

BKI Investment Company
Limited (ASX: BKI)

Review

20 September 2024

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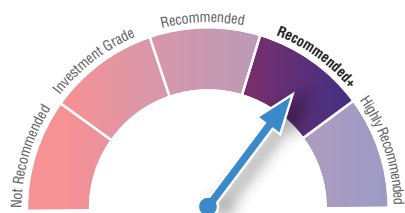
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Note: This report is based on information provided by Contact Asset Management Pty Ltd as at 30 June 2024.

Rating



Key Investment Information (as at 31 August 2024)

ASX Code:	BKI
Share Price (\$):	\$1.715
NTA* per Unit (\$):	\$1.85
Market Cap (\$m):	\$1,384m
Shares on Issue (m)	807.1m
Trailing 12-month Net Dividend Yield	4.6%
Distribution Frequency:	Semi-Annual
Listing Date	December 2003
Structure:	Listed Investment Company (LIC)
Investment Manager:	Contact Asset Management Pty Ltd
IIR Investment Classification	Australian Large cap
Fees:	
Management Fee (p.a.), excluding GST	0.10%
Performance Fee	na

*NTA includes tax on realised gains and is before tax on unrealised gains.

Key Exposure

Underlying Exposure	Moderately concentrated portfolio of quality, income producing ASX-listed securities.
FX Exposure	The Company invested in ASX-listed securities and therefore has no direct foreign currency exposure.

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.

PRODUCT SUMMARY

BKI Investments Limited (ASX: BKI) ("BKI" or the "Company") is a listed investment company (LIC) with a track record of over 20 years. Since listing, the Company has grown from a market capitalisation of \$171 million to \$1.4 billion as at 31 August 2024. As the Company has grown so has liquidity, which has been a key component to the narrowing of the discount over time. The portfolio is managed by Contact Asset Management (the "Manager") who were appointed as the Manager of the portfolio in 2016. The Manager is 100% employee owned with the founders, Tom Millner and Will Culbert, involved in the investment team of BKI prior to taking over the management of the portfolio. The Company seeks to deliver an increasing fully franked income stream and capital growth over the long term. The Company seeks to achieve this through a long only portfolio of quality ASX-listed securities with a focus on companies paying regular and sustainable dividends. The Manager has a research driven, bottom-up, fundamental investment approach with the portfolio typically having 40-50 positions. The portfolio is concentrated to the top 20 positions, which generate the majority of the portfolio's income. While the Company can invest in companies of all sizes, the portfolio is typically concentrated to large cap (ASX 50) stocks. This reflects the concentration of the domestic market to large cap stocks with the Manager needing to take sizable positions in large cap stocks to show a level of conviction. While there are limited formal limitations with regards to portfolio diversification the Company seeks to provide exposure to a portfolio that is diversified by both company and sector. The Manager is aware of the benchmark with regards to position sizing, however the portfolio is managed in a benchmark unaware manner with no individual stock or sector limitations. The Manager has a long-term investment horizon, which is reflected by a low level of annual portfolio turnover, and will remain largely invested at all times with a 10% limit on cash holdings. The fee structure is competitive with the Company paying a management fee of 0.10% p.a and no performance fee.

INVESTOR SUITABILITY

An investment in BKI is suitable for those investors seeking exposure to a portfolio of quality ASX-listed companies and a fully franked income stream. The Company seeks to deliver a growing income stream to investors and long-term capital growth, with the Company distributing 90%-95% of its net profit after tax to shareholders. The Company will endeavour to outperform the S&P/ASX 300 Accumulation Index over the long-term, however there is no specific mandate to do so. Given the investment style of the Manager, an investment in the Company is suited to those investors with a long-term investment horizon and is not suited for those seeking to generate alpha over the market. BKI could form part of an investors core exposure to quality and earnings generating companies. The portfolio is managed in a tax aware manner and therefore is suitable for those investors seeking to maximise the tax benefits with the long-term investment horizon and low turnover of the portfolio reducing transaction costs incurred by the Company.

RECOMMENDATION

Independent Investment Research (IIR) has maintained its **Recommended Plus** rating for BKI Investment Company Limited (ASX: BKI). The Company now has a track of over 20 years over which time it has largely delivered on its objective of delivering a growing fully franked income stream and capital growth over the long-term. There have been a number of positives over the years, including the increase in the size of the Company and shareholder base which has increased liquidity, narrowed the discount and reduced the MER. In January 2022, the Company also improved corporate governance with the appointment of a third independent director with the Board now majority independent. We view this as important given the conflicts of interest that exist with some of the investments in the portfolio. In addition to conflicts management policies, offsetting the conflicts to some extent is the strong alignment of interest with members of the investment team and Board (including the Chair) having a significant interest in BKI. The portfolio has underperformed the broader market and its peers over the long-term, however has offered capital preservation in down markets and the focus on dividend paying companies has seen the Company provide an above market dividend yield for most of its history.

SWOT

Strengths

- ◆ BKI recently celebrated its 20 year anniversary with the Company listing in December 2003. Over its 20 year history, the Company has largely delivered on its investment objectives of providing capital growth with a steady and growing income stream through fully franked dividends.
- ◆ Alignment of interest is strong with investment team members and the Board having a significant interest in BKI.
- ◆ The investment strategy is simple and transparent - long-only portfolio of quality Australian stocks with no derivatives or leverage used.
- ◆ The Company has grown its assets over time through asset growth, capital raisings and unlisted company acquisitions. The increased size has seen the liquidity of the company improve over time, which has been a key contributor to the Company trading in a +/- 10% range around the NTA over the last 10 years. The increase in size has also had a positive impact on the MER with the MER reducing from ~0.70% at listing to 0.17% as at 30 June 2024.
- ◆ The fees associated with the management of the portfolio are highly competitive with a management fee of 0.10% p.a. and no performance fee. The fees are competitive with internally managed LICs in the peer group.
- ◆ The focus on quality companies with earnings and the ability to pay dividends, has seen the portfolio provide capital preservation in market downturns and the portfolio has experienced lower volatility than the market.
- ◆ Corporate governance has improved with the appointment of Jacquelin Clarke in 2022. The appointment means the Board now has majority independent representation.

