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# BKI INVESTMENT COMPANY LIMITED

2020 ANNUAL GENERAL MEETING



*BKI is managed by Contact Asset Management  
AFSL 494045*



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# CHAIRMAN'S ADDRESS

2020 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 and Nomination Committee          |
| <b>David Hall AM</b>  | Independent Non-Executive Director<br>Chairman of the Audit Committee<br>Member of the Remuneration and Nomination Committees |
| <b>Alex Payne</b>     | Non-Executive Director<br>Chairman of the Remuneration Committee<br>Member of the Audit and Investment Committees             |
| <b>Ian Huntley</b>    | Independent Non-Executive Director<br>Member of the Audit, Investment, Remuneration and<br>Nomination Committees              |

# INVESTMENT MANAGER

## Contact Asset Management

Tom Millner

Portfolio Manager - Member of the Investment Committee

Will Culbert

Portfolio Manager - Member of the Investment Committee

# COMPANY SECRETARY

## Corporate Administration Services

Jaime Pinto

Company Secretary

# COMPANY AUDITOR

## MGI Sydney Assurance Services

Clayton Lawrence

Company Auditor

# RESULT SUMMARY

For the full year ended 30 June 2020



Result excluding special investment revenue	2020	2019	Movement	2018
Revenue from operating activities	\$46.7m	\$54.3m	-14%	\$48.1m
Net operating profit after tax	\$41.6m	\$49.2m	-15%	\$44.2m
Earnings per share	5.67c	6.75c	-16%	7.10c
Dividends per share	5.945c	7.325c	-19%	7.325c
Result including special investment revenue	2020	2019	Movement	2018
Net operating profit after tax	\$48.6m	\$74.7m	-35%	\$45.0m
Earnings per share	6.63c	10.26c	-35%	7.23c
Special dividends per share	1.00c	2.50c		Nil
<b>Total dividends per share</b>	<b>6.945c</b>	<b>9.825c</b>	<b>-29%</b>	<b>7.325c</b>

BKI's Net Operating Profit After Tax, including special investment revenue for FY2020 was \$48.6 million, down 35% on the previous corresponding period. The main contributing factor for BKI's significant decrease in Net Operating Profits from the previous year was due to the large number of special dividends received in FY2019 after the acceleration of payments by many companies reacting to the possible threat of legislation to remove the benefit of franking credits. The special dividends received in FY2019 also included the fully franked special dividend component of the BHP off-market buy-back, and a non-cash unfranked dividend recognised from the Coles-Wesfarmers demerger.

# LOWER DIVIDENDS RECEIVED

## *Dividend Cuts*



## *Dividend Cancellations*



## *Special Dividends*



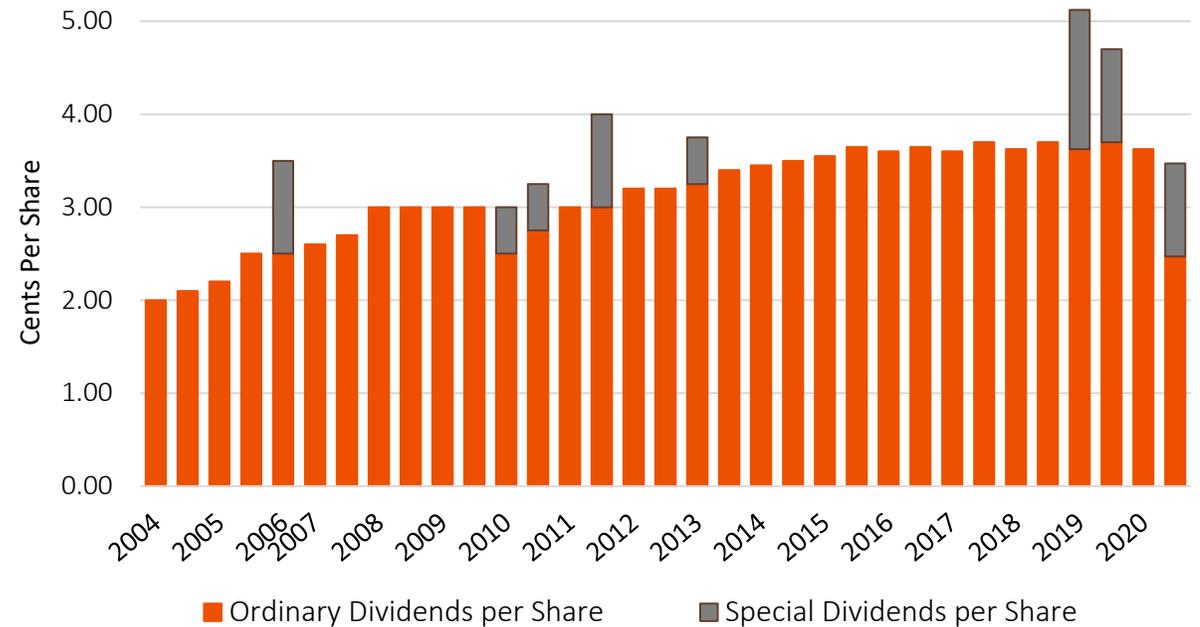
# DIVIDEND HISTORY OF BKI

During the 2020 Financial Year BKI paid out the following fully franked dividends to shareholders:

