

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

BKI Investment Company Limited (ASX: BKI)

September 2021

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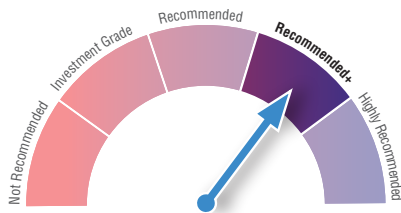
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Note: This report is based on information provided by Contact Asset Management.

Rating



Key Investment Information (as at 31 July 2021)

ASX Code	BKI
Share Price	\$1.645
Pre-tax NTA (including tax on realised gains)	\$1.74
Post-tax NTA	\$1.61
Shares on Issue (m)	739.0
Market Cap (\$m)	\$1,215.7
Listing Date	December 2003
Structure	Listed Investment Company
IIR Investment Classification	Australian Large Cap
Investment Manager	Contact Asset Management
Benchmark	S&P/ASX 300 Acc. Index
Fees:	
Management Fee (p.a.)	0.10%
Performance Fee	na

Key Exposure

Underlying Exposure	Portfolio of high quality, income paying ASX-listed stocks.
FX Exposure	No direct foreign currency exposure.

COMPANY SUMMARY

BKI Investment Company Limited (ASX: BKI) is a Listed Investment Company (LIC) that was listed on the ASX in December 2003. Since listing, the Company has grown from a market capitalisation of \$171.2m to \$1.2b. As the Company has grown so has liquidity, which has assisted with the Company narrowing the discount over time with the Company trading within a much tighter range around the pre-tax NTA since 2013. The portfolio is managed by Contact Asset Management who were appointed as the Manager in 2016. The Company seeks to deliver a steady and growing income stream with fully franked dividends and capital growth over the long-term. The Company seeks to achieve this through a long-only portfolio of high quality ASX-listed securities with a focus on companies paying regular and sustainable dividends. The Manager has a bottom-up, fundamental investment approach with the portfolio typically having 40-50 positions with the top 20 positions generating the majority of the portfolio's income. The Manager has a buy-and-hold approach and will remain largely invested at all times with a 10% limit on cash holdings. Fees are low with a management fee of 0.10%p.a and no performance fee.

INVESTOR SUITABILITY

An investment in BKI is suitable for those investors that are seeking exposure to a portfolio of high quality companies and a fully franked income stream. The Company is not seeking to generate alpha over the market and therefore is not suitable for those investors seeking exposure to growth stocks and outsized capital returns. BKI could form part of the core exposure of an investors portfolio given the objectives of the company and the exposure to quality and earnings generating companies. The long-term and low turnover approach to investing reduces the transaction costs associated with the portfolio. The portfolio is managed in a tax aware manner and therefore is suitable for those investors seeking maximum tax benefits.

RECOMMENDATION

Independent Investment Research (IIR) has reaffirmed the **Recommended Plus** rating for BKI Investment Company Limited (ASX: BKI). BKI has a long history, with the Company listing in 2003. Since listing the Company has achieved its objective of providing a steady and growing fully franked dividend stream, with the exception of 2020 in which a number of companies in the portfolio cancelled or suspended dividends as a result of the uncertainty resulting from the COVID-19 pandemic. With a number of the portfolio holdings resuming their dividend payments we are expecting dividends to stabilise. The Company has provided a total shareholder return of 7.9%p.a since listing to 31 July 2021. The Company has underperformed it's peers over the short-term which has contributed to the discount at which the Company is trading. We anticipate an increase in the dividend and improved portfolio performance will assist with narrowing the discount. The portfolio has largely provided returns in line with the S&P/ASX 300 Accumulation Index over the long-term with a low tracking error, however the portfolio is managed in a benchmark unaware manner and the Manager will take high conviction positions in stocks in which it believes will assist with the Company meeting it's objectives. Historically, the portfolio has been heavily weighted to the Financials sector, therefore underperformance of this sector will typically result in the portfolio underperforming the broader market.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

SWOT

Strengths

- ◆ The Company has delivered on the investment strategy over its 18 year history.
- ◆ The Manager commenced weekly NTA reporting to the ASX in February 2021. LICs are only required to provide NTA information on a monthly basis. The benefit of providing more frequent NTA guidance is the market has a better idea of the value of the portfolio and this can assist with the management of the premium/discount at which the Company trades.
- ◆ Despite being externally managed, the fees are low and in line with the internally managed peers.
- ◆ The core investment process for the Company has remained unchanged since listing in December 2003 with the Manager improving the process through the additions of quantitative filters and ESG considerations.
- ◆ The investment strategy is simple and transparent - long-only portfolio of high quality Australian stocks with no derivatives or leverage used.
- ◆ Portfolio turnover is low, therefore there is minimal impact of tax and transaction costs in the portfolio. Further to this, the portfolio is managed in a tax aware manner.
- ◆ The Company provides high levels of transparency, reporting all their portfolio holdings in the half and full year financial reports.

