



# Product Review

## BKI Investment Company Limited

ISSUE DATE 10-10-2022

### About this Review

ASSET CLASS REVIEWED	AUSTRALIAN EQUITIES
SECTOR REVIEWED	AUSTRALIAN LARGE CAP
SUB SECTOR REVIEWED	LIC
TOTAL COMPANIES RATED	9

### About this Company

LIC REVIEWED	BKI INVESTMENT COMPANY LIMITED
TICKER	BKI
LISTING DATE	12 DECEMBER 2003
COMPANY OBJECTIVE	TO GENERATE AN INCREASING INCOME STREAM IN THE FORM OF FULLY FRANKED DIVIDENDS THROUGH ASSETS THAT ALSO DELIVER LONG-TERM CAPITAL GROWTH
MANAGEMENT COSTS	0.16% P.A.

### Market data

MARKET CAPITALISATION	\$1230M
SHARES ON ISSUE	746M
SHARE PRICE (11-10-2022)	\$1.65
52 WEEK HIGH/LOW SHARE PRICE	\$1.77 / \$1.58
NTA (7-10-2022)	\$1.68
52 WEEK HIGH/LOW NTA	\$1.83 / \$1.62
SHARE PRICE PREM/(DISC) TO NTA	-1.79%

### Board of Directors

NO. OF DIRECTORS	5
MAJORITY INDEPENDENT DIRECTORS	YES
CHAIRPERSON	ROBERT MILLNER

### About the Investment Manager

INVESTMENT MANAGER	CONTACT ASSET MANAGEMENT PTY LTD
OWNERSHIP	100% STAFF OWNED
ASSETS MANAGED IN THIS SECTOR	\$1.4BN (JUNE 2022)
YEARS MANAGING THIS ASSET CLASS	19

### Investment Team

PORTFOLIO MANAGER	TOM MILLNER (LEAD), WILL CULBERT
INVESTMENT TEAM SIZE	4
INVESTMENT TEAM TURNOVER	HIGH
STRUCTURE / LOCATION	PORTFOLIO MANAGERS, ANALYSTS / SYDNEY

### Investment process

STYLE	CORE WITH INCOME BIAS
MARKET CAPITALISATION BIAS	MID - LARGE
BENCHMARK	S&P/ASX 300 ACCUMULATION INDEX
TYPICAL NUMBER OF STOCKS	35 - 45
STOCK LIMITS	NO LIMIT
SECTOR / INDUSTRY LIMITS	NONE

### Company rating history

OCTOBER 2022	RECOMMENDED
SEPTEMBER 2021	RECOMMENDED
JULY 2020	RECOMMENDED

### What this Rating means

The 'Recommended' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

### Scope of this rating

- Lonsec has used a holistic approach in forming an opinion on this Listed Investment Vehicle's (LIV) ability to meet its stated investment objectives. The rating model includes an assessment of the underlying investment capability in addition to the vehicle's effectiveness. When assessing the underlying investment capability Lonsec has relied upon its Managed Funds research process. Vehicle effectiveness considers a range of characteristics in combination with empirical observations.
- The rating should not be considered, or in any way interpreted, as Lonsec's forward-looking opinion or otherwise on the 'intrinsic value' of the LIV and whether Lonsec believes this to be 'overvalued' or 'undervalued' relative to the prevailing traded price.

### Strengths

- The Company has a strong, long-term track record of paying fully franked dividends and meeting its investment objectives.
- The Board of Directors and Investment Committee comprises highly experienced individuals with long co-tenure.
- All members of the investment team have a strong alignment of interest with shareholders through a combination of equity ownership and co-investment.
- The Company has a low management cost of 0.16% during FY22.

### Weaknesses

- The current tenure of the analysts is short following four departures in 2021.
- The Manager's sell discipline may be curtailed by the Company's low turnover, buy and hold approach.

### Company Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

**We strongly recommend that potential investors read the product disclosure statement** Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

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## BIOMetrics

### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME	●		

### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG		●	

### Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE	●		
FEES VS. ASSET CLASS	●		
FEES VS. SUB-SECTOR		●	

Fee BIOMetrics are a function of expected total fee as a percentage of expected total return.

## What is this Company?

- BKI Investment Company Limited ('BKI' or the 'Company') is an actively managed, benchmark unaware LIC that invests in a portfolio of 35-45 large and mid-cap stocks. The Company adopts a low turnover, buy and hold approach, and has a long-term track record of paying fully franked dividends. The Company aims to outperform the S&P/ASX 300 Accumulation Index (the 'Benchmark') after fees over rolling five to seven-year periods.

