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QUARTERLY REPORT

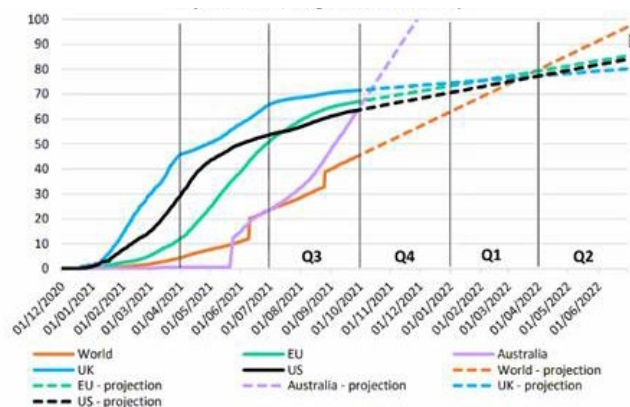
LIFE ON THE OTHER SIDE OF LOCKDOWNS

Welcome to the 31st edition of the BKI Quarterly Report, prepared by Contact Asset Management (Contact).

As we near the end of more State Government enforced lockdowns across a lot of the country, we’ve been considering and widely discussing what the “new normal” might look like. Habits, routines and priorities have shifted since COVID-19 emerged. As vaccination rates in Australia continue to catch up, and indeed pass, much of the rest of the world, we thought it might be interesting to survey our networks across the globe. The goal? To find out what life is like on the other side of lockdown. In this note we also try to consider the second order effects of what changing behaviour could mean for several Australian listed companies.

As we uncover in the following pages, there are still inconsistencies in the approach countries take to living with COVID. There are some undeniable human traits that also shine through: the desire to socialise, travel and reprioritise the important things in life. Everyone is looking to reduce friction in their lives and the pandemic fast tracked the importance of technology, digitalisation and online retailing by many years. Finally, we note that almost all of our respondents are concerned about inflation.

Chart 1
Percentage of the Population with at Least 1 dose of vaccine
 Projections use the average rate from the last 7 days



Source: Credit Suisse Equity Research

Despite a slower start than the rest of the world in the vaccine rollout the Australian public has responded in droves. As can be seen in Chart 1, the vaccination rate in Australia (purple line) has increased rapidly and is set to reach 80% more quickly than any other country.

We hope you enjoy this report. We are grateful to our friends, colleagues and contacts in helping us compile the answers. We have fielded responses from Kolkata to Toronto, Amsterdam to Singapore and regional England to New York. Our respondents work across a range of industries including Financial Services, IT, Travel, Venture Capital and Professional Sport. Every region faced some type of lockdown and some, such as Singapore, continue to experience temporary restrictions. Generally, North America and Europe have been largely “open” since the start of the northern Summer. After establishing occupation, location and length of lockdowns, we asked eight questions which follow.



Question 1 - Are people going back to the office?

With the exception of the New York Investment Banks and businesses with only a handful of employees, none of our respondents are back in the office on a full-time basis. And, as we cover below, many respondents are doubtful they ever will be again. Chart 2, which covers major US cities shows that office utilisation is still running below 50% of the pre-pandemic rate.

In Canada, one respondent noted that “We have eliminated the use of our office as a consequence of the pandemic. There are pros and cons to this”, while another in Toronto said that “40% of the office returned three days a week”.

Singapore remains inconsistent on its reopening plans for the economy. One Singapore resident noted that “Offices went back to a 50% capacity limit but more recently those who can work from home have been encouraged to do so.” Another commented that “I would say most of my team don’t want to go to the office anymore.”

Some European firms seem keen to find a happy medium. In Amsterdam, we heard that “My team (mainly IT developers and engineers) has been going back to the office once a week as a “meeting day” where we are mostly face to face and this will change to 2 days in the coming weeks. There are no plans to make office attendance mandatory at this time.”

In regional UK, “Most office-based companies actively encouraged staff back into offices. The directive from our firm is staff are expected to be in the office ‘up to 3 days per week.’”

