



BKI Investment Company Limited

FY2017 RESULTS PRESENTATION



Disclaimer

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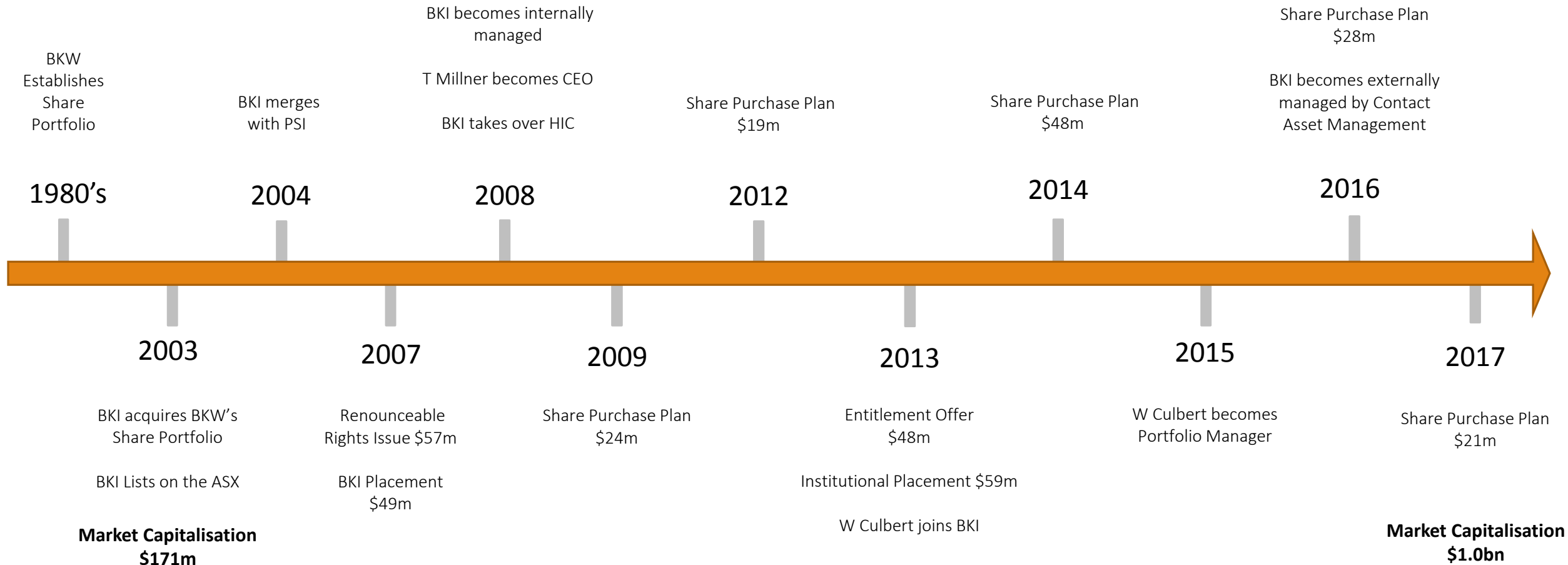
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Background and History

Focused on growing and improving the BKI business



Company Highlights

Dividend Yield
6.4%

*Grossed up, as at 30 June 2017

**Low Portfolio
Turnover**

8%

Yearly average
as at 30 June 2017

**Market
Capitalisation**
\$1.0bn
As at 30 June 2017

14,800
Shareholders

**Management
Expense
Ratio**

0.15%
As at 30 June 2017

**Franking
Credits**
\$27m
As at 30 June
2017

\$465m
In Dividends + Franking
Credits Distributed
to Shareholders
since listing**

**13Yr Total
Shareholder Return#**
11.2% pa
As at 30 June 2017

Experience

The Board and Management of BKI has
197 years of collective industry experience
(average of 28 years)

Externalised Management

Preservation of low fee with more investment resources

- Contact Asset Management has been established by Tom Millner, Will Culbert and Soul Pattinson.
- The vision of Contact is to act as an External Manager of LIC's across various asset classes.
- We have preserved BKI's low MER by locking in a long term Management Fee of only 0.10%.
- No Performance Fee charged to BKI shareholders.
- BKI Board and Investment Committee have remained the same.
- Business as usual... but with more investment resources for BKI.



Investment Process

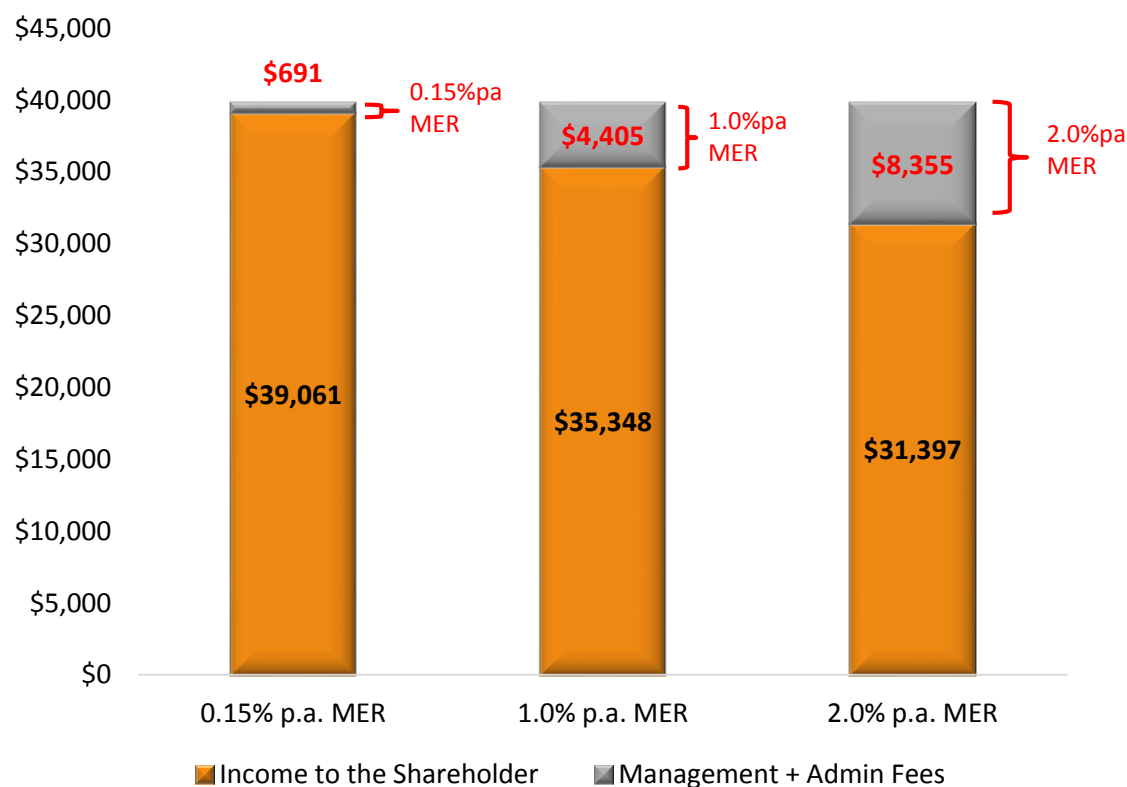
BKI is focused on investing in stocks using the 5 basic fundamentals below as part of the stock selection process:

- 1 Income** - Dividend Yields, Franking Credits, Pay Out Ratios
- 2 Principal Activity** - Sustainable Business Model, Competitive Advantage, Barriers to Entry
- 3 Debt Levels** - Gearing Ratios, Net Interest Coverage
- 4 Management and Board** - Alignment, Board Meeting Attendance, Creating Shareholder Wealth
- 5 Earnings and Valuations** - Earnings Profiles, PE Multiples, EV/EBITDA Multiples

Investment Committee – Final investment decisions are approved through the Investment Committee

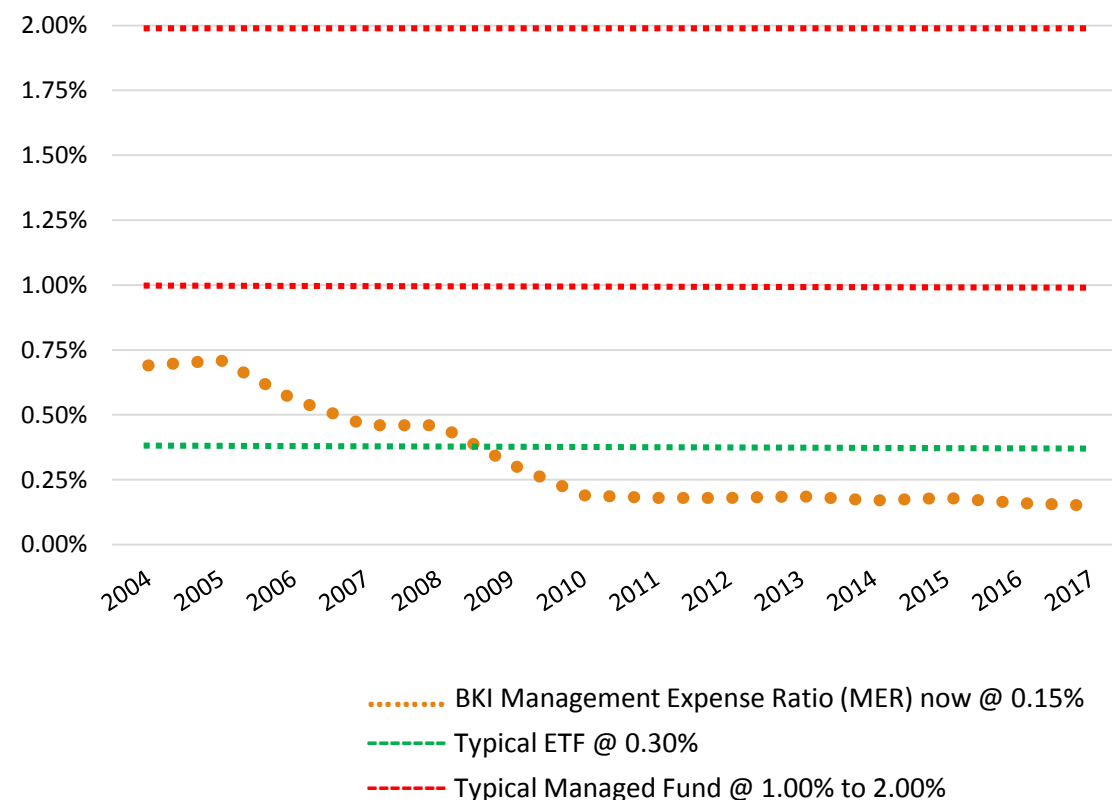
Fee Considerations

Based on \$10k investment, 11.2% return p.a.
over 13 years



Focused on keeping costs low

“The thicker the carpet...The thinner the dividend”



Increased Liquidity & Profile

➤ Growing Number of Shareholders

- 2003 7,832
- 2008 8,466
- 2013 11,750
- 2017 14,800 shareholders

➤ Growing Average Daily Turnover of BKI Shares

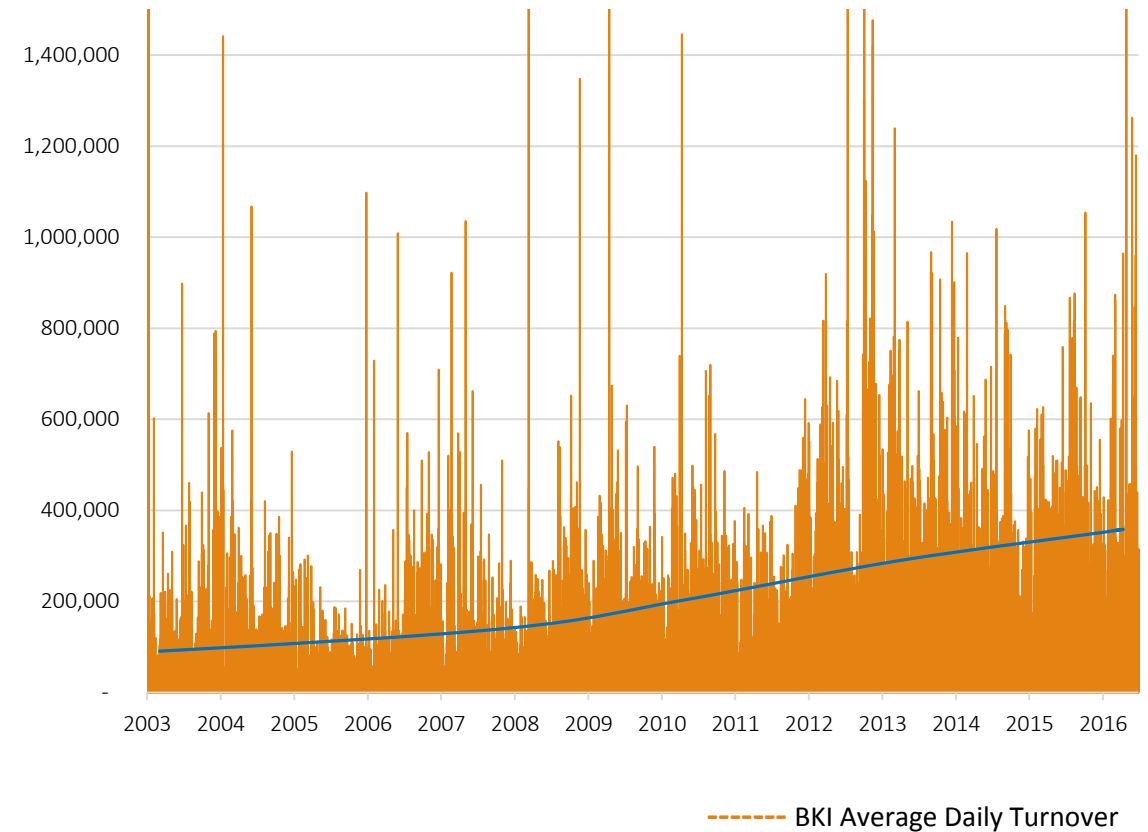
- 2003 – 2008 135k shares
- 2008 – 2013 227k shares
- 2013 – 2017 332k shares

