



# *BKI Investment Company Limited*

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FY2016 ANNUAL GENERAL MEETING



## *BKI Investment Company Limited*

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CHAIRMAN'S ADDRESS

# *Disclaimer*



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Investors should consult their financial adviser in relation to any material within this document.

## *Non Executive Directors*



**Robert Millner**     Chairman of the Board  
Chairman of the Investment Committee  
Member of the Remuneration Committee

**David Hall AM**     Independent Non-Executive Director  
Chairman of the Audit Committee  
Member of the Nomination Committee; Remuneration Committee

**Alex Payne**        Non-Executive Director  
Chairman of the Remuneration Committee  
Member of the Audit Committee, Investment Committee; Nomination Committee

**Ian Huntley**        Independent Non-Executive Director  
Member of the Audit Committee, Investment Committee; Remuneration Committee

## *Management*

Tom Millner	Chief Executive Officer Investment Committee
Will Culbert	Portfolio Manager Investment Committee
Jaime Pinto	Company Secretary Corporate Administration Services

## *Auditors*

Brian Wheeler	MGI Sydney
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**12Yr Total  
Shareholder Return<sup>#</sup>**

**11.3%** pa

As at 30 June 2016

**Low  
Portfolio  
Turnover**

**7.1%**

Yearly average  
as at 30 June 2016

**Market  
Cap  
\$946m**

**14,358  
Shareholders**

**Management  
Expense  
Ratio**

**0.16%**

As at 30 June 2016

**Franking  
Credits  
\$25m**

As at 30 June 2016

**Dividend  
Yield  
6.6%**

\*Grossed up, as at 30 June 2016

**Experience**

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

\* Assumes a tax rate of 30% # Total Shareholder Return including Franking Credits

## FY2016 Result Highlights



	FY 2016	FY 2015	Growth
Income from Operating Activities*	\$43.8m	\$44.6m	-2%
Net Operating Result*	\$41.2m	\$40.9m	+1%
Earnings Per Share*	7.16cps	7.40cps	-3%
Total Ordinary Dividends Per Share	7.25cps	7.20cps	+1%
Management Expense Ratio (MER)	0.16%	Down from 0.18% at Full Year 2015	