The US seems more eager to get people back in the office, even if that means adopting a hybrid approach. A Manhattan Investment Banker told us that “Everyone is back to work at my firm. Masks are required in the office and you must be vaccinated to enter the building.”

Another respondent who works for a co-working company said “We've seen a significant spike in people going back to the office, especially in the last 6 months. It seems like most companies are going with a hybrid model, meaning less than five days a week in the office.”

And another saying “Our office returned in June 2020 - this isn't standard, we're a small team so didn't have to deal with the politics of a larger organisation and could make our own decision. We have mandated 3 days/week in office and no masks. Everyone is vaccinated but we didn't have to mandate this.”

While office utilisation seems likely to take some time to recover, we would argue the death of the office is greatly exaggerated. We expect to see Australian employers actively encourage workers to return to the office as much as possible. However, the traditional office with hundreds of workstations and limited collaboration areas is seemingly outdated. We hear that in London, over half of the capital’s new office constructions are refurbishments—as more businesses repurpose their existing workspaces to better serve hybrid working.

In the UK one contact stated, “Our office layout is changing as well, as we have introduced a more ‘collaborative work space’. The idea is people now come to the office to work with other people, so we have more break out areas, sofas, small tables with a few chairs and less rows of desks. If people need to work independently, they are encouraged to do this from home”.

While in San Francisco, “Everyone is remote first. Our office is being used as a flexible club house more than a workspace.”

Chart 2
Occupancy over time – March 4, 2020 to September 15, 2021



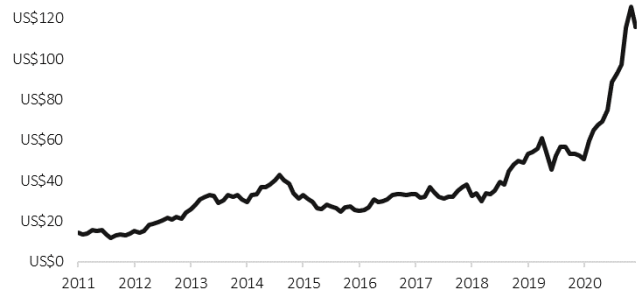
Source: Kastle Access Control Systems “Back to Work Barometer” (20



From an Australian stockmarket perspective, companies such as Charter Hall, Mirvac and Dexus are major investors in Office space. While some tenants may look to reduce office space, we expect there will be a growing divide in cap rates and rental streams between A grade and B grade office space. The high-quality locations and buildings should continue to do well. To date Blackstone Inc, the world’s largest owner of property, has not been significantly impacted by the changing Office dynamic.

While there are obviously other drivers of the Blackstone share price, the strength of the stock as seen in Chart 3 is interesting.

Chart 3
Blackstone Inc Share Price



Source: Factset, Contact Asset Management

Question 2 – Have any interesting trends emerged (e.g. days per week, commuting options)?

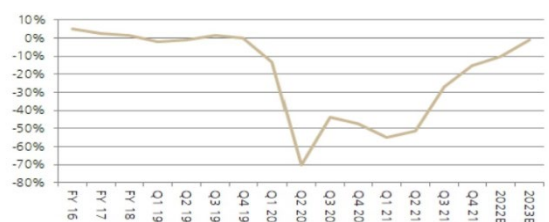
We found the comments on commuting and public transport to be interesting.