➤ Research Coverage

- IIR RECOMMENDED PLUS
- LONSEC Pending
- MORNINGSTAR Pending

➤ Broker Coverage

- Bell Potter
- BaillieuHolst
- Evans & Partners
- Patersons



FY2017 Result Highlights

	FY 2017	FY 2016	Growth
Net Operating Result*	\$41.8m	\$41.2m	1%
Net Profit Attributable to Shareholders	\$45.6m	\$42.3m	8%
Earnings Per Share*	6.93cps	7.16cps	-3%
Earnings Per Share including Specials	7.57cps	7.35cps	3%
Total Ordinary Dividend Per Share	7.30cps	7.25cps	1%
Management Expense Ratio (MER)	0.15%	Down from 0.16% at FY2016	

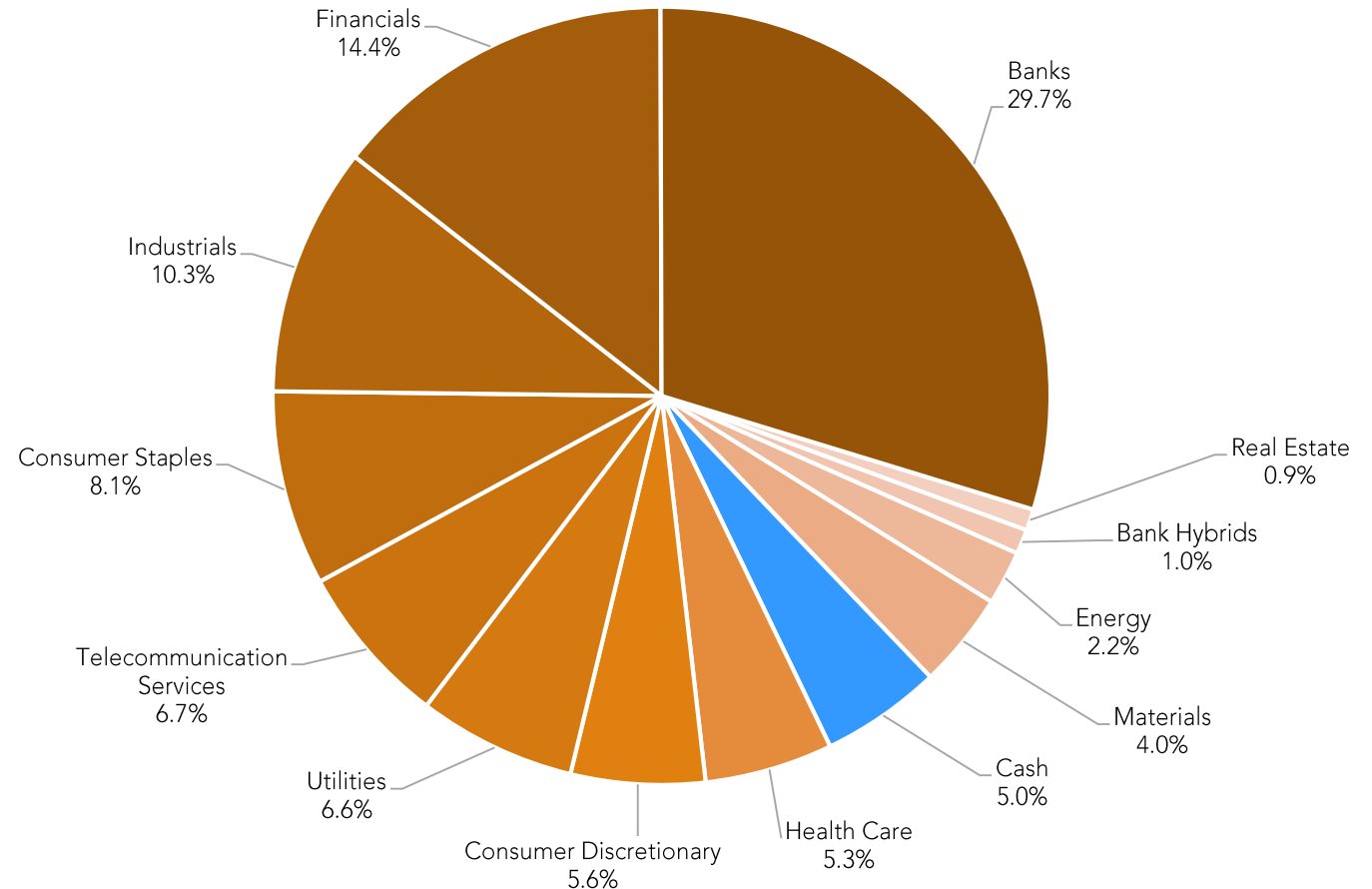
High Conviction

Benchmark Unaware

BKI's long term strategy of investing in dividend paying stocks means the portfolio is not aligned with an index.