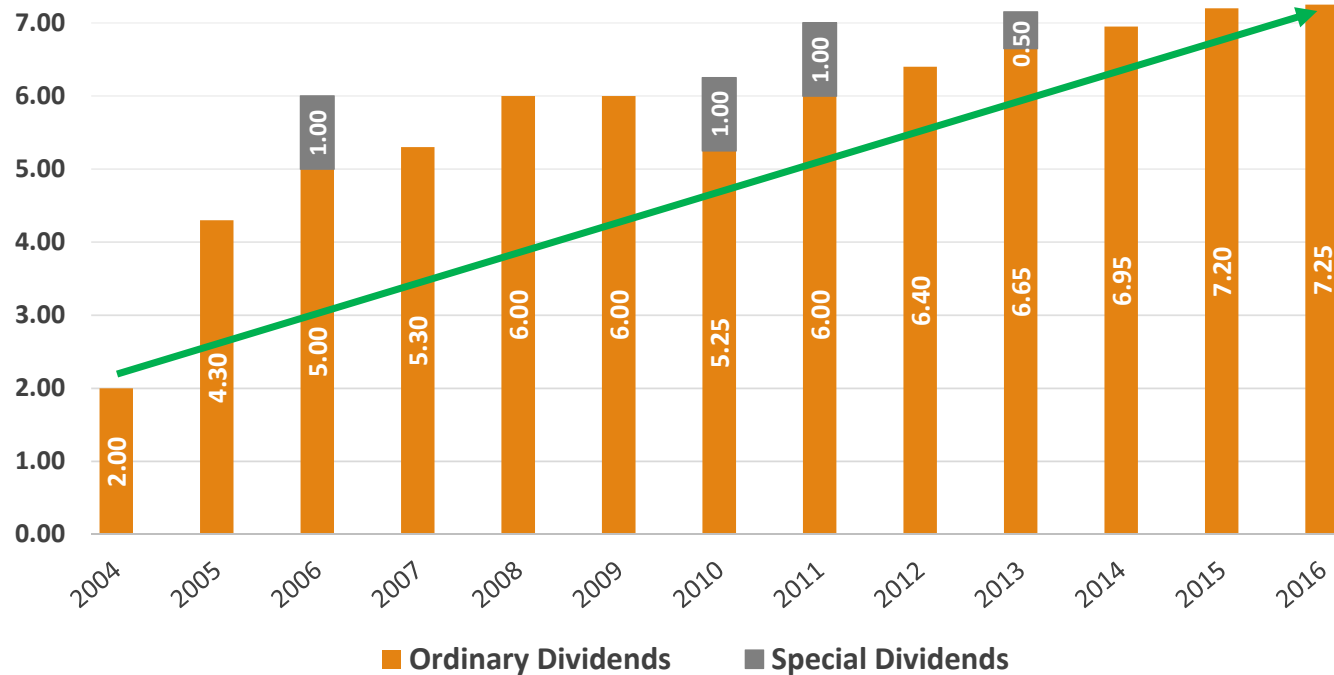
\* Excluding Special Investment Revenue

*Growing Fully  
Franked Dividend*

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

## Dividend History

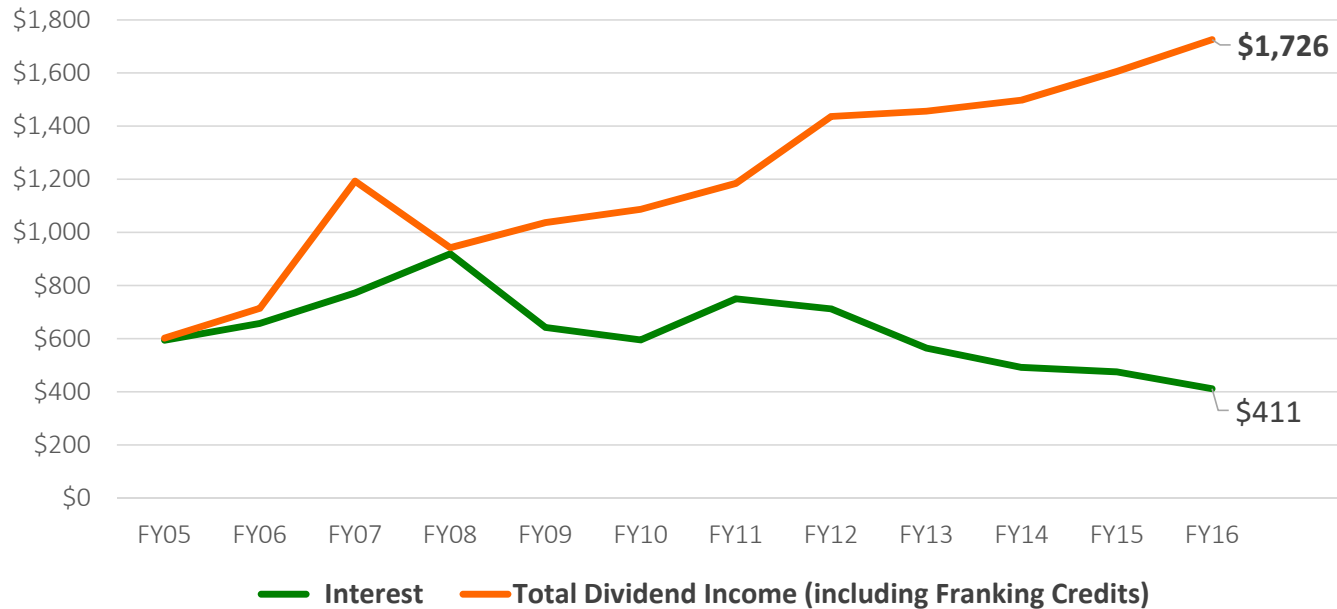
We focus on creating wealth for all shareholders by keeping costs low and increasing fully franked dividends and capital growth.





# Income Generation

Dividends + Franking Credits received from a \$10,000 investment in BKI at inception V's Bank Quarterly Interest.



*Highlights the opportunity of receiving a fully franked dividend in a falling interest rate environment.*

Source: BKI, Bloomberg. An investor who spent the equivalent of \$10,000 to purchase BKI shares upon listing in December 2003 would now be receiving fully franked dividends of \$1,208pa. The franking credits enhance the income by a further \$518, assuming a tax rate of 30% (total income of \$1,726). The same investment in a term deposit (based on the cash rate + 0.50%) would be earning \$441pa with no franking credits. Figures include reinvestment of dividends and cash, Ignores capital appreciation of BKI shares.

# Purchases and Sales

*Net asset values of the acquired unlisted investment companies.*



During FY2016 BKI Investment Company completed the acquisition of three unlisted investment companies:

1. 6 August 2015 Net assets of approximately \$17m
2. 5 February 2016 Net assets of approximately \$8m
3. 5 February 2016 Net assets of approximately \$7m

**Total Net assets of approximately \$32m**

The portfolios acquired were a good fit with BKI's existing portfolio, and were not EPS dilutive.

An investment in BKI will now provide the vendors with administration simplicity as well as access to a low cost, diversified equity portfolio, with an aim to increasing fully franked dividend distributions and capital growth.