Weaknesses

- ◆ The team appears settled now, however the Manager has struggled to maintain analyst talent in recent years. While the team is small, the close association with Washington H. Soul Pattinson & Co Limited (ASX: SOL) ("Soul Patts") means the team have access to its resources.
- ◆ The Company inherited an interest in Soul Patts from acquisitions. The Company has never acquired shares of Soul Patts on market and while the investment provides exposure to a portfolio of listed and unlisted investments, the investment increases the exposure to some of the existing holdings in the portfolio, with Soul Patts being a substantial holder in a number of the BKI investments.
- ◆ The portfolio has underperformed its peers and the market over the long-term.

Opportunities

- ◆ BKI provides investors the opportunity to gain access to a portfolio that is differentiated from the broader market that has delivered an above-market yield throughout its history.
- ◆ The Company is trading at an expanded discount to NTA. Discounts, particularly of this proportion, provide attractive entry points for investors. As has been shown in the past, acquiring shares at a discount can potentially provide additional capital returns when the discount narrows.

Threats

- ◆ There are some conflict of interests to navigate for some of the investment team and Board members with Robert Millner and Tom Millner sitting on the Board and being a shareholder of some of the holdings in the portfolio, including an investment in Soul Patts. The Company has conflicts of interest policies to mitigate these conflicts with Rob and Tom Millner interests aligned with BKI shareholders, which mitigates these risks to some extent.
- ◆ There are limited portfolio guidelines with no individual stock or sector restraints. This combined with the long-term investment approach of the Manager has seen some stocks have a sizable position in the portfolio with the Manager hesitant to trim positions in some holdings historically. This may lead to the portfolio giving back some of the capital gains generated for stocks. We note that while the mandate allows the Manager flexibility with regards to the portfolio positioning, the Manager seeks to provide diversification by stock and sector.

- ◆ The Company seeks to payout the majority of the net income after tax, which is driven predominantly by the dividends and distributions received from the companies in the portfolio. In the event the income received from the companies in the portfolio declines, this may result in a decline in the dividend paid by the Company.

COMPANY OVERVIEW

BKI Investment Company Limited (ASX: BKI) is listed investment company (LIC) with a track record of over 20 years with the Company listing on the ASX in December 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 Soul Patts, 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 20 years, the Company has grown the AUM through absolute performance, capital raisings and acquisitions of unlisted companies to have 804.9 million fully paid ordinary shares on issue and a market capitalisation of over \$1.4 billion as at 31 July 2024.

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, the transition of the externalisation of the management of the portfolio was relatively seamless.

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 quality ASX-listed securities. The Company's policy is to pay out 90%-95% of its underlying net profit after tax.

The Company provides exposure to a long-only portfolio that is moderately 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 and underweight the Materials 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 and there is no specific mandate to outperform the market. The differentiated portfolio will result in differentiated returns to the broader market.

The Manager has a research-driven, bottom-up fundamental investment approach. The investment philosophy and process has remained largely unchanged throughout its history with the Manager focused on investing in quality companies for the long-term. While the core of the investment process has remained unchanged there have been improvements made at the margins such as the addition of more thorough ESG analysis and input into the process.

The Manager is a long-term investor with a very 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.

The Company pays a management fee of 0.10% p.a of the total assets of BKI, payable monthly. No performance fee is applicable.

BOARD & INVESTMENT MANAGER UPDATE

Board

The BKI Board comprises five Directors, all of which are highly qualified. Four of the five board members are part of the Investment Committee (IC), which provides oversight over the investment portfolio implemented by the Manager.

There has been little change to the Board since listing. The most recent addition was Jacqueline Clarke, who was appointed as a Director in January 2022. The appointment is welcomed for a number of reasons: (1) this the first refreshment to the Board and the Investment Committee since 2009; (2) the appointment improves corporate governance with the Board now majority independent; and (3) Jacqueline adds some diversity to the Board.

The Board all have an interest in BKI, with Robert Millner and Ian Huntley having a significant interest in the Company, aligning the interests of the Board with shareholders.

Board of Directors					
Name	Role	Independent/Non-Independent	Appointed to Board	Shares in BKI	Investment Committee
Robert Millner AO	Chair	Non-Independent	Oct-03	11,572,316	Yes
David Capp Hall AM	Director	Independent	Oct-03	3,050,899	No
Ian Thomas Huntley	Director	Independent	Feb-09	11,300,452	Yes
Alexander James Pyne	Director	Non-Independent	Oct-03	598,073	Yes
Jacqueline Ann Clarke	Director	Independent	Jan-22	95,053	Yes
Total				26,616,793	

Investment Manager

The portfolio is managed by Contact Asset Management (the "Manager"). The Manager was established in 2016 by Tom Millner and Will Culbert. At the time of establishment Tom and Will each owned 40% of the Manager with the remaining 20% owned by Soul Patts.

In 2021, Tom and Will acquired the 20% stake from Soul Patts to make the Manager 100% employee owned. In 2022, equity in the Manager was issued to two employees, Jakov Males and Rob Horne. Jakov left the Manager in 2023, at which time Tom and Will acquired Jakov's 5% stake. This 5% stake has since been issued to Rob Horne with Tom and Will now having a 45% interest each and Rob Horne having the remaining 10% interest of the Manager.

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 currently manages two strategies/mandates: (1) BKI; and (2) Contact Australian ex-50 Fund and has ~\$1.55 billion AUM. The ex-50 Fund was established in March 2020 to complement BKI. The AUM remains small with \$50 million at present with plenty of capacity for growth. The Manager previously managed the WHSP Large Cap Portfolio, however the Manager ceased managing this in 2021.

AUM by Strategy (as at 30 June 2024)		
Strategy	AUM (\$m)	Capacity
BKI	\$1.5 billion	\$3.0 billion
Ex-50	\$50 million	\$1.2 billion, however the Manager has stated that it intends to soft close the fund at \$850 million.

There has been some turnover in the analyst ranks in recent years. Rob has now been with the Manager for five years, however the Manager has found it difficult to retain analyst talent. With the departure of Jakov, the Manager appears to be settled with the current team with the Manager having access to the Soul Patts resources if required. Given the long-term investment style of the Manager, the team is sufficient at present, however additional resources may be required if there is growth in the ex-50 AUM.

