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# BKI INVESTMENT COMPANY LIMITED

## 2017 ANNUAL GENERAL MEETING



*BKI is managed by Contact Asset Management  
AFSL 494045*



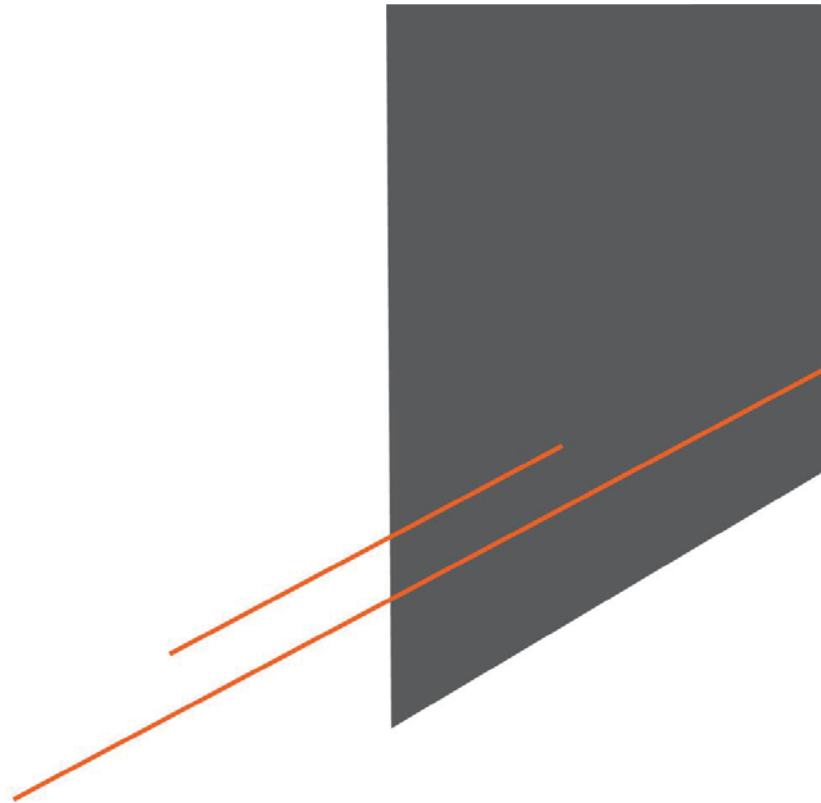
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# CHAIRMAN'S ADDRESS

2017 ANNUAL GENERAL MEETING



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

## NON EXECUTIVE DIRECTORS

|                       |                                                                                                                                               |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Robert Millner</b> | Chairman of the Board<br>Chairman of the Investment Committee<br>Member of the Remuneration Committee, Nomination Committee                   |
| <b>David Hall AM</b>  | Independent Non-Executive Director<br>Chairman of the Audit Committee<br>Member of the Remuneration Committee                                 |
| <b>Alex Payne</b>     | Non-Executive Director<br>Chairman of the Remuneration Committee<br>Member of the Audit Committee, Investment Committee, Nomination Committee |
| <b>Ian Huntley</b>    | Independent Non-Executive Director<br>Member of the Audit Committee, Investment Committee, Remuneration Committee                             |

## INVESTMENT MANAGER

|                          |                                                                                    |
|--------------------------|------------------------------------------------------------------------------------|
| <b>Tom Millner</b>       | Portfolio Manager – Contact Asset Management<br>Member of the Investment Committee |
| <b>Will Culbert</b>      | Portfolio Manager – Contact Asset Management<br>Member of the Investment Committee |
| <b>Rahul Tamilarasan</b> | Investment Analyst – Contact Asset Management                                      |
| <b>Jovana Gagic</b>      | Investment Analyst – Contact Asset Management                                      |

