



# *BKI Investment Company Limited*

## 1H2017 FINANCIAL RESULTS PRESENTATION

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BKI is managed by Contact Asset Management

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# *Business Overview*



- BKI is a research driven, active equities manager investing for the long term in profitable, high yielding, well managed companies.
- BKI is a closed end company listed on the ASX (BKI.ASX) and does not charge Shareholders large management fees or any performance fees.
- Our aim is to create wealth for BKI shareholders, through an increasing fully franked dividend and capital growth.



# 1H2017 Result Highlights

	1H 2017	1H 2016	Growth
Net Operating Result*	\$21.2m	\$21.4m	-1%
Net Profit Attributable to Shareholders	\$25.0m	\$22.1m	13%
Earnings Per Share*	3.52cps	3.78cps	-7%
Earnings Per Share including Specials	4.17cps	3.91cps	7%
Interim Ordinary Dividend Per Share	3.60cps	3.60cps	Flat
Management Expense Ratio (MER)	0.14%	Down from 0.16% at FY2016	

**13Yr Total  
Shareholder Return<sup>#</sup>**

**11.0% pa**

As at 31 December 2016

**Low  
Portfolio  
Turnover**

**7.1%**

Yearly average  
as at 30 June 2016

**Market  
Cap**

**\$1.0bn**

As at 13 January 2017

**Management  
Expense  
Ratio**

**0.14%**

As at 31 December 2016

**14,500**

**Shareholders**

**Franking  
Credits**

**\$25m**

As at 30 June 2016

**Dividend  
Yield**

**6.4%**

\*Grossed up, as at 31 December 2016

**Experience**

The Board and Management  
of BKI has 189 years of  
collective industry experience  
(average of 27 years)

# *External Management Agreement*



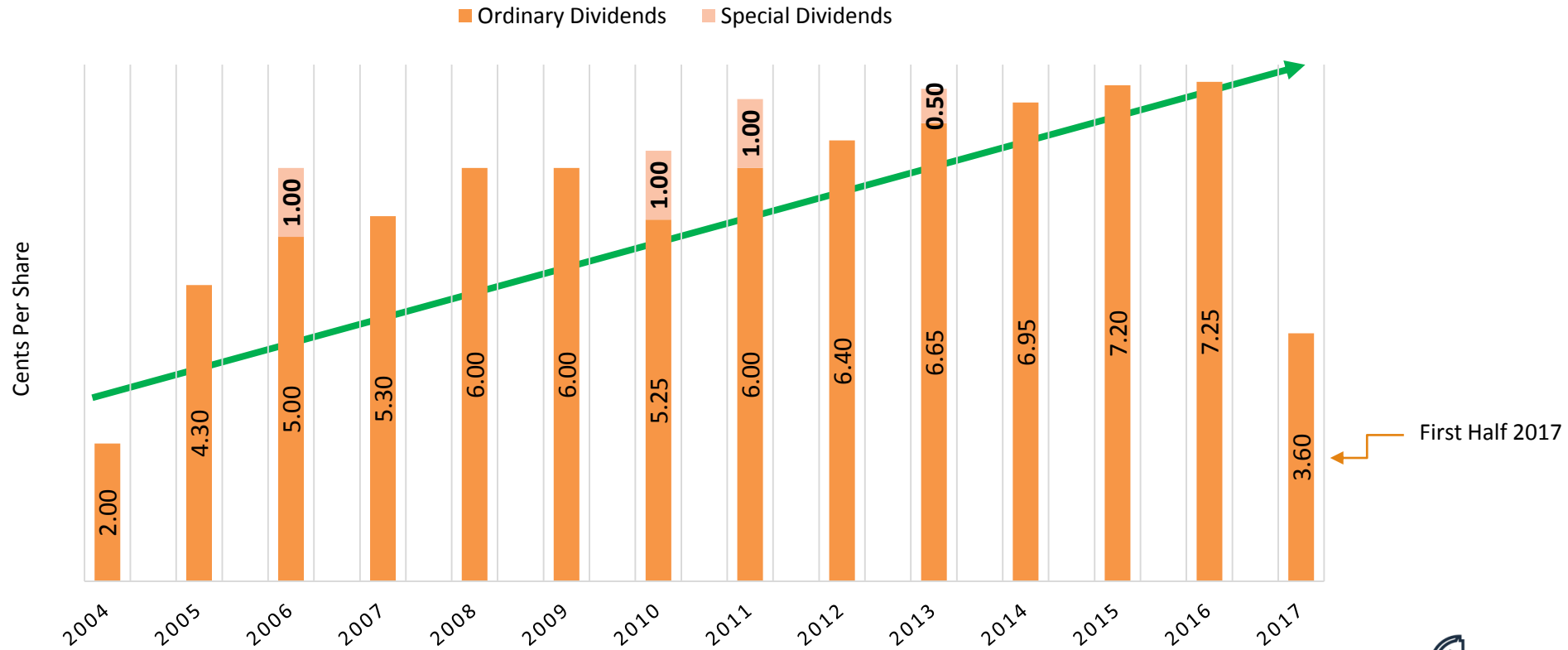
- Contact Asset Management has been established by Tom Millner, Will Culbert and Soul Pattinson.
- The vision of Contact is to act as an External Manager of LIC's across various asset classes.
- We have preserved BKI's low MER by locking in a long term Management Fee of only 0.10%.
- No Performance Fee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

