BKI INVESTMENT COMPANY LIMITED

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ASX Announcement

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Research Note from Investment Manager

Enclosed is a Research Note prepared by Contact Asset Management Pty Limited (**Contact**), the investment manager of BKI Investment Company Limited (ASX: BKI).

The Directors of Contact have recently conducted a 10-day research trip to the United States during which they met with a number of influential companies and management teams, and which was rounded out by attending the Berkshire Hathaway Annual Shareholders Meeting in Omaha, Nebraska. The enclosed Research Note provides an overview of the key takeaways from this trip, and their relevance to the management of the BKI portfolio.

Yours faithfully

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Company Secretary

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The 2018 Berkshire Hathaway Annual Meeting and US Company Visits

Seattle, Chicago and Omaha

A Strong Economy in the Land of Opportunity

The Directors of Contact Asset Management have just returned from a 10-day trip to the United States. We again attended the Berkshire Hathaway Annual Shareholders Meeting in Omaha, Nebraska. In the lead up to the Berkshire Meeting, we were fortunate to meet with a number of influential companies and management teams including Amazon.com, Acme Brick, Boeing, CME Corporation, Equity Group Investments, GATX, James Hardie, Lendlease, Lizard Investors, WeWork and Walgreen Boots.

The Berkshire event (pictured above), which drew another crowd of 40,000, provides access to two of the great investing minds of all time, Warren Buffett and Charlie Munger. We also gain great insights from discussions with a number of the Berkshire subsidiaries as well as other individuals and small business operators who attend the meeting.

In line with our hope to be transparent and informative for the shareholders of BKI Investment Company, URB Investments and Washington H Soul Pattinson & Co Limited, we share some of our key learnings from our travels.

A key takeaway: the US economy is strong. Very strong.

Over the 10 days, everyone was upbeat on the US economy. The recent tax reform seems to be having the desired stimulatory impact. Companies are using the extra capital from tax cuts to lift wages, pay down company debt, reinvest into their businesses or increase dividends paid to shareholders. All very positive for both investors and the broader economy.

Unemployment is also remarkably low which, is flowing through to investor and consumer confidence. The most recent Job Ads released by the US Department of Labor reported an unemployment rate below 4% for the first time since the year 2000. Some initial signs of wage inflation are starting to emerge, which is good for workers. Trading volumes at the CME are at record levels and Housing Approvals and Starts continue to improve.

The only frustrated people are the value investors. The economy is strong but widespread value in the US equities market is becoming hard to find.

The 54th Berkshire Hathaway Annual Shareholders Meeting

In *The Warren Buffett Shareholder*[1], Robert P. Miles, a regular visitor and an author himself, notes:

Just about everything about the Berkshire Meeting is unique among corporate Annual Meetings. For one, Berkshire hosts a weekend festival celebrating capitalism, entrepreneurship, and business ownership. Partners, as Buffett calls them, line up in the wee hours of the morning waiting to enter and then fill the arena. Subsidiaries exhibit products and services and pack the adjoining convention centre. Each shareholder can bring up to three guests; The Meeting is streamed online, and translated into Mandarin. For six hours answering questions, Buffett and Munger use no reference material, demonstrating superior mental faculties and incomparable command of historical data. In short, the Berkshire Meeting is the gold standard of annual shareholder meetings.

People from all industries, not just investors, learn invaluable strategies for building their own businesses. It is a collegiate gathering, where many people in the room are competitors, however Berkshire shareholders have been described as *"a society bound together by common values of learning, integrity, innovation and community."*

Many ask - what makes over 40,000 people flock to Omaha each year? Buffett's astounding investment record is obviously one incentive (Berkshire Hathaway has returned 20.9% p.a. since 1965). However, the ability to listen and learn from Warren Buffett (87), and his astute business partner, Charlie Munger (94)—is the primary reason.