### The structure

- The Company is a mid-sized LIC (by market capitalisation), that was first listed on the Australian Securities Exchange in 2003. The Company has a market capitalisation of \$1.3bn (as at 31 July 2022) and over 18,000 shareholders.
- In November 2016, BKI externalised management of the Company to Contact Asset Management ('Contact' or 'the Manager') following a decision by its Board of Directors. Prior to the decision, the Company had been internally managed. The decision behind externalising management was principally to protect the Company's low management cost structure. The appointment of Contact is governed by an Investment Management Agreement with an initial five-year term, which automatically extends for a further five-year term if there is no shareholder requisitioned vote. The first of these five-year terms passed in late 2021.
- As with many long standing LIC's, the Company has been involved in a number of mergers and acquisitions since its listing in 2003. The Company was listed on the back of the decision by Brickworks Limited (ASX:BKW) to outsource the management of the investment portfolio. Additionally, the Company has an ongoing acquisitions program with unlisted family-owned investment companies, having previously entered into five such deals.
- A key risk for investors in any LIC is the possibility for the structure to trade at a substantial discount to NTA for extended periods of time. While trading

at such a discount is a risk for BKI, it is less of a risk relative to smaller peers given the Company's larger market capitalisation, reasonable liquidity, large shareholder base, and its solid long-term track record of paying fully franked dividends. Nonetheless, the Board of Directors has a sound track record in terms of capital management and continue to pursue various initiatives, including Entitlement, Shortfall and General offers at discounts to the Company's share price. A Dividend Reinvestment Plan has been in place since December 2005.

### The investment strategy

- Contact is a standalone investment management firm founded by the previous CEO and Portfolio Manager of BKI, Tom Millner and Will Culbert. Tom Millner and Culbert each own 40% of the firm, with the remaining 20% owned by Jakov Males and Rob Horn.
- The Company's investment style is considered to be core with a distinct income bias. This investment style along with the focus on fully franked dividends is expected to deliver outperformance in down markets, and underperformance in the latter stages of a bull market.
- Portfolio turnover is expected to be low (10% p.a.) due to the Company's investment philosophy and also for tax reasons, being one of the key tests the Company has to satisfy to maintain its capital account election. The election allows the Company to pass on capital gains tax concessions to shareholders in the form of a capital gains dividend. The majority of the Company's income is expected to be from dividends received from its portfolio.
- The Company is charged a management fee is 0.10% p.a. of NTA. This is expected to translate into a total management cost of 0.16% for FY22, which is considered attractive relative to other externally managed LIC's, ETF's and managed funds in the Lonsec peer group that provides a broad exposure to Australian equities. However, Lonsec observes that there are a number of well-established Australian equities focused LIC's with mainly internally managed structures that have similar fee loads – typically with a reasonably high level of assets.

## Using this Company

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

- The Company is a long only Australian equity product which will be predominately fully invested in the Australian equity market. Investors should be aware that returns may vary materially from traditional equities indices and other more benchmark aware Australian equity funds. Lonsec considers it suitable for blending with other Australian equity strategies including small cap, long/short, or absolute return products. Lonsec recommends that equity investments are suitable for investors with an investment time horizon of at least five years.
- The Company is subject to equity market risks, and movements (both positive and negative) in the prices of the underlying securities will impact the

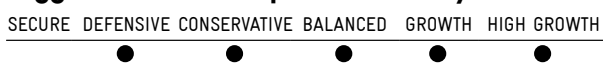
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portfolio. Investors should therefore be aware of and comfortable with the potential for the Company to experience periods of negative returns, which result in capital losses being incurred on their investment. As such, the Company will generally sit within the growth component of a diversified investment portfolio.

### Suggested Lonsec risk profile suitability



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

### Changes Since Previous Lonsec Review

- In late 2022, founders Will Culbert and Tom Millner acquired Washington H. Soul Pattinson's 20% stake in the business. This equity was then given to analysts Jakov Males and Rob Horne.
- Following the exit of Soul Pattinson, Contact ceased to manage approximately \$400m on behalf of Soul Pattinson, reducing the total assets under management to \$1.4 billion.
- Amanda Wong was hired as Chief Financial Officer for the Contact business, and appointed Company Secretary for BKI.
- There have not been any material changes to the investment process since Lonsec's prior review.