Tom is the Lead Portfolio Manager for BKI with Will being the Lead Portfolio Manager for the ex-50 fund. Both Tom and Will are the back-up Portfolio Manager's for the mandates.

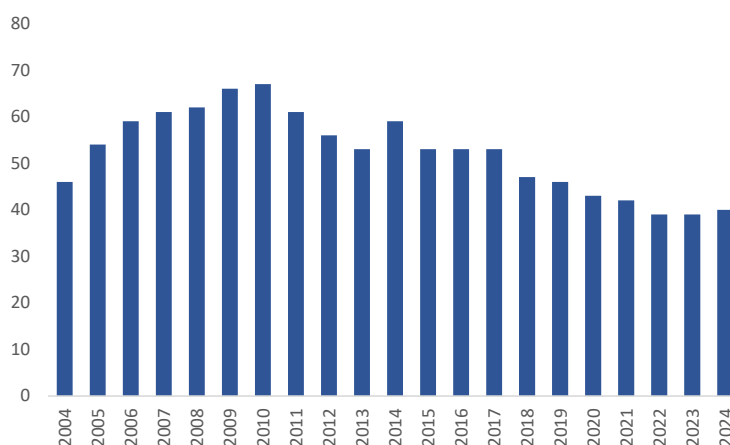
The Investment Committee (IC) provide support and oversight to the investment decisions, with the IC required to sign-off on all investment decisions.

Investment Team			
Name	Position	Tenure with Manager (years)	Industry Experience (years)
Tom Millner	Portfolio Manager	8	20+
Will Culbert	Portfolio Manager	8	20+
Rob Horne	Investment Analyst	5	7
Average		7	16

PORTFOLIO POSITIONING

BKI provides exposure to a moderately concentrated portfolio of ASX-listed securities with the portfolio typically comprising 40 to 50 securities. The below chart shows the number of positions in the portfolio as at 30 June each year since listing. The number of positions has ranged from 39 to 67 with the portfolio being more concentrated since Contact took over the management of the portfolio with 40 positions as at 30 June 2024.

Number of Securities as at 30 June

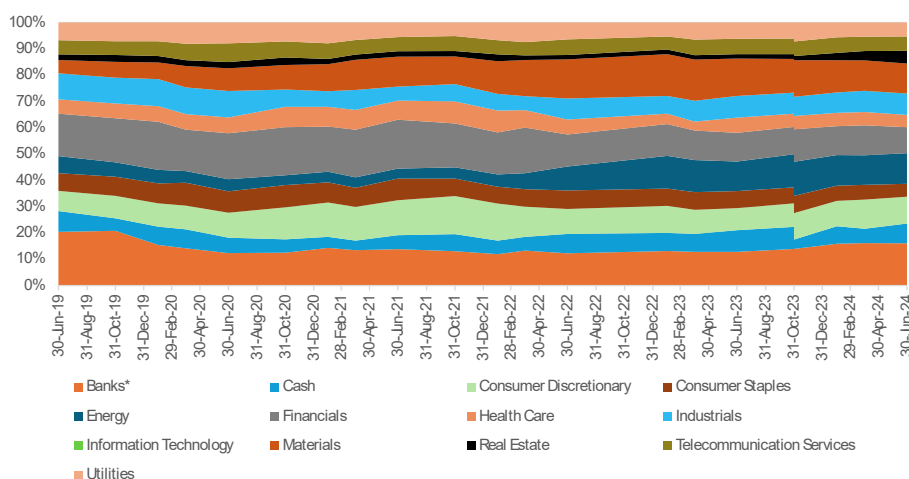


The Company seeks to provide exposure to a portfolio that is diversified by sector. The below provides the quarterly sector exposure of the portfolio over the five years to 30 June 2024.

Financials (including banks and other financials) has been the biggest exposure in the portfolio historically, which is to be expected given the fully franked income focus of the Company. Exposure to the sector has decreased over the five-year period with a decrease in the exposure to non-bank financials with the Company exiting a number of positions in asset management groups, some due to takeovers.

Exposure to Energy, Materials and Real Estate has been on the increase over the five year period. Real estate exposure has increased as a result of the Manager increasing its holdings in Stockland Corporation Limited and recently adding Mirvac to the portfolio. After growing from 5.1% at 30 June 2019 to 15.9% at 31 January 2023, exposure to the Materials sector was 11.4% as at 30 June 2024. After increasing exposure to this sector, the Manager has exited some of the positions in recent years, such as Fortescue Metals Group and most recently Rio Tinto. The increase to Energy has been a result of the addition of a number positions in the sector, some of which were a result of the acquisition of unlisted companies, as well as performance of the underlying companies.

Quarterly Sector Exposure (30 June 2019 to 30 June 2024)



The portfolio is concentrated to the top 10 holdings, which represented over 50% of the portfolio as at 30 June 2024. Given the concentration of some of the large cap stocks in the ASX, the Company needs to take a sizable position to show a level of conviction in large cap holdings.

Given the Soul Patts influence and the association of the Manager with the Millner family, there are some investments that the Company has that are aligned with the Soul Patts holdings. These have typically been acquired through acquisitions of unlisted companies and the holdings have largely been maintained or added to. This includes an investment in Soul Patts, which was acquired via an acquisition in FY22. The inclusion of Soul Patts in the portfolio means there is increased exposure to some of the holdings, such as New Hope Corporation Limited and Lindsay Corporation, company's in which Soul Patts is a substantial shareholder.

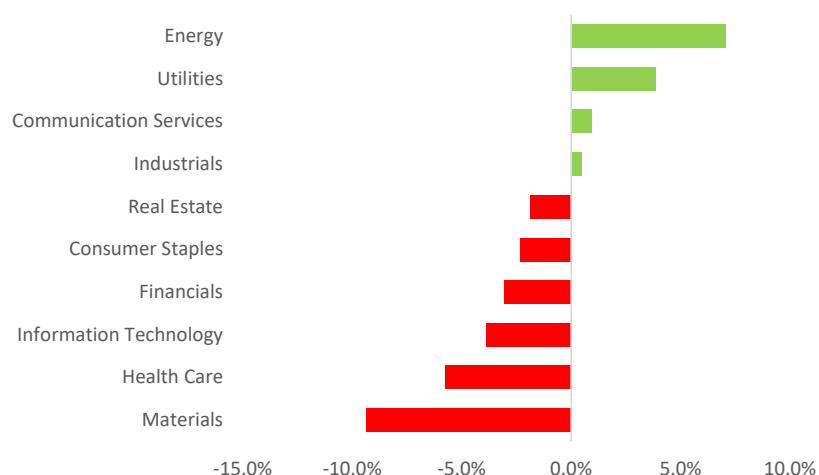
The Company seeks to generate a growing income stream over time and does not benchmark itself against an index for performance fees. However, below we have provided to top 10 holdings as at 30 June 2024 of the BKI portfolio and the respective weighting of these stocks in the S&P/ASX 300 Index to provide an indication as to the differences of the portfolio compared to an investment in the market. While the Manager is benchmark aware for position sizing, there are no requirements for the Manager to position the portfolio with respect to a benchmark.