## COMPANY SECRETARIES

**Jaime Pinto**                      Company Secretary – Corporate Administration Services

**Larina Tcherkezian**            Company Secretary (Alternate) – Corporate Administration Services

## COMPANY AUDITOR

**Ivan Lee**                              Company Auditor – MGI Sydney Assurance Services

## BACKGROUND AND HISTORY

|                                                                                                                                       |  |                                                                                                         |  |                                                                                     |  |                                                                                               |  |
|---------------------------------------------------------------------------------------------------------------------------------------|--|---------------------------------------------------------------------------------------------------------|--|-------------------------------------------------------------------------------------|--|-----------------------------------------------------------------------------------------------|--|
| <p><b>Dividend Yield</b></p> <p><b>6.4%</b></p> <p>*Grossed up, as at 30 June 2017</p>                                                |  | <p><b>Low Portfolio Turnover</b></p> <p><b>8%</b></p> <p>Yearly average as at 30 June 2017</p>          |  | <p><b>Market Capitalisation</b></p> <p><b>\$1.0bn</b></p> <p>As at 30 June 2017</p> |  | <p><b>Management Expense Ratio</b></p> <p><b>0.15%</b></p> <p>As at 30 June 2017</p>          |  |
| <p><b>Franking Credits</b></p> <p><b>\$27m</b></p> <p>As at 30 June 2017</p>                                                          |  | <p><b>\$465m</b></p> <p>In Dividends + Franking Credits Distributed to Shareholders since listing**</p> |  | <p><b>14,900 Shareholders</b></p>                                                   |  | <p><b>13Yr Total Shareholder Return#</b></p> <p><b>11.2% pa</b></p> <p>As at 30 June 2017</p> |  |
| <p><b>Experience</b></p> <p>The Board and Management of BKI has 197 years of collective industry experience (average of 28 years)</p> |  |                                                                                                         |  |                                                                                     |  |                                                                                               |  |

## FY2017 RESULT HIGHLIGHTS

|                                         | FY 2017 | FY 2016                   | Growth |
|-----------------------------------------|---------|---------------------------|--------|
| Net Operating Result*                   | \$41.8m | \$41.2m                   | 1%     |
| Net Profit Attributable to Shareholders | \$45.6m | \$42.3m                   | 8%     |
| Earnings Per Share*                     | 6.93cps | 7.16cps                   | -3%    |
| Earnings Per Share including Specials   | 7.57cps | 7.35cps                   | 3%     |
| Total Ordinary Dividend Per Share       | 7.30cps | 7.25cps                   | 1%     |
| Management Expense Ratio (MER)          | 0.15%   | Down from 0.16% at FY2016 |        |

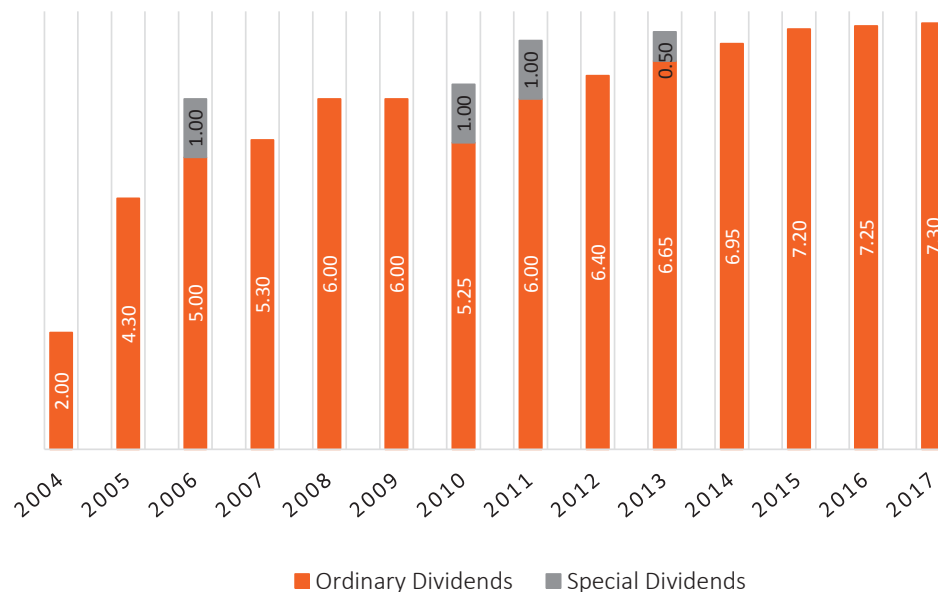


## DIVIDEND HISTORY OF BKI

A fully franked Final Ordinary Dividend of 3.70cps was declared, bringing the total FY2017 dividend to 7.30cps, representing a 96% pay-out ratio on BKI's Net Profit.