Weaknesses

- ◆ While the two Portfolio Manager's have been a constant, there has been a relatively high level of turnover in the investment team in recent years.
- ◆ Short-term underperformance of the portfolio has seen the portfolio (pre-tax NTA) underperform the peer group over the 12-months to 31 July 2021. The underperformance combined with the cut in dividends in recent periods is a likely contributor to the Company trading at a discount to pre-tax NTA.

Opportunities

- ◆ The Board and Manager have been shown to be able to eradicate the discount to NTA, meaning when the Company is trading at a discount it could represent an entry opportunity.
- ◆ An investment in the Company provides the opportunity to get market exposure to quality predominantly mid-and-large cap companies with the benefits of fully franked dividends.

Threats

- ◆ The Manager is typically heavily exposed to the Financials sector and therefore underperformance of this sector will likely weigh on the portfolio performance.
- ◆ The Manager has a focus on dividend paying stocks and seeks to payout the income received by the portfolio as dividends to shareholders. As was experienced last year, when the income received by the portfolio is reduced, this can result in volatility in dividends to shareholders. We note that up until the pandemic event of 2020, the dividend paid by BKI had been steadily growing.
- ◆ A feature of LICs is that they can trade at a discount to the value of the investment portfolio.
- ◆ There is a moderate level of related party risk with Robert Millner (the Chairman of BKI and member of the Investment Committee) and Tom Millner (Portfolio Manager) sitting on the Board and being a shareholder of some of the holdings in the portfolio. The Manager has conflicts of interest policies in place to mitigate the related party risks.

COMPANY OVERVIEW

BKI Investment Company Limited (ASX: BKI) was formed and listed on the ASX in late 2003. The Company acquired the investment portfolio of Brickworks Limited (ASX: BKW) which had a value of \$157.2m at the time of acquisition. The portfolio was managed by Washington H. Soul Pattinson & Company (ASX: SOL), who remain the largest shareholder in BKI.

Upon listing the Company had 171.2m shares on issue with a share price of \$1.00. Over the proceeding 18 years, the Company has grown the FUM through absolute performance and capital raisings and share issues to have fully paid ordinary shares on issue of 739.0m and a market capitalisation of \$1.2b.

The Company seeks to generate an increasing income stream for distribution to shareholders in the form of fully franked dividends, subject to the availability of imputation credits, and long-term capital growth through an investment in a portfolio of high quality ASX-listed securities. The Company seeks to pay out 90%-95% of its underlying net profit after tax.

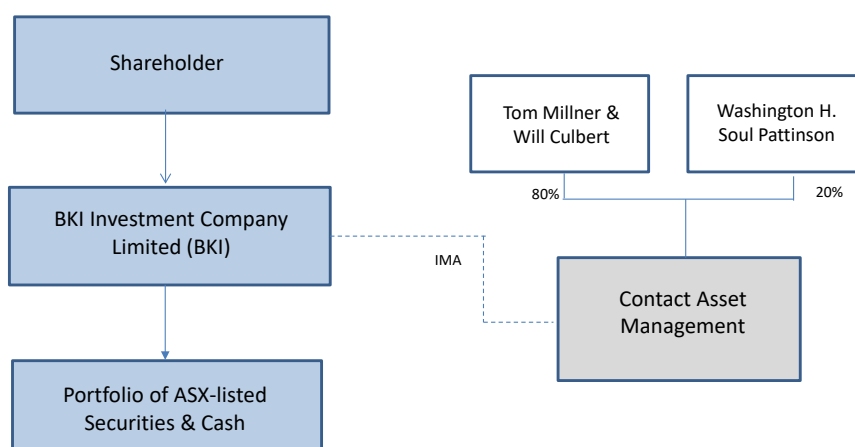
The Company provides exposure to a long-only portfolio that is relatively diversified with the portfolio typically comprising 40-50 securities with the top 20 holdings providing the majority of the income for the portfolio. Given the objectives of the Company, the portfolio has typically been heavily weighted to the Financials sector. The Company will seek to outperform the S&P/ASX 300 Accumulation Index over the long-term, however, the portfolio is managed in a benchmark unaware manner.

The Manager seeks to be a long-term investor in stocks and therefore has low portfolio turnover. As such transaction costs incurred by the portfolio are low. The Manager will seek to remain largely invested at all times with a cash limit of 10% at any given time.

In November 2016, Contact Asset Management was appointed as the Manager of the portfolio. The transition to the external manager sought to provide greater resources to the portfolio management and the low MER was preserved through the Investment Management Agreement (IMA). Given the Manager was co-founded by the CEO of BKI at the time, Tom Millner, and a member of the investment team, Will Culbert, with SOL remaining a shareholder in the Manager, the transition of the externalisation of the management of the portfolio was relatively seamless.