• Interim Dividend	3.625cps
• Final Dividend	2.320cps
• <u>Final Special Dividend</u>	<u>1.000cps</u>
<b>Total</b>	<b>6.945cps</b>

*BKI has paid out over \$700m or \$1.09 per share in Dividends and Franking Credits to Shareholders since listing in 2003.\**

*BKI Dividends Paid to Shareholders*





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# INVESTMENT MANAGER'S ADDRESS

## 2020 ANNUAL GENERAL MEETING



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# CONTACT ASSET MANAGEMENT

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**Tom Millner**  
Portfolio Manager  
B.Des (Industrial),  
GDipAppFin,  
F Fin, GAICD

Tom has 18 years' experience in investment markets. Prior to Contact, Tom was CEO of BKI from 2008 to 2016 – a period in which total assets grew from \$440 million to almost \$1.0 billion. Current directorships include WHSP and NHC.



**Will Culbert**  
Portfolio Manager  
B.Bus, MCom,  
GDipAppFin,  
F Fin, GAICD

Will has 20 years' experience in funds management in Australia and the UK. Prior to Contact Will was PM for BKI for 3 years. Will spent 11 years with Invesco as an Equity Analyst and PM. He has also worked for the Bank of New York and Challenger Group.



**Rodney Forrest**  
Senior Investment Analyst  
BEc, MEc,  
GradDipTax, GAICD

Rodney joined Contact in 2019. Prior to Contact, Rodney worked at Moelis Investment Bank. Rodney spent 6 years as Head of Finance at both Woolworths and Coles. He has also been the Principal Financial Analyst for NSW Treasury and held roles at ALDI, EY and the ATO.



**Jared Tilley**  
Investment Analyst  
B.Com, CFA

Jared joined Contact in 2019. Prior to Contact, Jared spent 9 years at Colonial First State. At Colonial, Jared held various roles across client services and distribution. Most recently Jared was an Investment Specialist looking after the sales and marketing efforts for two managed funds.



**Jovana Gagic**  
Investment Analyst  
B.Bus

Jovana joined Contact in 2017. Prior to Contact, Jovana spent 3 years at Pitcher Partners as an Accountant and Senior Auditor working across an array of clients and sectors including financial services, not-for profit, auto and mergers and acquisitions.



**Charlie Kingston**  
Investment Analyst  
Equity Dealer  
B.Com

Charlie joined Contact in 2019. Prior to Contact, Charlie spent 6 years at Perpetual where most recently he was a dealer for their Australian and Global equity teams. Prior to Perpetual Charlie worked at Pulse Markets as a Client Advisor and also AJ Lucas Group as a Business Analyst.



**Rob Horne**  
Investment Analyst  
GCertCom, GDipCom

Rob joined Contact in 2019. Prior to Contact, Rob had a very successful professional Rugby career spanning over 10 years. Rob represented NSW and Australia and played professionally in the UK. Rob held Senior Leadership Positions throughout his career.

# LONG TERM PERFORMANCE AND INCOME

As at 30 June 2020

Since listing in 2003, BKI's investment strategy has been, and will continue to be, focused on research driven, active equities management, investing for the long term, in profitable companies, with a history of paying attractive fully franked dividend yields.

## Dividends and Franking Credits

An investment of \$10,000 to purchase BKI shares at IPO in December 2003 would now be receiving annual fully franked dividends of \$1,442pa. The franking credits enhance the income by a further \$618pa, assuming a tax rate of 30% (total income of \$2,061). The same investment in a term deposit (based on the cash rate + 0.50%) would be earning significantly less.

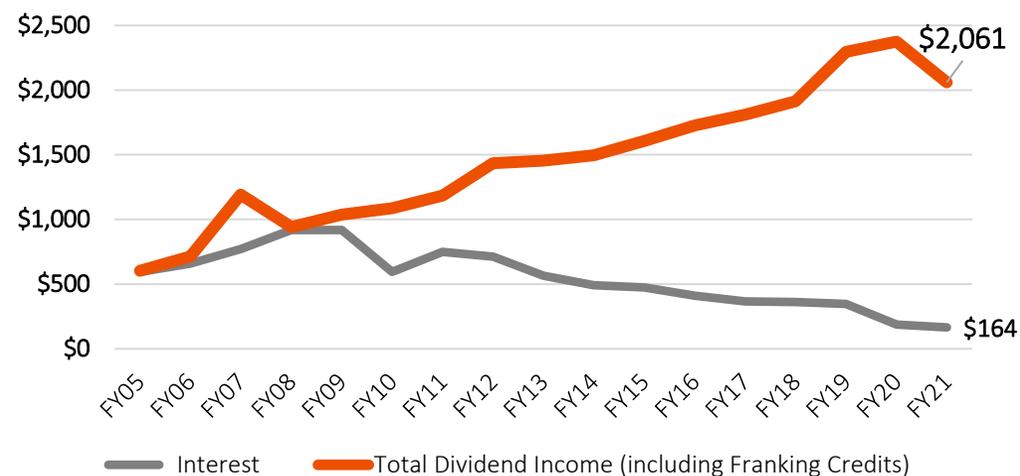
## Cumulative Value of BKI Shares

If dividends were reinvested through the DRP (Dividend Investment Plan) over this time, IPO shares would have grown from \$1.00 to a cumulative value of \$4.12 per share.