The format of the day is a six-hour Question and Answer session. There are three journalists, three broking analysts and then a number of microphones around the Centre for shareholders. The questions rotate between the groups throughout the meeting. Buffett and Munger – fuelled by Coke and Sees Candy peanut brittle – are quite remarkable as they field any questions the audience wishes to pose.

The Annual Meeting is not one where one can expect to walk out with a handful of stock ideas or a *Get Rich Quick* scheme. Rather, both Buffett's and Munger's distinctive teaching style, which tends to instruct people how to think rather than what to think, is a critical point of difference.

The following pages contain what we believe were the key highlights of the Annual Meeting. For us, the trip, and in particular the Berkshire session, is a way for us to refocus on our investment philosophy and reminds us of what we view as important. That is, long-term investment, transparency and alignment with our shareholders.

Think Long Term

Warren Buffett opened the meeting with a reminder to not lose sight of the forest for the trees – don't get caught up in the short term noise. While Buffett may spend hours reading about financials, he stressed that the average shareholder doesn't need to pore over the stock page or follow the Federal Reserve's every move in order to be successful. "None of that counts at all in a lifetime of investing. What counts is having a philosophy that you stick with" and not worrying about things that you don't understand.

Buffett provided an example whereby $10,000 invested in a hypothetical stock index fund that tracked the broader market in 1942 (when he started investing) would now be worth $51 million today. The same $10,000 invested in gold would be worth a relatively disappointing $400,000 today.

A number of similar themes come up each year in regards to thinking long-term:

- The most important thing in finance is compound interest, which underlies Buffett's admonition that "the first rule in investing is not to lose money, and the second rule is never to forget the first rule";
- Buffett often observes that investors receive one big break from government: tax deferral on unrealized gains. Given this valued tax deferral, he advises seeking to invest in businesses with competitive advantages that amount to impregnable moats. Invest in productive assets and stay invested;
- Buffett recommended picking investments with an eye towards avoiding excessive costs.

[1] Lawrence Cunningham, *The Warren Buffett Shareholder: Stories from inside the Berkshire Hathaway Annual Meeting*, April 2018

Shareholders are partners

Berkshire have a Board and Managers who you should expect will act like owners of the business . . . because they are owners of Berkshire.

Buffett lets Managers run their businesses

Buffett: "I saw a Manager here today, a CEO, that I spoke to. While I say hello to him a lot, I've only had to speak to him say 3 times in 10 years about his business. He's a great manager and done a great job... Maybe he would have done even better if I didn't speak to him".

The Berkshire Hathaway model is to buy a business and leave it to the Managers to run. He never makes hostile takeovers: rather, Buffett said he likes being liked by management he works with. "We're counting on them running the company." This is a core tenet of Berkshire's institutional success: investing in people, not merely in metrics.

Trade and US Political Issues

There were several questions and concerns around US trade policy. The questions came from both Chinese nationals (of which there was a very large contingent) and local Americans. Buffett noted that trade is incredibly difficult – "You get it right and it's wonderful for the country, you get it wrong and your manufacturing becomes uncompetitive on a global stage and people lose jobs and it becomes a disaster."

He repeated long-held views: trade benefits Americans, even if they don't always realise it. Buffett indicated that he thought the alarmism around US trade is overdone. In 1970, US imports and exports were both 5% of GDP; now, exports are 11% and imports are 13%. Some people are getting unnecessarily worried about this relatively minor imbalance.

On US/China trade, Buffett still thinks the two countries will remain the world super powers. He sees a win-win when world trade is strong despite some rhetoric from Trump; most Republicans still believe in Free Trade. The world is dependent on sensible world trade for its progress and it would be disappointing if the two countries did something foolish. "We have a lot of common interests and like any two big economic entities, there are times when there will be tensions, but it is a win-win situation."

One local Omaha shareholder asked how President Trump's tariffs on foreign steel are affecting Berkshire's manufacturing businesses. Buffett noted that steel costs are up somewhat, but he doesn't see a real trade war ahead. "You don't know what you would be paying for the clothes you're wearing today if we had a rule they all had to be manufactured in the United States".

