

Top 25 Investments

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



www.bkilimited.com.au



BKI Online

Scan here for Sign-Up Form



Sign up online to receive news and information about your company via email. Subscribe to:

- | | |
|-------------------------------|------------------------|
| NTA+Monthly Reports | Quarterly Reports |
| Presentations to Shareholders | Annual Report |
| Results Announcements | Dividend Announcements |

Visit www.bkilimited.com.au and click on the "Subscribe Here" button



BKI Investment Company
31 December 2016

Performance Highlights

- Total Ordinary Investment Income was 1% lower to \$21.4m.
- Net Profit Attributable to BKI Shareholders, increased 13% to \$25.0m.
- Fully Franked Interim Dividend of 3.60cps, flat on last year.
- MER of 0.14%, down from 0.16% at FY2016.
- BKI's Net Portfolio Return for the year to 31 December 2016 was 5.0%. Compared to the S&P/ASX 300 Accumulation Index which returned 10.5%*

* Performance numbers are based on a tax rate of 30% and shareholders being able to utilise all franking credits.

BKI Investment Company - Half Year Review



Performance Overview

BKI's Net Operating Result before special investment revenue decreased from \$21.4m to \$21.2m, while the Net Profit Attributable to Shareholders increased 13% to \$25.0m.

The BKI Board declared an Interim Dividend of 3.60cps, in line with the Interim Dividend paid last year. This dividend will be fully franked, like all previous BKI dividends paid to shareholders. BKI's Retained Profits as at 30 December 2016 totalled \$48.5m, up from \$45.7m in the previous corresponding period.

The Net Operating Result of \$21.4m, was achieved by receiving increased dividends from Transurban Limited, APA Group, Sydney Airports, SEEK Limited, Brickworks Limited, Macquarie Group, TPG Telecom and Ramsay Healthcare.

Lower dividends received from BHP Billiton, Woolworths Limited, Woodside Petroleum, ANZ Banking Group, Wesfarmers and Primary Healthcare impacted the result. Revenues from bank deposits and investments held for trading were again lower than the corresponding period.

BKI received \$3.9m in special dividend income for the half from participating in the Telstra Corporation off market buy back. This compares to \$766k of special dividends received last year.

In September 2016, BKI Investment Company announced that the management of its investment portfolio would be externalised from 1 November 2016. This was executed successfully with the portfolio management and advisory function now assumed by Contact Asset Management Pty Ltd ("Contact"). Contact is majority owned by Mr Tom Millner and Mr Will Culbert, the former CEO and Portfolio Manager respectively of BKI, with the remaining 20% owned by Washington H Soul Pattinson and Company Limited. The BKI Board of Directors and Investment Committee have continued to perform their current functions, and in particular, continue to meet regularly to review the portfolio and set the investment strategy of BKI. Incorporating the investment management services of Contact, BKI will ensure it maintains the disciplined adherence to its long standing and successful investment philosophy.

Management Expense Ratio (MER)

BKI's Board and Managers are shareholders in BKI. We invest for the long term and do not charge excessive external portfolio management fees or any performance fees. BKI's MER as at 31 December was 0.14%, down from 0.16% reported at 30 June 2016.

Performance

BKI's Total Shareholder Return including franking credits for the year to 31 December 2016 was 2.9%, compared to the S&P/ASX 300 Accumulation Index which returned 13.4% over the same period. BKI's 13 year Total Shareholder Return including franking credits was 11.0% per annum as at 31 December 2016, compared to the S&P/ASX 300 Accumulation Index which returned 10.5% over the same period.

BKI's Net Portfolio Return (after all operating expenses, provision and payment of both income and capital gains tax and the reinvestment of dividends) for the year to 31 December 2016 was positive 5.0%. While a positive return, the short term underperformance of BKI's Portfolio compared to the S&P/ASX 300 Accumulation Index has occurred mainly because of the increased risk appetite from local investors and the shift from yield to growth opportunities. This has seen three sectors in particular negatively impact BKI's relative performance:

Resources - The strength of the Metals and Mining stocks has been 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. We find it very difficult to invest in these companies given our investment criteria and focus on dividend growth. The total yield on the S&P/ASX Resources Index is currently only 1.7%.

Telecommunications - Has lagged the market over the past twelve months with underperformance of approximately 19.0%. Telstra, down 3.7% and TPG, down 29.9% are large weightings within the portfolio.

Financials - Diversified Financials delivered a 9.9% underperformance for the last year, while the Banks sector delivered a 4.8% underperformance. BKI has a 45.0% weighting to the financial sector, with the yield offered by these companies continuing to be attractive and accounting for over half of our ordinary investment income.

BKI is an income focused, long term equity investor. In times where the market chases growth and ignores dividend yield, the BKI performance can be impacted. It's important to note that BKI is offering a 6.4% grossed up dividend yield, has paid out approximately \$1.00 in dividends and franking credits from a \$1.00 invested at IPO and the capital growth from those shares has also increased to \$1.625 as at 31 December 2016.

Portfolio Movements

BKI's total net investment over 1H2017 was approximately \$56m, with major long term investments made in companies including; Sydney Airport, Telstra, Sonic Healthcare, Challenger Limited, Lend Lease, IOOF Holdings, Macquarie Group and Transurban Group. Flight Centre Limited was added to the portfolio. The main disposal from BKI's investment portfolio included Crown Resorts, a partial disposal of BHP Billiton and participation in the off market buy back by Telstra Corporation.

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. 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. This brings to five the number of transactions of this nature completed by BKI, which will benefit existing BKI shareholders by increasing the size of BKI's portfolio in a cost-effective manner. The BKI Board looks forward to engaging in similar transactions in the future

Outlook

The last year has been an interesting time for equity investors. Australia's historically low interest rate environment has continued and there is still little incentive for investors to transition into cash. This has seen very positive headline market returns, a welcome relief from 12 months ago. We are, however, cautious on the level of risk appetite being demonstrated in the market and the distinct shift many investors are taking into companies with higher growth and lower yields, or in some cases no yield.

While investments into high yielding stocks should continue, and many Australian listed companies continue to focus on their cost out strategies, we are also now seeing some positive momentum from companies aiming to deliver growth initiatives. This will benefit shareholders for the longer term. A solid dividend yield as well as sustainable growth in the underlying business is what we target in our investments and we welcome these actions.

The BKI portfolio is well placed for the long-term and we are in a strong financial position. We continue to think there is cause for optimism as long-term investors, and we will continue to look for businesses to add to the BKI portfolio that are well managed, are appropriately geared, have a favourable earnings outlook and are attractively priced.