The IMA has an initial term of 5 years which concludes in November 2021 and is automatically extended for a further 5 years on the expiration of the initial term, unless terminated earlier. The Manager receives a management fee of 0.10%p.a of the total assets of BKI, payable monthly. No performance fee is applicable.

Investment Structure



BOARD & INVESTMENT MANAGER

Board of Directors

The BKI Board consists of four highly qualified directors, two of which are Independent and two of which are Non-Independent. Three of the four Director's have been on the Board since the Company listed in 2003, while Ian Huntley was appointed in 2009. The Board has been stable with very little turnover of Directors.

Board of Directors		
Name	Position	Experience
Robert Millner	Chairman (Non-Independent)	Mr. Millner has been the Chairman of BKI since its listing in 2003. Mr. Millner is a senior figure in the investment industry with significant experience both in the investment industry and as a company director. Mr. Millner is currently a Director of 7 ASX-listed companies.
David Hall	Director (Independent)	Mr. Hall was appointed in 2003 upon the formation of the Company. Mr. Hall is a Chartered Accountant with experience in corporate management, finance and as a company director, holding directorships for over 30 years.
Alexander Payne	Director (Non-Independent)	Mr. Payne was appointed in 2003. Mr. Payne was the CFO of Brickworks Limited for 13 years and has considerable experience in finance and investment.
Ian Huntley	Director (Independent)	Mr. Huntley joined the Board in 2009. Mr. Huntley has had a 33 year career in financial journalism.

Investment Manager

BKI's portfolio is managed by Contact Asset Management. Contact Asset Management was established in 2016 by Tom Millner and Will Culbert, who each own 40% of the Manager with the remaining 20% owned by Washington H. Soul Pattinson & Company Limited (ASX: SOL).

Prior to the establishment of Contact Asset Management, the BKI portfolio was managed internally, with both Tom and Will working as part of the investment team and Tom being the CEO of BKI from 2008 to 2016. As such, there has been continuity of the investment process and style with the transition to the external manager.

The Manager is focused on long-only domestic equity investment strategies and has \$1.6b FUM which is managed across three mandates: (1) BKI; (2) WHSP Large Cap Portfolio; and (3) Contact Australian ex-50 Fund.

The Manager currently has 6 employees, 4 of which are investment professionals. In addition to this, the Manager has access to SOL's vast resources.

Investment Team

There is currently four investment professionals that make up the investment team. Outside of the two Portfolio Managers, there has been a reasonable level of turnover in the team over the last few years. The three senior members of the team have significant amounts of experience in the investment industry with an average of 22 years between the three senior members.

Robert Millner, Alexander Payne and Ian Huntley in combination with Tom Millner and Will Culbert make up the Investment Committee, which meets regularly and is required to sign-off on all investment decisions for the portfolio.

Investment Team			
Name	Position	Industry Experience (Years)	Years with Manager
Tom Millner	Portfolio Manager	19	5
Will Culbert	Portfolio Manager	22	5
Jakov Males	Senior Investment Analyst	25	<1
Rob Horne	Investment Analyst	2	2

INVESTMENT PROCESS

Investment Philosophy

The Manager seeks to invest in high quality, dividend paying companies and hold them for the long-term. This is evidenced by the low turnover of the portfolio. In FY19, the portfolio turnover was 10%.

Whilst we benchmark the Company against the S&P/ASX 300 Accumulation Index, the investment process is benchmark unaware with the Manager focused on investing in companies that achieve the investment objectives of the Company.

Investment Process

The core investment process for the Company has remained unchanged since listing in December 2003 with the Manager improving the process through the additions of quantitative filters and ESG considerations.

The Manager has a fundamental, bottom-up investment style with stock selection based on six key tenets: (1) Principal Activity; (2) Income; (3) Balance Sheet Strength; (4) Management; (5) Valuation; and (6) ESG.

1) Principal Activity

The Manager seeks to understand the key drivers of the company's earnings and the businesses competitive advantage. The durability of that competitive advantage is then tested with the industry structure a key piece of the puzzle. The Manager considers barriers to entry and looks for companies that are losing market share due to self destructive behaviours or increased competition. The investment team take the time to meet with both the companies themselves and competitors, as well as attend industry events to build conviction and knowledge. Return on capital is a key consideration for the investment team with the belief that a company that generates a high and sustainable return on capital and reinvests at high returns will perform well.

2) Income

A key objective of the Company is to provide a steady and growing dividend stream to shareholders. As such, the Manager has a focus on those companies that offer a sustainable and growing dividend. In addition to this, the Manager believes that companies that offer a sustainable and growing dividend are often higher quality companies. As such the Manager ascribes a higher value to dividends and franking credits.