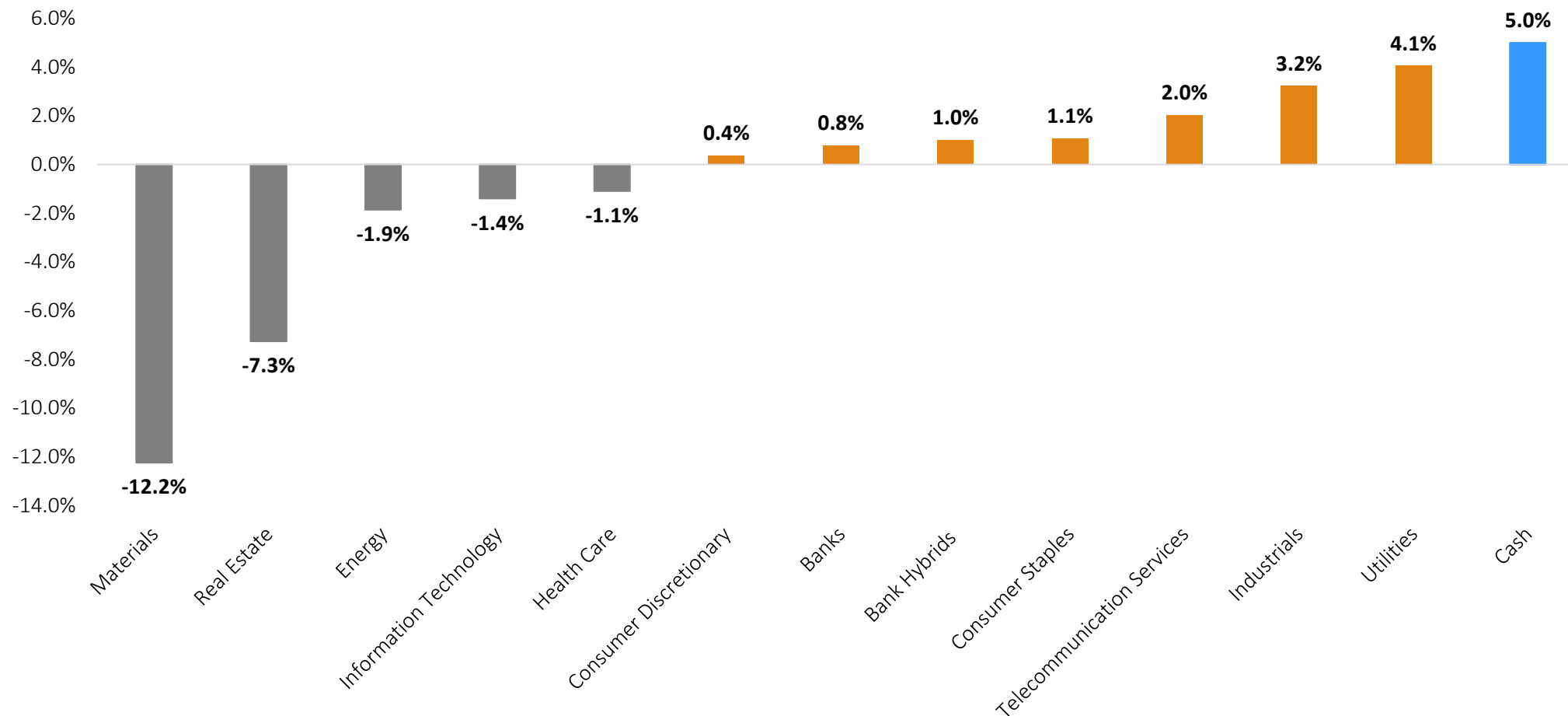
Portfolio Positioning

Exposure by Sector



Portfolio Positioning

Active Weight by Sector



Portfolio Positioning

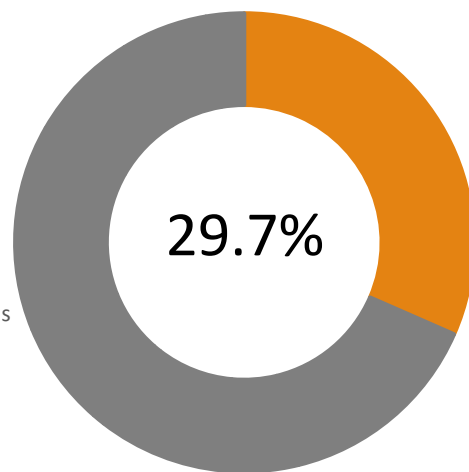
Banks Value and Income

PE Multiple 13.1X : 16% discount to S&P/ASX300 Index

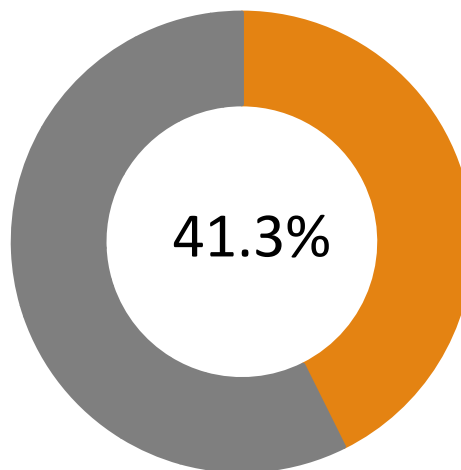
Dividend Yield 5.8% : 29% premium to S&P/ASX300 Index

Banks Weighting of BKI

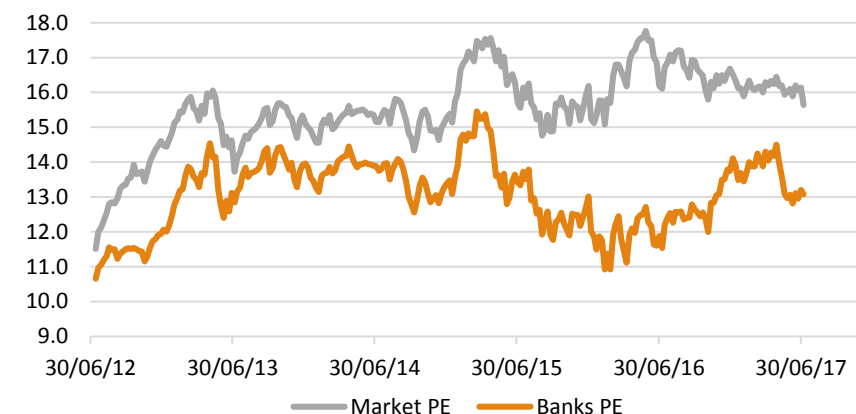
- Banks
- Financials
- Health Care
- Industrials
- Property
- Resources
- Retail
- Telecommunications
- Utilities
- Cash



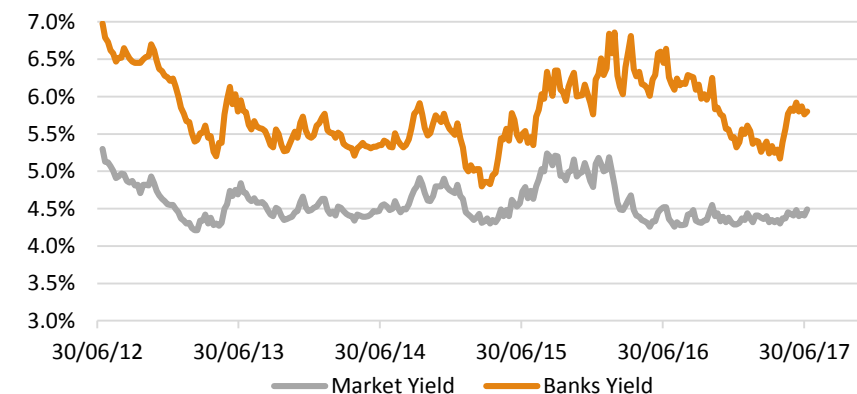
Income Received from Banks



Banks PE versus Market PE



Banks Yield versus Market Yield



Portfolio Positioning

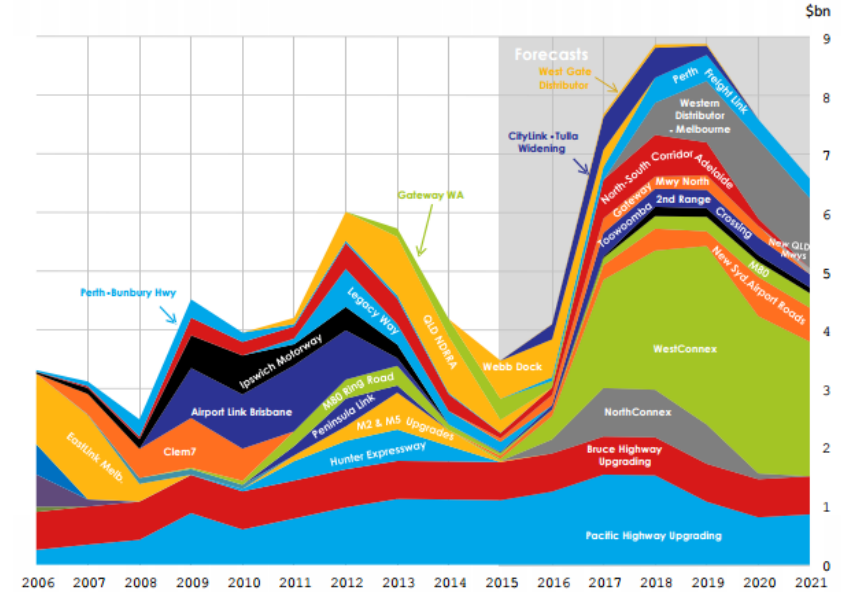
Tangible, Physical Assets - Infrastructure

- Australia is undergoing a significant transformation thanks to federal and state government spend on major infrastructure projects.
- The beneficiaries of this spend is captured through long term passive infrastructure investments in industries including:
 - Freight Road and Rail Networks
 - Logistics Networks
 - Gas and Energy Networks
 - Communications Networks and Exchanges
 - Airports
 - Hospitals and Age Care Facilities