### Lonsec Opinion of this Company

#### Board of directors

- The Company's Board of Directors comprises five members with the appointment of Jacqui Clarke in January 2022. Lonsec considers the members to be highly experienced but less diverse relative to some LIC peers. The Board of Directors have a long co-tenure, with three of the Five having joined since the Company's formation in 2003. Lonsec welcomes the hire of Clarke, mitigating some of the succession planning concerns that came with the large proportion of long-serving directors.
- Of the five members, three are designated as independent Non-Executive by the Company, namely David Hall, Ian Huntley and Jacqui Clarke. Notably, the Chair Robert Millner is not designated as independent. With the hire of Clarke, the Company's Board of Directors now has a majority of members designated as Non-Executive Directors which Lonsec considers beneficial for the Boards of Directors of LIC's. However Lonsec would like to see an independent Chair which would be best practice.
- A distinguishing feature of the Company is that a Board of Directors sub-committee – the Investment Committee – is required to approve all stock recommendations from the investment team. The Investment Committee is chaired by Robert Millner and includes Non-Executive Directors Huntley, Alexander Payne and Jacqui Clarke. Tom Millner and Culbert are also members of the Investment Committee.
- Lonsec considers the members on the Investment Committee to demonstrate significant investment experience. Robert Millner has been in his role since the Company's formation and has extensive

management and directorship experience, including currently holding company directorships on a number of listed entities. Payne has similar tenure and experience as Robert Millner, having also been a member of the Board of Directors since the Company's formation and was previously the CFO of Brickworks Limited. While not having the same tenure as Robert Millner and Payne, Huntley has an extensive track record in the investment industry. Importantly, Lonsec notes that the majority of the Investment Committee has co-tenure since the Company's formation. Lonsec is a firm believer that extensive co-tenure is a critical determinant in cohesive decision making.

- In addition to the Investment Committee, the Board of Directors is further supported by three other sub-committees – Nomination, Remuneration and Audit Committees. Pleasingly, the Audit Committee is chaired by Hall, who is the only member of the Board of Directors not on the Investment Committee. Hall has held this role since the Company's formation and is appropriately experienced to hold this key position.
- Lonsec has assessed BKI as having moderate level of related party risks. This stems from the Company having a number of current holdings in entities which Robert Millner is either the Chair or a director. Lonsec also notes that the Company has entered into service agreements with a number of related party entities. Having highlighted the risk, Lonsec is pleased that the Company has firm procedures in place to manage such conflicts of interest. Furthermore, BKI reduced this related party exposure when it purchased Soul Pattinson's stake in the business and brought distribution in-house.

#### People and resources - Investment manager

- Contact is the Manager appointed by the Company to provide investment management services. The Manager was founded in 2016 by the previous CEO and Portfolio Manager of BKI, Tom Millner and Will Culbert, in partnership with Soul Pattinson. The Manager has since bought-out Soul Pattinson's stake, and while it did not have direct dependence on this relationship, it did receive operational and back office support at market rates and Lonsec previously viewed this relationship as a positive for the manager and the company.
- Lonsec notes that while the Manager has appointed Millner and Culbert as Portfolio Managers for the Company, Millner is the Lead Portfolio Manager for this strategy. Millner has over 19 years of investment experience, and was CEO of BKI from 2008 to 2016 and previously, an Investment Analyst and Portfolio Manager with Souls Funds Management. Culbert has 22 years of funds management experience, and was Portfolio Manager of BKI for three years before Contact was established and spent 11 years at Invesco Asset Management as an Equity Analyst and Portfolio Manager. Lonsec considers both to be well-experienced and highlights the long-term track record of Tom Millner at the Company.
- After a period of significant expansion beginning in 2018, the investment team reached its apex of resourcing in early 2021 whereupon it experienced a series of rapid analyst departures. As a result, the

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team of seven has been whittled down to four as at the time of this report, significantly below that of its LIC peers.

- Consequently, Lonsec notes the workload upon Millner and Culbert has increased as they assume more stock coverage duties. That said, Lonsec believes the hiring of experienced senior analyst Jakov Maleš in 2021 to be a positive step in bridging the resourcing and experience gap, and he is also joined by analyst Rob Horne. Since the exit of Soul Pattinson, both Maleš and Horne have received meaningful equity in the business which Lonsec believes may help ensure the stability of the investment team going forward.
- Key person risk is considered to be high and centered on Tom Millner and Culbert. Mitigating the risk is the equity held by both Tom Millner and Culbert, and the earlier stage of the Manager, which should decrease the likelihood of either departing. Lonsec also notes that both Tom Millner and Robert Millner have a strong family connection and background with Soul Pattinson and BKI, and are also significant shareholders in both.
- Furthermore, Lonsec considers the remuneration structure and long-term incentive scheme creates a strong alignment of interests between the investment team and shareholders, particularly in the earlier stages of the Manager where additional investment flows tends to be dependent on positive performance outcomes.