3) Balance Sheet Strength

The Manager seeks to stay away from companies that are over-gearred. The Manager analyses a company's financial strength by using a number of quantitative measures including debt-to-equity ratios, interest coverage as well as other liquidity ratios.

4) Management

An important aspect of company assessment is the management and board skill and experience. This is a key input in investment selection with the Manager placing a lot of weight on alignment of interests. The Manager believes founder led companies or those where management have significant skin in the game are generally run to benefit shareholders. A change in senior management will typically prompt a review of the company by the Manager.

5) ESG Rating

The Manager has introduced a more rigorous ESG process into the investment process through the use of MSCI's ESG Ratings and Research database. The database covers 280 companies in the S&P/ASX 300 Index and assesses companies on a range of ESG factors. The ESG input is designed to further assist with stock selection and portfolio management with ESG providing an insight into the long-term sustainability of an investment.

While the Manager will use the ESG ratings as a guide, the ESG rating is not a sole determining factor in an investment. Where the ESG rating is low, there is typically a clear rationale for holding the investment.

6) Valuation

As with all investments, valuation is important. The Manager has proprietary financial models on all the companies in the portfolio, employing a range of valuation techniques. The Manager subscribes to the theory that “no company is so good that you should invest irrespective of the price.” However, as long-term investors, for stocks in the portfolio the Manager will not necessarily sell just because a stock is expensive in the event the other elements of the investment thesis remain strong.

Portfolio Construction

There are few limitations on the construction of the portfolio with the Manager able to invest in any security on the ASX. While there are few limitations, to achieve the investment objective of the Company the Manager will provide exposure to a moderately diversified portfolio of ASX-listed securities with a focus on income paying stocks.

The Manager will seek to remain invested at all times with a 10% limit on cash holdings at any given time.

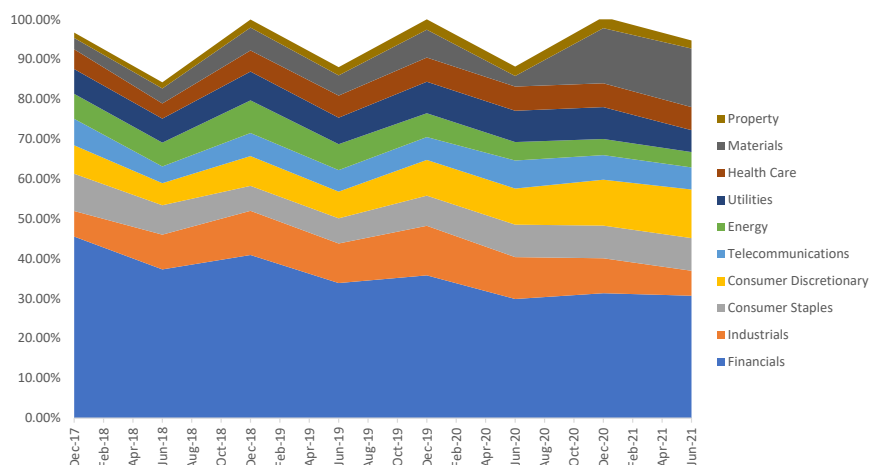
PORTFOLIO COMPOSITION

The portfolio typically comprises between 40 to 50 securities with the top 20 positions typically providing the majority of the income for the portfolio. The below shows the top 20 positions at 31 July 2021. During 2020, the Manager exited its holdings in WBC and ANZ, favouring CBA and NAB of the big four banks. The Manager has favoured those companies in which it views can sustain and grow their dividends as well as offer capital growth over the long-term. As can be seen below, the portfolio is managed on a benchmark unaware basis with the Manager taking conviction positions in a number of stocks that it rates highly.

Top 20 Positions as at 31 July 2021			
Company	ASX Ticker	Portfolio Weighting	S&P/ASX 300 Index Weighting
BHP Group	BHP	9.1%	6.6%
Commonwealth Bank of Australia	CBA	8.4%	7.4%
Macquarie Group	MOG	8.0%	2.4%
APA Group	APA	5.7%	0.5%
Wesfarmers	WES	5.4%	2.9%
National Australia Bank	NAB	5.0%	3.6%
Woolworths	WOW	4.3%	2.1%
Telstra Corporation	TCL	3.9%	1.6%
ARB Corporation	ARB	3.4%	0.2%
Sonic Healthcare	SHL	3.0%	0.8%
TPG Telecom Limited	TPG	2.8%	0.5%
Ramsay Health Care	RHC	2.6%	0.6%
Telstra Corporation	TLS	2.5%	1.9%
ASX Limited	ASX	2.4%	0.6%
Harvey Norman Holdings	HVN	2.2%	0.3%
Rio Tinto	RIO	2.2%	2.1%
Fortescue Metals Group	FMG	2.2%	3.2%
Amcor	AMC	2.0%	0.6%
New Hope Corporation	NHC	2.0%	0.1%
Woodside Petroleum	WPL	2.0%	0.9%
Total		79.1%	38.9%