As at 30 June 2017, BKI's fully franked dividend yield was 4.5% (based on the immediate past 12 Month rolling dividend and share price of \$1.62), while the grossed up yield was 6.4% (assumes a tax rate of 30%).

BKI has paid out \$465m in Dividends and Franking Credits to Shareholders since listing in 2003.



*Growing Fully Franked Dividend  
Pay-out ratio typically 90%-95% of Operating Profits*



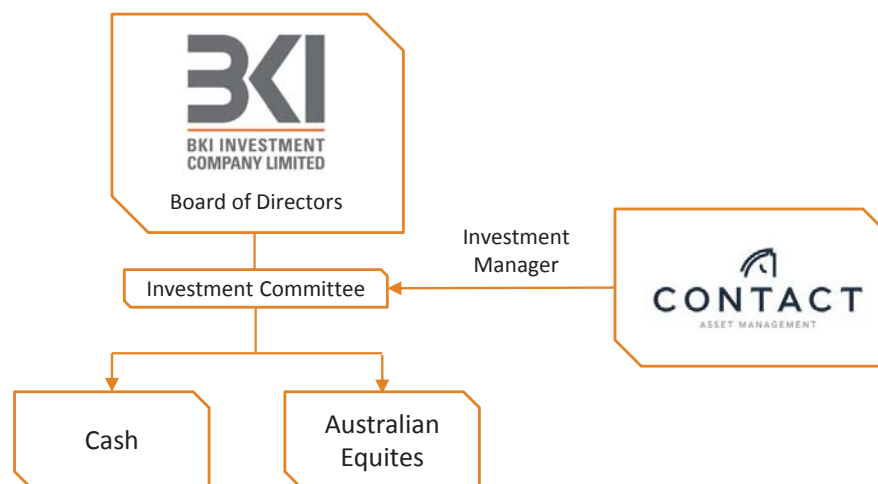
# EXTERNALISED MANAGEMENT

On 26 September 2016 BKI announced that the management of its investment portfolio would be externalised. The portfolio management and advisory function has been assumed by Contact Asset Management Pty Ltd, an investment management company majority owned by Mr Tom Millner and Mr Will Culbert, each who own 40%, with the remaining 20% owned by Washington H Soul Pattinson and Company Limited.

No Performance Fee charged to BKI shareholders.

BKI Board and Investment Committee have remained the same.

*BKI's low MER has been preserved by locking in a long term Management Fee of only 0.10%.*



## SHARE PURCHASE PLAN

BKI announced on 22 June 2017 that it had raised \$21.2m under its 2017 Share Purchase Plan (SPP). BKI Shareholders were given the opportunity to purchase shares up to a maximum value of \$15,000 at \$1.58 per share. The offer was once again attractive for shareholders, giving them the opportunity to purchase new shares without paying brokerage plus being eligible for the 3.70cps final dividend declared in respect of the 2017 financial year.

## SHARE SALE AGREEMENT

During FY2016 and FY2017 BKI completed the acquisition of four unlisted investment companies with net assets of approximately \$36m. These transactions benefit existing BKI shareholders by increasing the size of BKI's portfolio in a cost-effective manner, the portfolios acquired were a strong fit with BKI's existing portfolio and are EPS accretive.

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

BKI looks forward to undertaking similar acquisitions in the future.

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# INVESTMENT MANAGER'S ADDRESS

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## NET OPERATING PROFITS

Net Operating Result before special investment revenue increased from \$41.2m to \$41.8m, while the Net Profit Attributable to Shareholders increased 8% to \$45.6m.

FY2017 results were mainly driven by higher dividends received from Transurban Limited, APA Group, Sydney Airports, Macquarie Group, TPG Telecom and Ramsay Healthcare.

BKI received \$3.9m in special dividend income from participating in the Telstra Corporation off market buy back. This compares to \$1.1m of special dividends received last year.

