

26 September 2016

ASX Announcement

ASX AND MEDIA RELEASE

BKI Externalises Investment Management to Preserve Low MER

Dear Shareholders,

BKI Investment Company Limited (ASX: BKI) today announced that the management of its investment portfolio will be externalised from 1 November 2016.

The portfolio management and advisory function will be assumed by Contact Asset Management Pty Ltd ("Contact"), a new investment management company majority owned by Mr Tom Millner and Mr Will Culbert, the current CEO and Portfolio Manager respectively of BKI. Mr Millner and Mr Culbert each own 40% of Contact, with the remaining 20% owned by Washington H Soul Pattinson and Company Limited.

The BKI Board of Directors and Investment Committee will continue to perform their current functions, and in particular, will continue to meet regularly to review the portfolio and set the investment strategy of BKI. Along with the investment management services of Contact we will ensure we maintain our disciplined adherence to BKI's long standing and successful investment philosophy.

This new structure will provide BKI Shareholders with a number of key benefits including:

- Expected to be Earnings Per Share accretive for BKI shareholders;
- Protecting BKI's competitive Management Expense Ratio ("MER");
 - Shareholders will pay a flat investment management fee to Contact of 0.10% of BKI's Total Assets per annum.
 - Contact will not charge a performance fee to BKI.
- BKI shareholders will have access to further investment management resources and investment ideas; and
- Continued alignment of the Management team through a long-term, Investment Management Agreement ("IMA") and through the existing BKI shares already held by the principals of Contact.

Mr Tom Millner and Mr Will Culbert have surrendered all outstanding BKI incentive plan rights, both Long-Term and Short-Term.

The externalisation of portfolio management services will be governed by the IMA between BKI and Contact. The key terms of the IMA are summarised in the Annexure.

The IMA was negotiated on behalf of BKI by an Independent Board Committee comprising David Hall, Alex Payne and Ian Huntley, as advised by Ashurst Australia.

The BKI Board believes that this structure positions the company well for the future. We look forward to continuing to achieve solid results year on year and providing a growing and sustainable income stream to all shareholders.

On behalf of the Board, I would like to thank the shareholders of BKI for their ongoing support.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Hall', written in a cursive style.

David Hall AM,
Independent Non-Executive Director
Chairman Independent Board Committee

About Contact Asset Management (“Contact”)

Contact is an entity that is majority owned by Mr Tom Millner, the CEO of BKI and Mr Will Culbert, the Portfolio Manager of BKI. Contact is an innovative investment management company, implementing a set of proven investment principles. The principals of Contact have a history of investing alongside shareholders and focus on developing and managing unique products to create long term prosperity.

Both Mr Millner and Mr Culbert are deeply experienced and have proven expertise in managing the assets of BKI. Tom joined BKI in December 2008 from Souls Funds Management. Will joined BKI in November 2013 and has 17 years’ financial services experience. Tom and Will are committed to investing for better outcomes for all BKI Shareholders. As its resources grow, Contact hopes to expand its product offering which may provide attractive investment opportunities for BKI shareholders.

Annexure – Summary of the Key Terms of the IMA

Parties	Contact Asset Management Pty Ltd ("Contact") BKI Investment Company Limited ("BKI")
Services	Contact will provide investment management services to BKI in accordance with the directions of the BKI Board and Investment Committee, including: <ul style="list-style-type: none"> • making recommendations, advising on and facilitating investments and managing BKI's portfolio ("Portfolio"); • identifying, investigating, researching, analysing and evaluating investment opportunities (including by preparing proposals); • facilitating and monitoring the acquisition and disposal of investments; • supervising the management of the Portfolio and day to day administration; • advising on and assisting with the strategy, future capital raisings and financings of BKI; • ongoing promotion and marketing of BKI; • responding to BKI shareholder requests and queries; and • render investment, consultation, advisory and management services. In providing these Services, Contact will have the power to deal with the Portfolio, including by entering into transactions in the name of BKI .
Term	5 year initial term commencing on 1 November 2016 ("Initial Term") which is automatically extended for a further period of 5 years on the expiration of the Initial Term ("Extended Term")
Termination rights by BKI	The IMA may be terminated by BKI with immediate effect if: <ul style="list-style-type: none"> • an insolvency event occurs with respect to Contact; • Contact is in default or material breach of the IMA in a material respect and fails to remedy, rectify or reasonably compensate; • Contact ceases to carry on business as an investment manager; • in certain circumstances if one or more of Tom Millner or Will Culbert ceases to be engaged or employed by Contact and is not replaced to the satisfaction of BKI; • Contact sells or transfers (or agrees to sell or transfer) the main business or undertaking of Contact other than when previously approved by BKI (acting reasonably); • a person (other than an existing holder of shares in Contact or other person acceptable to BKI acting reasonably) acquires a relevant interest in voting shares in Contact where because of the acquisition that person's voting power in Contact exceeds 50%; or • if Contact is unable to perform its obligations under the IMA because it ceases to hold the necessary legal authorisations. <p>BKI may terminate the IMA at any time during the Extended Term on giving Contact not less than 12 months' written notice or on delivery of 3 months' prior written notice after an ordinary resolution is passed at a general meeting of BKI to terminate the IMA.</p>
Termination by Contact	Contact may terminate the IMA at any time on giving BKI not less than 12 months' notice.
Exclusivity	The Services are to be provided by Contact to BKI on a non-exclusive basis. BKI will be entitled to obtain investment management services from third parties and Contact may provide investment management services to third parties. If in providing investment management services to third parties Contact invests the Portfolio with other funds managed by Contact then Contact is required to maintain systems and records to distinguish the Portfolio from the property of any other person. In addition, Contact cannot sell any asset of the Portfolio to (or purchase any asset on behalf of BKI from) another fund or portfolio managed by Contact without the consent of BKI (which BKI may withhold unless reasonably satisfied the transaction is being undertaken on arm's length terms and for a proper purpose within the investment strategy) unless the transactions take place on the ASX or other securities exchange or pursuant to a public auction.

Costs	<p>The costs associated with operating a publicly listed company will continue to be borne by BKI and will include;</p> <ul style="list-style-type: none"> • ASX Fees; • ASIC Fees; • Directors Remuneration; • Insurance; • Share Registry and shareholder communication; • Accounting and Administrative Expenses; and • Portfolio transaction costs such as broking fees. <p>The following expenses will be paid by Contact:</p> <ul style="list-style-type: none"> • All in-house costs for providing the Services to BKI; • The costs of maintaining or gaining access to an Australian Financial Services Licence; • All office expenses including rent, salaries, telephone, office supplies, property plant and equipment; • All costs associated with marketing BKI; and • All travel associated with researching and analysis of investment ideas.
Management fee	<p>0.10% of Total Assets of BKI per annum, payable monthly in cash. No performance fee is payable to Contact by BKI under the IMA.</p>
Amendment	<p>The IMA may only be amended by agreement of both parties.</p>