



BKI INVESTMENT COMPANY

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BKI is managed by Contact Asset Management
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QUARTERLY REPORT

The Global Energy System, A House of Cards

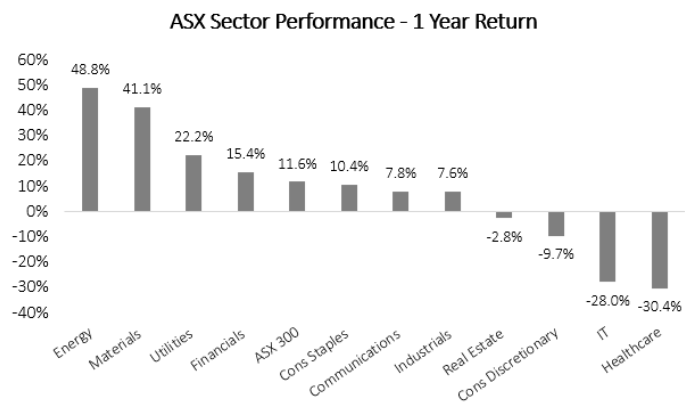
Financial markets once again traversed a period of elevated volatility during the quarter as geopolitical developments disrupted the fragile global energy supply chain. The conflict in the Middle East, combined with the effective closure of the Strait of Hormuz, has introduced a significant supply shock. In this environment, BKI’s portfolio has demonstrated resilience, reflecting our long-standing emphasis on owning high-quality, low-cost producers with the ability for outsized cash-generation. At a time when macroeconomic visibility has deteriorated, we believe BKI’s portfolio is well positioned for the prevailing conditions, both in terms of underlying earnings durability and the capacity to benefit from structurally favourable trends across core holdings.

Portfolio Positioning in a Dislocated Energy Complex

The current disruption to global energy markets is notable not only for its severity, but for its breadth. Prior to the conflict, approximately 100 vessels transited the Strait of Hormuz each day. While there have been modest increases in vessels transiting with signals active, traffic remains measured in single digits per day. This constraint on one of the world’s most critical energy arteries has had cascading effects across natural gas, oil, refined fuels and the second derivative of thermal coal demand.

Against this backdrop, BKI’s portfolio is well positioned for this current environment. For the month of March, BKI’s Energy exposure through New Hope (up 27.3%) benefitted from structural strength in thermal coal markets, Woodside (up 27.2%) was supported by higher realised LNG pricing and market recognition of supply scarcity, Ampol (up 21.9%) reflecting tightening conditions in refined fuel markets, APA Group (up 8.2%) and Origin (up 4.5%) both of which continue to provide exposure to domestic energy security themes.

As can be seen in the chart below, the ASX Energy and Materials sectors significantly outperformed the broader market over the past year, boasting impressive returns of 48.8% and 41.1% respectively. Conversely, growth sectors such as Healthcare and Information Technology suffered the steepest declines, falling by 30.4% and 28.0% during the same period.



Source: Factset, Contact Asset Management



For the year to 31 March 2026, performance from our energy and materials holdings has been particularly robust, with several positions recording substantial gains. This performance reflects the repricing of assets that are increasingly recognised as essential within a volatile and geopolitically fragmented world. For the year to 31 March 2026, BKI's portfolio positions within the Energy and Materials sectors have been very well supported. New Hope (up 67.1%), Woodside Energy (up 60.6%), Dalrymple Bay Infrastructure (up 38.5%), BHP Group (up 37.3%), APA Group (up 34.6%), Origin (up 2.4%) and Ampol (up 21.9%). Importantly, these businesses continue to generate strong operating cash flows, providing both income and expansion optionality at a time when many growth-oriented sectors remain sensitive to higher funding costs and uncertain demand.

Tight LNG, Oil and Product Markets

The impact of the Middle East conflict on oil and refined product markets has been profound. These markets have tightened materially, with executives across the global energy industry highlighting mounting risks as inventories are drawn down. The closure of key shipping routes has stranded several million barrels per day of oil products, while export restrictions from Asia have compounded shortages elsewhere. The ripple effects are clearly visible in jet fuel markets and are expected to extend into diesel and gasoline as the northern hemisphere summer demand peak approaches.

Woodside Energy is Australia's largest independent oil and gas producer, with a portfolio centred on liquefied natural gas (LNG), oil and emerging energy projects. Its earnings are driven by global energy prices (oil-linked LNG contracts) and production volumes. Woodside offers operating leverage to energy prices and free cash flow inflection. Woodside's cost base is relatively fixed, so higher oil and LNG prices translate directly into increases in EBITDA and free cash flow.

These dynamics are particularly supportive of integrated downstream operators with established infrastructure, domestic refining capabilities and extensive distribution networks. BKI's inclusion of Ampol within the portfolio reflects this logic, providing exposure to tightening product markets and record regional refining margins in the range of USD\$40-50/bbl. At the same time, its extensive wholesale and retail distribution network supports more defensive earnings characteristics.

These Australian producers are expected to be benefitting materially from these market conditions, as can be seen in the below earnings chart for the ASX 200 index:



Source: Factset, Contact Asset Management.