# Dividend History

We focus on creating wealth for all shareholders by keeping costs low and increasing fully franked dividends and capital growth.

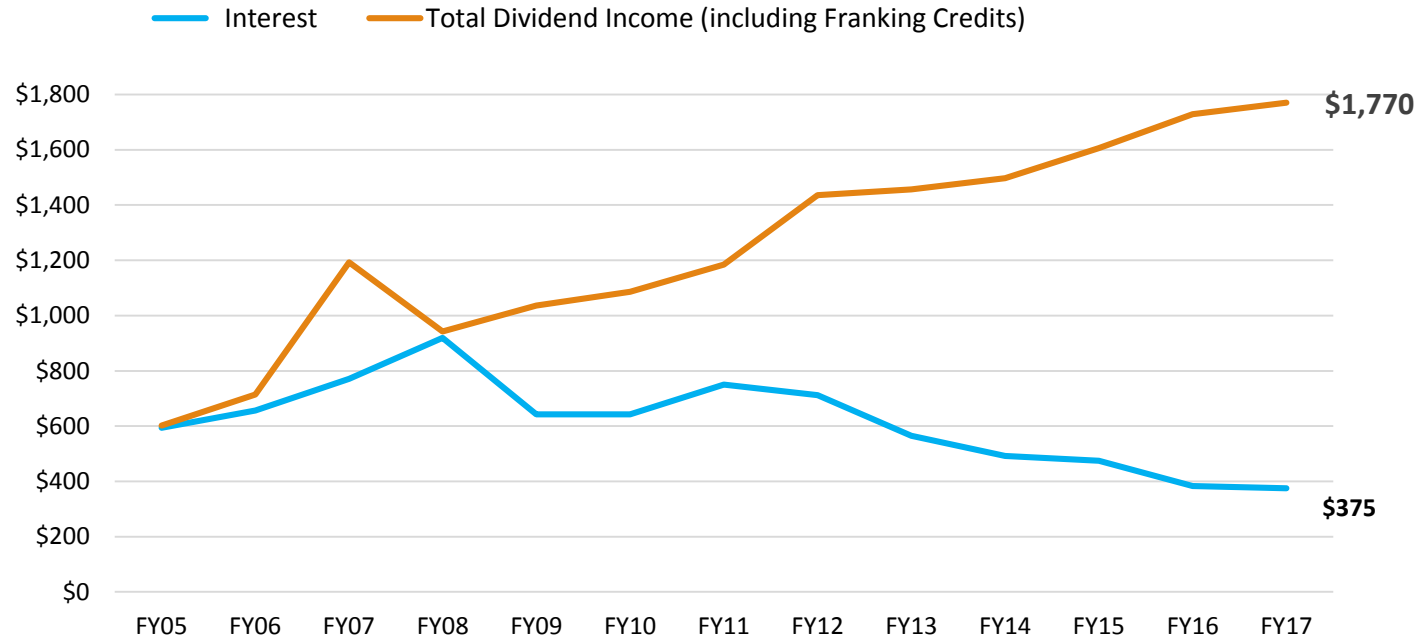
*Growing Fully  
Franked Dividend*

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



# Dividend History

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 \$1,239pa. The franking credits enhance the income by a further \$531, assuming a tax rate of 30% (total income of \$1,770). The same investment in a term deposit (based on the cash rate + 0.50%) would be earning \$375pa with no franking credits. Figures include reinvestment of dividends and cash, Ignores capital appreciation of BKI shares.