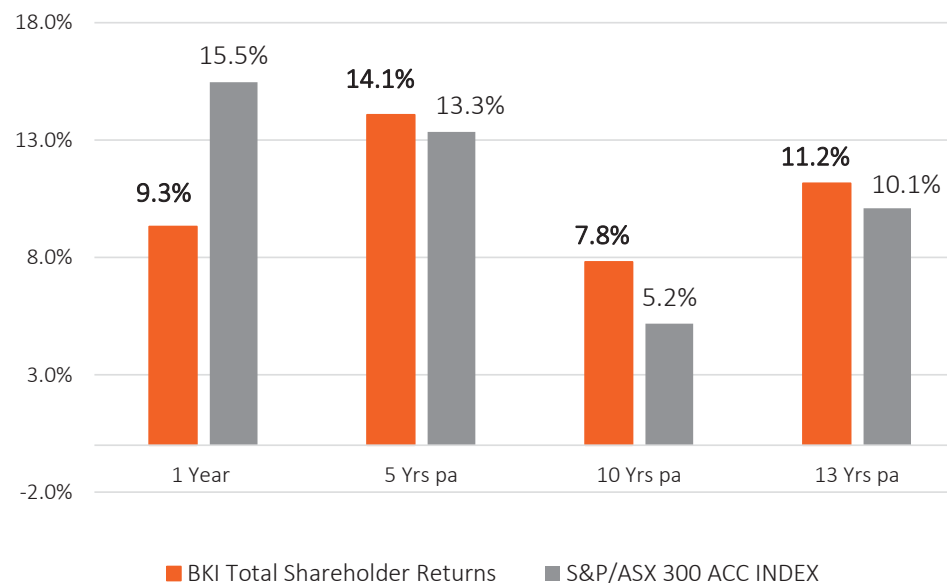


## TOTAL SHAREHOLDER RETURNS

BKI's Total Shareholder Return including franking credits for the year to 30 June 2017 was 9.3%, compared to the S&P/ASX 300 Accumulation Index, which returned 15.5%.

BKI's 13 year Total Shareholder Return including franking credits was 11.2% per annum as at 30 June 2017, compared to the S&P/ASX 300 Accumulation Index, which returned 10.1% per annum over the same period.

BKI's Net Portfolio Return (after all operating expenses, provision and payment of both income and capital gains tax and the reinvestment of dividends) for the year to 30 June 2017 was 9.1%.

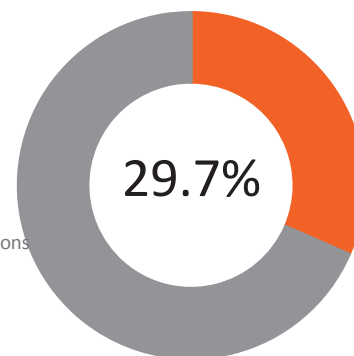


## PORTFOLIO POSITIONING - FINANCIALS

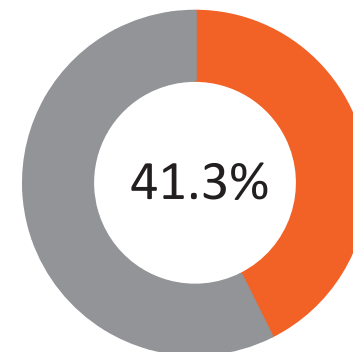
Banking stocks continue to form a very important segment of the BKI Investment Portfolio. They provide good long term value as well as a very attractive and sustainable dividend stream.

The Top 4 banks trade on an average PE Multiple of 13.1X, which represents a 16% discount to the S&P/ASX300 Index. The average Dividend Yield for the Top 4 banks is currently 5.8%, a 29% premium to the S&P/ASX300 Index.

Banks Weighting of BKI



Income Received from Banks



- Banks
- Financials
- Health Care
- Industrials
- Property
- Resources
- Retail
- Telecommunications
- Utilities
- Cash