The below details the sector exposure of the portfolio from 31 December 2017 to 30 June 2021. The portfolio is typically heavily weighted to Financials, although exposure to this sector has been on the decline over the last few years. Given the income focus of the portfolio, this is not surprising. Exposure to the Material sectors has been relatively low over the last few years until the 1H'FY21 where exposure to the Materials sector increased substantially with the addition of FMG, RIO and an increase in the exposure to BHP.

Historical Sector Exposure



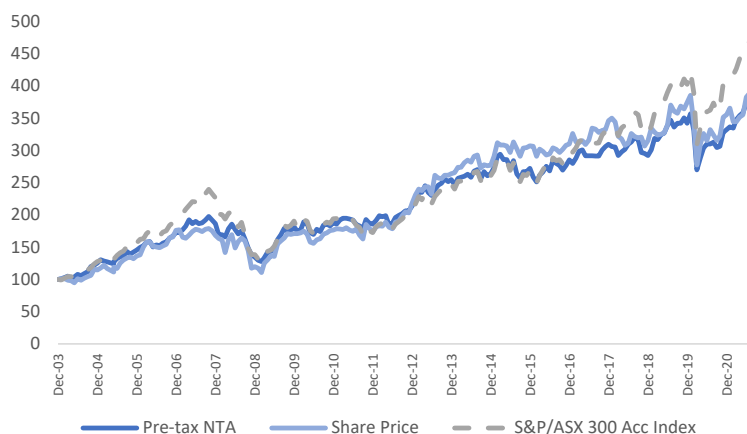
PERFORMANCE ANALYTICS

BKI listed in December 2003 and therefore has a long performance history. We provide an analysis of the historical performance of the Company below. We compare the performance of the Company to the S&P/ASX 300 Accumulation Index ("benchmark"), which is the benchmark for the Company. The key points are:

- ◆ BKI's pre-tax NTA and share price have traded in reasonably close proximity to the benchmark for a large part of its history. In the short-term, the pre-tax NTA and share price has underperformed the benchmark, with the benchmark being driven primarily by growth stocks. During periods of outperformance by growth stocks, BKI's portfolio will likely underperform given the portfolio's focus on quality, dividend paying stocks.
- ◆ The pre-tax NTA has delivered some protection in down markets, which is to be expected given the investment style.
- ◆ Despite being benchmark unaware, the portfolio (measured by the pre-tax NTA) has been closely aligned to the benchmark with a relatively low tracking error.
- ◆ The portfolio (pre-tax NTA) has typically experienced lower volatility than the market although this has not been the case for the share price which has experienced greater volatility than the benchmark.
- ◆ With the exception of 2020, the Company has delivered on providing a steadily growing fully franked dividend to shareholders. Given the Company primarily pays dividends from income generated by the portfolio, the reduction in dividends received from the portfolio in 2020 resulted in the Board cutting the final dividend for FY20 and the interim dividend for FY21. Whilst not back to FY19 levels, the Company paid an increased final ordinary dividend for FY21.
- ◆ Outside of recent times, the Company has offered a dividend yield of typically between 4%-6%.
- ◆ In the initial years, the Company traded at a sizable discount to pre-tax NTA. The Company has been able to eradicate the discount since 2013 with the Company trading in a much narrower discount/premium range.

On a cumulative return basis, BKI has underperformed the S&P/ASX 300 Accumulation Index since inception in December 2003 to 31 July 2021. A key period of underperformance has come during these last few years when growth stocks have outperformed value stocks. Given the Manager has a focus on dividend paying stocks, the portfolio will typically underperform during periods of outperformance by growth stocks.

Historical Pre-tax NTA & Share Price Cumulative Return



Calendar Year Total Returns

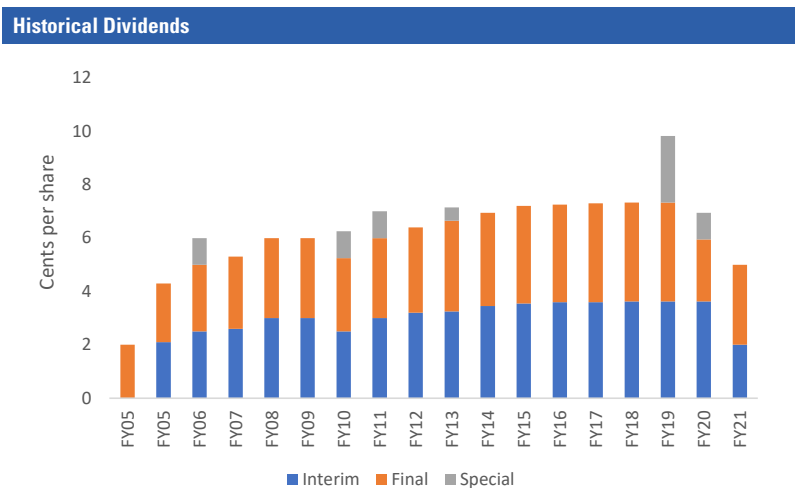


Performance Analytics (to 31 July 2021)

