**April 2024 update**

Dear Blue Boat Partners,

It's been a strong period for the Blue Boat portfolio, predominately driven by returns on contrarian positions taken in 2023. We are now three quarters into the FY24 year and the results are set out below:

**Blue Boat Performance vs Indices Total Returns: 3 April 2017 – 31 March 2024:**

| | Blue Boat Gross Return | Blue Boat Net Return | ASX 200 | MSCI All Country |
|---|---|---|---|---|
| FY24 YTD (9 months) | 22.8% | 22.4% | 13.3% | 16.3% |
| Since inception | 74.9% | 57.6% | 77.5% | 104.7% |
| CAGR | 8.3% | 6.7% | 8.6% | 10.8% |

*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.*

Our general position at Blue Boat is that market sentiment tends to be cyclical, and any extreme positive or negative swings are unsustainable. Although market sentiment is usually based on rational factors, emotions tend to escalate things out of proportion when money is involved.

Cyclical stocks, whose fundamental drivers ebb and flow, often attract extreme swings in market sentiment. Within this broad category, companies in the consumer discretionary sector stand out as a fruitful place to invest, sitting well inside our 'circle of competency'. This industry comes with especially high-frequency reporting (noise) which often serves to distract the market from underlying fundamentals. Time and time again we see opportunities are created where short-term negativity is permanently priced in for quality consumer-facing companies. Trying to predict when these bouts of short-term panic end is difficult, but knowing that they will one day is not.

In 2023, there were several things that troubled investors, particularly the impact of the sudden increase in interest rates on consumer confidence. Although this was a legitimate concern, we believed that market sentiment had shifted to an overly negative position. Therefore, Blue Boat made the decision to substantially increase our investment in consumer discretionary stocks halfway through the year. This move resulted in underperformance in the short term but has since been the primary driver of our performance this quarter.

This quarter each of our portfolio companies reported either their December 2023 half or full-year earnings. There was resounding commentary that consumer activity was improving and many of the headwinds faced in 2023 were easing.

Blue Boat owns high-margin vertically integrated retail businesses with strong balance sheets. For such companies, who control their own supply chains and product lines, time is likely to be our friend during periods of uncertainty. When the intense, but short-term, cyclical headwinds

abate markets can revalue such businesses sharply higher based on their long-term growth prospects. Lovisa, Beacon Lighting and Step One Clothing rank amongst the highest margin ASX listed retailers. They each have strong net cash balance sheets and organic growth plans that are progressing regardless of the short-term swings in consumer sentiment.

We are closely monitoring this part of the market, which has become 'en vogue' with investors again. Just as we were deeply sceptical that the dark days of 2022/23 were not going to last forever, we are not blindly optimistic about the health of the consumer. We are constantly weighing the opportunities on offer in other parts of the market with our exposures in this area.

Elsewhere in the portfolio we were pleased to see strong results from Spotify, which showed significant improvement in margins driven by greater monetisation, price increases and cost reductions. Spotify remains in a clear market leadership position in global audio streaming, so we believe their pricing power potential is largely untapped. Unibail-Radamco Westfield announced the resumption of its dividend, to be paid for the first time since the onset of Covid-19 which temporarily closed many of its shopping centres. Finally, Jackson Financial unveiled its restructuring which stands to allow the business to generate more capital and comfortably support a 12% shareholder return via a combination of dividends and buybacks.

China’s economic recovery from Covid has been nowhere near as robust as we hoped it would be. However, their government stimulus, which has been gradual and incremental, is developing into a significant support package. Notwithstanding this, Chinese equities valuations have remained depressed.

During January, there was a capitulation in investor sentiment towards this market and the Hang Seng Index dropped to levels rarely seen in the past 20 years outside of the 2008-09 Global Financial Crisis. We acted assertively, increasing our weighting to large highly profitable Chinese companies during this period. We added a new core portfolio position in Tencent.

Tencent is a prominent internet company in China with a variety of business lines, including video games where it is one of the largest vendors globally. Its WeChat social media platform has a ubiquitous presence in China, and it is an ecosystem deeply embedded in the lives of Chinese people. We believe that this platform is significantly under monetized and has the potential to be one of the most valuable digital assets in the world.

WeChat has approximately 1.3 billion monthly active users and is estimated to account for a staggering 30% of all mobile internet usage in China. At circa $12 per user, Tencent earns just one-quarter of Meta’s (ie Instagram/Facebook/Whatsapp) $50 in annual advertising revenue per user. We expect there is considerable potential for Tencent to generate greater revenue from various components of WeChat over time, materially lifting Tencent’s profitability. In the latest results, Tencent remarked how their upgraded AI model has improved their ad targeting and corresponding click-through rates and revenue, which has very positive implications on profitability. Additionally, the WeChat platform is an invaluable asset for Tencent to promote its other businesses including its games and fintech services.

Despite its dominant competitive position and many avenues for growth, Tencent is deeply undervalued. For example, about one-quarter of the company’s revenues come from its payment services business which operates at a similar scale to Mastercard. Mastercard has a market capitalisation of US$445bn whereas the entirety of Tencent is valued at US$365bn. Today Tencent shares are trading roughly 60% below their 2021 high, corresponding to a modest Price/Earnings multiple of around 14x. Overall, we see Tencent as a very attractive long-term investment.

We are delighted to observe that our Chinese companies are taking bold actions to counteract their low share prices by significantly increasing their share buyback operations. Alibaba has

announced that it has raised its share buyback by an additional US$25bn, which brings the total amount to be repurchased before April 2027 to US$35bn. Similarly, Tencent bought back shares worth US$5.5bn in 2023 and plans to further increase this to US$12.8bn in 2024. These plans signal the confidence each company has in its progress and the gap between its share price and intrinsic value. The buybacks are highly accretive for shareholders. At current prices, they equate to a 6% annual return for Alibaba and 3.6% for Tencent.

We have observed a visible shift in investor behaviour in recent months in Australia and USA, with a more 'risk on' attitude being embraced. After an extended period of market weakness this is not unusual or unexpected. Whilst many of the headwinds that we faced in 2022/23 have faded and the economic outlook is markedly improving, we are watching cautiously for signs of complacency and investor euphoria.

Investor sentiment towards Chinese equities remains extremely negative. Our belief is that the factors which drove China's four-decades of rapid economic growth are still largely intact, despite the negative events of recent years. Our positions in China such as Alibaba, Tencent and Anta Sports are drastically undervalued, with the gap between market prices and intrinsic value the widest they've been since Blue Boat's inception. Over time we expect the gap between their operational performance and share prices to narrow. As we witnessed with our ASX listed consumer investments in recent months, this can happen suddenly. This bodes well for future returns for Blue Boat.

Yours sincerely,

David Nelson and Tim Evans