*Income received from banks accounted for 41.3% of all BKI Income in FY17*

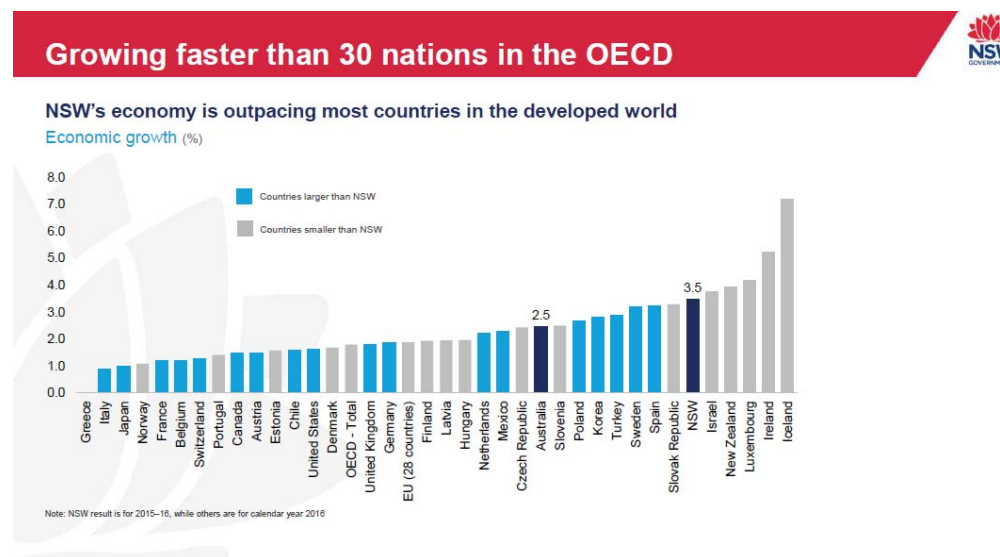
# PORTFOLIO POSITIONING – GROWING ECONOMIES

Australia and NSW in particular are undergoing a significant transformation, with our major cities and economies growing.

Creating opportunities in employment, housing, education, health services and tourism.

Sydney’s population is estimated to grow by 1.6 million people by 2031, requiring 690,000 new direct and indirect jobs and 664,000 new homes.

Melbourne could grow by another 3.4 million people, to around 7.7 million by 2051. Requiring 1.6 million new homes and 1.7 million new jobs.



Source: CEDA State of the State Address presentation, 27 July 2017. Australian and NSW Governments, Western Sydney Infrastructure Plan, 1-July – 31 December 2015 Report Card. NSW Budget 2016-17 - Budget Paper No.2 – Infrastructure Statement. NSW Government Planning and Environment – A Plan For Growing Sydney 2014. DEPARTMENT OF TRANSPORT, PLANNING AND LOCAL INFRASTRUCTURE, 2014 State Government Victoria, “Planning Melbourne, Metropolitan Planning Strategy, 2014”.

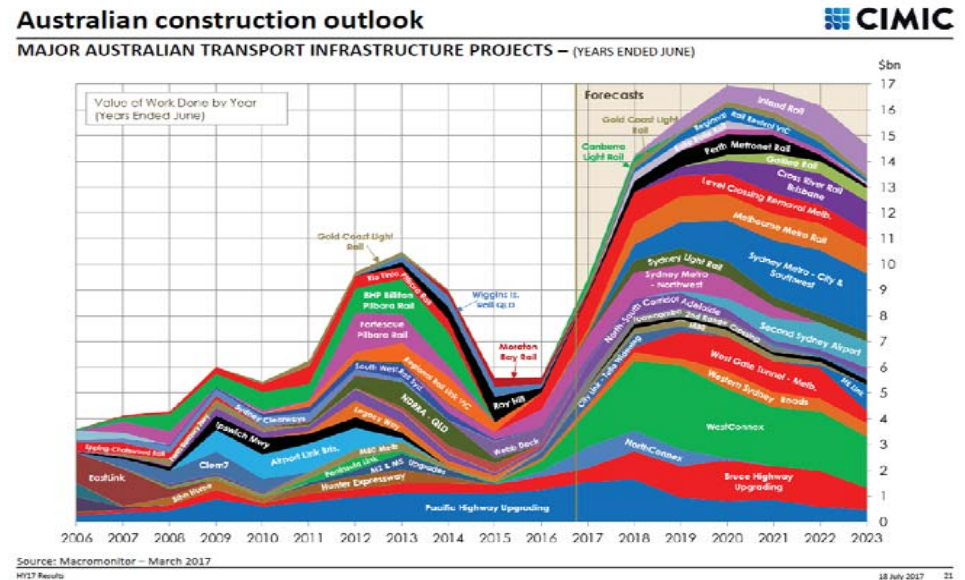


# PORTFOLIO POSITIONING - INFRASTRUCTURE

Australia is undergoing a significant transformation thanks to federal and state government spending on major infrastructure projects.

The benefits of this spending will be captured by companies who have made long term infrastructure investments in industries including:

- Freight Road and Rail Networks
- Logistics Networks
- Gas and Energy Networks
- Communications Networks and Exchanges
- Airports
- Hospitals and Age Care Facilities



## PORTFOLIO POSITIONING - RETAIL

The impending arrival of Amazon.com into the Australian marketplace has sent shock waves through the retail sector. Especially those associated with our relatively undeveloped online retail market.