On politics, Buffett (a Democrat who helped campaign for Hillary Clinton) and Munger (a Republican) were their usual rational selves. One shareholder asked whether Americans were "more divided today than 50 years ago?" Buffett said that in his lifetime, he has lived during the presidencies of 14 men, half Democrats, half Republican. He saw nuclear threat, many recessions, "war in the streets" in the 1960s, but still thinks the U.S. stock market is a good investment. "After every election, you have people feeling the world is coming to an end, and how could this happen," he said. But, "in fits and starts, America really moves ahead."

Wells Fargo and the importance of the right incentives and behaviour

Wells Fargo has been under significant pressure following a banking scandal last year. Wells Fargo bankers across the U.S. opened more than 2 million credit card and deposit accounts that might not have been authorized by customers. Berkshire owns more than 9% of Wells Fargo. A couple of Shareholders questioned whether Berkshire would stay in the investment.

This led to an interesting discussion on incentives. In the past, Charlie Munger has noted, "show me the incentive and I will show you the behaviour."

Wells Fargo, Buffett said, proves that incentives work. It is just that Wells Fargo gave employees an incentive to do the wrong thing. The even greater error, he said, was that executives did not admit to these errors and fix the problem as soon as they became aware of it. This is a "cardinal sin".

Buffett said that at Wells, that era is over, and the bank will be better for it. Some of Berkshire's greatest investments, Buffett said, have been in companies that were in trouble at the time Berkshire took stakes, including American Express, Goldman Sachs, Solomon Brothers and Geico. Those companies cleaned up their act and have returned tidy sums for Berkshire.

Munger also said, “An ounce of prevention is worth more than a pound of cure, it is worth a tonne of cure”.

While it remains early days in the Australian Banking Royal commission and what that might mean for the industry, we (at Contact) see potential similarities between Wells Fargo and CBA. It is an issue we will watch closely. If CBA can address its challenges, it too may return “tidy sums” for shareholders. We constantly look for these kind of situations – as Mark Twain said, “History doesn’t repeat itself, but it often rhymes”.

On the Tech Stocks

Amazon has been a common discussion point in recent years, particularly around its role as a disruptor. While that theme was less of a feature in 2018, Buffett and Munger were asked about Tech stocks. "We've certainly looked at Amazon. The truth is, I've watched Amazon from the start and what Jeff Bezos has done is something close to a miracle. If I think something is a miracle, I tend not to bet on it.”

Buffett went on to say: “Bill Gates told me early on (to look at) Google. "I'll miss a lot of things that I don't feel I understand well enough, and there is no penalty in investing if you don't swing at a ball that's in the strike zone, as long as you swing at something at some point. We'll try to stay within our circle of competence. We're going to miss a lot of things. I made the wrong decision on Google and Amazon." Munger added, "I've been to Google headquarters - it looks like a kindergarten."

On Apple: Berkshire Hathaway bought another 75 million Apple shares in the first quarter of 2018. The total holding in Apple is now 240 million shares (valued at approximately US$42.5 billion). Buffett says that he thinks that Apple has an incredible consumer product - wide ecosystem and very sticky. They do a lot of small acquisitions and are now finding it hard to make an acquisition of scale. Berkshire owns about 5% of the company and they are comfortable that Apple is buying back its shares.

On Microsoft: a shareholder asked why Berkshire had never bought Microsoft shares. In Microsoft’s early years, it was Buffett’s “stupidity,” he said. But since he forged a long friendship with Microsoft founder Bill Gates, who serves on Berkshire Hathaway’s board of directors. “It’s simply for appearances’ sake”, Buffett said. If the shares spiked, some might think Buffett had inside information. Charlie clearly still likes the company and wants to own it, “it was stupid, but a late converter is better than never.”