## *BKI Investment Company Limited*

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CONTACT ASSET MANAGEMENT

## Contact / BKI Structure

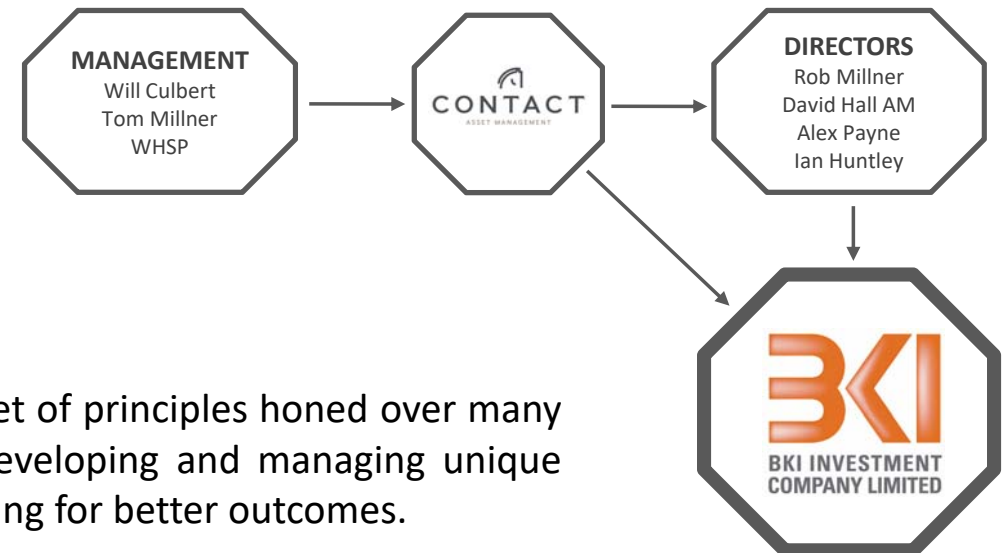
BKI's portfolio will be managed by Contact Asset Management Pty Ltd ("Contact") from 1<sup>st</sup> November 2016.

Contact is fully owned by Tom Millner, Will Culbert and WHSP.

Contact will be an innovative investment stable, implementing a set of principles honed over many generations. They invest alongside shareholders and focus on developing and managing unique products to create long term wealth. They are committed to investing for better outcomes.

Contact's Management Team has an average of 16 years of experience - especially in the listed investment company industry.

The Management Team at BKI has continually outperformed and has a long history of growing capital and increasing fully franked dividends to shareholders.





## *Benefits to BKI*

This new structure will provide BKI Shareholders with a number of key benefits including:

- Expected to be EPS accretive for BKI shareholders;
- Protecting BKI's competitive Management Expense Ratio ("MER");
- Flat investment management fee to Contact of 0.10% of BKI's Total Assets per annum.
- Contact will not charge a performance fee to BKI.
- BKI shareholders will have access to further investment management resources and investment ideas;
- Continued alignment of the Management team through a long-term, Investment Management Agreement ("IMA") and through the existing BKI shares already held by the principals of Contact.

Mr Tom Millner and Mr Will Culbert have surrendered all outstanding BKI incentive plan rights, both Long-Term and Short-Term.