Top 10 Holdings as at 30 June 2024

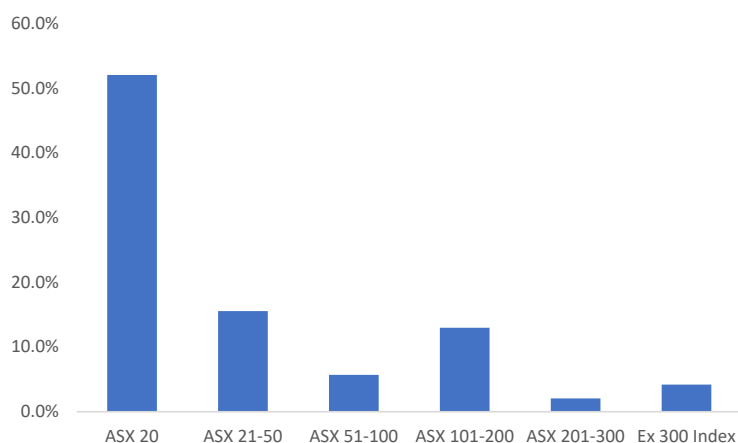
Company	Code	BKI Portfolio Weighting	S&P/ASX 300 Index	Active Weight
Commonwealth Bank of Australia	CBA	8.7%	8.3%	0.5%
BHP Group Limited	BHP	8.3%	8.4%	-0.1%
National Australia Bank Limited	NAB	7.4%	4.3%	3.0%
Macquarie Group Limited	MQG	6.9%	3.0%	3.8%
Wesfarmers Limited	WES	5.5%	2.9%	2.6%
APA Group	APA	5.3%	0.4%	4.9%
New Hope Corporation Limited	NHC	4.3%	0.2%	4.1%
Woodside Energy Group Limited	WDS	3.5%	2.1%	1.4%
Transurban Group	TCL	2.9%	1.5%	1.4%
Woolworths Limited	WOW	2.8%	1.6%	1.2%
Total		55.4%	32.6%	22.7%

As mentioned above, the portfolio is differentiated from the broader market. To further highlight the differences, below we provide the active sector allocation of the portfolio to the S&P/ASX 300 Index as at 30 June 2024. The largest relative overweight position as at 30 June 2024 was to the Energy sector, in large part due to the overweight position to NHC. The largest relative underweight position was to the Materials sector. This is a typical characteristic of the portfolio as the Manager focuses on earnings and dividend paying companies. A number of mining companies in this sector do not meet the investment requirements for the Manager and therefore will not feature in the portfolio.

The portfolio also has a relative underweight exposure to the Healthcare sector. While the portfolio includes some companies in this sector the Company is not invested in CSL, which is the largest healthcare company on the ASX. The Manager does not invest in CSL due to its low dividend yield.

Active Sector Exposure of BKI Portfolio to S&P/ASX 300 Index as at 30 June 2024

The portfolio is weighted to large cap stocks, with over 50% of the portfolio invested in ASX 20 stocks and 67.6% in ASX 50 stocks as at 30 June 2024. This reflects the concentration of the domestic market to large cap stocks with the Manager needing to take large positions in large cap stocks to show a level of conviction.

Market Cap Exposure (as at 30 June 2024)

The Manager invests for the long term with the portfolio managed in a tax aware manner. This results in the portfolio having a low portfolio turnover. Over the last five financial years the portfolio has had an average annual portfolio turnover of 8.3%.

Annual Portfolio Turnover

FY20	7.7%
FY21	11.3%
FY22	11.5%
FY23	3.7%
FY24	7.1%
Average	8.3%

Source: BKI Annual Reports, IIR.

PERFORMANCE ANALYTICS

Below we take a look at the performance of the BKI portfolio and share price. The portfolio performance is represented by the NTA, which includes tax paid on realised gains and is before tax on unrealised gains. BKI does not have a mandate to outperform a benchmark, however we have included the performance of the S&P/ASX 300 Accumulation Index for illustrative purposes to highlight the characteristics of an investment in the Company compared to the broader market.

Since listing, the portfolio and the share price has delivered long-term growth. The move of the share price from a discount to a premium over the long-term has resulted in the share price outperforming the NTA for a large portion of the Company's history. The portfolio and shareholder returns have underperformed the S&P/ASX 300 Accumulation Index since listing with the portfolio performance starting to underperform the market from the end of 2016.

Cumulative Total Return



*NTA includes tax on realised gains.

Source: BKI, IIR.

The below table looks at the performance metrics of the NTA and share price to 30 June 2024 over a range of periods. Over the 12-months to 30 June 2024, the share price materially underperformed the NTA due to the share price not keeping up with the increase in the NTA over the period, resulting in an expanding discount. Over the longer-term, as mentioned above, the NTA has underperformed the broader market, with the NTA delivering a return of 5.9% p.a. over the 10-years to 30 June 2024 compared to 8.0% p.a. for the S&P/ASX 300 Accumulation Index.

While the portfolio has underperformed on an absolute basis, the NTA has experienced lower volatility than the market. This is to be expected given the focus on quality companies, despite the concentration of the portfolio compared to the broader market. The lower volatility has not made up for the absolute underperformance though with the NTA underperforming on a risk-adjusted basis over the long-term.