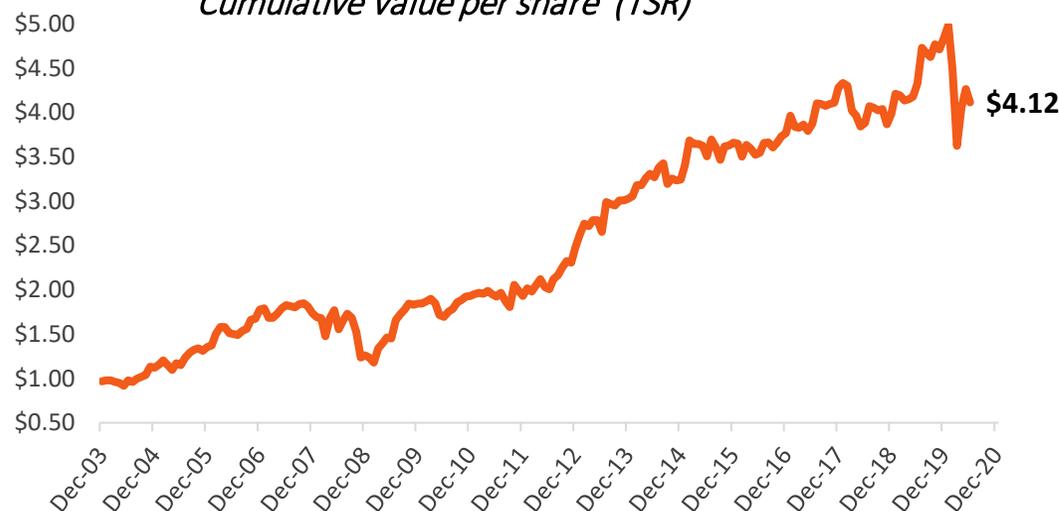
Note: Source: BKI, Contact Asset Management, Factset.

Cumulative Value assumes reinvestment of BKI Dividends and Franking Credits; Based on BKI share price of \$1.35.

*Long Term Dividend Income*



*Cumulative Value per share (TSR)*





# BKI INVESTMENT PROCESS

BKI is focused on investing in stocks using the 5 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, Barriers to Entry
- 3 **Financial Strength**  
Strong Balance Sheet, Gearing Ratios, Net Interest Coverage
- 4 **Management and Board**  
Alignment, Creating Shareholder Wealth
- 5 **Earnings and Valuations**  
Earnings Profiles, PE Multiples, EV/EBITDA Multiples

**Investment Committee** – Final investment decisions are approved by the Investment Committee



# PORTFOLIO POSITIONING

For the year to 30 June 2020

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## Investment Portfolio Increases

1. BHP Group
2. Macquarie Group
3. Amcor
4. APA Group
5. TPG Telecom
6. Treasury Wine Estates
7. Harvey Norman Holdings
8. Orora Limited
9. Transurban Group
10. New Hope Corporation