Australian construction outlook - Roads



MAJOR AUSTRALIAN ROAD CONSTRUCTION PROJECTS – VALUE OF WORK DONE BY YEAR (YEARS ENDED JUNE)



Source: Macromonitor – September 2016



Portfolio Positioning

Retail - The arrival of Amazon

- Market Opportunity in Australia is \$80bn.
 - Relatively high disposable income
 - High internet penetration / smart phone use
 - Population concentration (3 cities have >50% of national population)
 - A relatively undeveloped online retail market
- Market Capitalisation of Amazon is \$572bn
- Not only a retailer, Amazon has diversification



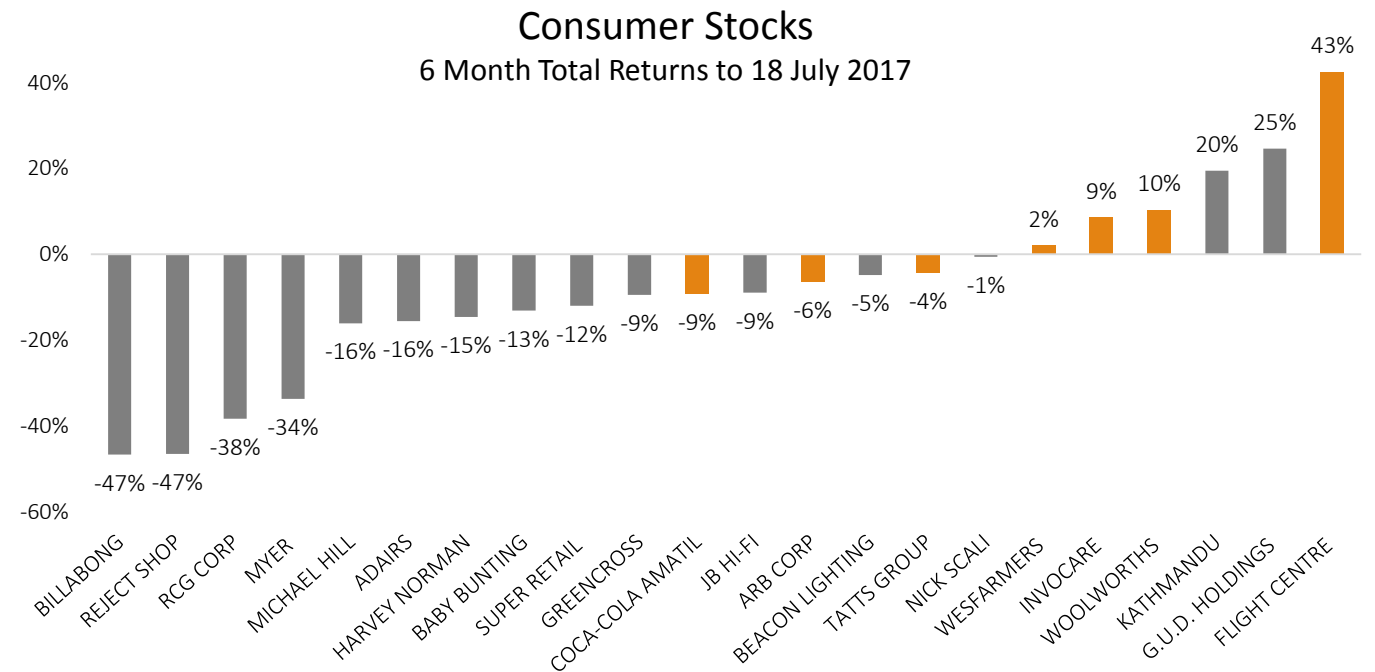
Source: Wesfarmers Strategy Briefing Day (7 June 2017)



Portfolio Positioning

Retail – Quick, Amazon is coming!

- Consumer Discretionary stocks have been weak in recent months. Longer term growth forecasts appear overly optimistic - Scope for further disappointment. Apparel and Consumer Electronics stocks could be vulnerable.
- The Amazon issue aside, Consumer Discretionary stocks will come under further pressure if we see:
 - A pullback in House Prices
 - An increase in the Savings Ratio
 - Benign Wage Growth
- BKI owns the following Consumer Discretionary stocks (as highlighted in orange bars in the chart on the right)
 - Wesfarmers
 - Woolworths
 - ARB Limited
 - Flight Centre
 - Invocare Limited
 - Tatts Group
 - Coca-Cola Amatil



Portfolio Positioning

Retail - The arrival of Amazon

- Amazon will offer opportunities for many companies and investors
- Amazon will need distribution centres and access to infrastructure and supply chain through Ports/Road/Rail.
- Beneficial Real Estate / Logistics / and Infrastructure Companies could include:
 - Goodman Group
 - Lend Lease
 - Lindsay Australia
 - QUBE Logistics
 - Transurban Group
 - Sydney Airports
 - Woolworths
 - Wesfarmers



Portfolio Positioning

Top 25 Shareholdings as at 30 June 2017

	Stock	% of Total Portfolio
1	Commonwealth Bank	9.3%
2	National Australia Bank	8.0%
3	Westpac Banking Corp	6.9%
4	ANZ Banking Group	4.5%
5	Wesfarmers Limited	4.2%
6	Telstra Corporation	4.0%
7	APA Group	3.4%
8	AGL Energy Limited	3.2%
9	Transurban Group	3.1%
10	TPG Telecom	2.9%
11	Woolworths Limited	2.7%
12	Sydney Airport	2.4%
13	New Hope Corporation	2.3%

	Stock	% of Total Portfolio
14	IAG Limited	2.1%
15	Macquarie Group	2.0%
16	ASX Limited	2.0%
17	Invocare Limited	2.0%
18	Sonic Healthcare	2.0%
19	Challenger Limited	2.0%
20	Ramsay HealthCare	1.9%
21	Suncorp Group	1.8%
22	BHP Billiton	1.7%
23	Woodside Petroleum	1.6%
24	ARB Corporation	1.5%
25	Qube Holdings	1.3%
	Cash & Cash Equivalents	5.0%
Total		83.8%

Portfolio Positioning

Recent Buy/Sells during FY2017

Investment Portfolio Purchases

- Flight Centre
- Sydney Airport
- Telstra Corporation
- Sonic Healthcare
- Challenger Limited
- Lend Lease
- IOOF Group
- Macquarie Group
- Transurban Group
- TPG Telecom

Investment Portfolio Disposals

- BHP Billiton (half position)
- Fairfax Media
- Telstra Corporation
- Crown Resorts
- Programmed Maintenance
- Salmat Limited

