October 2023 update

Dear Blue Boat Partners,

This quarter the portfolio registered a gain of 4.0%, against a subdued market backdrop.

Blue Boat Performance vs Indices Total Returns: 3 April 2017 – 30 September 2023:

	Blue Boat Gross Return	Blue Boat Net Return	ASX 200	MSCI All Country
FY24 YTD (3 months)	4.1%	4.0%	-0.8%	-3.3%
Since inception	48.3%	33.9%	55.5%	70.1%
CAGR	6.3%	4.6%	7.0%	8.5%

Source: Bloomberg. The returns for Blue Boat and ASX are presented in AUD, MSCI in USD. Index returns include net reinvested dividends. CAGR is the compound annual growth rate since fund inception 3 April 2017.

The market and its commentators remain focused on macro-related developments. Whilst these developments make for exciting news stories, their relevance to our portfolio is diminishing.

In the US, and similarly in Europe, core inflation is in decline. Rent is a significant but lagging component of CPI, which is also cooling. Future inflation expectations have come down, which allows the US Federal Reserve an opportunity to halt the interest rate rise program that has been in place since early 2022. This, of course, is far from certain. Having just experienced the most aggressive period of tightening in decades, the prospect of a new era of relatively stable interest rates is a welcome development and would herald a shift in the mindset of the market.

During the rapid interest rate increases era, what mattered most for investors was whether they were well positioned for rising interest rates. Long term business fundamentals were a distant secondary consideration to a company's near-term resilience to inflation. Now, with stability in rates, investors can adjust their focus to the quality and prospects of individual companies.

Since the end of 2021, macro conditions have been highly uncertain and dynamic, precipitating a bear market in 2022. There have been few better opportunities to buy quality growth companies during a period of extreme uncertainty than in 2022/23. Today, perceived certainty about the outlook for interest rates has brought more optimistic asset prices, particularly in the technology sector.

In China, COVID lockdowns are receding into the past. Consumers, who have accumulated US$18 trillion in savings, are beginning to spend on goods and services. This recovery in spending has been markedly slower than we saw in the West when COVID restrictions were removed. Whilst slower than expected, it has been improving incrementally. We see this improvement in our holdings in consumer-facing Chinese companies. Compared to the previous year, China's GDP grew strongly at +5.5% in the first half, including a second-quarter acceleration to +6.3%. Growth is currently trending below target, yet well above that being achieved by leading Western economies. We are bemused by the alarmist media coverage this below trend growth is receiving and the extrapolations of economic decline.

As is well-publicised, China is experiencing weakness in its property sector, much of which was deliberately engineered via restrictive government policies to reign in excessive leverage among property developers. New home starts are down 60% compared to 2019, and property sector confidence has plummeted. However, China has numerous options to manage the situation. For starters, many of the restrictive policies have been reversed. Secondly, most of the creditors who lent to the property sector are state-owned, giving the government some flexibility to renegotiate terms. Third, having shown restraint during the pandemic, China can provide stimulus now that it needs it. This is being steadily rolled out across different channels and, like consumer confidence, has increased incrementally.

In Australia, market commentators have been calling for a recession, or hard landing, for two years, which has yet to materialise. Peter Lynch famously said, "*far more money has been lost by investors in preparing for corrections, or anticipating corrections, than has been lost in the corrections themselves*". The prophets of doom may eventually be correct, but they risk missing out on the growth in the market in the meantime. We are in awe of the resilience of capitalistic societies such as Australia and it's leading companies, navigating COVID-19 and then rampant inflation within three years. Betting against innovative, customer-centric companies with appropriate incentive structures that have endured immense challenges in recent years looks risky given the apparent easing of headwinds.

More importantly, most of our portfolio companies reported their 2023 First Half or Full Financial Year results during the quarter. These were broadly encouraging for the Blue Boat portfolio. Below is a summary of our significant positions (in alphabetical order), which account for circa 80% of our portfolio at present.

Alibaba
This quarter, Alibaba's revenue growth accelerated, and profitability improved enormously across every line of business. The swing to profitability for some of the smaller subsidiaries is a positive change, likely due to the impending separation from the core e-commerce business and the breakup of Alibaba's conglomerate structure. The company appointed co-founders Eddie Wu and Joseph Tsai as CEO and Chairman and formed a 'Capital Management Committee' to improve shareholder returns.

Alibaba plans to list Cainiao, a smart logistics subsidiary company, via an IPO in Hong Kong in the coming weeks as the first of its spin offs. We hope this is the start of a period of revaluation of Alibaba, whereby all business units will be valued individually rather than as a conglomerate.