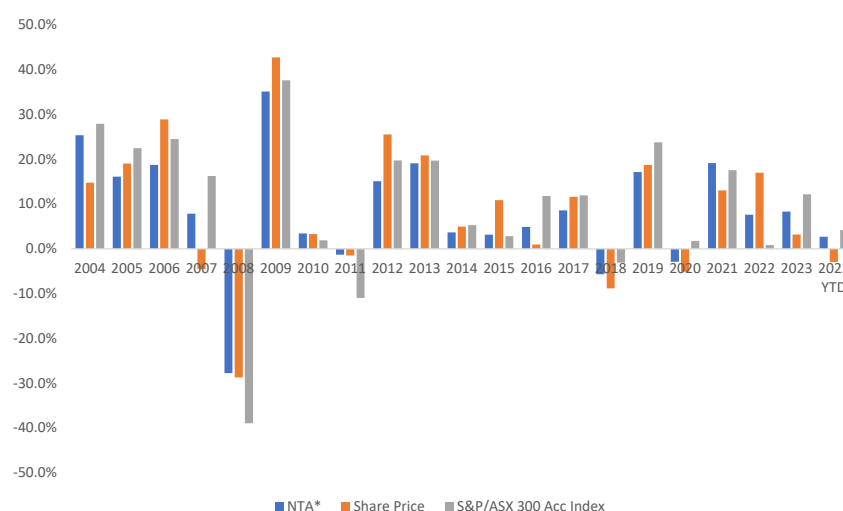
Performance Metrics (as at 30 June 2024)			
	NTA*	Share Price	S&P/ASX 300 Acc. Index
Cumulative Total Return:			
1 year	9.2%	1.8%	11.9%
3 year (p.a.)	7.0%	6.0%	6.1%
5 year (p.a.)	6.2%	6.1%	7.2%
10 year (p.a.)	5.9%	4.9%	8.0%
Standard Deviation:			
1 year	10.1%	10.3%	11.5%
3 year (p.a.)	12.1%	9.7%	13.7%
5 year (p.a.)	14.9%	16.2%	16.6%
10 year (p.a.)	12.9%	13.6%	14.1%

Performance Metrics (as at 30 June 2024)			
	NTA*	Share Price	S&P/ASX 300 Acc. Index
Tracking Error:			
1 year	3.4%	9.4%	na
3 year (p.a.)	4.2%	9.9%	na
5 year (p.a.)	5.1%	11.0%	na
10 year (p.a.)	4.0%	10.8%	na

*NTA includes tax on realised gains.

The below chart shows the calendar year returns of the NTA and the share price compared to the S&P/ASX 300 Accumulation Index since listing. The chart highlights what you can expect from the BKI portfolio. During years of negative market returns, the portfolio has typically experienced lower drawdowns than the market, with smaller and speculative stocks often underperforming in negative markets. While the portfolio has offered capital preservation in down markets it has often given up some of the upside in strong markets. These typify the characteristics of the BKI portfolio and what investors can expect from an investment in the Company.

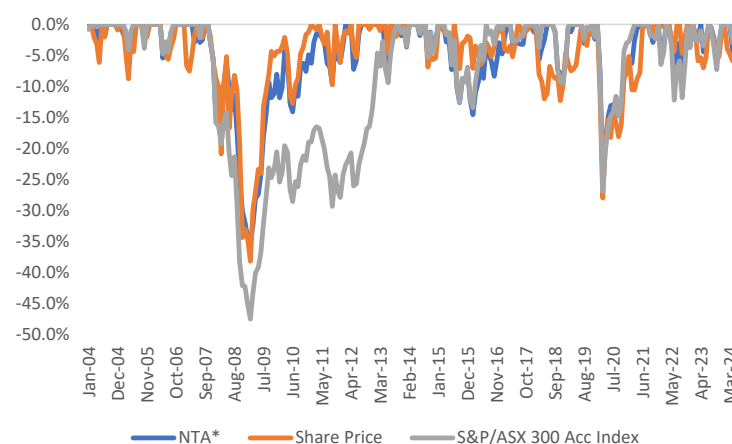
Calendar Year Returns



*NTA includes tax on realised gains.

The above comments regarding the portfolio providing capital preservation in down markets is further highlighted below. During periods of strong drawdowns, such as 2008, the portfolio fell less than the market and recovered quicker than the market during this period.

Maximum Drawdown

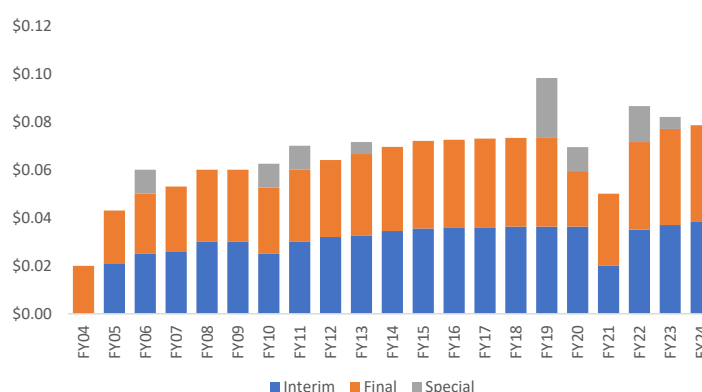


Dividends

The Company has a focus on generating a steady and growing fully franked income stream for shareholders. The Company has largely achieved this with the Company maintaining or increasing ordinary dividends in most periods. The notable exceptions are in FY20 and FY21, a period in which a number of companies in the portfolio (and the market as a whole) cut or suspended dividends as a result of the uncertainty from the Covid-19 pandemic. This resulted in the Company receiving less dividends and distributions from the underlying investments and cutting dividends as a result. Dividends rebounded once the companies in the portfolio returned to more regular dividend payment schedules with the Company paying its largest ordinary dividend for the FY24 period. All dividends paid to date have been fully franked.

As shown in the below chart, the Company pays dividends when special dividends are received by the underlying investments.