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# PORTFOLIO POSITIONING

For the year to 30 June 2020



## Investment Portfolio Reduced

1. AGL Energy Limited
2. IAG Group
3. NAB Limited
4. Suncorp Group
5. Telstra Corporation
6. Westpac Banking Group





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# PORTFOLIO POSITIONING

For the year to 30 June 2020



## Investment Portfolio Sales

1. Boral Limited
2. ANZ Banking Corporation
3. Caltex Australia (now Ampol Limited)
4. Challenger Limited
5. CIMIC Group

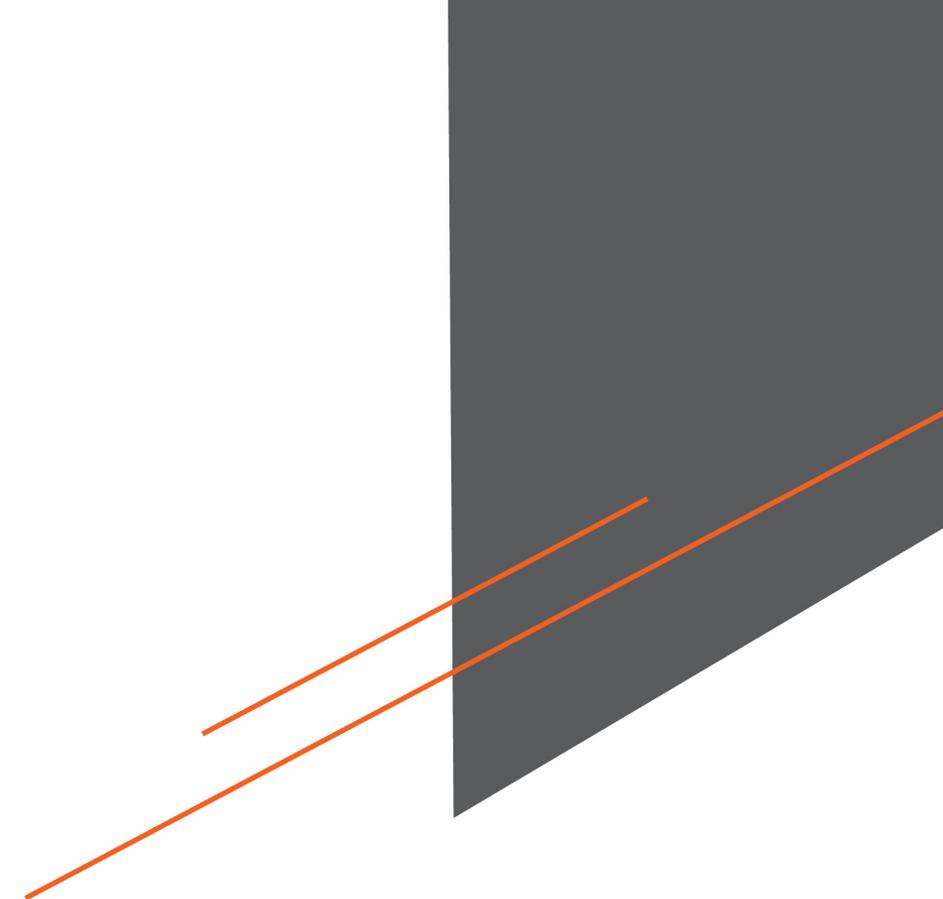




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# 1Q FY2021 UPDATE

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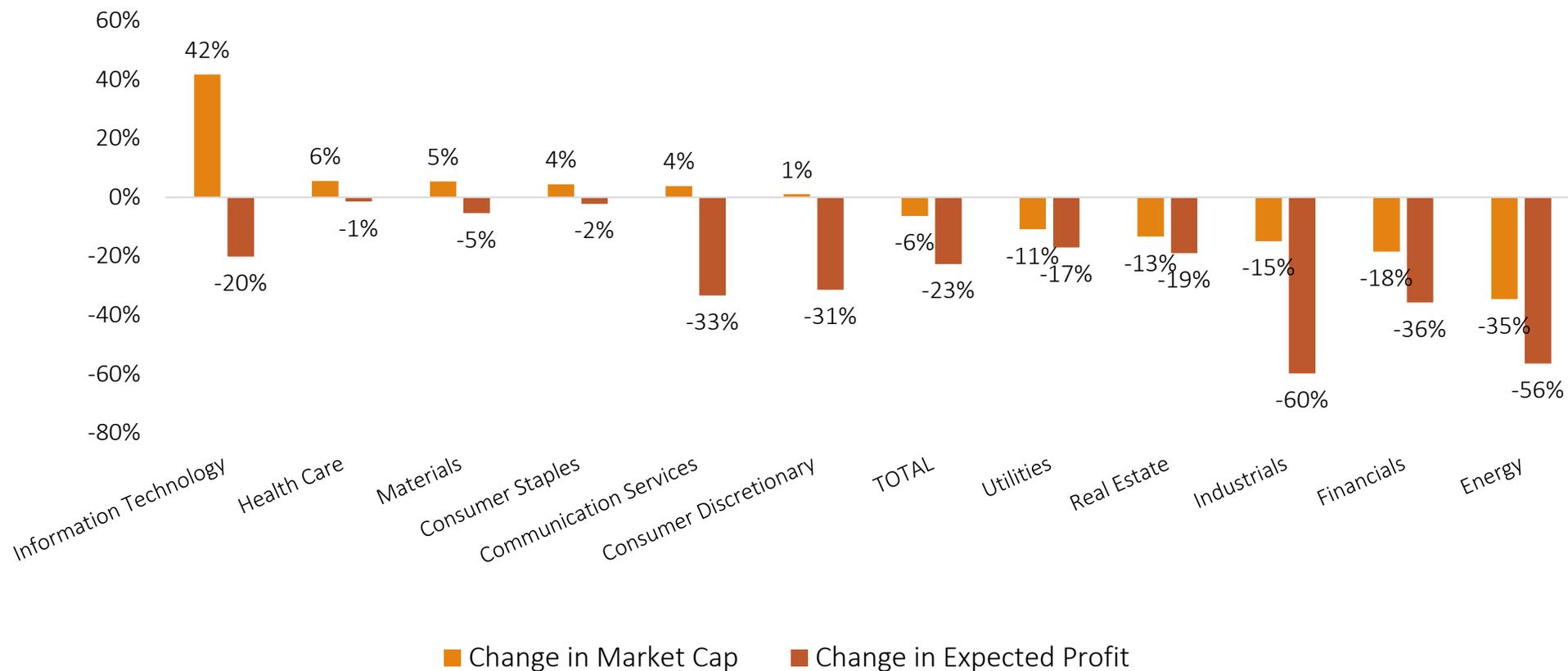


# DISCONNECT BETWEEN VALUATIONS AND EARNINGS

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## Reflections on the August 2020 Reporting Season

- Earnings and Dividends were awful, but it could have been worse.
- Negative operating leverage bites.
- Resilient top line growth often undermined by margin compression.
- Investors are seemingly looking through near-term earnings in an unusual display of patience.