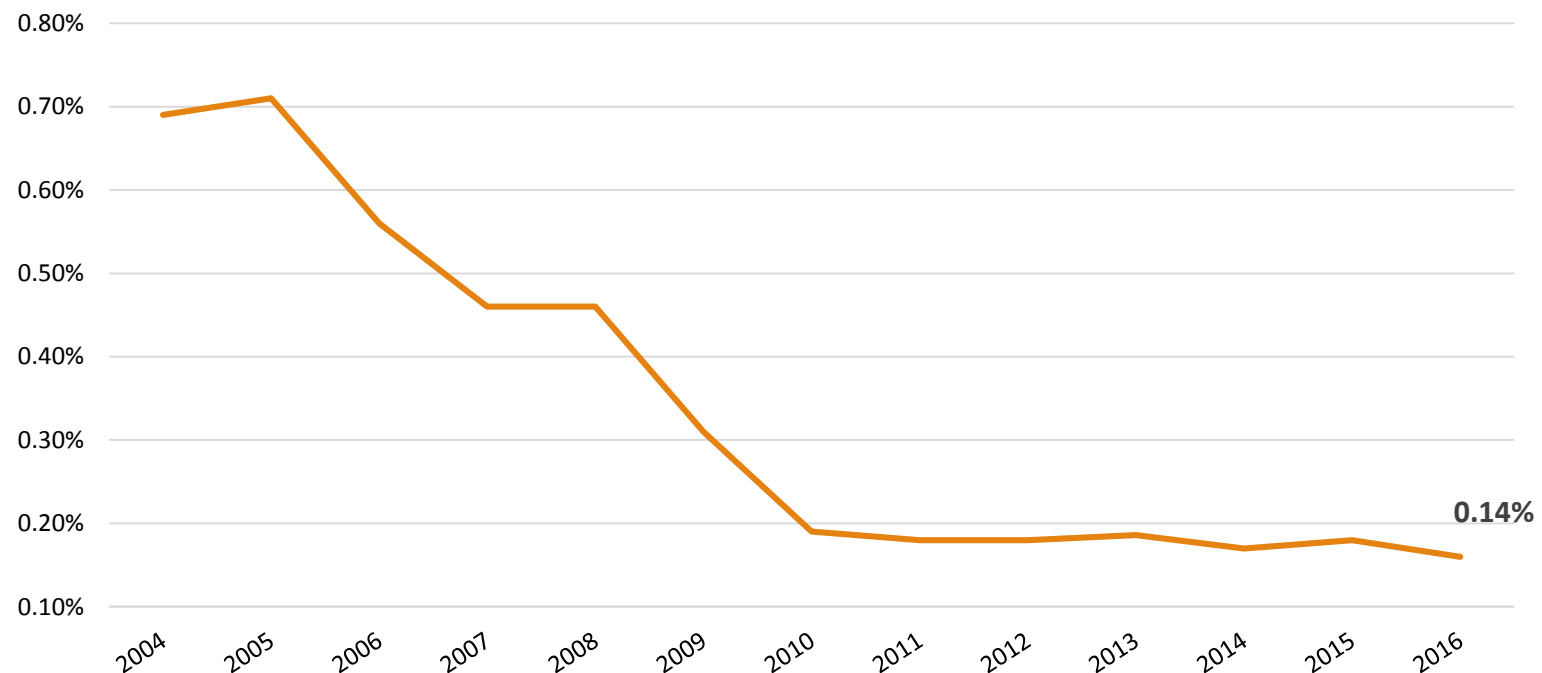
# *Interim 2017 Fully Franked Dividend – Key Dates*

Event	Date
Last trading date to be eligible for the Interim 2017 Dividend	Thursday 9 February 2017
Ex-Dividend Date	Friday 10 February 2017
Record Date	Monday 13 February 2017
DRP Nomination	Tuesday 14 February 2017
Payment Date	Monday 27 February 2017

# BKI = Low Cost

BKI's Board & Management are shareholders in BKI.

We invest for the long term and do not charge excessive external portfolio management or performance fees.