	BKI Pre-tax NTA	BKI Share Price	S&P/ASX 300 Acc. Index
Cumulative Return:			
1 Year	22.7%	16.9%	29.1%
3 Year (p.a)	6.7%	6.0%	9.7%
5 Year (p.a)	6.0%	5.0%	10.1%
Since Inception (p.a)	7.9%	8.0%	9.2%
Standard Deviation:			
1 Year	8.6%	14.2%	10.8%
3 Year (p.a)	15.7%	19.3%	17.7%
5 Year (p.a)	13.0%	16.2%	14.4%
Since Inception (p.a)	12.5%	16.1%	13.8%
Sharpe Ratio:			
1 Year	2.46	1.09	2.55
3 Year (p.a)	0.33	0.23	0.46
5 Year (p.a)	0.35	0.22	0.60
Since Inception (p.a)	0.51	0.40	0.55
Tracking Error:			
1 Year	5.9%	11.6%	na
3 Year (p.a)	4.2%	12.4%	na
5 Year (p.a)	3.5%	12.0%	na
Since Inception (p.a)	4.6%	12.2%	na

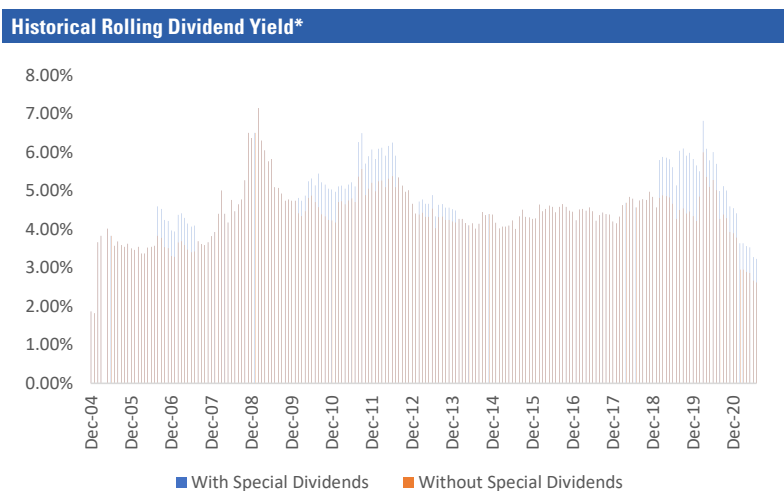
Performance Analytics (to 31 July 2021)			
	BKI Pre-tax NTA	BKI Share Price	S&P/ASX 300 Acc. Index
Down Capture Ratio:			
1 Year	0.77	0.70	na
3 Year (p.a)	0.91	0.69	na
5 Year (p.a)	0.98	0.59	na
Since Inception (p.a)	0.86	0.67	na

BKI has a focus on providing a regular, fully franked income stream to shareholders. The Company has achieved this objective with dividends steadily increasing over time, with the exception of FY2020 and FY2021. As is well known, the uncertainty of the COVID-19 pandemic in 2020 led to a number of companies reducing, suspending or cancelling their dividends. As a result of the reduced dividends received from the portfolio, the Board cut the final dividend paid for the FY20 period and cut the interim dividend by 44.8% for the FY21 period. The impact on BKI's portfolio is highlighted in the "Changes in Dividends Received" table below. As was the case in 2H'FY21, as the income received by the portfolio increases, we expect the Board to distribute those increases. All dividends to date have been fully franked, meaning shareholders are receiving the full tax benefits from franked dividends from an investment in BKI.



Source: Iress,IIR

Below we take a look at the historical dividend yield on a rolling 12-month basis from the first full year of listing. The rolling dividend yield has ranged from 1.8% (in it's first year of listing and includes only a final dividend payment) to 7.2% (including Special dividends).



*Based on 12-month rolling dividends by ex-date and the share price at the end of the period.

The below table provided by the Company, highlights the decline in dividend income received from the Company's top holdings for the 1H'FY21. The below provides some insight as to why the Board cut the interim dividend given the Company seeks to pay dividends from the income received by the portfolio.

