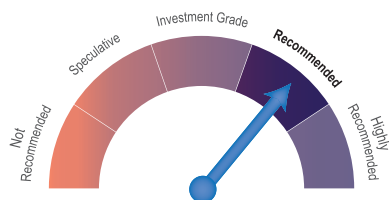


AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Listed Managed Investments

September 2012
Quarterly Review

Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Price as at 13 December 2012	\$1.31
Market cap (\$M)	581.9
Shares on issue (M)	444.2
Shares traded (\$M p.a)	49.4
12-month L/H (\$)	1.11/1.35
Listing date	December 2003

Fees

Management Fee (%)	0.18
Performance incentives (%)	na

Pre-tax NTA Performance Analytics
(including dividends)

	S&P/ASX 300 Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	(2.05)	2.10
TE (%)	4.00	3.90

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend Yield	%
FY10	5.31ff
FY11	5.21ff
FY12	6.23ff

Substantial Shareholders	%
Washington H Soul Pattinson & Company Limited (WHSP)	13.6
As at 30 Sept 2012	

COMPANY OVERVIEW

BKI came into existence as a result of the acquisition of the investment portfolio of Brickworks Limited in 2003. BKI invests in a portfolio of domestic equities and has long-term investment horizon. The portfolio is managed internally.

INVESTMENT OBJECTIVE

The company aims to generate an increasing income stream for distribution to shareholders in the form of fully franked dividends, to the extent imputation tax credits are available, through an investment in a portfolio of assets that are also able to deliver long-term capital growth.

STYLE AND PROCESS

BKI has a buy-and-hold, style neutral investment style. The company has no sector or stock investment limitations and the company focuses on the investment merits of individual stocks rather than market or economic trends. Stock selection is based on 5 basic fundamentals: (1) Income – BKI seeks to invest in securities that offer an attractive fully franked yield; (2) Principal activity – potential investments are required to have sustainable business models and a competitive advantage in their respective markets; (3) Debt levels – BKI focuses on companies with low debt levels and high interest coverage ratios; (4) Management and Board – a strong and experienced board and management team that has a proven history of creating shareholder wealth is required for a stock to be considered; (5) Earnings and valuation – potential investments must offer sufficient earnings growth and be valued attractively. If the potential investment passes the above filters, the security is taken to the Investment Committee (IC) for approval. The IC comprises the majority of the Board.

PORTFOLIO CHARACTERISTICS

BKI invests only in ASX-listed stocks and interest bearing securities. The portfolio has a focus on large cap stocks, with 74% of the portfolio invested in the top 100 stocks as at 30 September 2012. This is expected given the focus on companies offering an attractive yield. The company has a long-term approach to investing and as such has low portfolio churn. The company has a benchmark unaware investment approach, with no restrictions regarding the minimum or maximum investment in any individual stock or sector. As such, the company has the ability to heavily weight the portfolio to a single stock or sector. BKI has a concentrated portfolio with the top ten holdings accounting for 62% of the portfolio.

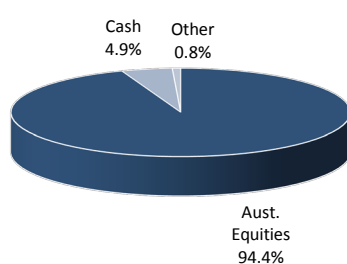
INDEPENDENT INVESTMENT RESEARCH COMMENTS

BKI offers investors cost-effective access to a portfolio of ASX-listed securities. The portfolio (pre-tax NTA plus dividends) underperformed the benchmark index over the September quarter by 1.25%, increasing 7.5% compared to the benchmark index increase of 8.8%. The portfolio has underperformed the benchmark index over the 12 months to 30 September 2012, yet has outperformed over the longer-term. Since inception in 2003, on a rolling annual basis the portfolio has generated an average annual return of 8.9%, slightly less than the benchmark index of 9.2%. We note that BKI's largest investment (NHC) is an operating subsidiary of the company's largest shareholder (WHSP). Robert Millner and Tom Millner are on the board of WHSP and as such remove themselves from any investment decision discussions involving NHC to avoid conflicts of interest. In early October, the company announced a Share Purchase Plan (SPP), offering shareholders the opportunity to acquire up to \$15,000 ordinary shares at a 0.25% discount to the VWAP of BKI shares over the five business days prior to the issue of the shares under the SPP, which is expected to be the 2 November 2012. The aim of the SPP is to reduce the discount the company is trading at as well as increase the size of the company.