Low Costs - BKI Management Expense Ratio

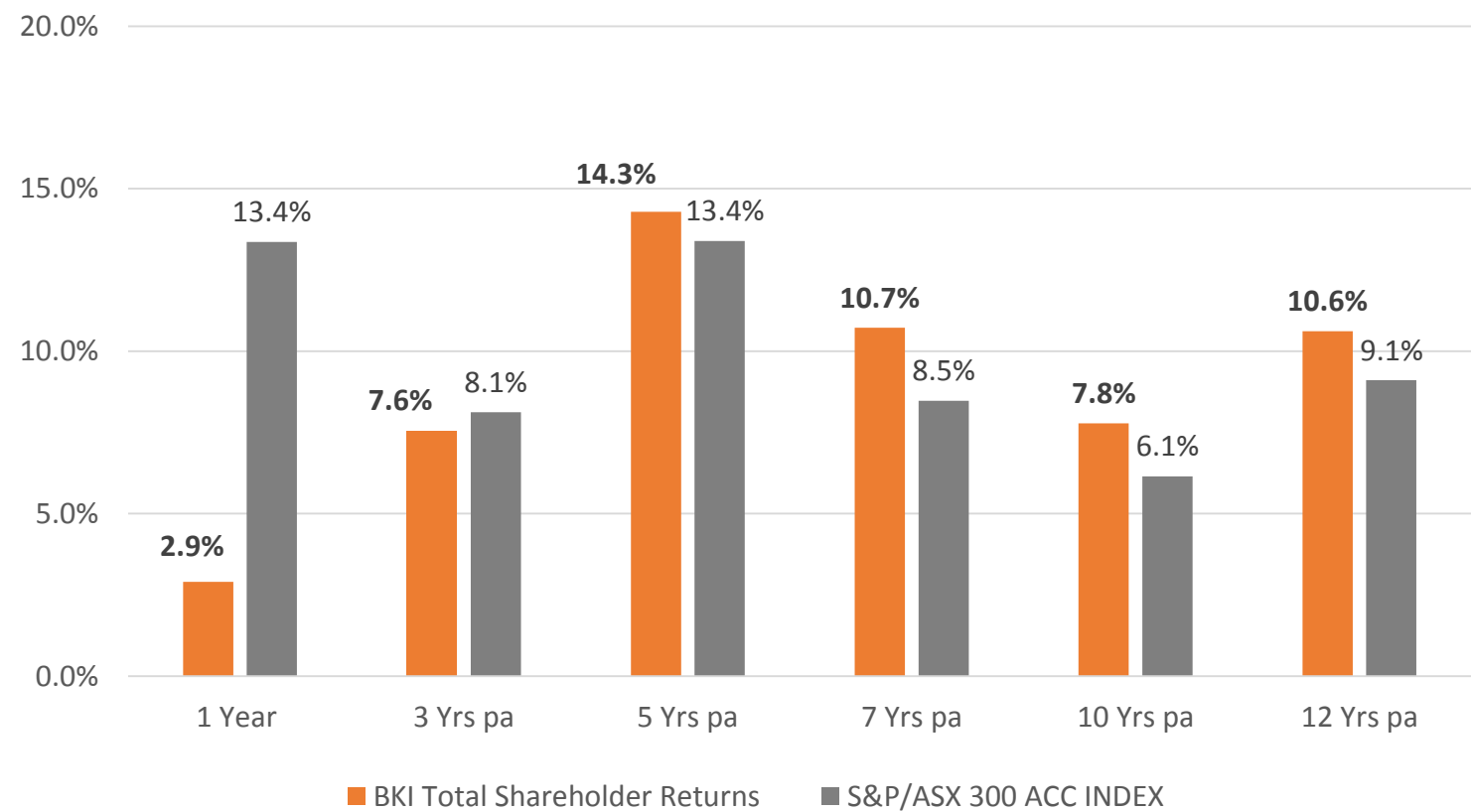
*The thicker  
the carpet...  
The thinner  
the dividend!*