On Cryptocurrencies

Why is Crypto currency a bubble? Buffett believes that a non-productive asset is not a great investment. “You are relying on someone else wanting to buy that unproductive asset for a higher price. It is the same as gold and tulips and tulips did not end well. It is an investment based on hope. It will come to a bad ending.”

Charlie Munger was more blunt: “I dislike crypto currency more than you do Warren. It is dementia. It’s like everyone’s trading turds because of a fear of missing out.”

On approach to investing

“What we do is not a complicated business. It is a disciplined business. You have to understand accounting and have to be willing to talk to businesses and consumers. But it doesn’t require advanced learning.”

“For best success, look to productive assets, like stocks.”

“Paying more than fair value for a stock is silly.”

Other snippets / points of interest

It’s OK to make mistakes – it is not uncommon to hear both Buffett and Munger admit a number of mistakes. The two have missed out on a lot of opportunities but still done very very well. A recurring theme at the meetings is that it is okay to make mistakes, particularly if they are shared and a lesson can be learned to avoid repeating them. When the Managers of Berkshire Hathaway subsidiaries see the likes of Buffett and Munger admitting to mistakes so openly, it encourages similar behaviour. It has been said that Buffett requests that bad news travel fast at Berkshire, good news can always wait.

On Interest Rates - Buffett says he doesn’t know what will happen with interest rates “and the good news is no one knows”. He thinks long-term bonds are a terrible investment at current rates. The spare cash of Berkshire ($110 billion of it!) is sitting in 3-4 month Treasury Bills. The Federal Reserve wants 2% inflation yet the Fed Reserve is only offering 3% in long bonds - so after tax investors are only making about 0.5%.

The theory of doing nothing - Buffett continues to believe that one of Berkshire's core strengths arises from its *"ability to do nothing and willingness to do anything"* when assessing investments. "Being successful at almost anything means having a passion for it," Buffett says. Munger noted that "Part of the Berkshire secret is that when there is nothing to do, Warren is very good at doing nothing." "You can make a lot of money sitting on your ass."

Warren Buffett spends five to six hours a day sitting quietly in his office, the door shut, reading and thinking. That is part of what makes Berkshire Hathaway "a different sort of place," he says. His small corporate staff, with no committees or general counsel, suits him and his investment style. "It's exactly the life I like, and it's not work for me, it's just a form of play, basically."

A key to life, from 94-year-old Charlie Munger: "If you're going to live a long time, you have to keep learning. What you formerly knew, is never enough." "If you stop learning you'll be like a one-legged man in an ass kicking contest"… Warren replied by asking the audience "if anyone knows a better metaphor than that can you please send it in."

"Decisions get made better if you eliminate the bureaucracy. Bureaucracy is like a cancer."

Munger: "Companies that are hell bent on taking acquisitions are often worth less after the transactions than before."

Warren on America: "American industry has gotten incredibly more profitable in aggregate in the last 20-30 years. This has become somewhat an asset-light economy. It is a changing world and (the biggest companies) will earn even more money with the tax rate going down."

"This country really, really works ... this country has six times the per capita GDP growth that it had when I was born ... this is a remarkable, remarkable country."

Special Dividends - "We had a vote on whether people wanted a dividend ... the B-shares voted 47-1 against it. They expect us to do whatever we think makes sense for all shareholders, and if we thought we can't use the money effectively in the business, we should get it out ... We won't always be in a world of low interest rates or high private-market prices ... It's very unlikely we'd pay out a big special dividend."

Reputation is critical - each year at the start of the meeting, a video is played of Buffett testifying on behalf of Salomon in 1991 and saying "If you lose money for the firm, I will be understanding. If you lose a shred of reputation for the firm, I will be ruthless." A reputation takes a lifetime to build, but can be destroyed in a single act.

Yet again, we left Omaha with an appreciation of wide-ranging fundamentals and the importance of being rational. Few people on this earth seem more rational than Warren Buffet and Charlie Munger.