### Research and portfolio construction

- Lonsec believes the Manager's investment process to be logical and repeatable, and aligned with the Company's long-term, low portfolio turnover approach. The Manager utilises a combination of quantitative and qualitative techniques to identify stocks in a benchmark unaware manner. The focus is on identifying bottom-up fundamentals of individual companies that constitutes an acceptable dividend paying opportunity, whilst also considering top-down factors.
- Given BKI's buy and hold approach, and focus on sustainable dividend growth and tax effective outcomes, Lonsec notes Contact's research process to have more emphasis on the maintenance of BKI's stock portfolio under this strategy. This is somewhat different from many active bottom-up research processes which seek to regenerate the portfolio periodically based on the investment opportunity set. Lonsec has observed however that the Manager does add a select number of new stocks to the portfolio on an ongoing basis.
- A criticism of Lonsec is the Manager's ability to identify new investment opportunities may be curtailed by BKI's buy and hold approach. This may potentially lead to a lack of suitable replacement stocks being identified and reduced proactive, high conviction recommendations. Lonsec acknowledges that the Manager is trying to improve this aspect by utilising systematic screens and filters to aid with idea generation. Stocks that pass these filters will then be analysed with an in-depth checklist aiming to identify qualities of the business such as financial strength or management quality. In Lonsec's view, this process appears sensible and repeatable, though

given the portfolio's buy and hold approach few stocks are turned over annually.

- Lonsec notes that the Company's Investment Committee is ultimately responsible for all investment decisions. The Lead Portfolio Manager, Millner, prepares formal 'Stock Review and Analysis' papers for the Investment Committee using standardised templates. These papers outline the Manager's investment thesis on each stock and comprises 48 questions grouped according to the Manager's six fundamental tenets. Lonsec is pleased to observe the use of standardised templates which increases the efficiency of consistently applying the research process.
- Nonetheless, Lonsec is critical of comparable Investment Committee structures and the potential dilution in accountability of portfolio outcomes. However, Lonsec highlights that members from the Company's Board of Directors have been on the Investment Committee since 2003 and possess extensive investment experience. Lonsec also has a high regard for the track record of these members, highlighting the extensive co-tenure as a critical factor in the efficacy of such a decision making structure.
- The Investment Committee typically meets on 21 occasions each year. While noting the low portfolio turnover approach of the Company, Lonsec acknowledges the potential for portfolio holding issues to drift. However, Lonsec notes that the Investment Committee has flexibility to meet outside of this formal cycle to consider recommendations that may require a prompt response.

### ESG Integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- At the overall corporate level Lonsec views the Manager's overall ESG framework as significantly lagging peers. While the Manager has indicated a commitment to the integration of ESG within their investment process to Lonsec, there is no evidence in their public positioning. The Manager has an ESG policy in place however the policy is not publicly available. The ESG policy provides brief details on voting and engagement practices, however there are no proxy voting or engagement policies disclosed. The overall framework is relatively generic compared to peers. No reporting on voting or engagement outcomes is publicly available.
- There is low evidence of ESG integration within the research elements of the investment process when benchmarked to industry peers. Lonsec notes that the Manager does subscribe to a leading data provider and utilises their scoring in determining their own investable universe. Beyond that initial review there are only moderate ESG processes visible.
- The manager has indicated that their Responsible Investment style is "ESG Integration" and as such

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that they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. Note that such an approach does not automatically ensure that the resulting portfolio will adhere to any particular structure or provide any particular level of ethicalness, greenness or sustainability.

### Risk management

- Lonsec notes that Board of Directors provides the Company with investment governance oversight. The role of the Board of Directors as defined by the Company's Board Charter is to oversee the investment activities and performance management of the Company. In terms of its supervisory role, this includes providing oversight of the Manager's performance and succession plans, monitoring the performance of the portfolio and ratifying all stock recommendations.
- Pleasingly, Lonsec highlights that the Board of Directors has delegated much of its risk management oversight to the Audit Committee, believing this design to be important in ensuring an appropriate segregation of duties. The Audit Committee is tasked with reviewing the risk management framework that has been set for the Company, among other tasks.
- Lonsec notes that the Company is 'benchmark unaware' and has a strong focus on fully franked dividend and long-term capital growth. Hence, the Company's investment philosophy and fundamental, bottom-up research supporting the portfolio is considered critical in ensuring that risk management is embedded within the investment process.

### Funds under management

- As at 31 July 2022, the Company had a market capitalisation of \$1.3bn making the Company a mid-sized LIC among its Australian equities peers. Lonsec acknowledges that the size of the Company allows the Manager to be more nimble and add value across the market cap spectrum.
- The Company does not have a formal policy on an appropriate capacity limit for its portfolio. However, Lonsec notes that by virtue of its closed-end structure, future growth in the size of the Company's portfolio will be primarily driven by performance rather than net inflows. The active Dividend Reinvestment Plan and capital management initiatives in place will also be an incremental driver of future growth. Lonsec notes that the size of the Company's portfolio has previously grown via a Share Purchase Plan.
- At its current size, Lonsec does not consider the Company to have any capacity concerns. While the Company does have some large active weights in select mid-cap names, the average position size in these names is somewhat constrained by the diversification of the portfolio. Nonetheless, Lonsec would welcome any efforts by the Company to formally incorporate such studies into its risk management process.