*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 31 December 2016



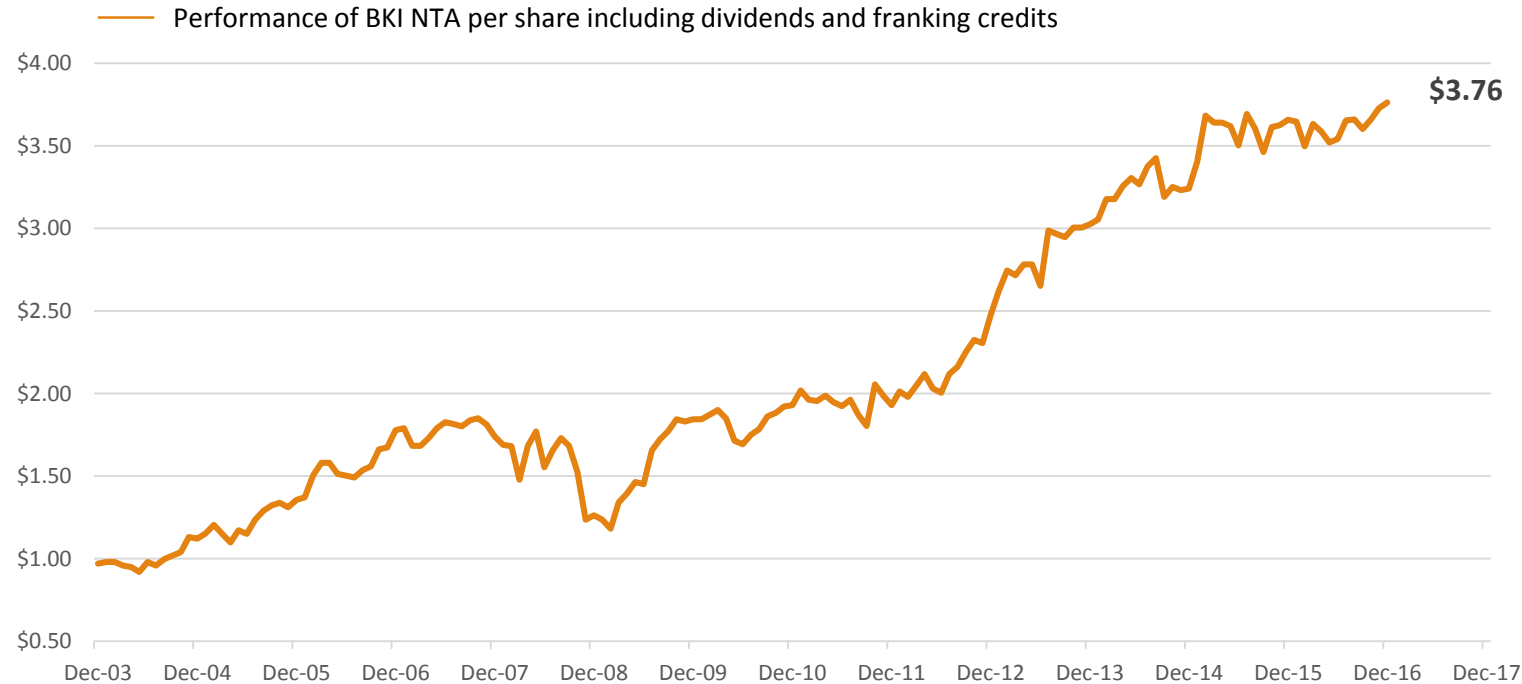
The S&P/ASX300 Accumulation Index has been franked at 80%



# Capital Appreciation

Capital appreciation of BKI NTA per share since IPO

As at 31 December 2016.



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

Source: BKI, Bloomberg. Capital appreciation of BKI shares since IPO, including reinvestment of dividends and franking credits (assuming a tax rate of 30%).



## *BKI Investment Company Limited*

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### PORTFOLIO

# BKI Portfolio – Top 25 Shareholdings as at 31 December 2016

Stock			Stock		
		% of Total Portfolio			% of Total Portfolio
1	Commonwealth Bank	9.5%	14	Macquarie Group	2.1%
2	National Australia Bank	8.5%	15	IAG Limited	1.9%
3	Westpac Banking Corp	7.6%	16	Invocare Limited	1.9%
4	ANZ Banking Group	4.9%	17	ASX Limited	1.9%
5	Telstra Corporation	4.8%	18	BHP Billiton	1.9%
6	Wesfarmers Limited	4.5%	19	Ramsay HealthCare	1.9%
7	APA Group	3.2%	20	Sonic Healthcare	1.8%
8	TPG Telecom	3.1%	21	Challenger Limited	1.7%
9	AGL Energy Limited	2.8%	22	ARB Corporation	1.7%
10	Transurban Group	2.7%	23	Woodside Petroleum	1.7%
11	Woolworths Limited	2.6%	24	Suncorp Group	1.7%
12	New Hope Corporation	2.5%	25	Brambles Limited	1.3%
13	Sydney Airport	2.1%	Cash and cash equivalents		2.7%
			Total of Top 25 including cash		83.0%

# Purchases and Sales

*Main purchases and sales from the Investment Portfolio.*

- Net Investment for 1H2017 was \$51m - excludes any portfolio movements from the acquired unlisted investment company.

## **Main Purchases**

Flight Centre  
Sydney Airports  
Telstra Corporation  
Sonic Healthcare  
Challenger Limited  
Lend Lease  
IOOF Holdings  
Macquarie Group  
Transurban Group