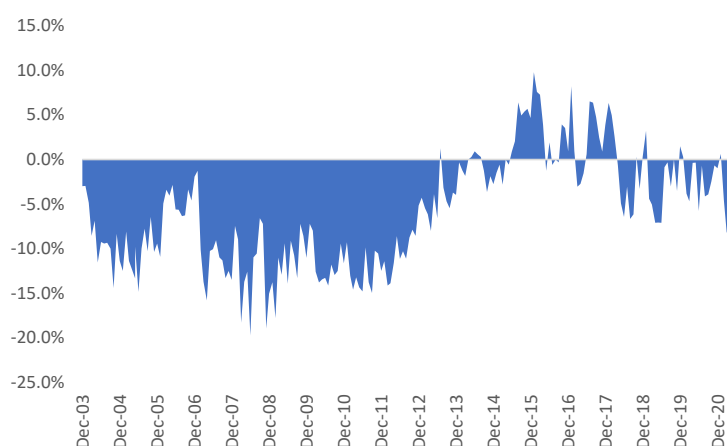
Most stocks in the portfolio that cancelled their final dividend have recommenced the payment of dividends and resulted in the income received by the portfolio improving in the 2H'FY21. We note that the dividend income received by the portfolio in 2H'FY21 increased but was still down on FY20 with some of the companies that cancelled dividends recommencing the payment of dividends at lower levels than previous periods.

Change in Dividends Received from Top 25 Stocks 1H'FY21			
Stock Ticker	% Change in Dividends Received	Stock Ticker	% Change in Dividends Received
MQG	-46%	ASX	+7%
CBA	-58%	WPL	-32%
BHP	-30%	TLS	-38%
APA	+4%	HVN	-14%
TCL	-5.2%	MFG	+10%
WES	-4%	COL	+10%
WOW	-16%	IVC	-69%
NAB	-12%	FMG	+317%
TPG	-100%	AMC	+30%
RHC	-100%	NHC	-100%
SHL	0%	GMG	0%
ARB	+88%	RIO	-1%

Source: BKI

BKI traded at a discount to pre-tax NTA from listing until 2013. From this point, the share price has traded in closer proximity to the pre-tax NTA. In recent months the Company has been trading at a discount with the discount expanding to as much as 8% (based on month-end data). The discount over the short-term is highlighted in the one year returns of the share price versus the pre-tax NTA. The Manager has shown the ability to eradicate the discount historically, which may result in discounts providing an attractive point of entry for investors. We would anticipate an increase in the dividends as increased income is received by the portfolio to assist with narrowing the discount.

Historical Premium/Discount



PEER COMPARISON

We have compared BKI to other long standing LICs that have a comparable investment style and strategy and similar objectives to BKI. All four LICs in the peer group have a focus on providing fully franked dividends and long-term capital growth. Of the peer group, BKI is the only portfolio that is externally managed, however the MER is in line with the internally managed LICs in the peer group.

Of the peer group, BKI is the smallest from a market capitalisation perspective. Including Special dividends, BKI had the highest dividend yield of the group as at 31 July 2021 based on the dividends paid over the last 12-months. BKI and MLT had the greatest cuts to the interim dividends paid for 1H'FY21 with declines of 29.4% and 36.1%, respectively. AFI was the only LIC in the peer group that didn't cut the interim dividend. BKI was also the only LIC in the peer group trading at a discount to pre-tax NTA at July-end.

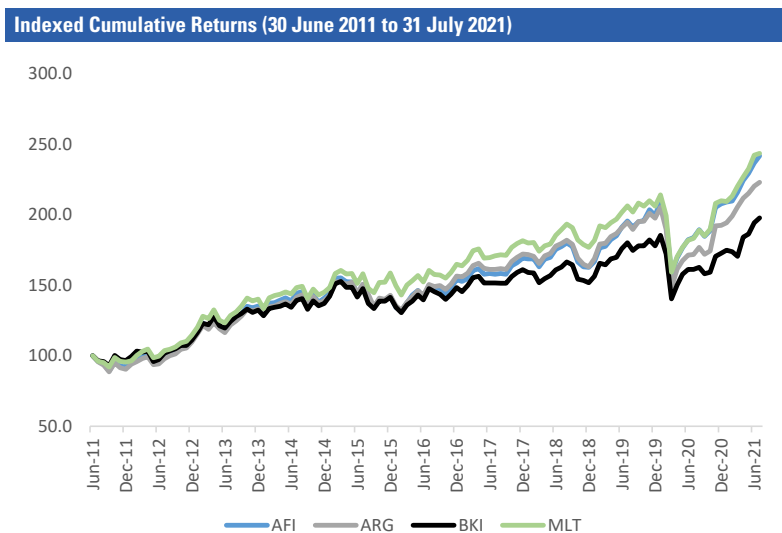
Peer Comparison (as at 31 July 2021)						
LIC Name	ASX Code	Market Cap (\$m)	Dividend Yield*	Premium/Discount	Management Expense Ratio (% p.a)	Performance Fee (%)
Australian Foundation Investment Company Limited	AFI	10,279.4	2.85%	10.6%	0.13	na
Argo Investments Limited	ARG	6,792.9	2.99%	2.7%	0.15	na
Milton Corporation Limited	MLT	4,126.3	2.33%	10.7%	0.15	na
BKI Investment Company Limited	BKI	1,215.7	3.23%	-5.5%	0.16	na