We've attended the Berkshire meeting for many years now. While each year there are slightly different questions and topics of interest, a lot of things do not change – *maintain a good reputation, think long term, be patient, stay in your circle of competence, search for value and quality, keep costs low, never stop learning and work alongside people of ability and integrity.*

Once one recognises and implements these key recurring themes, you can start to compound knowledge.

Notes from our Company Meetings and Site Tours

Seattle, Washington

Amazon.com

Amazon.com is an American electronic commerce and cloud computing company based in Seattle, Washington. It is the largest internet retailer in the world as measured by revenue and market capitalisation. Amazon has diversified their business over the years to sell video, MP3, audiobook, software, video games, electronics, apparel, furniture, food, toys, jewellery and is the world's largest provider of cloud infrastructure services.

We had a private tour of the Amazon Fulfilment Centre in Kent, Seattle. The first thing that caught our eye on arrival was the size of the facility. It is a 850,000ft^2 (~90,000m^2) building with 4 mezzanine levels and a 400,000ft^2 (~45,000m^2) overflow shed. The facility holds over 20 million items in storage, with the record daily output of over 2 million items.

The facility was huge, volumes were big, and to think that this fulfilment centre is only one of several is quite daunting. A big driver of volume is the Amazon Prime membership, which among other benefits, allows members free delivery for $99 per annum.

Amazon said in a news release in December detailing its holiday highlights that its cargo jet fleet "carried enough packages to equal over a billion Echo Dots (smart speakers)" between Thanksgiving and Christmas.

While we aren't allowed to disclose a lot of learnings from the tour, one thing to note is that robotics are starting to dominate the process of pick and pack, providing significant efficiencies, reduced cost of good processed and lower staffing requirements. Despite robotics, the site employs over 3,000 people and up to 5,000 in peak periods. The robotics section flowed through to a significant expanse of conveyor and sorting systems that all led to approximately 200 truck dispatch bays.

The need for an overflow shed due to the bottleneck at the last mile (packing the trucks for distribution), is also quite remarkable. Distribution of goods is not only a major issue in Australia, due to our large expanse of area, but also for the second largest retailer in the world, who has multiple distribution facilities and an enormous and reliable road network at their doorstep. We remain very bullish on stocks exposed to road, rail and air infrastructure as well as packaging and transport companies.

An interesting aside was the frenzy surrounding cities pitching for Amazon's second headquarters. The e-commerce giant has narrowed the options down to 20 from 238 bids. The New York Times recently wrote an article comparing this to an Olympic bid, and they seem to be about right. Amazon plans to invest US$5 billion in development and create up to 50,000 new jobs wherever it builds its newest hub.

Amazon Go Concept store

We also visited the Amazon Go store in Seattle. Amazon Go is a new kind of store featuring the world's most advanced shopping technology. No lines, no checkout – just grab and go!

It is a fascinating concept and, to best explain it, we suggest you have a look at the following YouTube video: *Introducing Amazon Go and the world's most advanced shopping technology*: https://www.youtube.com/watch?v=NrmMk1Myrxc

Boeing Inc.

Boeing is the world's largest aerospace company and leading manufacturer of commercial jetliners and defense, space and security systems. A top US exporter, the company supports airlines and government customers in 150 countries. Products and tailored services include commercial and military aircraft, satellites, weapons, electronic and defense systems, launch systems, advanced information and communication systems, and performance-based logistics and training.

The manufacturing facility was housed within the largest building in the world. So big, in fact, that you could place the entire Disneyland site inside this shed and still have 12 acres of area remaining.

Boeing have a diminishing order book for the 747-8 aircraft, but have a very good order book for the new 737 Family and the Dreamliner. Of Boeing's total 2018 unfilled orders of 268 aircraft, 171 of these are for the 737 range.