Share Sale Agreements

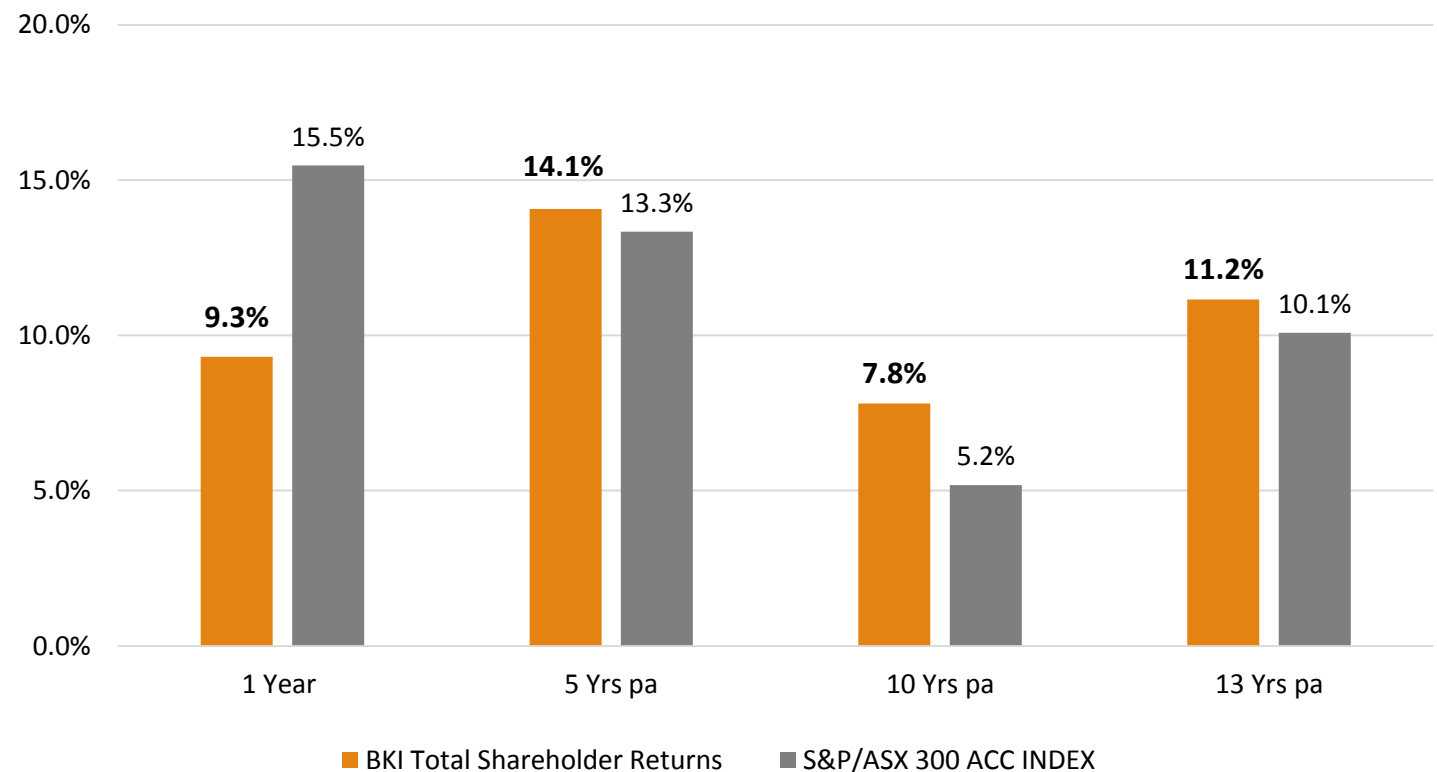
During FY2016 and FY2017 BKI completed the acquisition of four unlisted investment company's with Net assets of approximately \$36m. The portfolios acquired were a strong fit with BKI's existing portfolio. An investment in BKI will now provide the vendors with administration simplicity as well as access to a low cost diversified equity portfolio, increasing fully franked dividend distributions and capital growth.

Total Shareholder Returns including the benefit of franking credits passed on from BKL to shareholders.

BKL has ample franking credits to ensure dividends are fully franked into the future.

Total Shareholder Returns

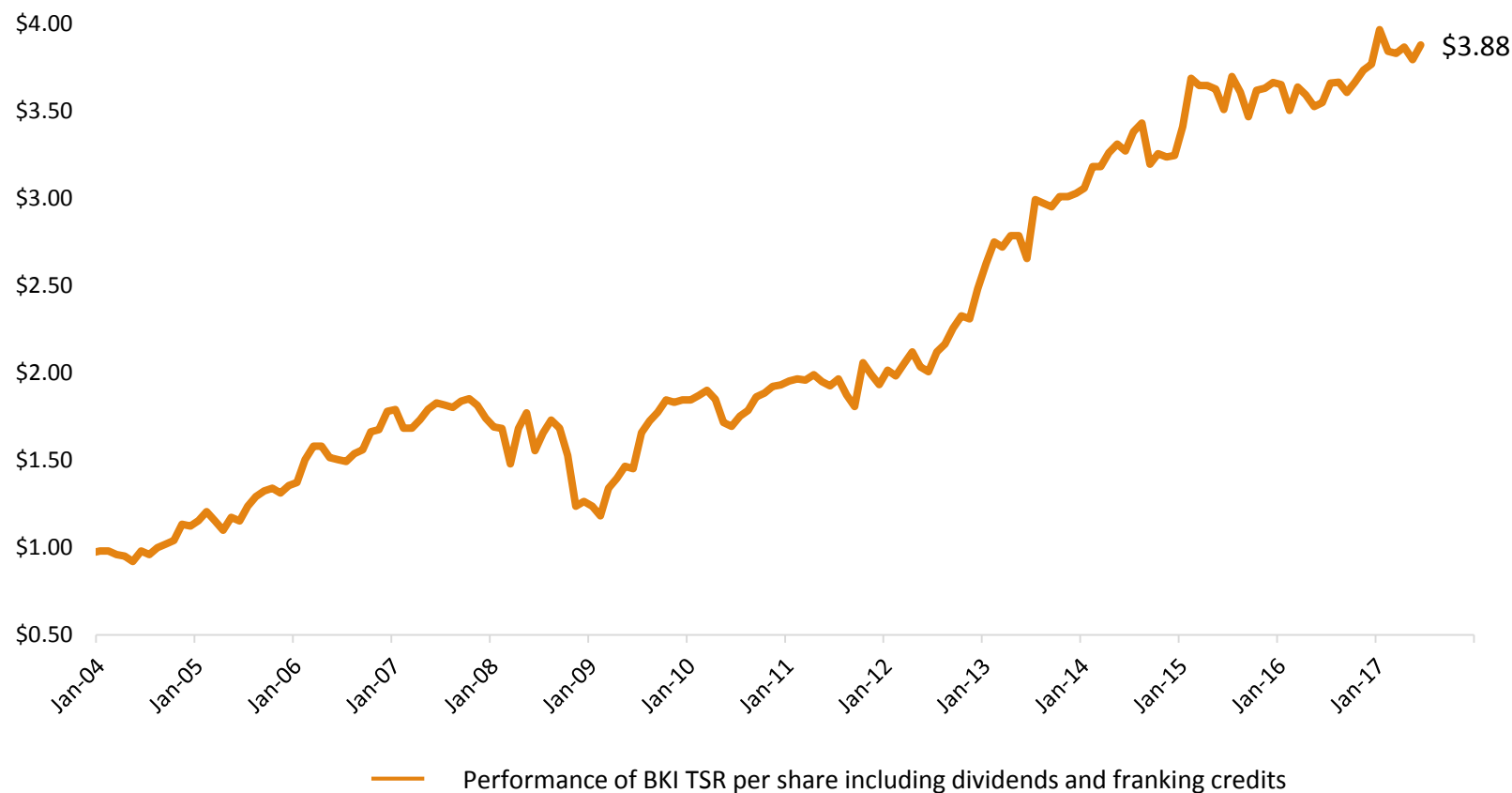
Including Franking Credits
As at 30 June 2017