### Performance

- BKI has been listed on the ASX since 2003, and has a long-term track record of paying fully franked dividends and meeting its investment objectives.
- Lonsec observes that the Company has until recently been able to grow the level of its dividends over the past six years from seven cents per share in FY14 to 9.8 cents in FY19. The COVID-19 pandemic of March 2020 caused a large number of underlying companies to delay, reduce or cancel their dividends entirely which caused the Company to prudently scale back the dividend for CY2020. While not yet at previous highs, dividends have since been increasing, FY22 dividends have increased year-on-year reaching 8.65cps, including special dividends of 1.50cps.
- Over the ten-year period to 31 July 2022, the Company's portfolio performance was 7.3%, as compared to the S&P/ASX 300 TR Index return of 8.1%, resulting in underperformance of -0.8%. Total shareholder returns including franking over the same period were 10.6% versus the S&P/ASX 300 Franking Credit Adjusted Index return of 11.0%, resulting in underperformance of -0.4%. The long-term return profile is therefore below benchmark, though the Company has delivered meaningful capital growth alongside a growing income stream over the long-run. Lonsec considers the Company to have demonstrated reasonable success in meeting its investment objectives across the full market cycle.
- Over the one-year period to 31 July 2022, the Company's portfolio performance was 4.8%, as compared to the S&P/ASX 300 TR return of -2.3%, resulting in outperformance of 7.1%. Total shareholder returns including franking over the same period were 12.8% versus the S&P/ASX300 Franking Credit Adjusted index return of -2.3%, resulting in outperformance of 15.1%. Portfolio outperformance was driven by holdings in financials and energy stocks.
- The Company's long-term track record in growing both its dividends and capital is also believed to have contributed to a loyal following from its shareholders. Lonsec considers such consistency to be a key predictor of whether a LIC will trade in a closer range to its NTA over time. Lonsec notes that as of 31 May 2022, the share price traded at a 4.6% discount to NTA, compared to its 5-year average discount of 2.2%.

### Overall

- Lonsec has maintained the Company's 'Recommended' rating at its most recent review. Supporting the rating is the Company's long-term track record of delivering on its income and capital growth objectives, and its highly experienced Board of Directors and Investment Committee. The Company's low management cost is also considered attractive relative to peers.
- However, Lonsec is mindful of the significant recent turnover within the investment team, which despite the recruitment of an experienced senior analyst in 2021 has increased the overall team workload. Lonsec does however view positively the equity stakes held by the new analysts which may aid in long-term team stability. The Manager's sell discipline may also be

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curtailed by the Company's low turnover, buy and hold approach.

## People and Resources

### Corporate overview

BKI Investment Company Limited was formed and listed on the Australian Securities Exchange in December 2003 to take over and manage the investment portfolio of Brickworks Limited (ASX:BKW). Since the 1980's, the Company's investment objective has been to make long-term investments in a portfolio of companies that would grow over time and generate an increasing income stream. At the time of listing, the Company had total assets of \$170m, and has since grown to \$1.3bn (as at 31 July 2022) through mergers and acquisitions, and capital growth.

In 2016, BKI externalised management of the Company to Contact Asset Management, an investment management firm founded by the previous CEO and Portfolio Manager of BKI, Tom Millner and Will Culbert, and in partnership with Soul Pattinson, though Soul Pattinson has since been bought out by Millner and Culbert, with Contact now entirely staff-owned.

### Size and experience - Board of directors

NAME	POSITION	YEAR JOINED
ROBERT MILLNER	NON-EXECUTIVE DIRECTOR / CHAIR	2003
DAVID HALL	INDEPENDENT NON-EXECUTIVE DIRECTOR	2003
ALEXANDER PAYNE	NON-EXECUTIVE DIRECTOR	2003
IAN HUNTLEY	INDEPENDENT NON-EXECUTIVE DIRECTOR	2009
JACQUI CLARKE	INDEPENDENT NON-EXECUTIVE DIRECTOR	2022

#### Robert Millner, Non-Executive Director / Chair

Robert Millner was appointed Non-Executive Chair upon the Company's formation in 2003. He has over 37 years of experience in the investment industry and currently holds company directorships on a number of listed entities. In addition to his role as Non-Executive Chair, Millner is also the Chair of the Investment Committee and a member of the Remuneration Committee and Nomination Committee.

#### David Hall, Independent Non-Executive Director

David Hall was appointed Non-Executive Director and Chair of the Audit Committee upon the Company's formation in 2003. He has over 47 years of experience in the investment industry and is a Chartered Accountant with experience in corporate management, finance and as a Company Director. Hall is also a member of the Remuneration Committee.

#### Alexander Payne, Non-Executive Director

Alexander Payne was appointed Non-Executive Director and a member of the Audit Committee upon the Company's formation in 2003. He has over 27 years of experience in the investment industry and was CFO of Brickworks Limited for 13 years. Payne is also a member of the Investment Committee and Nomination Committee.