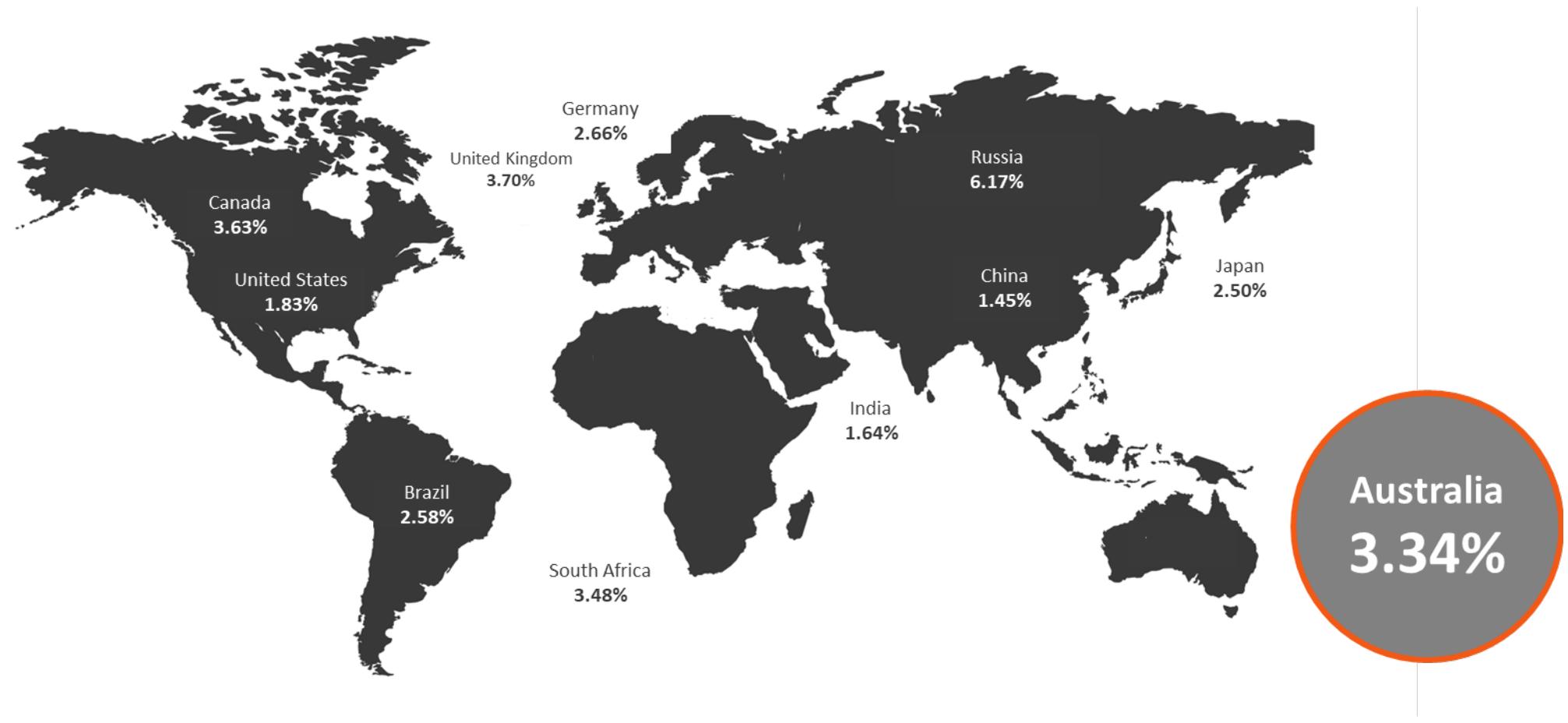




# AUSTRALIA'S EQUITY YIELD IS ATTRACTIVE

We expect to see a continued flight of global capital to Australia

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# RETAIL, E-COMMERCE AND LOGISTICS

Pre COVID-19, Australia had a relatively undeveloped online retail offering.

Many companies have benefited from the changes to behaviour in the COVID-19 world with the trends driving the demand for high quality, well located logistics assets accelerated because of the pandemic.

