities to expand our positions in the portfolio and therefore encourage top ups into the fund. However with the higher volatility we have seen, the unit price can move significantly over the course of a week. Therefore it is important that any top ups/new applications are conducted at the end of the quarter (ie 31 March), so that no investor is disadvantaged.

Thus we have prepared this note ahead of time (with figures accurate to 22 March), to give each investor a timely update on the progress of the portfolio and the opportunity to participate in the round of top-ups at 31 March.

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After a bruising end to 2018, it has been a productive quarter. The current NTA/unit is now $1.181. The year-to-date and since inception results for the fund are set out below:

Blue Boat Performance vs Indices Total Returns: 3 April 2017 – 22 March 2019:

	Blue Boat Gross Return	Blue Boat Net Return	ASX 200	S&P 500	MSCI World
FY19 YTD (9 mths)	-9.7%	-10.1%	3.5%	9.1%	6.3%
Since inception	30.1%	21.3%	15.0%	32.5%	27.5%
CAGR	14.1%	10.1%	7.3%	15.4%	13.1%

Returns presented in AUD. Index returns include net reinvested dividends. CAGR is the compound annual growth rate since fund inception.

It has been a particularly volatile year for the market and even more so for our portfolio. With a week to go in the quarter Blue Boat has gained 13.0% for the quarter. After the disappointing first half of FY19, we are encouraged by this recovery and even more pleased with results announced for the underlying investments in the fund.

During the quarter our portfolio stocks overall reported encouraging earnings results and we are excited about the prospects of the year ahead. The results announced give us a clearer picture in terms of earnings expectations for the full year. Taken in aggregate, the collective Earnings Per Share for the portfolio for FY19 is now forecast to be $0.098/unit, equating to a yield of 8.3% at the current unit price. This compares favourably to developed market stock indices which are trading at earnings yields of around 6% - 7%, not to mention US 10 year Treasury Bonds at 2.4%.

The fund earnings yield shows that the stocks we invest in are highly profitable businesses trading at attractive valuations.

In addition, the EPS for the fund is forecast to grow a further 35% in FY20 to $0.133/unit, representing a yield of 11.2%. This is a very positive outlook and something we're excited to watch play out in the years ahead.

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As we mentioned in the last update, geopolitical headlines, particularly those surrounding Brexit and China-US trade relations, stoked significant pessimism in the market, lower global growth forecasts, and a marked drop in equity valuations. There have been some indications of lower growth in the real economy, and likely combined with the surrounding pessimism, central banks have responded by loosening their stance on monetary policy. This has reduced the risk that restrictive policies might curtail growth.

More importantly, the earnings reporting season, particularly in the US, showed healthy growth prompting investors to revise their pessimistic stance. In total it has been a remarkable 6 month period, where negative investor sentiment drove share prices down into Christmas, and then just as rapidly sentiment has reversed and prices improved almost back to the level they were at in October. Whilst geopolitical issues attracted the blame for the market decline, we believe the rapid fall and the V-shape recovery is more likely due to the outlook for interest rates and the associated effect on sentiment.

This highlights the typical volatility of equity markets. Investing guru Howard Marks commented that since 1970 the S&P 500 has had annual returns ranging from +37% to -37%, with a long run average at around 10%. Whilst this long run performance has been quite satisfactory, the market rarely delivers a typical year. In fact over this period since 1970, the S&P 500 has provided a 'normal' return of between 8% - 12% only 3 times! It has also delivered extreme returns of better than +30% or worse than -10% on 13 occasions (representing more than 1-in-4 years).

Marks noted "*one thing that can be said with total conviction about stock market performance is that the average certainly isn't the norm. Market fluctuations of this magnitude aren't nearly fully explained by the changing fortunes of companies, industries or economies. They're largely attributable to the mood swings of investors."*

Looking ahead, many of the same geopolitical risks remain present and, as ever, market sentiment remains highly variable. We are being especially cautious when allocating Blue Boat's capital and we can take confidence that our portfolio is attractively priced and the earnings prospects are very strong.

As we sit at the three-quarter mark in the FY19 year, the portfolio has been refined to a tighter list of high conviction positions which we feel is appreciably more valuable and lower risk. Market valuations may be volatile, but the delivery of earnings is the most dependable means to enhance and protect the value of the portfolio. We now hold 14 high conviction stocks and feel very confident in their potential to deliver on their earnings forecast.