#### Ian Huntley, Independent Non-Executive Director

Ian Huntley was appointed a Non-Executive Director in 2009. He has over 42 years of experience in the investment industry, having acquired and built the "Your Money Weekly" newsletter into one of Australia's best known investment advice publications. Huntley is also a member of the Investment Committee, Remuneration Committee, Audit Committee and Nomination Committee.

#### Jacqui Clarke, Independent Non-Executive Director

Jacqui Clarke was appointed a Non-Executive Director in 2022. She has over 20 years experience spent with PWC and Deloitte, 15 as a partner of Deloitte. Jacqui has advised many high net wealth clients and has extensive experience as a company director in the public, private and not-for profit sectors.

### Board remuneration

The remuneration of Non-Executive Directors are determined by the Remuneration Committee and reviewed annually based on market practice, duties and responsibilities. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting – currently capped at \$300,000. For the 2021 Financial Year, total remuneration of Non-Executive Directors was \$273,300.

All Non-Executive Directors other than Jacqui Clarke are also currently large shareholders of the Company, and Lonsec notes Jacqui Clarke does own shares in the Company.

### Investment manager

Contact Asset Management ('Contact') was established in 2016 by Tom Millner and Will Culbert, who each own 40% of the firm, with the remaining 20% is owned by Jakov Males and Rob Horne. Millner and Culbert have a long-term track record of managing BKI since 2003.

### Size and experience - Investment team

NAME	POSITION	EXPERIENCE
		INDUSTRY / FIRM
TOM MILLNER	PORTFOLIO MANAGER / DIRECTOR	20 / 5
WILL CULBERT	PORTFOLIO MANAGER / DIRECTOR	24 / 5
JAKOV MALEŠ	SENIOR INVESTMENT ANALYST	26 / 1
ROB HORNE	INVESTMENT ANALYST	3 / 3

Tom Millner is a Director of Contact and Lead Portfolio Manager of BKI. He has 20 years of experience in investment markets. Prior to establishing Contact, Millner was CEO of BKI from 2008 to 2016.

Will Culbert is a Director of Contact and Portfolio Manager of BKI. He has 24 years of experience in the funds management industry in Australia and the UK. Prior to establishing Contact, Culbert was Portfolio Manager at BKI for three years, an Equity Analyst and Portfolio Manager at Invesco Asset Management (formerly Concord Capital) for 11 years, and has also worked for the Bank of New York and Challenger Group.

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Jakov Maleš joined Contact in 2021 as a Senior Investment Analyst. Maleš most recently served as Head of Australian Equities at UBS Asset Management for 12 years. Prior to that he was Head of Equities at Allianz Global Investors for five years.

Rob Horne joined Contact in 2019 as an Investment Analyst. Prior to joining Contact, Rob had a successful professional Rugby career spanning over ten years, representing NSW and Australia, and also playing professionally in the UK.

### Investment team structure

The investment team is responsible for bottom-up stock research and structured as generalists.

### Investment team remuneration

Contact receives a fixed management fee of 0.10% of NTA and no performance fee.

All Investment Analysts are paid a base salary, and hold meaningful equity in the business. Their incentives are therefore tied to the profitability of the Contact Asset Management business.

Analysts are encouraged to invest in the underlying strategies to create alignment with investors. Both Millner and Culbert are currently large shareholders of BKI.

## Research Approach

### Overview

RESEARCH PHILOSOPHY	FUNDAMENTAL, BOTTOM-UP
TARGET COMPANY	HIGH QUALITY, DIVIDEND PAYING COMPANIES
MINIMUM MARKET CAPITALISATION	NO MINIMUM MARKET CAP
NUMBER OF STOCKS IN MANAGER'S UNIVERSE	500+
NUMBER OF STOCKS FULLY MODELLED/RESEARCHED	80
RESEARCH INPUTS	COMPANY VISITATION, PROPRIETARY FUNDAMENTAL BOTTOM-UP ANALYST RESEARCH
BROKER RESEARCH	USED FOR IDEA GENERATION
VALUATION OVERVIEW	DISCOUNTED CASH FLOW, PRICE-EARNINGS MULTIPLES

### Universe filtering

While BKI adopts a low portfolio turnover, buy and hold approach, new investment opportunities are identified by the investment team focusing on companies with attractive potential returns (ROCE, ROIC), conservative debt levels and balance sheet strength plus dividends, to name a few.