Many of the changes experienced in COVID we believe are permanent and have fast tracked the online retailing offering by many years. This will continue to create opportunities in areas including:

- Employment
- Construction and Development
- Logistics and Distribution
- Transportation and Delivery
- Telephony and Data Services
- Technology

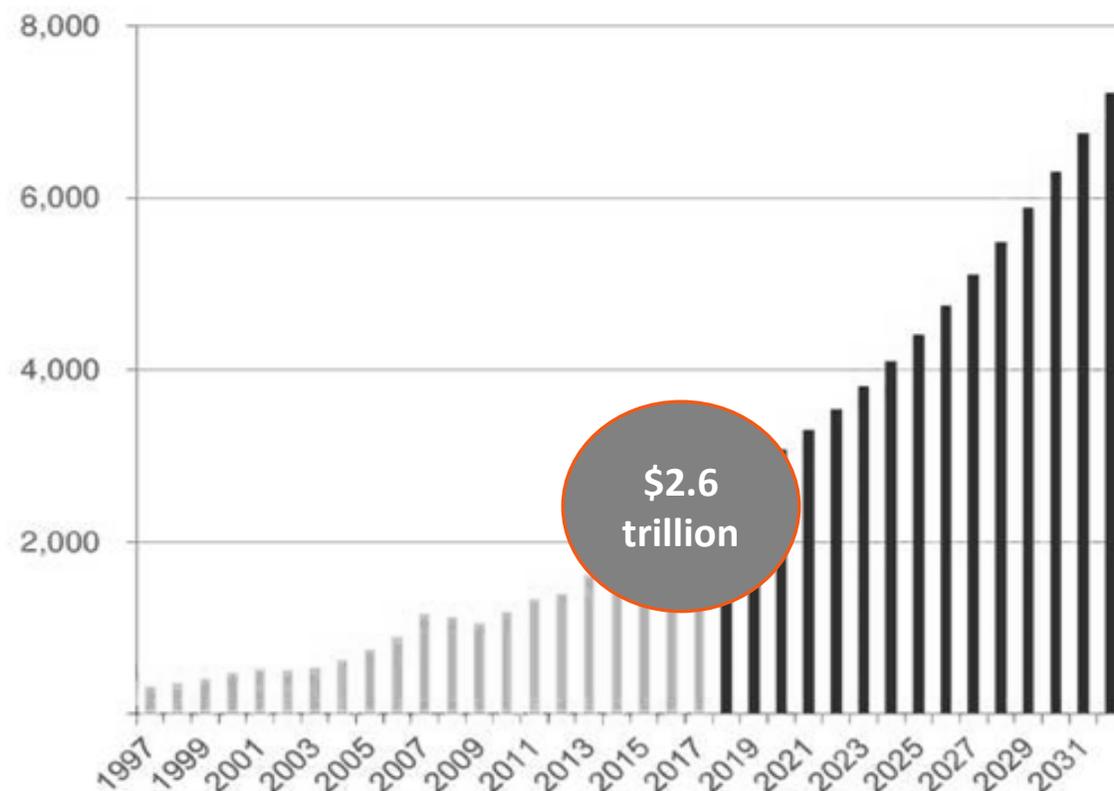




# FUNDS GROWTH

Growth in superannuation assets in Australia is continuing, with contributions over the medium term to be substantial.

*Australian Superannuation System Forecasts (\$bn)*



**\$7.2 trillion**

**\$2.6 trillion**

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# PORTFOLIO POSITIONING

For the quarter to 30 September 2020

## Investment Portfolio Increases

1. Equity Trustees
2. Commonwealth Bank
3. BHP Group
4. Harvey Norman Holdings
5. Evans Dixon





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# PORTFOLIO POSITIONING

For the quarter to 30 September 2020

## New Investment Portfolio Positions

1. NAB Convertible Notes
2. Rio Tinto Limited
3. Fortescue Metals Group
4. IPH Limited





# PORTFOLIO POSITIONING

For the quarter to 30 September 2020

## Investment Portfolio Sales

1. Westpac Banking Corp
2. Sydney Airports
3. IAG Limited
4. SEEK Limited



# PORTFOLIO POSITIONING

As at 30 September 2020

	<i>Stock</i>	<i>% of Total Portfolio</i>		<i>Stock</i>	<i>% of Total Portfolio</i>
1	Macquarie Group	7.5%	14	Telstra Corporation	2.3%
2	BHP Limited	7.0%	15	New Hope Corporation	2.2%
3	Commonwealth Bank	6.7%	16	Magellan Financial Group	2.1%
4	APA Group	5.7%	17	Harvey Norman	2.0%
5	Transurban Group	5.5%	18	Woodside Petroleum	2.0%
6	Woolworths Limited	5.0%	19	Coles Group	1.8%
7	Wesfarmers Limited	4.8%	20	Amcor Corporation	1.8%
8	TPG Telecom	4.0%	21	Goodman Group	1.6%
9	National Australia Bank	3.7%	22	AGL Energy Limited	1.6%
10	Ramsay Healthcare	3.3%	23	NAB Convertible Notes	1.6%
11	ASX Limited	3.1%	24	Invocare Limited	1.5%
12	Sonic Healthcare	3.1%	25	Rio Tinto Limited	1.4%
13	ARB Corporation	2.5%		Cash & Cash Equivalents	4.8%
				<b>Total</b>	<b>88.6%</b>

Figures referred to in the FY2020 Update are unaudited.