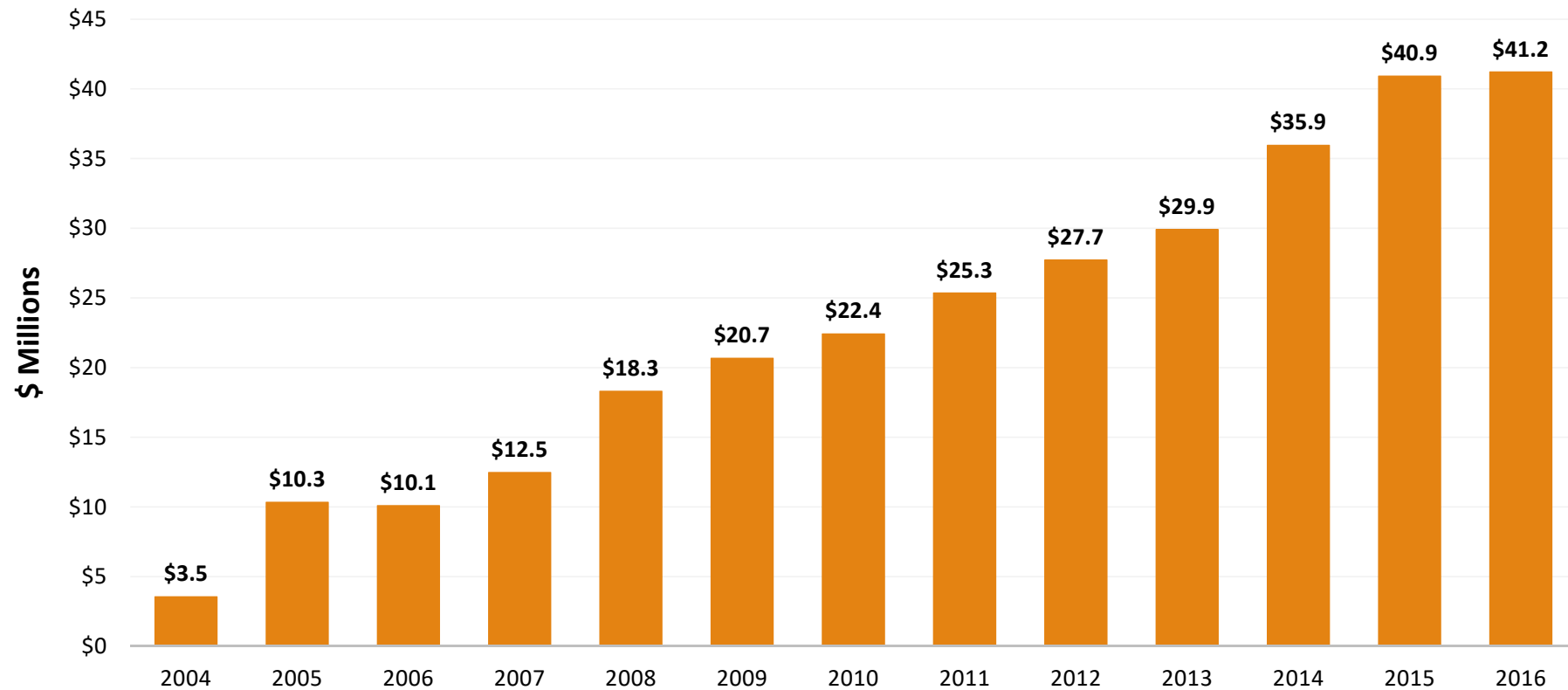
## *BKI Investment Company Limited*

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CEO ADDRESS

# Net Operating Result

FY2004 – FY2016



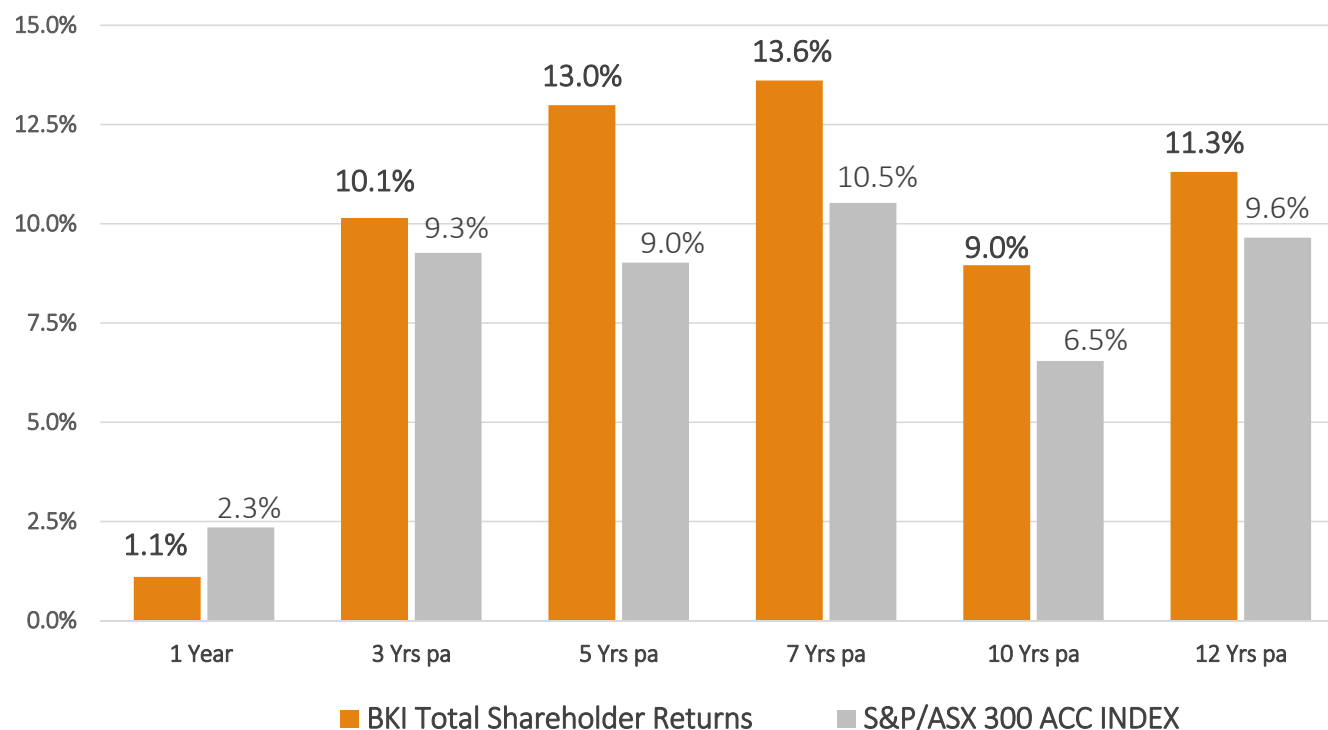
*Total Shareholder Returns including the benefit of franking credits passed on from BKI to shareholders.*

*BKI has ample franking credits to ensure dividends are fully franked into the future.*