- Singapore “Our office suggested traveling out of peak transport times if using public transport. Those of us with the ability to do so would often use Grab (Uber) to travel to avoid public transport.”
- London “The city is starting to get busier. I think there is an increase in people biking/walking to work.”
 “Work from home seems to be something that is here to stay. Even though the government is trying to get people back into the city to stimulate local economies it seems like people understand that the ‘before’ was not sustainable. It’s great seeing people exercise before work or play with kids at the playground in the late afternoon because they don’t have to commute an hour each way.”
 “As we have more flexibility about when we are in the office, we have done away with fixed car parking spaces. Staff now need to book a car park space the day before they come into the office. This means that less staff are commuting by public transport.”
- Regional UK “One trend is we are moving away from location specific roles. For example, I work in a finance team that has historically been based in Norwich, but we have recently recruited staff who live in other UK locations with the view that they will come to Norwich c1-2 days per month. This means we are able to recruit from a wider talent pool and not just the Norwich market.”
- Europe “People are avoiding peak hours to avoid overcrowded train or metro cabins. We have adjusted the team schedules to allow for this so that we have good crossover times for core meetings.”
- Chicago “Most folks are driving, not taking commuter rail lines which still have low ridership.”

Reflecting on what this might mean for Australian companies, we thought about Transurban Group, the toll-road operator. While there may be less people commuting into CBDs each day, the number of people driving their own cars will likely rise.

Chart 4 shows on Toronto’s major toll road, the ETR-408, that despite a significant proportion of employees operating under a hybrid model, traffic is tracking back to pre-pandemic levels.

Chart 4
Toronto’s ETR-408 toll road traffic vs 2019



Source: UBS, Company Data



Question 3 - What did you most want to spend money on as soon as things reopened?

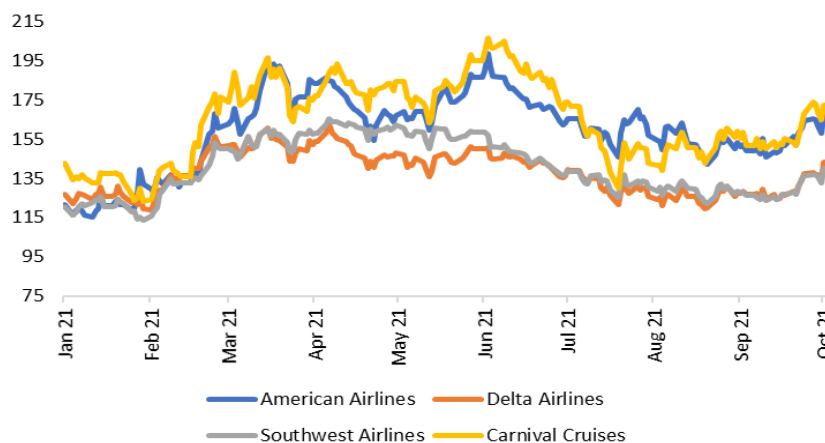
The overwhelming response to this question was Travel.

- New York "Restaurants and travel are the big two. Restaurants especially important in NYC where it's a big part of culture/social life. Travel initially consisted of domestic trips but international is open now. Most people are ready to get out there again."
- New Jersey "Live sports, travel, fitness. Definitely not clothes, I hadn't worn anything in my wardrobe for over a year, the last thing I needed was new clothes."
- Chicago "Travel was the biggest thing. Some restaurants were still open as essential but doing carry-out only. Now most are back open. Many restaurants went out of business due to COVID. Many are struggling to get workers now."
- Boston "Travel, travel, travel - and non-sweatpant clothes!"
- London "Pent up demand to travel, get to cafes, walk down the high streets. The pubs are packed and from what all the young blokes tell me the clubs are all a heap of fun again. Festivals are back in London. I wouldn't say people have been waiting at the door to get outside but people aren't nervous now that the government has made it clear things are open for good."
- Japan "I have two young boys so I'm keen to take them to many places. My 4-year-old was learning to swim and now is scared of water. He's been impacted in many ways and hasn't seen family or friends."
- Singapore "Eating out and travel are areas where we'd likely allocate budget. Eating out is probably where we've spent as restrictions lifted."

We expect there to be an interesting dynamic in the Consumer Discretionary space as Australians seek to spend on "Experiences" rather than "Things". There is risk of inventory build up in items such as fashion and apparel. There are still elements of the "stay at home trade" that have remained robust. As we saw in the recent US reporting season, it appears that we won't necessarily see a big pullback in electronics spending by the consumer even in a post-lockdown world.