The S&P/ASX300 Accumulation Index has been franked at 80%

Total Shareholder Returns

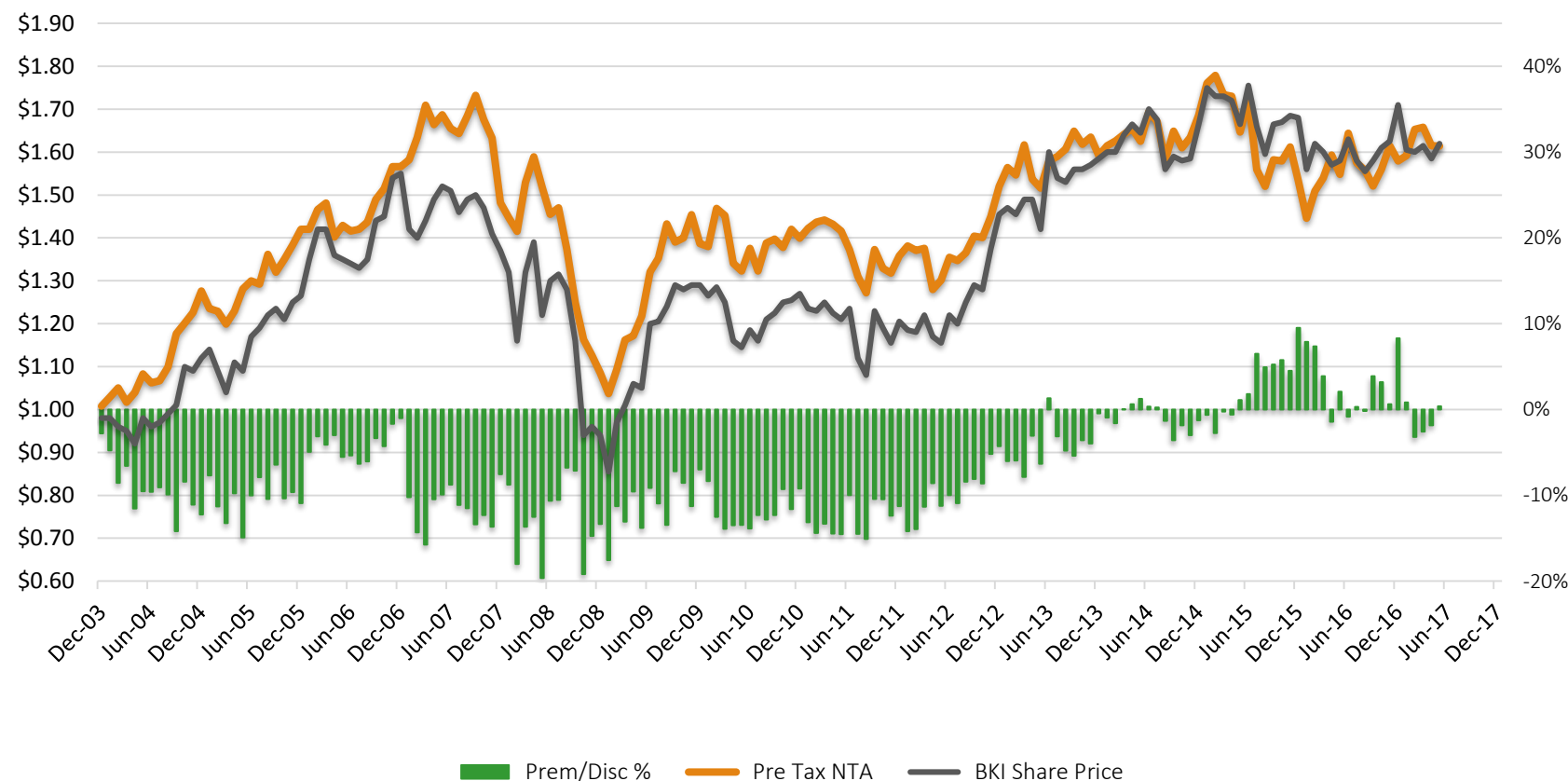
Capital appreciation since IPO – including dividends and franking credits.
As at 30 June 2017.



*Highlights the
benefit of
investing for the
long term.*

Discount/Premium to NTA

Focused on closing the gap



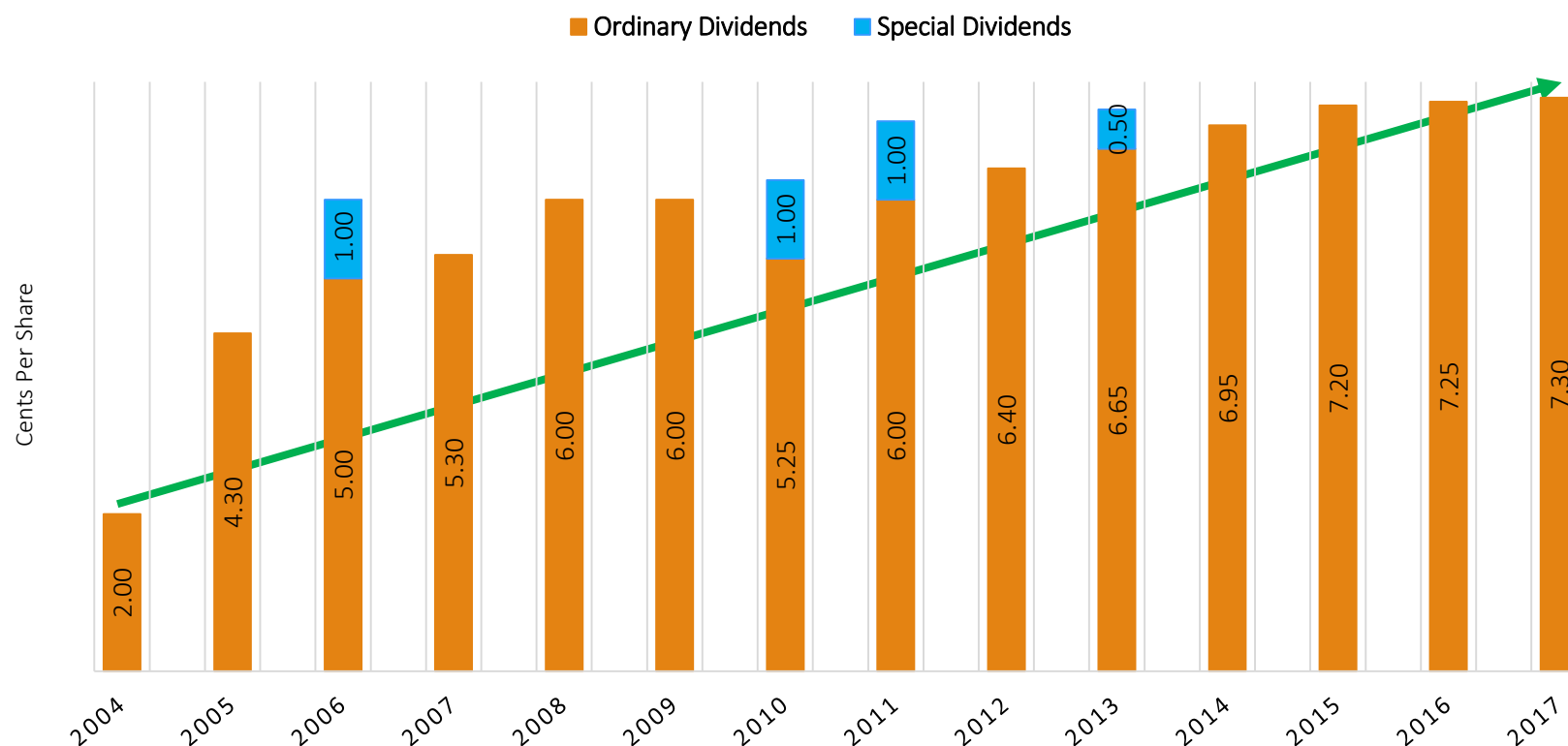
*BKI's Premium to
Pre-Tax NTA as at
30 June 2017
was 0.4%*