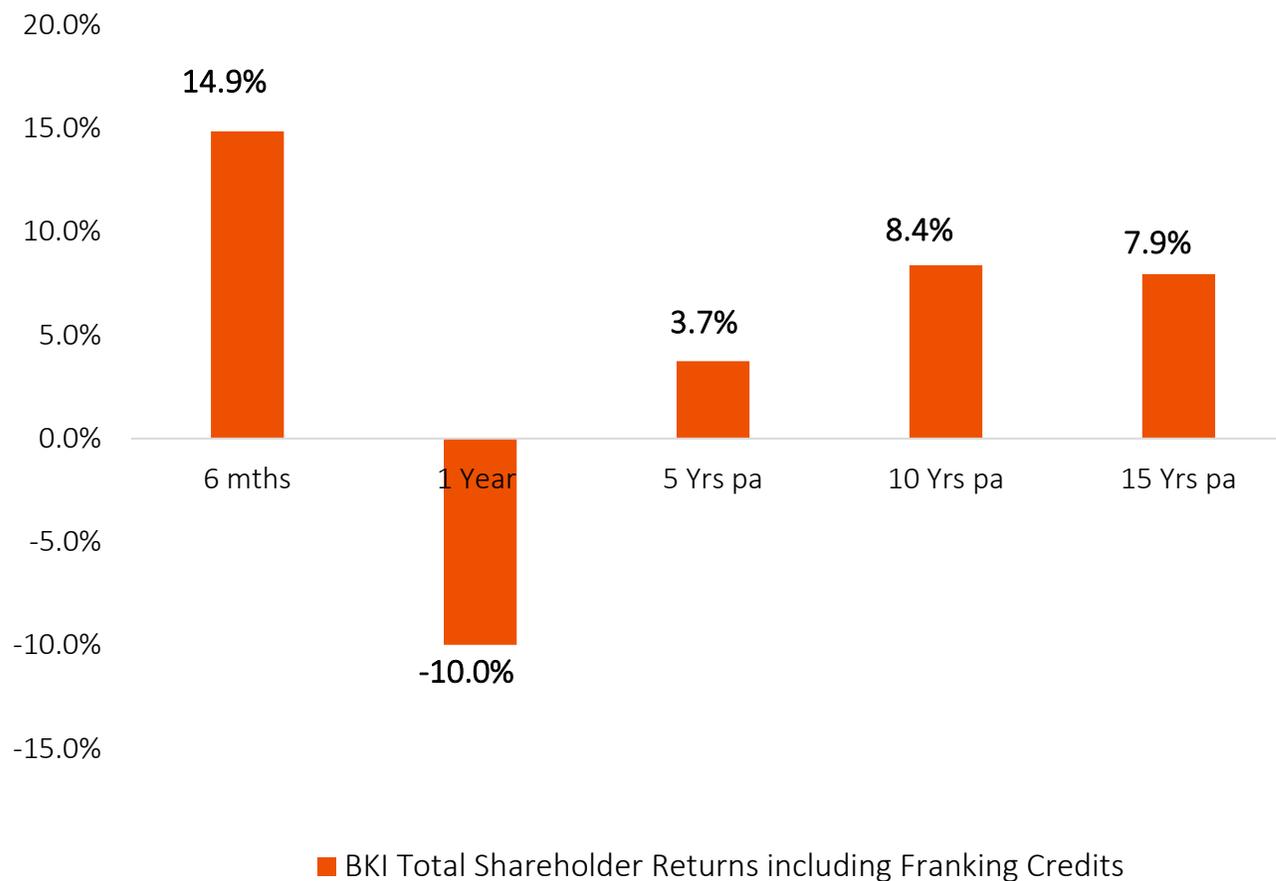
# BKI PERFORMANCE

As at 30 September 2020

BKI's Total Shareholder Return including franking credits for the 6 months to 30 September 2020 was 14.9%.

BKI's Total Shareholder Return including franking credits for the year to 30 September 2020 was negative 10.0%.

BKI's Total Shareholder Return including franking credits for 15 years to 30 September 2020, was 7.9%pa.



Figures referred to in the FY2020 Update are unaudited.



# FY2021 UPDATE

Several companies have significantly reduced their dividends paid in the August/September period due to the uncertainty surrounding the COVID-19 pandemic. Unfortunately, the outlook for dividends paid in the upcoming February/March period is uncertain.

As a result of the fall in expected dividend income, BKI's Operating Result after Tax (Before Special Investment Revenue) for FY2021 is expected to be well below that of last year.

BKI is confident of paying an Ordinary Interim Fully Franked Dividend in February 2021, although it will be lower than the previous corresponding period.

BKI has additional retained profits and franking credits that can be drawn down during these uncertain times.