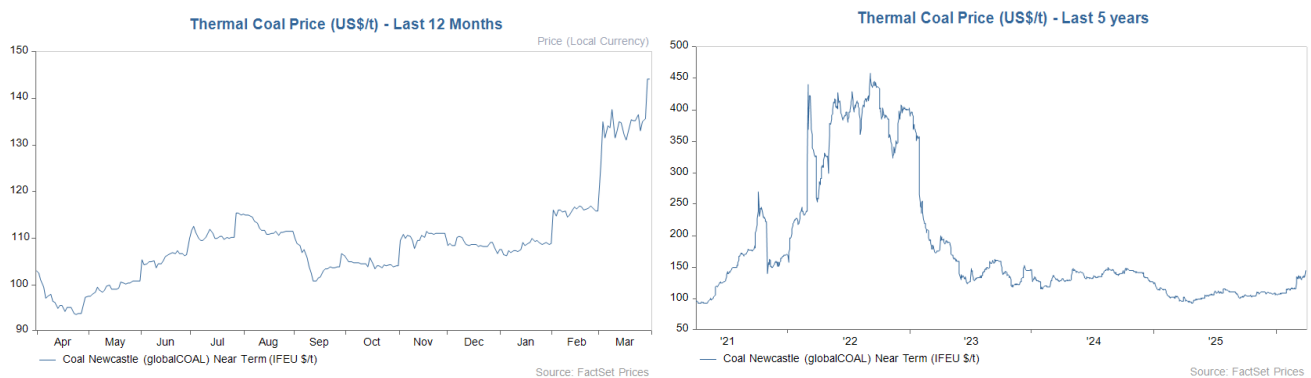
Old King Coal

One of the more notable consequences of the current energy shock has been the re-emergence of coal as a critical baseload fuel. While the long-term energy transition remains intact, recent events have reinforced the reality that energy security and affordability remain paramount considerations for governments and utilities.

Japan provides a clear illustration. Faced with growing uncertainty around LNG imports from the Middle East, Japanese authorities have moved to temporarily lift operational restrictions on coal-fired power stations for the 2026–27 fiscal year. By allowing these plants to operate above previously mandated utilisation limits, policymakers aim to conserve LNG, stabilise electricity supply and reduce exposure to volatile global gas markets.

Broader international developments echo this trend. Across Asia, rising gas prices and constrained LNG availability are prompting utilities and governments to fall back on coal fleets that, while often less efficient, offer reliability, affordability and security of supply. In Europe, despite years of decarbonisation efforts, elevated natural gas prices are again pushing marginal generation towards coal.

In this context, BKI's exposure to high-quality thermal coal producer New Hope Group has been a deliberate and disciplined holding, grounded in valuation, balance sheet strength and cash generation. We remain cognisant of the longer-term transition complex, but equally mindful that energy transitions rarely proceed in straight lines.



Source: Factset, Contact Asset Management.

Electric Vehicles and Smartgroup Corporation

The recent fuel supply shock has accelerated interest in electric vehicles, particularly battery electric vehicles (BEVs), as corporates and households seek to explore the possibility of reducing exposure to volatile fuel prices. Policy settings in Australia, including adjustments to luxury car tax thresholds and the continuation of fringe benefits tax exemptions, further reinforce near-term adoption incentives.

Within this thematic, Smartgroup Corporation provides an illustrative example of pragmatic positioning. The company noted at their full year reporting in February strong growth in BEV orders. Internal combustion engine (ICE) vehicles continue to represent a meaningful portion of new lease volumes, reflecting the reality that transitions occur incrementally rather than abruptly. Importantly, BKI's investment case for Smartgroup is primarily driven by the unit economics of fleet management, salary packaging and the robustness of its customer relationships all the while delivering a very attractive dividend yield.

Heavy Assets - Low Obsolescence; The HALO Effect

Periods of heightened volatility often prompt investors to reassess the durability of earnings and the longevity of asset bases. In this environment, there has been renewed interest in businesses characterised by heavy assets and low obsolescence, a framework referred to as "HALO" businesses.



BKI has long been positioned in this segment through holdings in toll business for met coal Dalrymple Bay Infrastructure, gas APA Group and vehicles Transurban Group. Dalrymple Bay Infrastructure, a critical export terminal supporting Australia's metallurgical and thermal coal supply chains. APA Group, owner and operator of essential gas transmission infrastructure, and Transurban, providing inflation-linked toll road exposure in capital cities.

These assets underpin national productivity and energy security. Their earnings profiles are typically characterised by regulated or contracted revenues, long asset lives and limited technological displacement risk. Their relevance has increased rather than diminished during periods of market dislocation, reinforcing the defensive qualities that underpin BKI's investment philosophy.

Conclusion

Throughout this period of heightened uncertainty, BKI has remained disciplined in capital allocation. We continue to prioritise businesses with defensive earning streams, cash generation and robust dividend profiles. While market volatility can present short-term dislocations, our long-term approach emphasises income generation and capital growth.

We expect global volatility to persist. A resolution of the current geopolitical conflict appears imminent on a high-level however enduring effects of the significant supply disruptions are expected. At the same time, inflationary pressures linked to energy costs may complicate central bank policy paths.

In this environment, we believe BKI's portfolio is well anchored. Our exposure to energy, materials and select infrastructure provides both defensive income and inflation resilience. We remain focused on delivering sustainable returns for our shareholders through disciplined portfolio management and a long-term investment horizon.

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