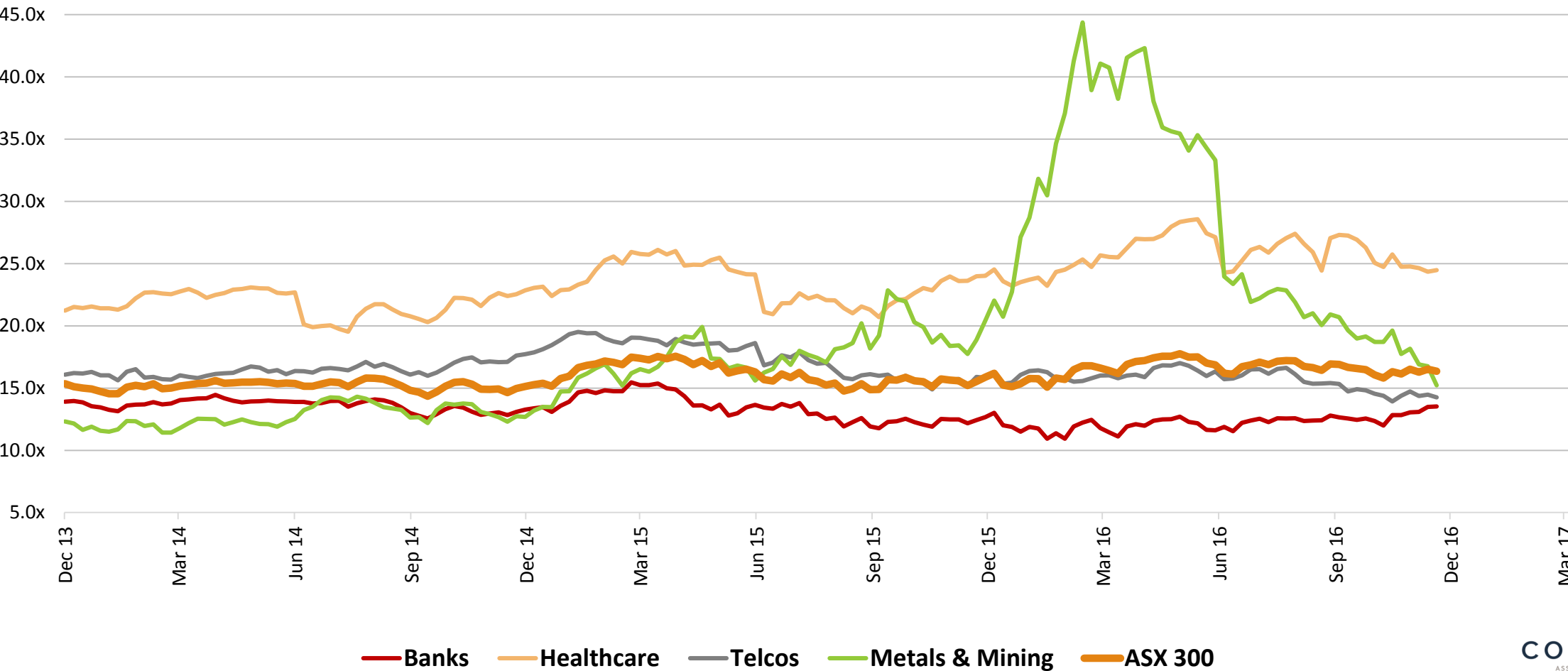
## **Main Sales**

Crown Resorts  
Telstra Corporation – Buy Back  
BHP Billiton – Part sale

- During the half BKI completed the acquisition of all the issued capital of another unlisted investment company with net assets of approximately \$4.2m. The private company acquired was a strong fit with BKI's existing portfolio. This brings to five the number of transactions of this nature completed by BKI.
- The BKI Board looks forward to engaging in similar transactions in the future.