Source: Iress, IIR

*Based on the share price at 31 July 2021 and dividends paid over the past 12-months. Includes Special Dividends

Comparing the pre-tax NTA performance of BKI to the peer group on a cumulative basis over the last 10 years, BKI has underperformed the peer group, as shown in the below chart.

BKI's pre-tax NTA (including dividends) has underperformed the peer group over the last ten years on both an absolute and risk-adjusted basis.

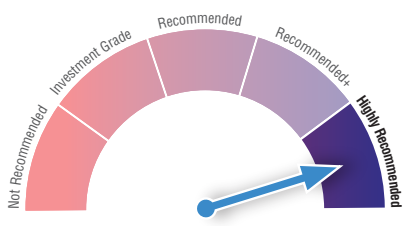
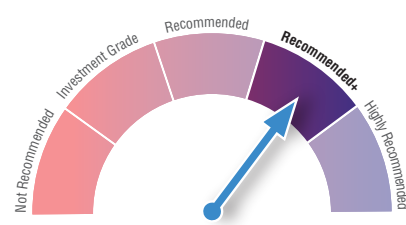
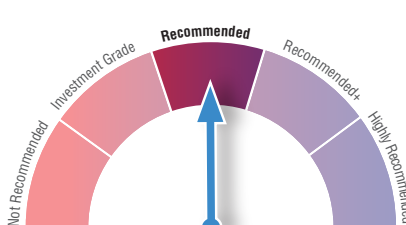
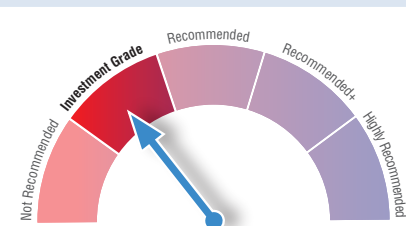
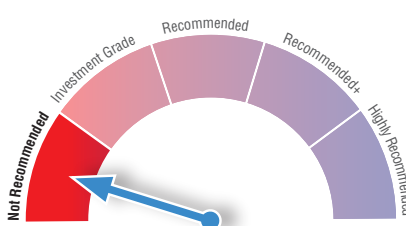


Cumulative Return (30 June 2011 to 31 July 2021)				
	AFI	ARG	MLT	BKI
Total Return:				
1 year	31.5%	29.9%	33.0%	22.7%
3 year (p.a)	10.9%	7.5%	8.8%	6.7%
5 year (p.a)	10.0%	8.2%	8.7%	6.0%
10 year (p.a)	9.7%	8.8%	9.8%	7.4%
Sharpe Ratio:				
1 year	3.27	2.72	3.17	1.88
3 year	0.58	0.34	0.44	0.32
5 year	0.65	0.47	0.53	0.34
10 year (p.a)	0.63	0.56	0.64	0.47

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD “IIR” RATING SYSTEM.

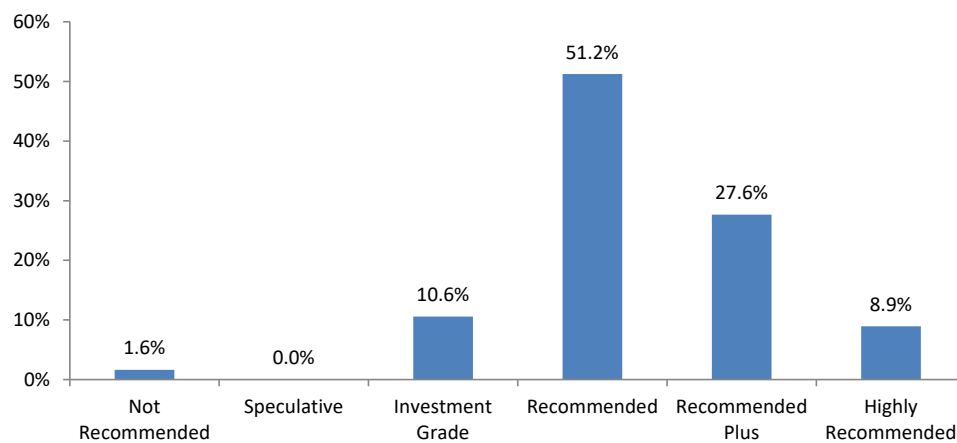
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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