With most products and services in today's environment customers are after a competitive and efficient product, and Boeing is no different. They have taken on the competition of the Airbus A-380 and seem to have won with the Dreamliner's superior reliability, fuel efficiency and high-value returns for the various operators worldwide. Boeing claim their aircraft's versatility, lower maintenance and operating costs provide a competitive edge to airline operators. With the order book they have in front of them, it seems to be working.

James Hardie

James Hardie is an international building product manufacturer and a global leader in fibre-reinforced cement. Operating since 1888, the company continues to challenge convention within the construction industry and leads the way in delivering innovative building products and solutions.

We visited JHX's plant in Tacoma, south of Seattle, which has been operating since the late 1990s. Extremely strong demand has meant that JHX is building a second facility next door, which will State of the Art.

Underlying demand is very good and housing starts continue to recover in the United States.

Chicago, Illinois

CME Corporation

CME Group is the world's leading and most diverse derivatives marketplace, handling 3 billion contracts worth approximately $1 quadrillion annually.

CME exchanges include - CME, CBOT, NYMEX and COMEX - offer the widest range of global benchmark products across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals, weather and real estate.

The strength of CME Group is that it is where the world comes to manage risk – through futures and options. CME Group has enormous liquidity, which gives it a significant competitive advantage.

In its most recent quarterly filing, CME Group announced record volumes, which were 30% higher than a year ago. Its investments in globalization are paying off.

Similar to Australian listed ASX Ltd, CME Group is largely a fixed cost business and operating leverage is significant. ASX has also invested heavily in technology and is now reaping the rewards. We remain optimistic on the prospects for ASX.

Equity Group Investments

We were fortunate to spend an hour with Sam Zell, founder of Equity Group Investments. The Company's website notes that: "Over the past 30 years we have invested in energy, healthcare, logistics, manufacturing, transportation, media, real estate, and other industries. We often pioneer new opportunities as we did with distressed fund investing, and we specialize in complex areas others avoid. We raise outside capital when there is abundant opportunity, and we are patient, picking our spots, when there is not."

We had a wide-ranging discussion with Mr Zell, a man who has achieved great success, particularly in Real Estate investment.

A lot of our discussion revolved around Sam Zell's book *"Am I being too Subtle?"*, which we recommend. A few of our key learnings from the book include:

- Reputation is your most important asset. Everything you do, everything you say is part of the permanent record.
- Mr Zell believes that the fundamentals of business - supply and demand, liquidity equals value, good corporate governance and reliable partners - apply across the board.

- Recognize the value of really listening in any negotiation. Understand what is truly important to the other person out of the dozen or so things they might tell you.

- The basics of business are relatively straightforward. It is largely about risk. If you have a big downside and a small upside, run the other way. If you have a big upside and small downside, do the deal. Always make sure you're being paid for the risk you take, and never risk when you can't afford to lose. Keep it simple. A scenario that takes four steps instead of one means there are three additional opportunities to fail.

- Always have some powder dry. There is value in speed and certainty.

- Liquidity equals value.

- A lot of Wall Street's headaches - the executive compensation issues, the accounting scandals, the subprime mortgage mess - can be chalked up to misaligned interests created when there's too much reliance on outsiders that don't have a stake. Similarly, many people who get burned by depending on Wall Street analysts, or hedge fund managers, or their local stock picker, discover that the advice they're getting isn't coming from a committed owner - it's coming from a professional who is collecting a fee. After all, it ain't their money.

- Those who don't remember the past are condemned to repeat it.

GATX

GATX Corporation, founded in 1898, is the leading global railcar lessor. GATX's goal is to be recognized as the finest railcar leasing company in the world.

GATX operates through four business segments: Rail North America, Rail International, Portfolio Management, and American Steamship Company.

GATX boasts a number of excellent assets, including an engine portfolio (JV with GE) and a railcar services business. GATX is conservatively geared compared to peers (BBB credit rating) and continually invests in its business – it has invested US$8 billion back into the business in the last ten years while continually increasing the dividend.