## Total Shareholder Returns

Including Franking Credits

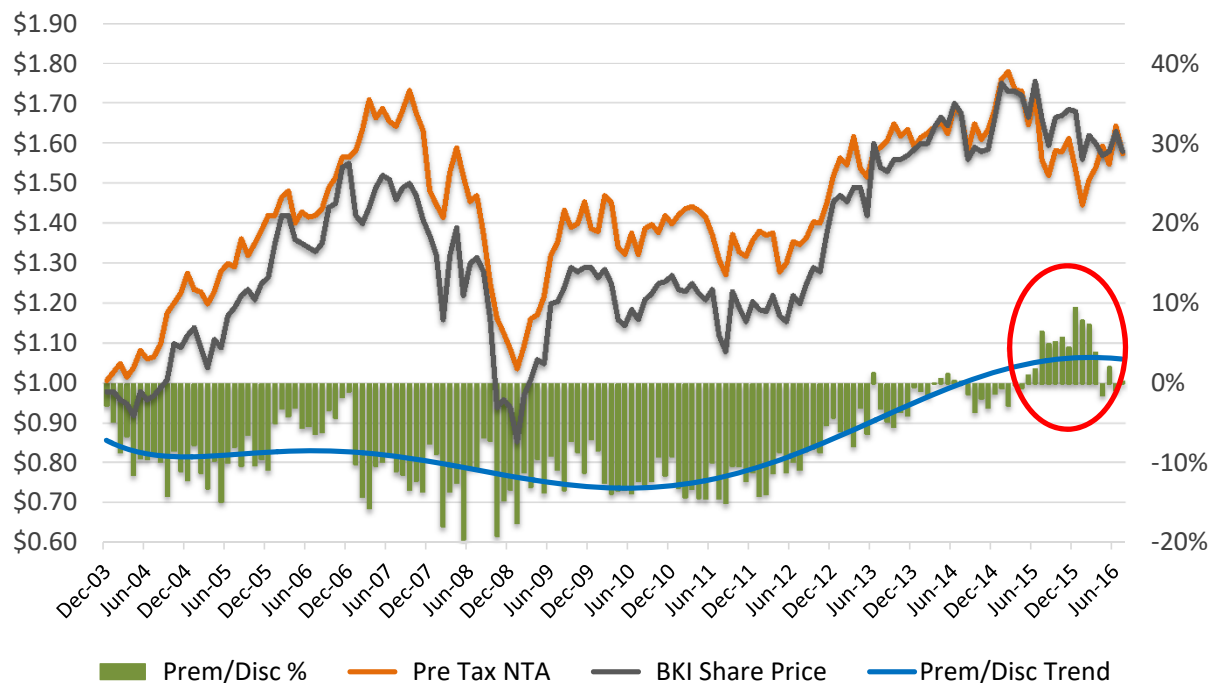
As at 30 June 2016



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



# Total Shareholder Returns



## Notable Underweight Positions

Notable Underweight Positions	1 Year Return	Dividend Yield
Resolute Mining	623.6%	0.75%
Whitehaven Coal	152.5%	0.00%
Bluescope Steel	103.0%	1.12%
Dominos Pizza	79.5%	1.36%
Newcrest Mining	79.1%	0.43%
Cochlear Limited	67.7%	2.30%
REA Group	29.7%	2.07%
CSL Limited	21.6%	1.55%

# *Share Purchase Plan*



- BKI Raised \$28.2m under the SPP, which closed on Thursday 28 April 2016.
- SPP Shares were issued at \$1.55 per share.
- New shares issued were entitled to the Fully Franked Final dividend of 3.65cps.

# *Stock selection Process*

BKI is a research driven, active equities manager investing for the long term in profitable, high yielding, well managed companies. Stock selection is bottom up, focusing on the merits of individual companies rather than market and economic trends.



BKI is focused on investing in stocks using the 5 basic fundamentals below as part of the stock selection process:

1. Income - Dividend Yields, Franking Credits, Pay Out Ratios
2. Principal Activity - Sustainable Business Model, Competitive Advantage
3. Debt Levels - Gearing Ratios, Net Interest Coverage
4. Management and Board - Alignment, Board Meeting Attendance, History of Creating Shareholder Wealth
5. Earnings and Valuations - Earnings Profiles, PE Multiples, EV/EBITDA Multiples

# Purchases and Sales

Main purchases and sales from the Investment Portfolio, excludes any portfolio movements from the acquired unlisted investment companies.



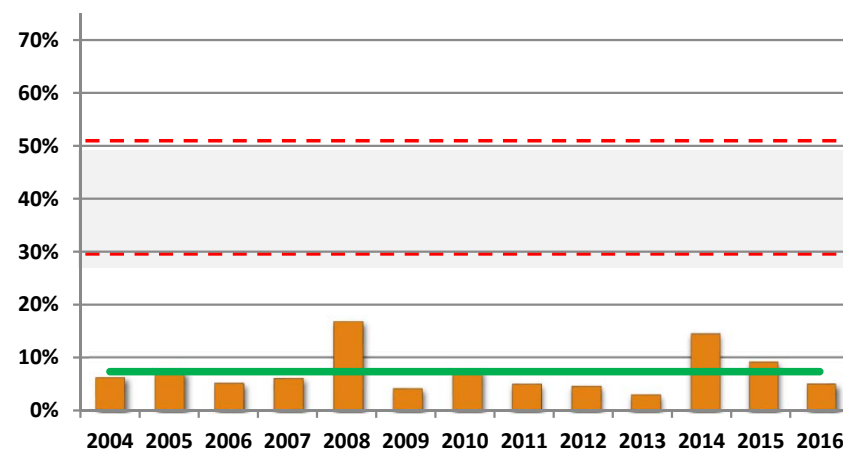
## Main Purchases

Challenger Limited  
 Commonwealth Bank  
 ANZ Banking Group  
 Macquarie Group  
 Qube Logistics  
 Telstra Corporation  
 Ramsay Healthcare  
 Caltex Australia  
 APA Group  
 Sydney Airports

## Main Sales

Bendigo & Adelaide Bank  
 BHP Billiton  
 Rio Tinto  
 Clydesdale Bank

Low Portfolio Turnover



— BKI Average Portfolio Turnover = 7.3%  
 - - - Typical Active Equity Manager Portfolio Turnover = 30% - 50%+  
 (Average Turnover = (Total Sales + Total Purchases) / Total Assets)