We look forward to hearing more on this restructure next quarter and anticipate a continued improvement in growth and profitability. Bearish macro predictions about China have overshadowed the overwhelmingly positive results and changes at Alibaba. In the long run, the latter will outweigh the former. We see an exciting future for this business and its material status in the Blue Boat portfolio.

Anta Sports
Anta will likely be a key beneficiary of post-COVID spending in China and government programs to encourage consumption and participation in sports. Their first-half result was impressive as revenue growth increased, margins expanded, and operating cash flow doubled. This is a fine example of the execution and shrewd capital allocation you often get from a founder-led business. The company's acquired brands (including Fila, Decent, and Kolon) now contribute approximately 1.5x the profit of the core Anta brand.

Beacon Lighting
Beacon's result met expectations and showed that the discretionary environment in Australia has gotten tougher. The second half of the financial year was markedly down on the prior year. As is characteristic of the Robinsons, who own 55% of the company and act as Chairman and CEO, they intend to take market share during the downturn, planning to open eight stores in the coming year. The unappreciated (very) bright spot is the growth in their trade business. Over the past five years, this division has compounded sales at a 22% growth rate and now represents 29% of total sales. Trade is the company's foremost priority, and the market has not recognised what a growth opportunity this is for Beacon which will likely become their biggest sales segment in time.

Corporate Travel Management
The corporate travel industry has taken longer to return to pre-covid levels than expected, hurt by lack of supply, airport disruptions and delays, and high ticket prices. All of these issues are receding. Despite the difficult operating conditions, Corporate Travel Management (CTM) is on track to report record earnings per share in FY24 with a debt free balance sheet. We believe they will be the only global travel company of scale that will achieve this. During the downturn, which decimated their competition, CTM more than doubled their market share in Asia and grew market share materially in all other regions. Investors have become obsessed with the short-term earnings trajectory of CTM, ignoring the long-term ability for them to compound earnings in a massive and highly fragmented market.

Lovisa
Lovisa delivered a solid full-year result, with sales up 30% and profits up 17%. This company has developed an efficient merchandising system, which is very hard to replicate and a retail concept appealing to consumers in 39 countries on six continents. The scale of the opportunity here is enormous. We are pleased that CEO Victor Herrero, who was instrumental in growing the Zara brand across Asia, is well incentivised and aligned with shareholders, owning 2.14 million shares and 1.24 million performance rights. Lovisa stock has been sold off amidst the bearish environment for retailers, which we have used to increase our Lovisa position in Blue Boat.

Livechat Software (name changed to Text)
Livechat's first quarter results showed 25% growth in revenues and net profit after tax, driven by gains in the number of customers and revenue per customer. Very few software businesses have been able to continue this level of compounding growth since the COVID boom period. AI represents a significant opportunity for Livechat. We are anticipating the release of an enhanced chatbot, which will provide even more value to customers, matched by more revenues to the company. Like Lovisa, Livechat is unique in its ability to grow rapidly whilst paying most of its earnings to shareholders through dividends.

Ping An
After a difficult period affected by lockdowns, Ping An's core Life and Health Insurance business returned to growth. New Business Value grew 45%, a very encouraging signal for future profitability. China is early in developing its wealth management industry and evolving its pension system, with the intention to diversify investors away from property. Ping An will be a leading participant in this industry which has tremendous growth prospects. Ping An trades on a P/E of 5x with a prominent market share position in a large and growing sector. We think this valuation is irrationally low, given their leverage to the structural growth of financial services in China.

Spotify
Spotify delivered record growth in new users and conversion of free users into paid. Every quarter, the company establishes an apparent journey whereby customers start as free users and

convert to paid over time. Accordingly, their user base of 343 million free monthly active users represents a massive reservoir of future revenue growth and value. The company's focus is to invest in its product to continually enhance the value offered by the premium product. This strategy incentivises the conversion of free users to paid and warrants higher pricing in line with the value provided. The company announced broad price increases across major markets this quarter for the first time in 12 years. These price increases should contribute meaningfully to revenue and margins later this year.

Outlook

We made few changes within the portfolio during the quarter due to our conviction in our core positions. Do not confuse our inaction with complacency. We are regularly testing and attempting to debunk our beliefs and are constantly on the lookout for new investments to add to the portfolio. The portfolio is fully invested, so new opportunities are constantly being measured against the current list of investments.

Having withstood immense disruption, our portfolio is well positioned to prosper in less dynamic conditions.

Our pragmatic position is to be rationally optimistic about companies with a repeatable edge. The Blue Boat portfolio is positioned for success in the future, with material upside to intrinsic value in our investments.

Yours sincerely,

David Nelson and Tim Evans