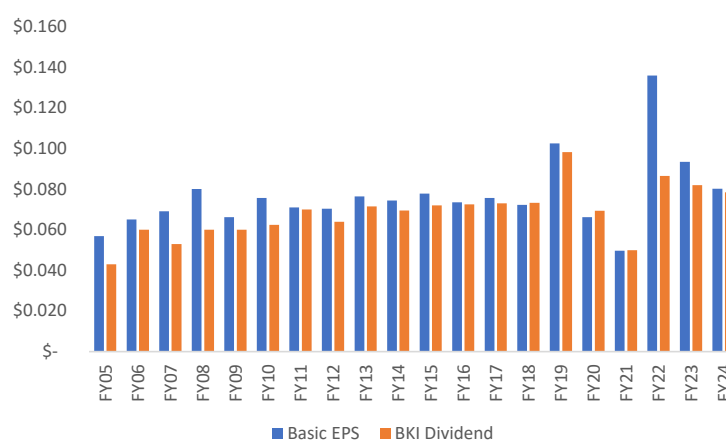
Historic Dividend Payments Declared by Financial Year



The Company seeks to payout 90%-95% of the net profit after tax on an annual basis. This is reflected in the below chart which shows that annual dividends have largely reflected the Company's basic EPS, which includes income received from the companies in the portfolio and cash holdings, minus operating expenses and tax. The basic EPS does not include realised and unrealised capital gains from the portfolio, with the exception of gains from the trading portfolio which are typically immaterial.

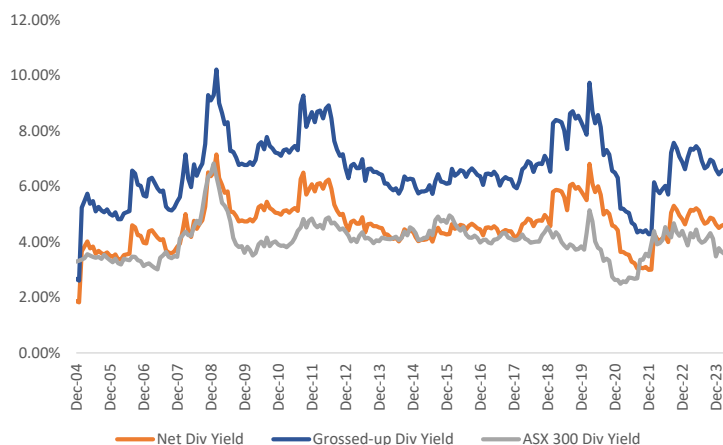
The dividend policy of the Company means that dividends will reflect the income received from the underlying companies in the portfolio. While the dividends have grown in most years, there have been periods where the income received from the portfolio has declined. Most notably in FY20 and FY21 for the reasons discussed above.

EPS vs Full Year Dividend Declared



From a yield perspective, the Company has offered an above market dividend yield for the most part with an attractive grossed-up yield of 6.65% on average. Given the focus on dividends and dividend yield from the underlying investments, we would expect the Company to deliver an above-market dividend yield.

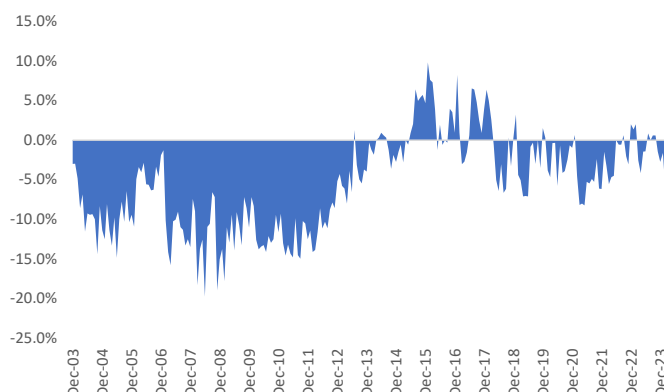
Trailing 12-month Dividend Yield



Premium/Discount

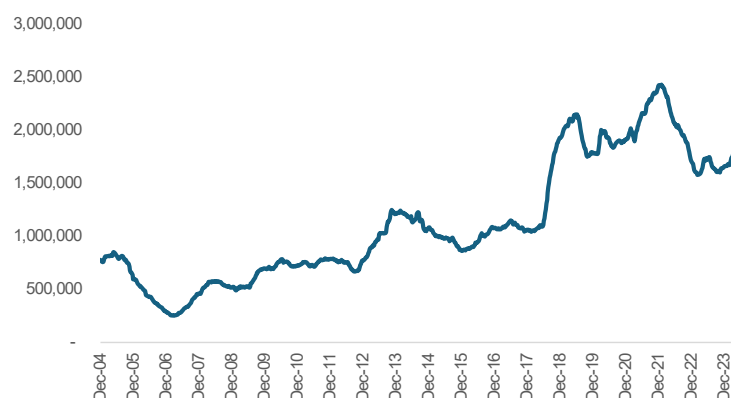
BKI has traded at both discounts and premiums throughout its history. For the first 10 years the Company predominantly traded at a discount but as the Company grew in size and liquidity improved the discount narrowed and has traded within a +/-10% range of the NTA over the last decade. The Company has been trading at a discount in recent months. There are two key factors that IIR believes are driving the discount: (1) increased interest rates and 10-year bond yields providing investors alternative opportunities to access yield; (2) uncertain economic outlook which may increase market volatility given market valuations are considered stretched.

Historic Premium/Discount to NTA (month-end data)



One of the key drivers of the Company trading in a range around the NTA has been the improved liquidity. The below chart shows the rolling 12-month average weekly volume, which has improved significantly over time. When looked at with the chart above, you can see the correlation of the narrowing of the discount with the increased liquidity.

Rolling 12-month Average Weekly Volume



Source: BKI, Iress, IIR.

PEER COMPARISON

The below provides a comparison of the key features and performance of BKI to its peers. The peer group includes LICs that have a focus on large cap Australian equities. While all the LICs in the peer group have a focus on large cap stocks, each of them have a different strategy and mandate. For example, BKI has a long-term, low turnover investment approach. This compares to WLE, which has a highly active style of investing and PIC which has the ability to invest up to 30% of the portfolio in international stocks.

From a size perspective, BKI has a market cap of over \$1 billion and is therefore competitive from a size and liquidity perspective. BKI, PIC and WLE are all externally managed, however the fees have remained very competitive for the management of the BKI portfolio despite the portfolio now being externally managed.