# BKI Portfolio – Top 25 Shareholdings as at 30 June 2016



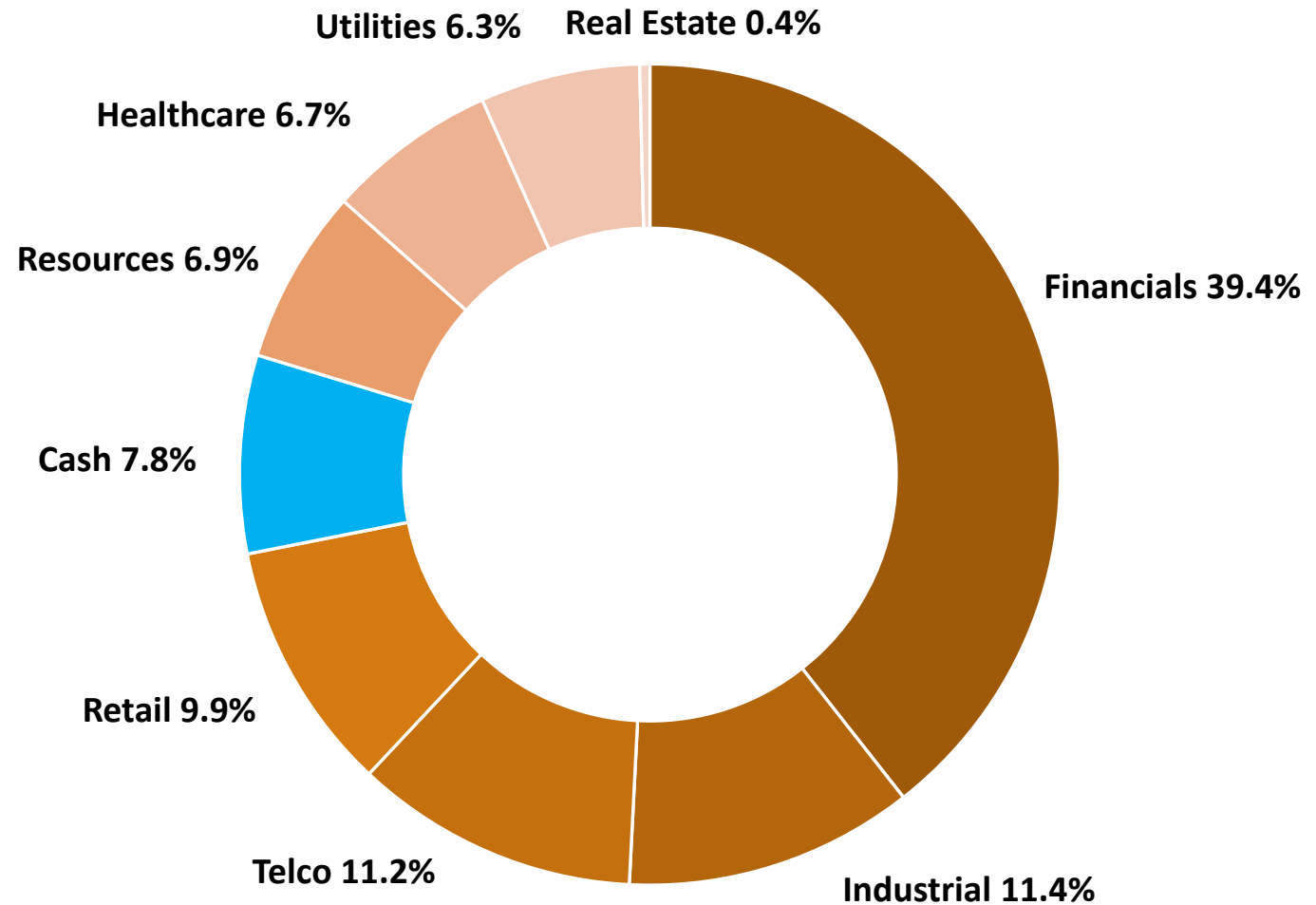
	<i>Stock</i>	<i>% of Total Portfolio</i>		<i>Stock</i>	<i>% of Total Portfolio</i>
1	Commonwealth Bank	8.8%	14	Ramsay HealthCare	2.0%
2	National Australia Bank	7.4%	15	Invocare Limited	1.9%
3	Westpac Bank	7.2%	16	IAG Limited	1.9%
4	TPG Telecom	5.7%	17	ASX Limited	1.9%
5	Telstra Corporation	5.5%	18	ARB Corporation	1.7%
6	Wesfarmers Limited	4.3%	19	Suncorp Group	1.6%
7	ANZ Banking Group	4.0%	20	Sydney Airport	1.5%
8	APA Group	3.7%	21	Brambles Limited	1.4%
9	BHP Billiton	3.0%	22	Sonic Healthcare	1.3%
10	Transurban Group	2.9%	23	Woodside Petroleum	1.3%
11	AGL Energy Limited	2.6%	24	Macquarie Group	1.3%
12	Woolworths Limited	2.4%	25	Qube Holdings	1.1%
13	New Hope Corporation	2.3%		Cash & Cash Equivalents	7.8%
			<b>Total</b>		<b>86.5%</b>