### Research process

The research effort is focused on fundamental, bottom-up analysis, centred around the Manager's proprietary checklist which focuses on the following six fundamental tenets:

- Principal Activity: Sustainable business model, competitive advantage, barriers to entry, industry structure.
- Income: Dividend yields, franking credits, dividend sustainability, payout ratio.
- Balance Sheet Strength: Cash flows, debt levels, gearing ratios, coverage ratios.
- Management: Alignment, experience and skill set, creating shareholder wealth.
- ESG Rating: MSCI Rating Scorecard. Environmental Impact, Social Aspects, Corporate Governance and MSCI – ESG Rating.

- Valuations: Earnings profiles, PE and EV/EBITDA multiples, DCF valuations, sum of the parts.

The checklist assists Analysts build an understanding of a company, the industry it operates in, sustainability of earnings and dividends, key drivers and risks to growth, the strength of the company's operations, and its balance sheet.

Analysts will also seek to meet with management and conduct site visits, as well as with industry experts and competitors. The Manager leverages the broader Soul Pattinson group for access to key contacts.

### Valuation

Proprietary financial models are maintained for all researched companies based on a range of valuation techniques including discounted cash flow, price-earnings multiples and EV/EBITDA multiples. The models are reviewed regularly by the investment team to test the Analysts' forecasts and assumptions.

## Portfolio Construction

### Overview

BENCHMARK	S&P/ASX 300 ACCUMULATION INDEX
INTERNAL RETURN OBJECTIVE	TO OUTPERFORM THE BENCHMARK AFTER FEES OVER ROLLING FIVE TO SEVEN-YEAR PERIODS
INTERNAL RISK OBJECTIVE	NO STATED RISK OBJECTIVE
PORTFOLIO MANAGEMENT APPROACH	BENCHMARK UNAWARE
INVESTMENT STYLE	CORE WITH INCOME BIAS
PORTFOLIO DECISION MAKING	INVESTMENT COMMITTEE
STOCK SELECTION	BOTTOM-UP
TOP-DOWN INFLUENCE	MODERATE CONSIDERATION
MARKET CAPITALISATION BIAS	MID - LARGE
TYPICAL NUMBER OF HOLDINGS	35 - 45
EXPECTED PORTFOLIO TURNOVER	10% P.A.
OBSERVED ACTIVE SHARE	54.9% (JULY 2022)
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	58.8% (JULY 2022)

### Decision making

The investment team is responsible for maintaining stock research, monitoring the existing portfolio and making stock recommendations, via the Lead Portfolio Manager, to the Investment Committee. The Investment Committee meets regularly to consider the stock recommendations from the investment team for potential approval.

### Buy and sell drivers

The portfolio construction process is broadly unconstrained. The final portfolio weights considers the Company's dividend objectives and low portfolio turnover approach.

A stock may be reduced or divested from the portfolio for a number of reasons, including:

- Change in industry dynamics, regulation pressures, increased competition and a breakdown of competitive advantage.
- Reduction or cut to the dividend, or an unsustainably high payout ratio.
- Stretched balance sheet and significantly reduced cash generation.
- Change in management or insiders selling shares (outside of personal tax requirements).
- Overly stretched valuation, earnings downgrades or negative earnings growth.

ANALYST: ELLIOT LUCAS | APPROVED BY: PETER GREEN

# BKI Investment Company Limited

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## Risk Management

### Risk limits

SEPARATE INVESTMENT RISK MONITORING	YES
STOCK LIMITS	NO LIMIT
SECTOR / INDUSTRY LIMITS	NONE
CASH LIMIT	NO LIMIT

The Company has a flexible investment mandate with no stock or sector/industry limits. While there is no maximum cash limit, the Company would typically hold around 5% and rarely hold a high percentage in cash.

### Risk monitoring

The primary risk management monitoring is performed by the Board of Directors, who has delegated some of its oversight duties to the separate Audit Committee. The Investment Committee also reviews portfolio construction and allocations on a regular basis.

As a listed entity, the Company also has to meet the ASX listing rules, which provides an additional layer of oversight.

## Risks

**An investment in the Company carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the Prospectus and should be read in full and understood by investors. Lonsec considers major risks to be:**

### Equity market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

### Concentration risk

The Company is generally invested in 35-65 stocks with no stock or sector constraints. The Manager is expected to build a portfolio that may vary markedly from the benchmark (e.g. concentration risk and/or sector or industry exposures). Accordingly, investors should be mindful of the potential for sharper movements in the market price of these movements.

### Listed company risk

The market price of the Company's securities may not correlate exactly to the underlying value of the portfolio as reflected in its monthly NTA backing per share. The securities may trade on the ASX at a discount or a premium to the Company's monthly NTA backing per share.

### Related party risk

The Company holds positions in certain stocks where its Independent Directors are also influential directors. A risk may arise where the Company may be prevented from adding or trimming these positions due to such influences. The Company also has service agreements with some related party entities where terms may not be at arm's length.