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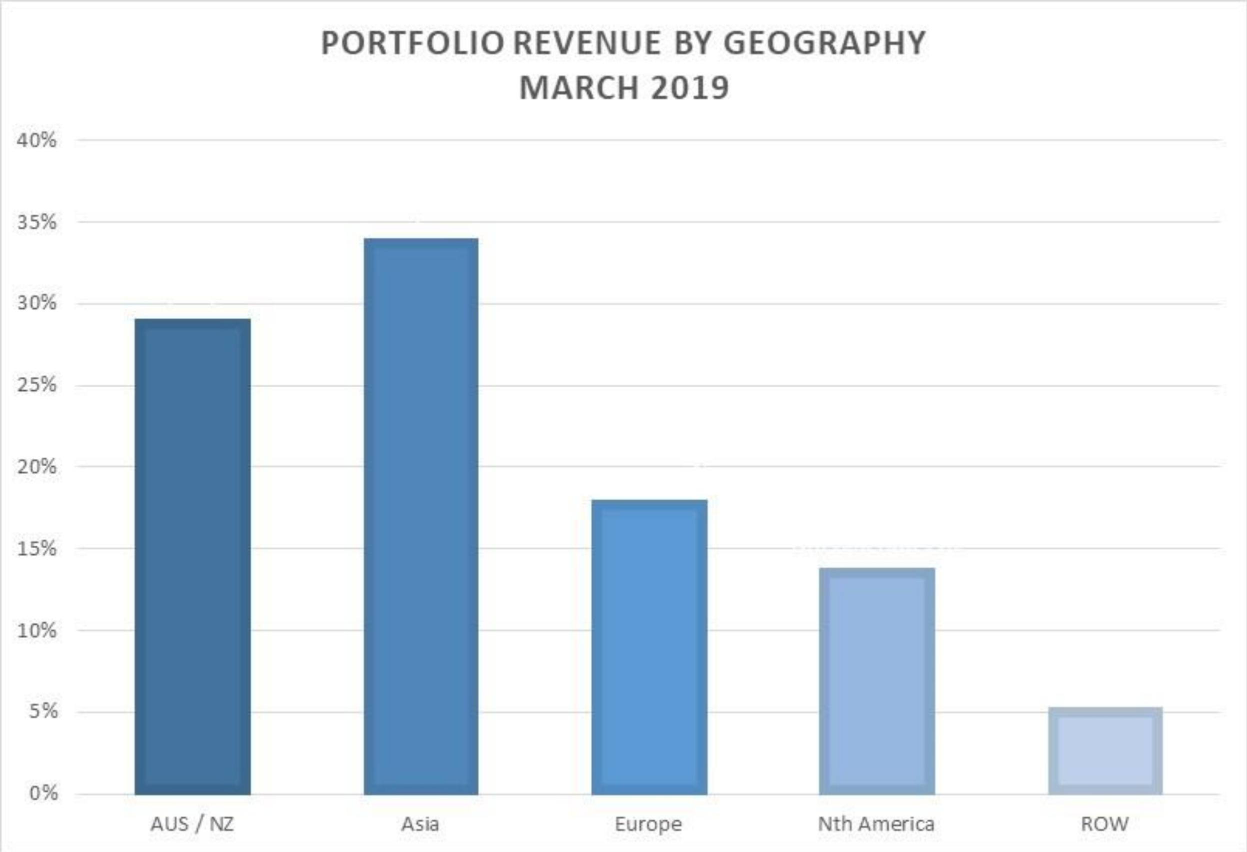
As discussed the day-to-day valuation of the portfolio has swung around with the sentiment surrounding geopolitical news. Importantly (and another vote of confidence), none of the stocks we hold that are exposed to the affected regions have shown any sign of earnings weakness so far this financial year. These are robust businesses with good prospects and recent results suggest that the only thing that has been impacted has been the share price.

We increased our exposure to Chinese stocks during the quarter and continue to view this as a market we want to invest in.



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We remain fully invested and eager to capitalise on the opportunities we see in the market. We have also elected to reinvest all management fees back into the fund and welcome and encourage any top ups for 31 March. 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