*High Conviction*

*Benchmark Unaware*

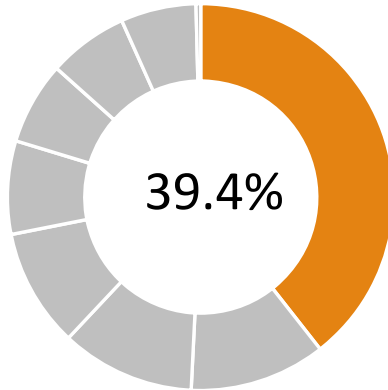
*BKI's long term strategy of investing in dividend paying stocks means the portfolio is not aligned with an index.*

## *BKI Portfolio – Exposure by Sector*

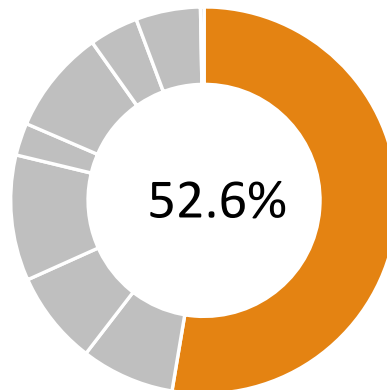


*Weighting by Sector*

- Financials
- Industrial
- Telco
- Retail
- Cash
- Resources
- Healthcare
- Utilities
- Real Estate

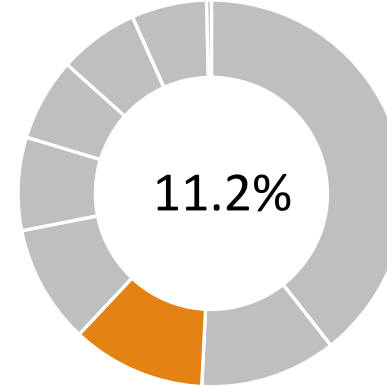


*Income Received by Sector*

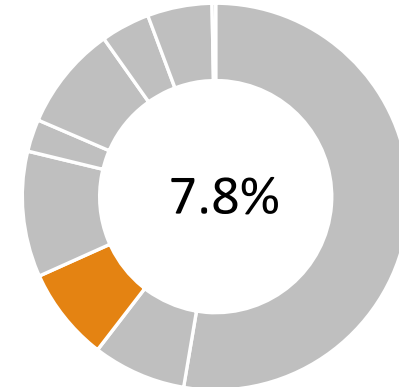


*Weighting by Sector*

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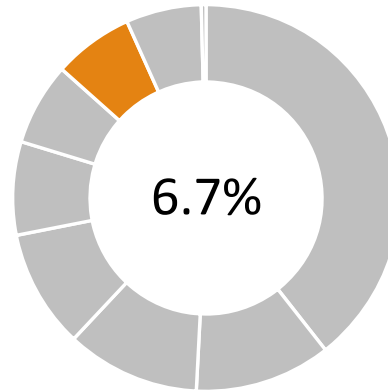


*Income Received by Sector*

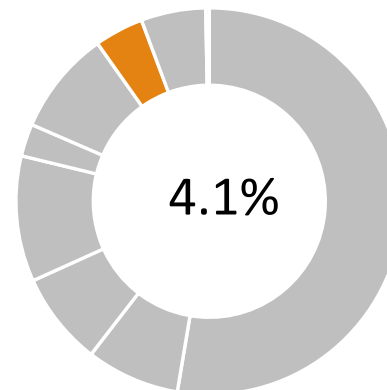


*Weighting by Sector*

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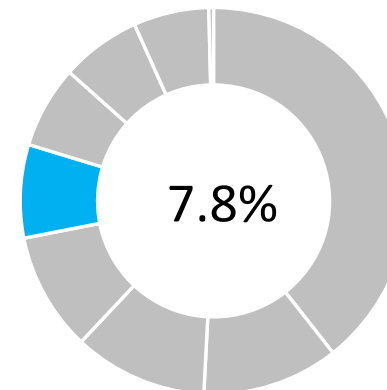


*Income Received by Sector*

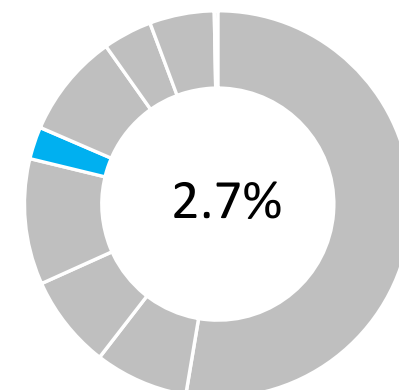


*Weighting by Sector*

- Financials
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- Real Estate



*Income Received by Sector*





# *BKI Investment Company Limited*

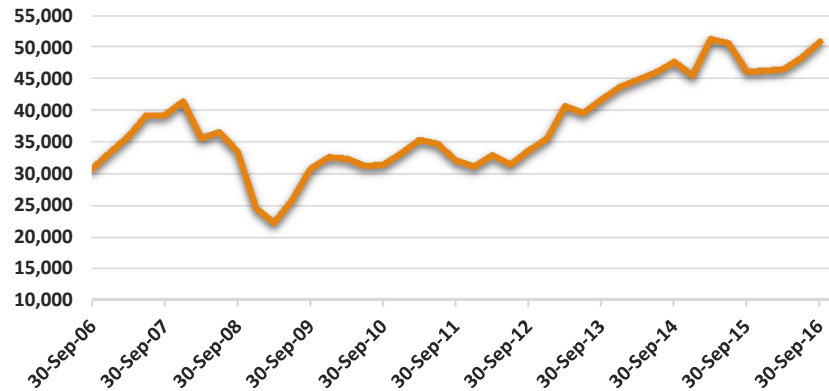
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FY2017 UPDATE