# Positioning of the BKI Portfolio

Australian Equity Market – Price to Earnings Multiple by Sector, Last 3 Years



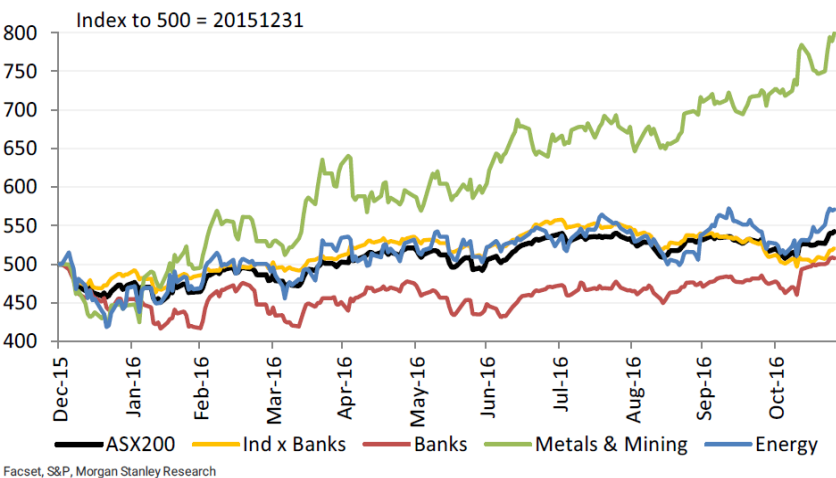


# Positioning of the BKI Portfolio

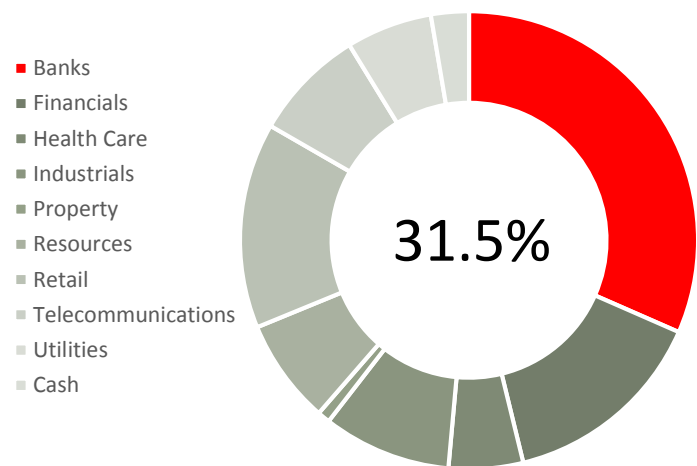
## Financials and Resources – Growth Versus Income

- The strength of Metals and Mining stocks was significant during 2016, with the S&P/ASX Resources Index generating a return of 42.4% and detracting significantly from BKI's relative performance.
- 26% of these resource companies however do not pay dividends.
- The total yield on the S&P/ASX Resources Index is currently only 1.7%.

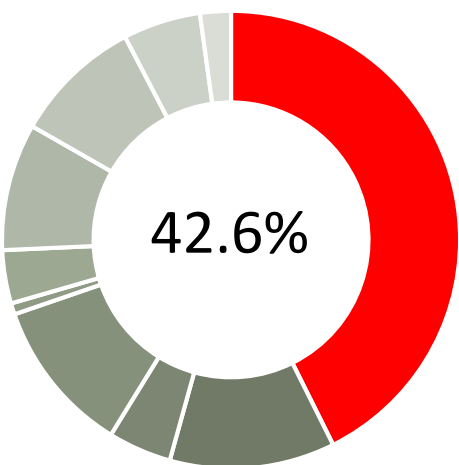
Resources Outperformance of S&P/ASX200 Index