The industry is currently facing oversupply as cheap capital in recent years has increased competition. However, underlying activity is solid, driven by the buoyant US economy, and utilisation is 98%.

Lendlease – Riverline Project

We met with Lendlease (LLC) and toured its Chicago Riverline Project – a significant development in LLC's urban renewal strategy in Gateway Cities.

LLC has a long history in Chicago and this project is extremely well located on the fringe of the CBD in Southbank. It is a high quality offering, which is targeting multi-family residential. "The Riverline Project" is zoned to offer as many as 2,700 units across five high rises surrounding a two-acre public park. Southbank Park will include open green space with recreational amenities and a continuous river walk along the South Branch of the Chicago river. It is within walking distance from The Loop, lakefront and several CTA stops, offering easy access to parks, trails and museums. This is a true city-shaping project of a similar scale and prominence as Barangaroo in Sydney.

Demand for apartments in the development are robust and the first occupants are expected to move in by October. A number of businesses are opening offices nearby, including Google and McDonalds, and Amazon is a potential nearby occupant. This project is a very good example of urban renewal and regeneration.

The LLC developments target multi-family residential and are driven by rental returns for LLC as owner/developer. This model is less prevalent in Australia, however in Chicago, it is a stable market and occupancy rates are very good – typically 95%.

The Riverline project is one of only three that LLC is currently pursuing in Chicago. The company is highly regarded locally and the pipeline is strong.

Walgreen Boots

The Walgreen Company was founded in Chicago, Illinois, in 1901 and operates as the second-largest pharmacy store chain in the United States behind CVS Health. The company operates over 10,000 stores in all 50 states across the US, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

In 2014 the company agreed to purchase the remaining 55% of Switzerland-based Alliance Boots that it did not already own to form a global business. Under the terms of the purchase, the two companies merged to form a new holding company, Walgreens Boots Alliance Inc., on December 31, 2014.

We toured a new concept store in Chicago and had a productive discussion with senior management. Part of the discussion focused on how the consumer has changed and how the definition of "convenience" has changed. Walgreen Boots believes that an in-store experience is still very important. The company focuses on community based stores rather than being in malls. Of interest, Walgreen Boots continues to invest in in-store pick-up of online orders for customers (what many in Australia call "*click and collect*"). In the UK, 70% of online orders are now picked-up in stores and 30% of those customers buy something else. We see this trend continuing in Australia.

Walgreen Boots will continue to pursue M&A but has a solid dividend policy. Generally, the company [i]pays out 30-35% of earnings. It has increased its dividend every year for 42 years!

Wework

WeWork is a global network of workspaces. They target small companies and help them grow by offering a competitive workplace solution and a vast networking opportunity. They do an amazing job at transforming buildings into dynamic environments for creativity and connection. Offices provide all the technical support with the comforts of the home and a network of over 210,000 members.

Within the URB Investments portfolio, we hold a position in similar small business called WOTSO through the investment in Blackwall Ltd. With 14 locations, there were many similarities between WOTSO and the larger WeWork business. This was a great tour and a good insight into the flexible workspace model on a global stage.

Conclusion

The beauty of a trip to the United States is that many industry dynamics play out there before they play out in Australia. To be able to combine that with learnings from the Berkshire Hathaway Meeting was very beneficial.

We were encouraged by the strength of the US economy. Momentum is strong and it is being driven by more than just the Trump tax reforms.

Despite a lot of negative press regarding the Financial Services industry and the local political scene, we also remain optimistic on Australia. We heed Buffett's advice and try not to be distracted by the short term noise. At Contact (and through BKI Investment Company, URB Investments and WHSP), we intend to stay the course and continue to invest in attractive investment opportunities in Australia – our own land of opportunity.

Tom Millner and Will Culbert
Contact Asset Management
May 2018

[i] Disclaimer and Important Information