Market Capitalisation of Amazon.com is over AUD\$550 billion. They are not only a retailer, Amazon.com is the world's third-largest information technology company by revenue and has significant diversification.



## PORTFOLIO POSITIONING - RETAIL

Progress is impossible without change. Change brings opportunity. Amazon.com will offer many opportunities for Australian companies, workers and investors.

Amazon.com will need Distribution Centres built. They will need access to packaging, supply chains, transport and infrastructure through Ports, Road and Rail.

There will be companies that will be disrupted by the arrival of Amazon.com. However there will also be many companies benefitting within our market.




## PORTFOLIO POSITIONING - ENERGY


To ensure Australia reaches its Renewable Energy Targets, electricity subsidies on renewable energy sources such as wind and solar are expected to cost \$2.7 billion. These subsidies are then expected to grow to \$2.8 billion a year between 2020 and 2030. On a per megawatt hour (MWh) basis, solar received subsidies over the last year of \$214.00/MWh and wind of \$74.00/MWh. Coal generation subsidies amounted to just \$0.40/MWh.

These electricity subsidies have contributed to the significant increase in electricity bills for both households and businesses right across Australia. It is forecast that the average household will pay up to 15% more a year on electricity bills, while manufacturing will pay up to 16% more a year.

What is the impact on electricity bills?

**4-15%**  HOUSEHOLDS  
of annual electricity bills

**9-12%**  MINING  
of annual electricity bills

**8-16%**  MANUFACTURING  
of annual electricity bills

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# 1Q FY2018 UPDATE

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## BENEFIT OF LONG TERM INVESTING

The capital appreciation of BKI shares since IPO in December 2003 has been strong. As at 30 September 2017 BKI shares were valued at \$1.66.

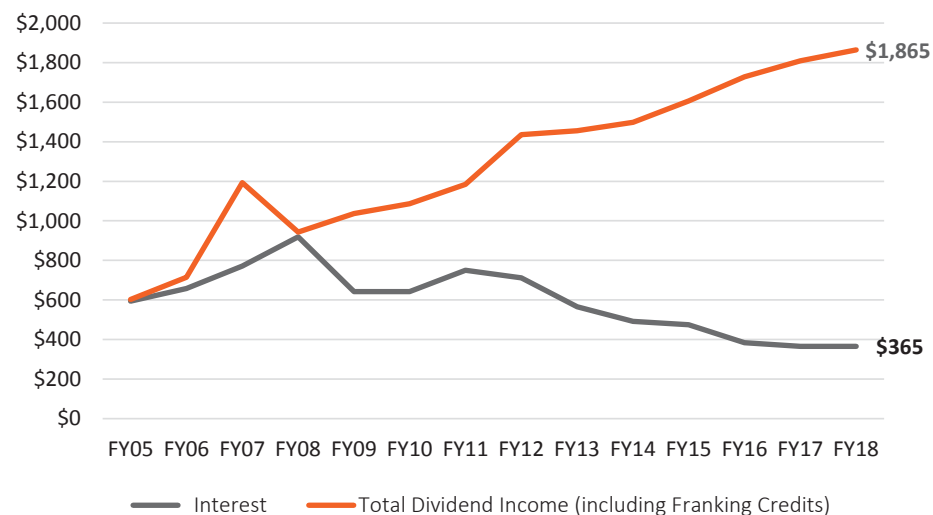
As at 30 September 2017 BKI shares including the reinvestment of dividends and franking credits (assuming a tax rate of 30%) would be valued at \$4.07.



## INCOME GENERATION

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

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 \$1,305pa. The franking credits enhance the income by a further \$559, assuming a tax rate of 30% (total income of \$1,865). The same investment in a term deposit (based on the cash rate + 0.50%) would be earning \$365pa with no franking credits.