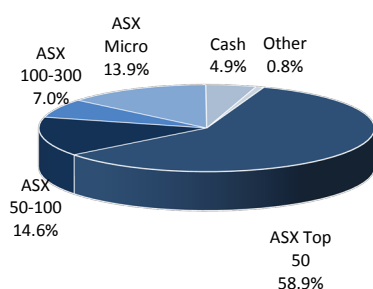
SECTOR BREAKDOWN

Sector	%
Energy	15.2
Materials	9.4
Industrials	7.3
Consumer Discretionary	5.1
Consumer Staples	12.5
Healthcare	1.3
Financials (ex Property)	38.0
Property	0.4
Information Technology	0.0
Telecommunication Services	6.9
Utilities	3.9

Asset Weighting



Size Weighting



KEY POSITIVE CONTRIBUTORS

- ◆ New Hope Corporation Limited
- ◆ TPG Telecom Limited
- ◆ Rio Tinto Limited

KEY NEGATIVE CONTRIBUTORS

- ◆ ALS Limited
- ◆ AGL Energy Limited
- ◆ UGL Limited

BOARD OF DIRECTORS

Robert Millner	Chairman (Executive)
Tom Millner	CEO (Executive)
Alexander Payne	Director (Executive)
David Hall	Director (Non-Executive)
Ian Huntley	Director (Executive)
Jaime Pinto	Company Secretary

OTHER DATA

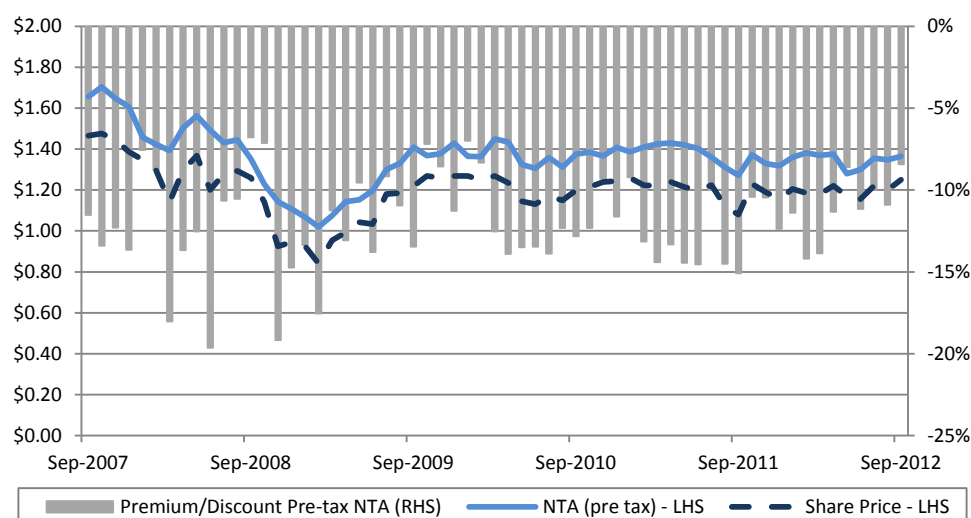
- ◆ **Options** – None on issue
- ◆ **Dividend policy** – To generate an increasing income stream for distribution to its shareholders in the form of fully franked dividends. Payout Ratio of 90%-95% of Operating Profits.
- ◆ **Capital management policy** – BKI regularly reviews the capital structure. BKI has conducted SPP's and Renounceable Rights Issues in the past. No Buyback in place.
- ◆ **LIC tax concessions** – Yes
- ◆ **DRP available** – Yes

BKI's Portfolio (Top 10) Weighting

Code	Portfolio (%)	S&P/ASX 300 Index (%)
NHC	11.3	na
CBA	9.0	7.8
NAB	8.7	4.9
BHP	7.7	9.3
WBC	6.7	5.9
TLS	4.9	4.2
WES	4.5	2.8
WOW	3.7	3.1
AGK	2.9	0.7
ALS	2.8	0.0
	62.2	38.8

Source all figures: BKI/Independent Investment Research/IRESS.
All data as at 30 Sept 2012 unless otherwise specified.

NTA & Share Price Performance



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