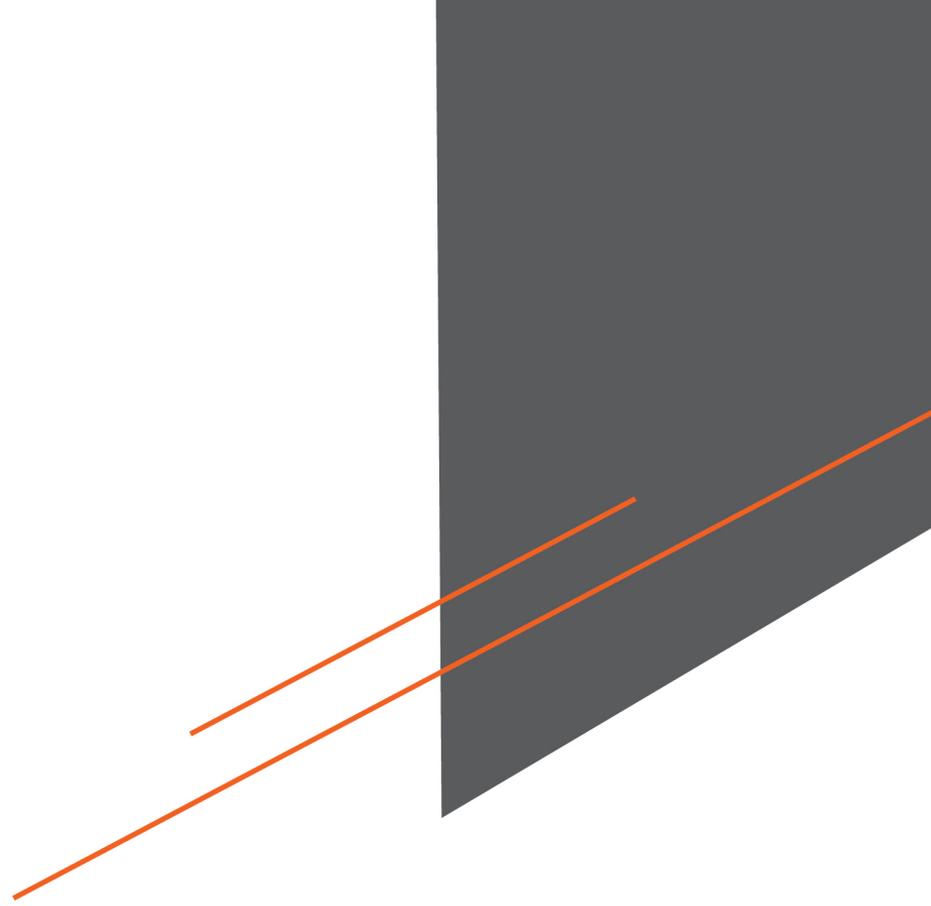
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# QUESTIONS

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# BKI INVESTMENT COMPANY LIMITED

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## PROXIES

Valid proxies representing approximately 112 million shares or 15% of the Company's issued capital have been received.

## Item 1 ANNUAL REPORT

Receive and consider the Annual Financial Report and the reports of the Directors and of the Auditor for the financial year ended 30 June 2020.

This item does not require voting by shareholders. It is intended to provide an opportunity for shareholders as a whole to raise questions on the reports themselves and on the performance and management of the Company.

The Auditors of the Company will be present at the meeting and will be available to answer any questions.

## Item 2 REMUNERATION REPORT

### Resolution 1

To consider and, if thought fit, pass the following resolution as a non-binding ordinary resolution:

*“That the Remuneration Report for the year ended 30 June 2020 be adopted.”*

Note: Pursuant to section 250R(3) of the Corporations Act the vote on this resolution is advisory only and does not bind the Directors or the Company except in the circumstances described in Division 9 of Part 2G.2 of the Corporations Act.

## Item 2 REMUNERATION REPORT

### Resolution 1

Adopt the Remuneration Report for the year ended 30 June 2020.

Proxies received and accepted for Resolution 1 appearing on the Notice of Meeting

Remuneration Report	For	Against	Open	Abstain
Votes				
% of Valid Available Votes	86.3%	5.8%	7.9%	N/A

## Item 3 RE-ELECTION OF DIRECTOR

### Resolution 2

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“That Mr DC Hall AM, who retires in accordance with the Company’s Constitution Rule 6.3(c) and, being eligible, offers himself for re-election, be elected as a director of the Company.”*

## Item 3 RE-ELECTION OF DIRECTOR

### Resolution 2

#### Re-election of a Director

Proxies received and accepted for Resolution 2 appearing on the Notice of Meeting

Re-Election of Director Mr DC Hall AM	For	Against	Open	Abstain
Votes				
% of Valid Available Votes	91.6%	1.1%	7.2%	N/A

## Item 4 OTHER MATTERS

To consider any other matters that may be brought before the meeting in conformity with the Company's Constitution.

## CONCLUSION OF THE MEETING

I now move to the final part of the meeting and there being no other business of which due notice has been given, I would like to thank shareholders for their attendance and declare the meeting closed.