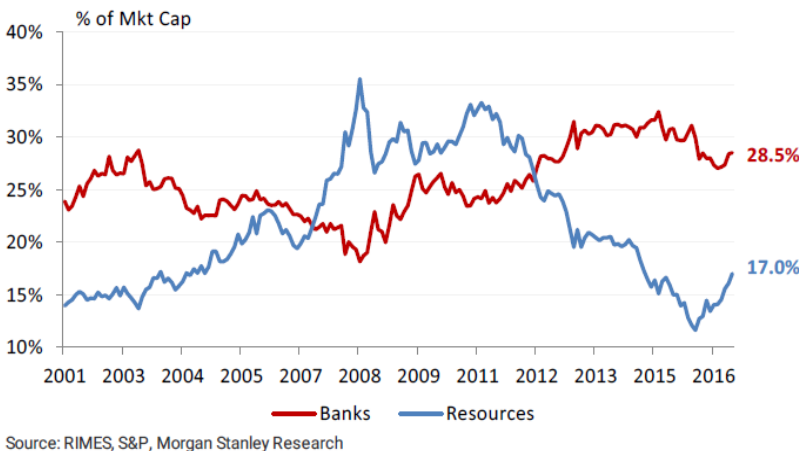
Banks Weighting of BKI



Income Received from Banks



Banks/Resources % of Market Cap of S&P/ASX200 Index



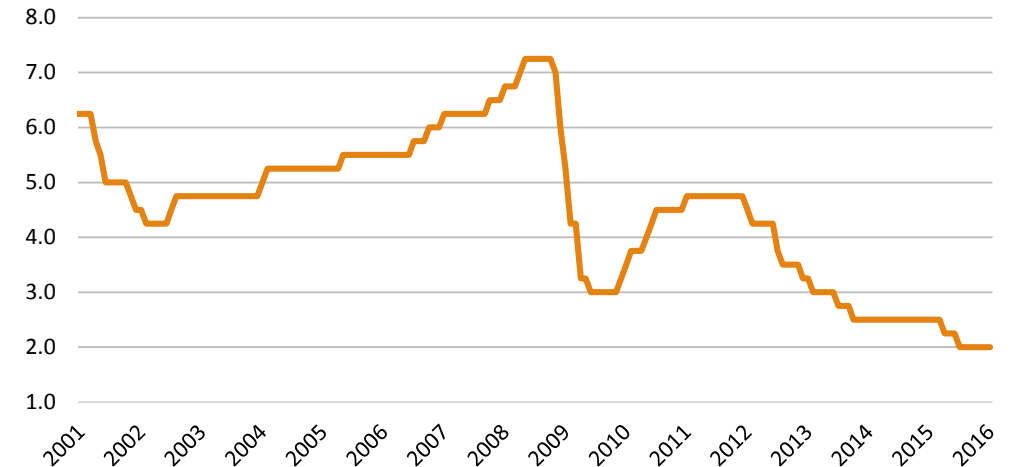
# Positioning of the BKI Portfolio

## Rates and Currency

- Australia's historically low interest rate environment has continued with the RBA leaving rates on hold in early December at 1.50%.
- There is still little incentive for investors to transition into cash.
- We can see this theme continuing throughout 2017, with most forecasting official cash rates to fall to 1.00% / 1.25%.
- The BKI Portfolio has exposure to companies with offshore earnings that should be beneficiaries of a lower Australian Dollar, including:



*RBA Cash Rate – Last 15 Years*



*Australian Dollar – Last 5 Years*



# Positioning of the BKL Portfolio

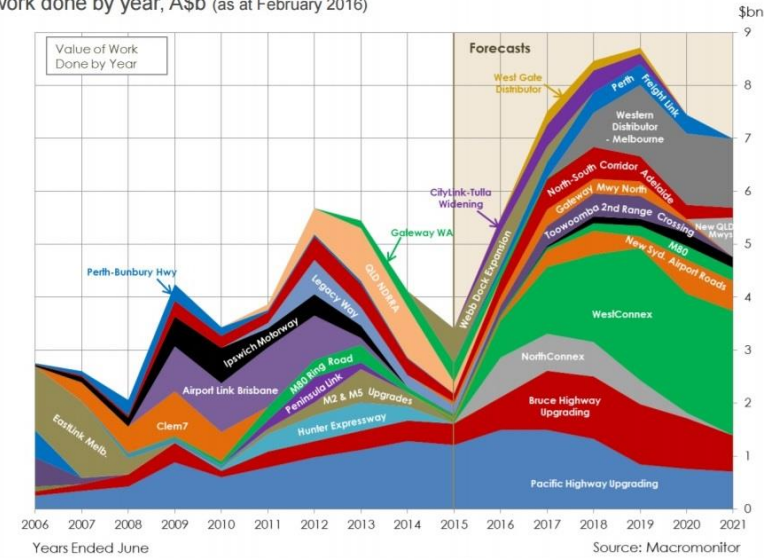
## Infrastructure

- 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:
  - Transport - Road, Rail, Airports
  - Freight and Logistics
  - Gas Networks
  - Telecommunication Networks



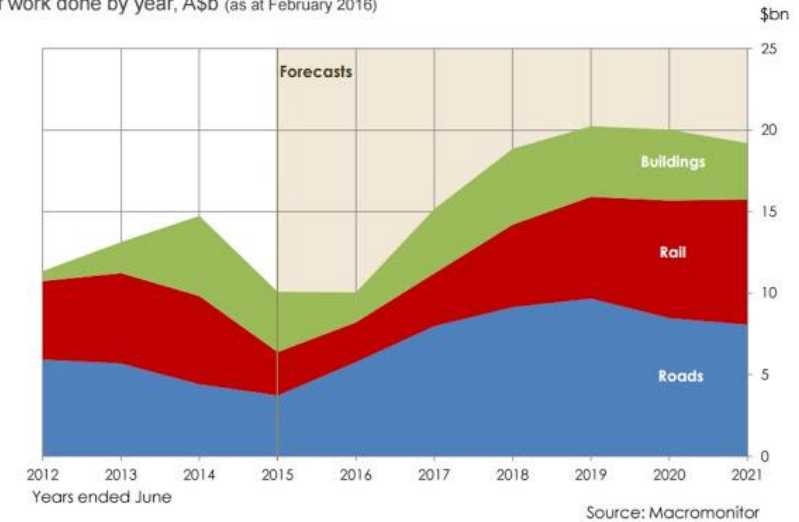
## Major Road Construction Projects – Australia

Value of work done by year, A\$b (as at February 2016)



## All Major Construction Projects (excluding resource sector) – Australia

Value of work done by year, A\$b (as at February 2016)



*Our aim is to  
create wealth  
for BKI  
shareholders,  
through an  
increasing fully  
franked  
dividend and  
capital growth.*



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