ANALYST: ELLIOT LUCAS | APPROVED BY: PETER GREEN

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# BKI Investment Company Limited

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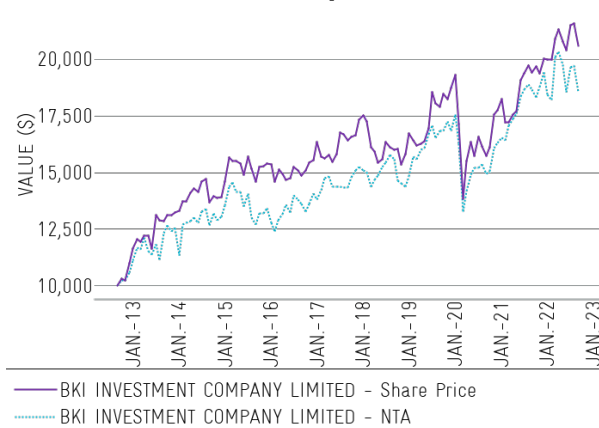
## Quantitative Performance Analysis - annualised after-fee % returns (at 30-9-2022)

### Performance metrics

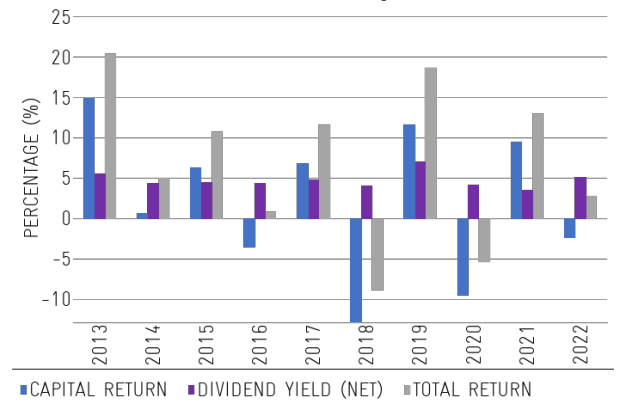
	1 YR	3 YR	5 YR	10 YR
TOTAL RETURN (% PA)	5.89	4.76	4.61	7.49
STANDARD DEVIATION (% PA)	10.40	18.89	16.34	14.16
EXCESS RETURN (% PA)	13.58	2.10	-2.16	-0.92
WORST DRAWDOWN (%)	-4.68	-28.16	-28.16	-28.16
TIME TO RECOVERY (MTHS)	NR	16	16	16
TRACKING ERROR (% PA)	10.24	11.56	11.64	10.78

PRODUCT: BKI INVESTMENT COMPANY LIMITED  
 PRODUCT BENCHMARK: S&P/ASX 200 TR INDEX AUD  
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

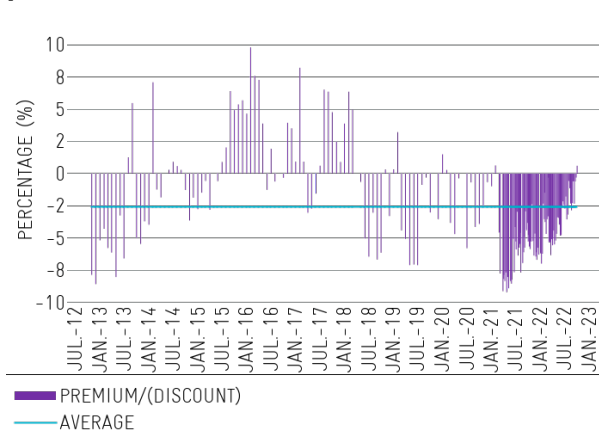
### Growth of \$10,000 over 10 years



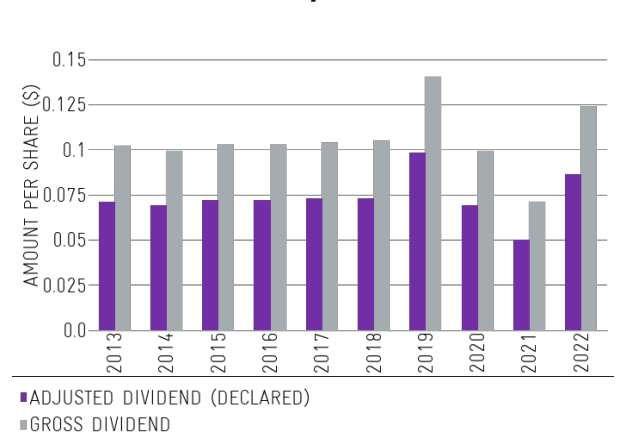
### Calendar Year Returns over 10 years



### Share Price Premium/Discount to NTA over 10 years



### Dividend Record over 10 years



ANALYST: ELLIOT LUCAS | APPROVED BY: PETER GREEN

# BKI Investment Company Limited

## Glossary

[Click here for the glossary of terms.](#)

## About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

## Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

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