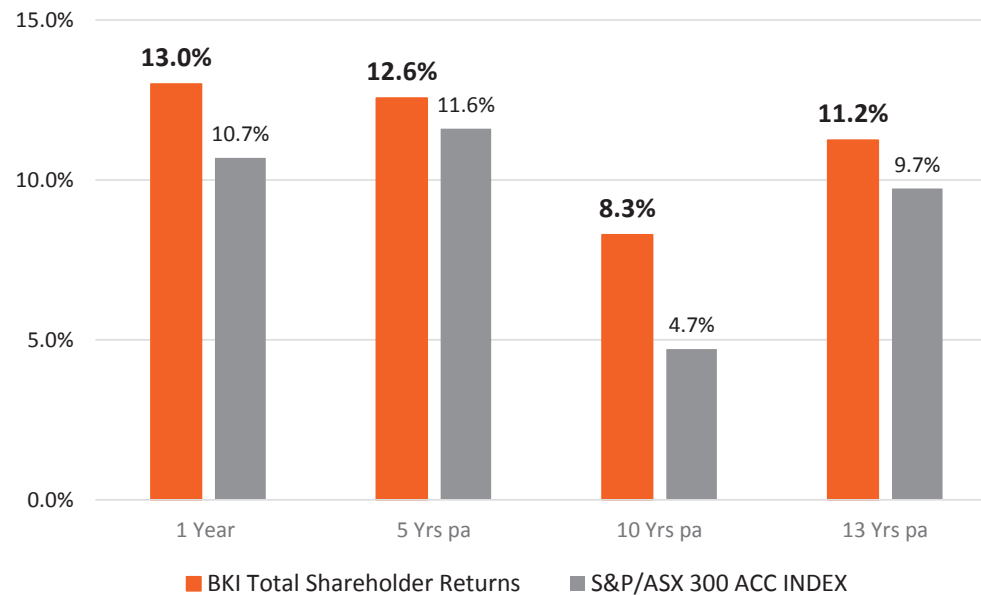
*Highlights the opportunity of receiving a fully franked dividend in a falling interest rate environment.*



## TOTAL SHAREHOLDER RETURNS

BKI's Total Shareholder Return including franking credits for the year to 30 September 2017 was 13.0%, compared to the S&P/ASX 300 Accumulation Index, which returned 10.7%.

BKI's 13 year Total Shareholder Return including franking credits was 11.2% per annum as at 30 September 2017, compared to the S&P/ASX 300 Accumulation Index, which returned 9.7% per annum over the same period.





# PORTFOLIO POSITIONING

## Investment Portfolio Purchases

1. Ramsay Healthcare
2. Amcor Limited
3. Invocare Limited
4. Sonic Healthcare
5. Woodside Corporation
6. Lendlease Group
7. Woolworths Limited