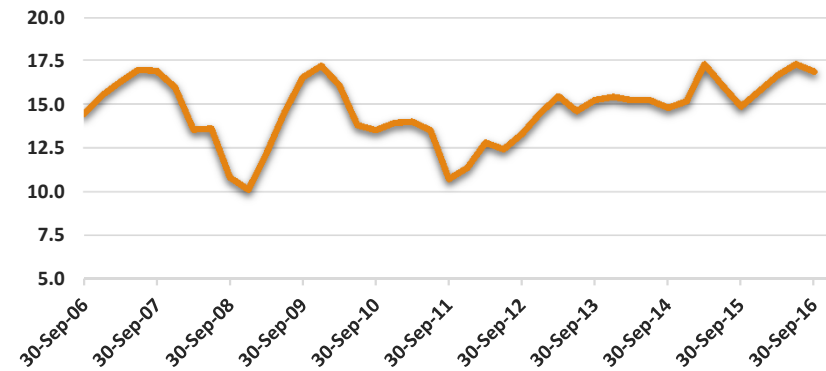


# Market Snapshot

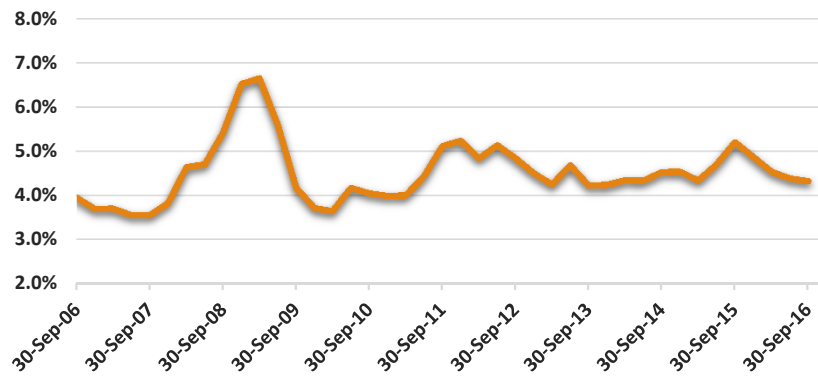
S&P/ASX 300 Acc Index



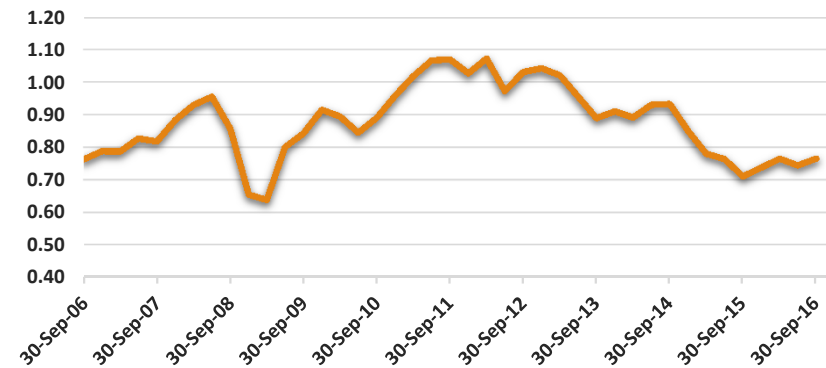
S&P/ASX 300 Index - PE Multiple (X)



S&P/ASX 300 Acc Index - Dividend Yield



Australian Dollar - \$USD



# Purchases and Sales

*Main purchases and sales from the Investment Portfolio.*



## Main Purchases

Flight Centre  
Telstra Corporation  
Sonic Healthcare  
Challenger Limited  
IOOF Limited  
Lend Lease Corporation

Fairfax Limited  
Woodside Petroleum  
Sydney Airports  
Transurban Group  
Equities Trustees  
Lindsay Australia

## Main Sales

BHP Billiton

# BKI Portfolio – Top 25 Shareholdings as at 30 September 2016



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12	AGL Energy Limited	2.5%	25	Coca-Cola Amatil	1.4%
13	Ramsay HealthCare	2.2%		Cash & Cash Equivalents	3.7%
				<b>Total</b>	<b>83.1%</b>

## *FY2017 Update\**



- **Income from Operating Activities** (before Special Dividend Income) - for FY2017 is expected to be in-line with last year.
- **Special Dividend Income** - BKI has participated in the recent Telstra Buy-Back and expects to receive ~\$3.9m in Special Dividend Income in the first half of FY2017.
- **Purchase of Unlisted Investment Company** – BKI has completed the acquisition of another an unlisted investment company with net assets of ~\$4.2 million.
- **Dividends** - Barring any unforeseen circumstances, BKI is confident of at least maintaining the Interim and Final Ordinary Fully Franked Dividends during FY2017.

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



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