Peer Group Key Features						
LIC	Code	Structure	Market Cap (\$m)*	Management Fee, ex GST	Performance Fee	Performance Fee Hurdle
Australian Foundation Investment Company Limited	AFI	LIC	\$8,948.7	0.15%	na	na
AMCIL Limited	AMH	LIC	\$346.9	0.46%	na	na
Argo Investments Limited	ARG	LIC	\$6,577.1	0.16%	na	na
Australian United Investment Company Limited	AUI	LIC	\$1,293.2	0.10%	na	na
BKI Investment Company Limited	BKI	LIC	\$1,352.3	0.10%	na	na
Perpetual Investment Company	PIC	LIC	\$470.2	1.00%	na	na
Whitefield Industrials Ltd	WHF	LIC	\$601.1	0.23%	na	na
WAM Leaders Limited	WLE	LIC	\$1,597.6	1.00%	20.0%	S&P/ASX 200 Acc Index

*As at 30 June 2024.

Source: ASX, Company/Trust documents, IIR.

The below table shows the trailing 12-month net and grossed-up dividend yield as at 30 June 2024 for the peer group as well as the premium/discount at which the LICs were trading. Compared to its peers, BKI has an attractive grossed-up dividend yield at 6.68% as at 30 June 2024. The two largest grossed-up dividend yields are PIC and WLE, both of which utilise capital gains to pay an above-market yield.

Discounts in the LIC market are a trend at the moment with all LICs in the peer group trading at a discount to NTA, with some, such as BKI, trading at the largest discount in some time. This trend is related to improved bond yields as a result of the increase in interest rates, combined with a strong equity market with valuations looking stretched at current levels and an uncertain economic backdrop.

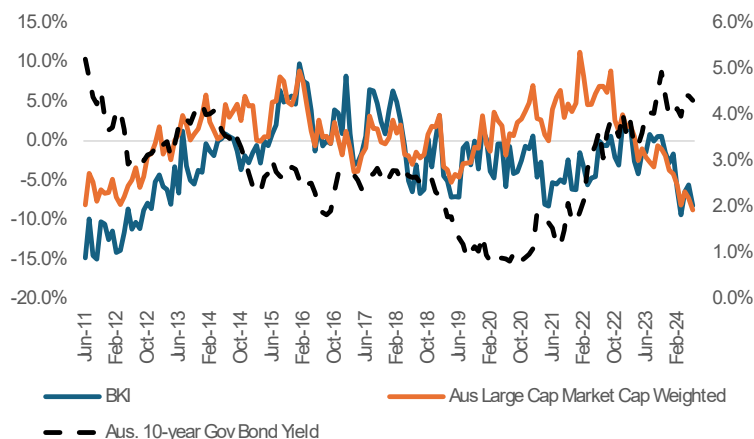
Trailing 12-month Dividend Yields & Premium/Discounts as at 30 June 2024				
LIC	Code	Trailing 12-month Net Dividend Yield	Trailing 12-month Grossed-up Dividend Yield	Premium/Discount to NTA
Australian Foundation Investment Company Limited	AFI	3.57%	5.09%	-9.3%
AMCIL Limited	AMH	4.55%	6.49%	-12.7%
Argo Investments Limited	ARG	3.99%	5.70%	-10.1%
Australian United Investment Company Limited	AUI	3.55%	5.07%	-11.2%
BKI Investment Company Limited	BKI	4.67%	6.68%	-8.2%
Perpetual Investment Company	PIC	6.48%	9.25%	-6.0%
Whitefield Industrials Ltd	WHF	4.00%	5.72%	-11.0%
WAM Leaders Limited	WLE	7.19%	10.28%	-4.4%

To further highlight the market dynamics when it comes to premium and discounts, the below chart shows the BKI premium/discount to NTA and the historical market cap weighted premium/discount for Australian large cap LICs over the last 13 years. Australian

large cap LICs as a whole have moved from a premium to a discount over the last two years with the category trading at its largest discount over the period at as 30 June 2024.

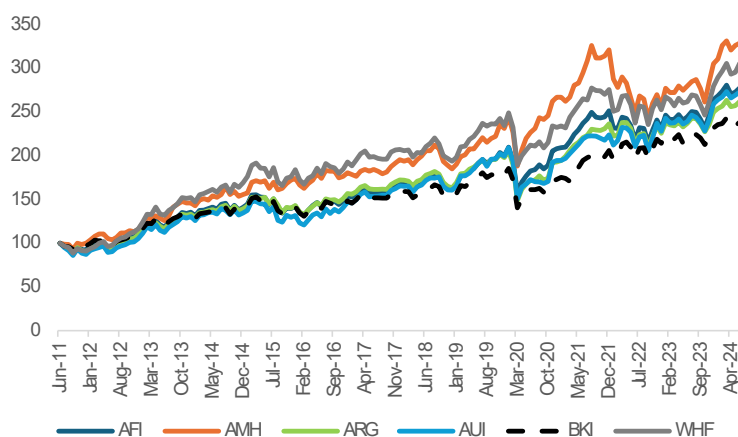
One of the key driving factors of the LICs trading at a discount is the increase in the Australian 10-year Government Bond Yield, which we have overlayed in the below chart. The chart shows that there is clearly a correlation between the increase in Government bond yields and the discount at which Australian large cap LICs have traded.

BKI and Market Cap Weighted Premium/Discount



From a performance perspective, BKI's portfolio has underperformed its peers over the longer-term with the below showing the NTA cumulative total returns from 30 June 2011 to 30 June 2024. PIC and WLE do not have sufficient track record and are therefore not included in the below chart. AMH and WHF have been the best performers in this regard. AMH is a concentrated all cap portfolio, that is weighted to large cap stocks and WHF focuses on industrial stocks. We note BKI's portfolio has experienced lower volatility than its peers.

NTA* Cumulative Total Return



*NTA is after tax on realised gains and before tax on unrealised gains.