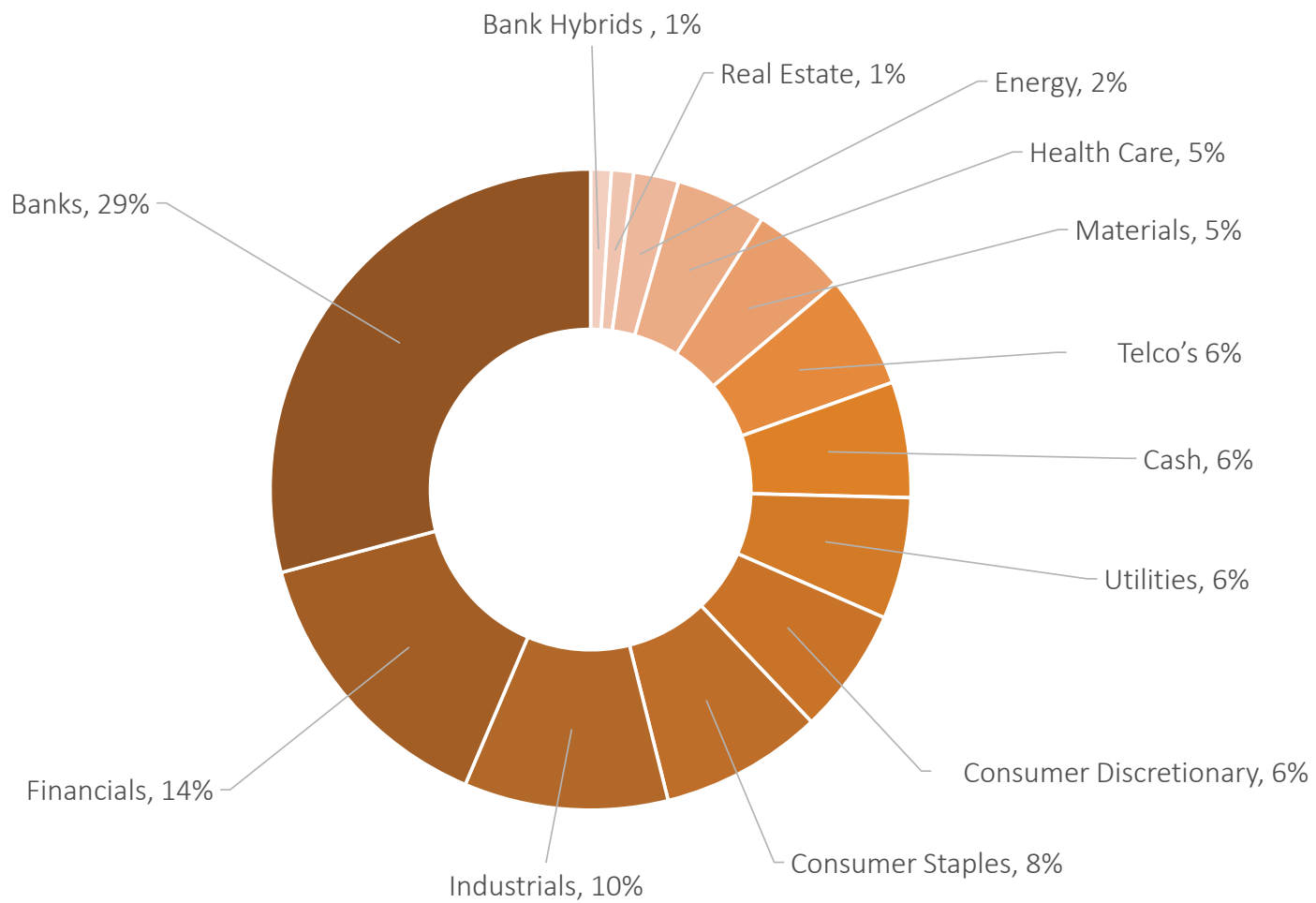
# PORTFOLIO POSITIONING

As at 30 September 2017

|    | <i>Stock</i>            | <i>% of Total Portfolio</i> |    | <i>Stock</i>            | <i>% of Total Portfolio</i> |
|----|-------------------------|-----------------------------|----|-------------------------|-----------------------------|
| 1  | National Australia Bank | 8.8%                        | 14 | Invocare Limited        | 2.4%                        |
| 2  | Westpac Banking Corp    | 7.4%                        | 15 | Ramsay HealthCare       | 2.2%                        |
| 3  | Commonwealth Bank       | 7.2%                        | 16 | Macquarie Group         | 2.2%                        |
| 4  | ANZ Banking Group       | 4.7%                        | 17 | IAG Limited             | 2.1%                        |
| 5  | Wesfarmers Limited      | 4.4%                        | 18 | ASX Limited             | 2.0%                        |
| 6  | Telstra Corporation     | 3.3%                        | 19 | Sonic Healthcare        | 2.0%                        |
| 7  | Transurban Group        | 3.2%                        | 20 | BHP Billiton            | 1.9%                        |
| 8  | APA Group               | 3.1%                        | 21 | Challenger Limited      | 1.9%                        |
| 9  | AGL Energy Limited      | 3.0%                        | 22 | Woodside Petroleum      | 1.8%                        |
| 10 | New Hope Corporation    | 2.9%                        | 23 | ARB Corporation         | 1.7%                        |
| 11 | Woolworths Limited      | 2.8%                        | 24 | Suncorp Group           | 1.6%                        |
| 12 | Sydney Airport          | 2.5%                        | 25 | IOOF Holdings           | 1.3%                        |
| 13 | TPG Telecom             | 2.4%                        |    | Cash & Cash Equivalents | 5.8%                        |
|    |                         |                             |    | <b>Total</b>            | <b>84.6%</b>                |

# PORTFOLIO POSITIONING

As at 30 September 2017



## FY2018 Update

Income from Operating Activities and Operating Result after Tax (Before Special Investment Revenue) for FY2018 is expected to be in line with last year.

Barring any unforeseen circumstances, BKI is confident of at least maintaining the Interim and Final Ordinary Fully Franked Dividends during FY2018.