Dividend History of BKI

Focused on capital management

*Growing Fully
Franked Dividend*

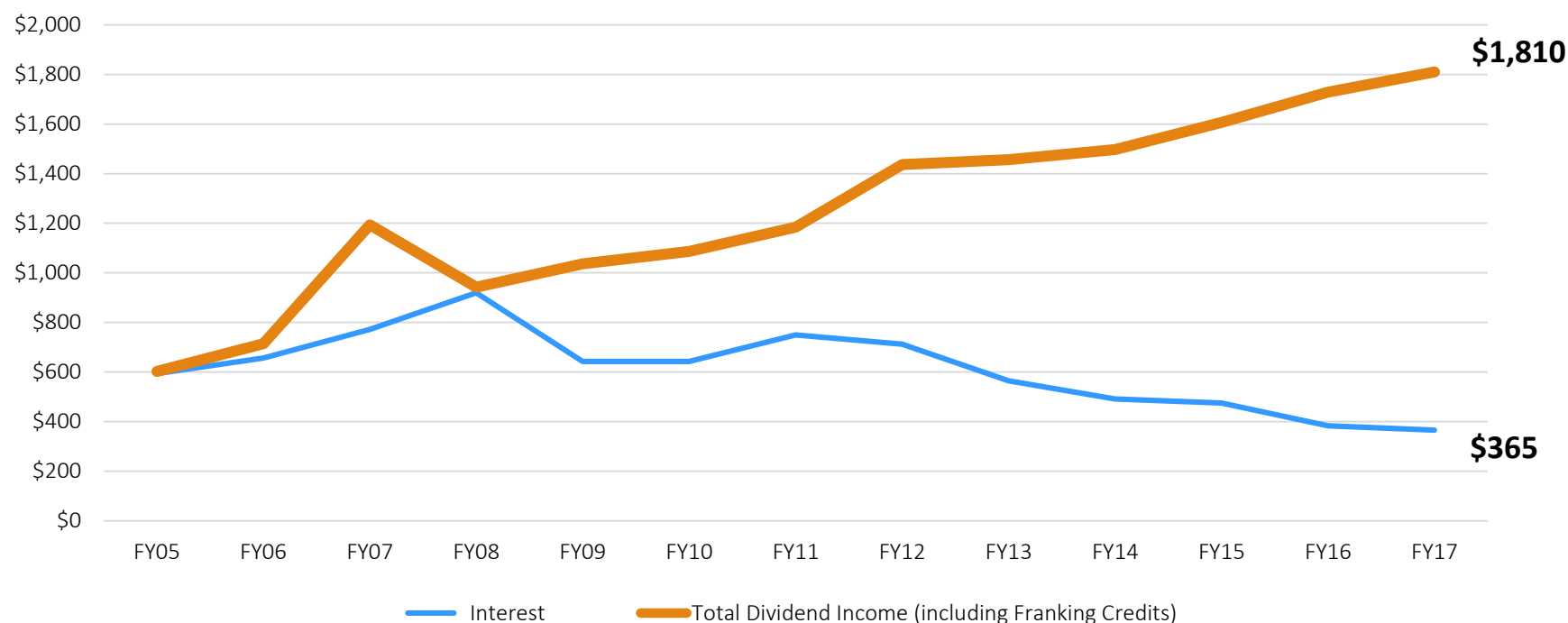
*BKI's pay out
ratio is typically
90%-95% of
Operating Profits*



Dividend History of BKI

Focused on capital management

Dividends + Franking Credits received from a \$10,000 investment in BKI at inception V's Bank Quarterly Interest.



Highlights the opportunity of receiving a fully franked dividend in a falling interest rate environment.

Source: BKI, Bloomberg. An investor who spent the equivalent of \$10,000 to purchase BKI shares upon listing in December 2003 would now be receiving fully franked dividends of \$1,267pa. The franking credits enhance the income by a further \$543, assuming a tax rate of 30% (total income of \$1,810). The same investment in a term deposit (based on the cash rate + 0.50%) would be earning \$365pa with no franking credits. Figures include reinvestment of dividends and cash. Ignores capital appreciation of BKI shares.



**BKI INVESTMENT
COMPANY LIMITED**

BKI Investment Company Limited

APPENDIX



LIC Structure - Key Features of BKI

- **Closed-End Company** - As opposed to a managed trust, enabling us to have a long term view on investments without being concerned about fund redemptions.
- **High Value / Low Cost** - Active, high conviction, no debt. No excessive portfolio management fees and no performance fees. MER of 0.15%.
- **Performance** - Delivering sound returns plus dividend growth.
- **Experience** - The Board and Portfolio Managers of BKI has 197 years of collective industry experience (average of 28 years); Average tenure at BKI being 10 years.
- **Alignment** - Directors and Portfolio Managers are shareholders in BKI. We focus on dividend payments - not generating excessive fees.

LIC Structure - Key Features of BKI

- Diversification – Exposure to well managed, dividend paying companies in a variety of industries.
- Listed on the ASX - Transparency and Compliance.
 - ASX Listing Rules - Continuous Disclosure requirements, High levels of Transparency and Compliance.
 - Size & strength – Total Portfolio valued at \$1.0bn.
 - Simplicity – An investment in BKI.ASX provides administration simplicity.
 - Liquidity – Shares trade on the ASX. 14,800 shareholders. Settlement T+2.
 - Governance – All Policies and Charters found on BKI Website: [www.bkilimited.com.au/Corporate Governance](http://www.bkilimited.com.au/Corporate%20Governance)
- Tax Effective Capital Management - Dividends are fully franked; tax credits passed on to shareholders.
 - Dividends - \$465m or 85.1cps distributed to BKI shareholders since listing.
 - Special Dividends - 5 Fully Franked Special Dividends passed on to shareholders.
 - Positive Franking Balance - Fully franked dividends available from franking credits of \$27m* (at tax rate of 30%)

LIC Structure - Key Features of BKI

- Washington H Soul Pattinson and Company Limited - WHSP is the largest shareholder in BKI. Listed in 1903, WHSP is the second oldest listed company on the ASX and holds investments valued at >\$4.0bn. Soul Pattinson has a deep understanding of the business universe through its diverse investment portfolio.