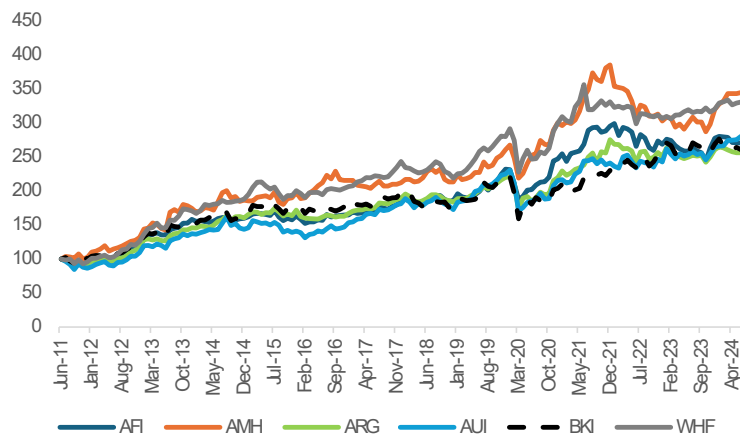
NTA* Risk & Returns (as at 30 June 2024)

	AFI	AMH	ARG	AUI	BKI	PIC	WHF	WLE
Total Cumulative Returns								
1 year	13.4%	17.5%	10.4%	14.2%	9.2%	7.8%	16.7%	0.7%
3 year (p.a.)	5.4%	3.7%	5.9%	7.6%	7.0%	3.5%	4.8%	5.4%
5 year (p.a.)	7.7%	8.9%	6.5%	7.4%	6.2%	8.9%	6.0%	7.5%
10 year (p.a.)	7.2%	8.0%	6.7%	7.4%	5.9%	na	6.8%	na
Standard Deviation								
1 year	12.4%	14.8%	9.9%	11.8%	10.1%	11.0%	13.4%	12.0%
3 year (p.a.)	13.9%	16.7%	12.3%	13.7%	12.1%	13.2%	15.5%	12.2%
5 year (p.a.)	15.7%	17.5%	16.0%	17.2%	14.9%	16.4%	16.6%	14.2%
10 year (p.a.)	13.5%	14.4%	13.4%	15.0%	12.9%	na	14.6%	na

*NTA is after tax on realised gains and before tax on unrealised gains.

BKI has also performed towards the bottom-end of the peer group with regards to shareholder returns, reflecting the lower NTA returns, with the share price underperforming the majority of its peers over the 12-months to 30 June 2024.

Share Price Cumulative Total Return



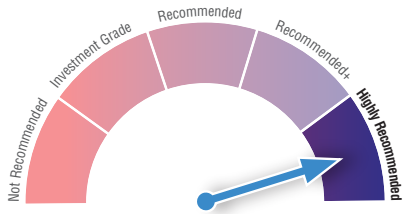
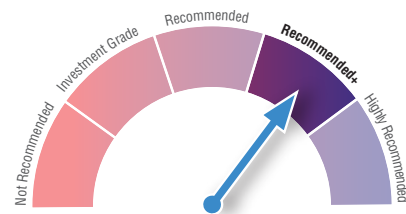
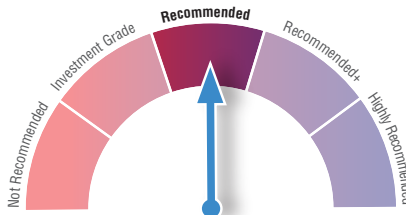
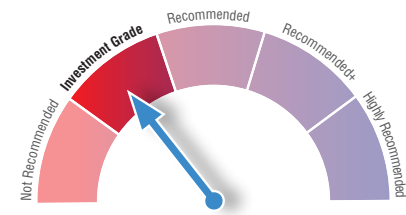
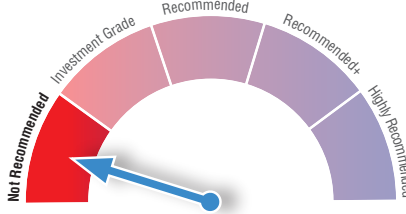
Share Price Risk & Returns (as at 30 June 2024)

	AFI	AMH	ARG	AUI	BKI	PIC	WHF	WLE
Total Cumulative Returns								
1 year	4.8%	15.0%	2.6%	10.6%	1.8%	13.2%	3.5%	-7.0%
3 year (p.a.)	0.2%	0.7%	2.5%	4.7%	6.0%	3.9%	-2.5%	-1.4%
5 year (p.a.)	6.3%	8.7%	5.0%	6.9%	6.1%	9.6%	5.1%	9.0%
10 year (p.a.)	5.4%	6.5%	5.1%	6.9%	4.9%	na	6.2%	na
Standard Deviation								
1 year	11.8%	10.7%	7.5%	7.5%	10.3%	14.1%	5.1%	7.6%
3 year (p.a.)	12.3%	12.4%	11.5%	10.4%	9.7%	12.2%	9.2%	11.1%
5 year (p.a.)	13.9%	14.2%	14.5%	14.7%	16.2%	16.7%	14.3%	15.8%
10 year (p.a.)	11.2%	12.4%	11.5%	13.1%	13.6%	na	11.7%	na

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

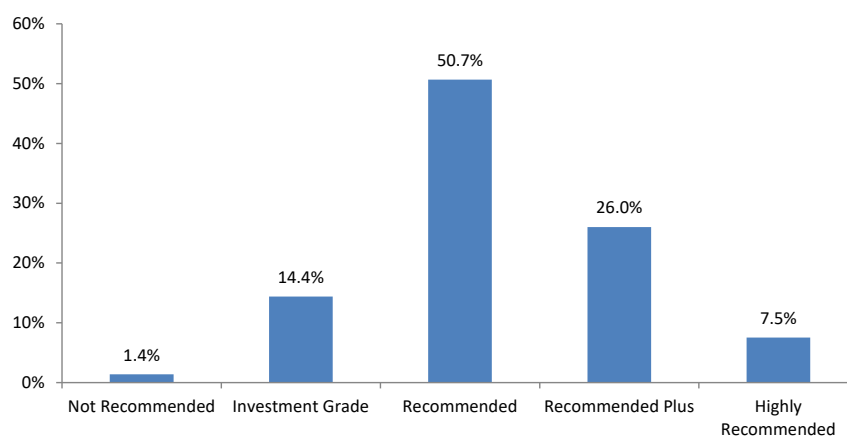
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction;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

LMI Ratings	SCORE
Highly Recommended	83 and above
 <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>	
Recommended +	79–83
 <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>	
Recommended	70–79
 <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>	
Investment Grade	60-70
 <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>	
Not Recommended	<60
 <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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For further information, please contact IIR at: client.services@independentresearch.com.au



Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE

Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE

Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

HONG KONG OFFICE

1303 COFCO Tower
262 Gloucester Road
Causeway Bay, Hong Kong

DENVER OFFICE

200 Quebec Street
300-111, Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS

PO Box H297 Australia Square
NSW 1215