The US market may be a guide to how some Australian stocks tied to the "reopening trade" might perform post restrictions easing. Chart 5 is interesting – often reality fails to live up to short-term expectations.

Chart 5
Despite a bullish run in the lead up to reopening in March/April, several US listed travel companies failed to continue to surprise to the upside



Source: Factset (stocks indexed to 100), Contact Asset Management



Question 4 - How complicated is air travel now compared to pre-COVID (e.g. vax requirements, evidence of a negative test) and has the price of travel changed materially?

International travel still seems challenging, however domestic travel has less restrictions.

- Europe
- “The paperwork and admin is a pain. While there are apps like Re-Open Europe, there are lots of checks for country rules and region-specific rules e.g. Germany. At the airport, check-in needed to be done at a counter to check our EU Digital Vaccine Certs which slows the process down it takes much longer to get through to the gate now and our certificates were checked multiple times and we had to walk through multiple temperature scanners, even one at the gate. Passports always needed to be shown, not just IDs.”
- “The co-ordinated EU digital vaccine certificate made it easier travelling in Italy and France which require proof of vaccination or recent test. It will be nearly impossible to enjoy eating out, events or activities without it. American travellers had to show their CDC card everywhere. You will need data roaming on your phone for these things to work. That's ok for us in the EU where most phone plans cover any EU country, but Brits now are roaming at expensive rates and Aussies will need to make arrangements for data on their phones to be able to travel.”
- “There are delays at the airport for baggage as so many staff were let off, that none are coming back as they have found new jobs and also want greater job security as they fear more lockdowns over winter.”
- “The costs of flights hasn't changed much, but airlines are downsizing aircraft or cancelling flights at the last minute to maximise yield. The UK requires a test pack to be purchased before travelling anywhere which is £200.”
- London
- “We have travelled to Mallorca, Spain and Crete, Greece since freedom day. As we are both double jabbed we could travel without hotel quarantine but we had to do multiple PCR and lateral flow tests to get there. Everyone (with a functioning IQ) understands the needs for these things to protect the UK from new strains. There was a pretty confusing traffic light system for a while and if anyone on your flight tested positive on the way back you had to isolate at home for 10 days unless you were double jabbed.”
- India
- “Travelling within India does not have much restriction. Just need to follow the rules. Certain states want a negative report if travellers are coming from states which have high cases. Air fares are almost unchanged.”
- Singapore
- “It's a nightmare, tests, hours to check in, approvals from multi agencies, quarantines”
- “Having travelled recently I can say travel is definitely more complicated, expensive and stressful. Ever changing restrictions, rules and regulations mean that flights aren't guaranteed. Prices have definitely increased for flights. We required a negative test to fly. No consideration was given to our fully vaccinated status. I do see this changing. Some airports have already geared up for new regulations. Singapore's Changi airport had numerous temperature screening machines in place throughout the departures area. Much like the changes post 9/11 it looks like travel will adjust and it won't be long before these changes become the normal.”
- USA
- “Complicated and frustrating as flights are always delayed. I think they are not back at full staffing levels yet and it's affecting service. ”
- “Domestic is easy but prices are still inflated. International is still complicated though that's largely determined by border requirements of the destination country more so than the US.
- “I've only travelled domestically so far and it was pretty easy, only additional requirement was wearing masks.”



Question 5 - What is a common thing you did pre-COVID that you don't see yourself doing going forward? (e.g. working five days a week in an office, going to a public gym, business travel).

It appears that technology will continue to play an increasingly important role in our working lives. People do not think that they necessarily need to be in the office five days a week – this will become an interesting discussion between Employers and Employees. Business travel is likely to suffer as video conferencing has become more mainstream.

San Francisco	"First time meetings do not necessarily need to be in person. Initial meetings will be over Zoom."
Japan	"TV streaming services"
Singapore	"Won't be working from the office as regularly, business travel, shopping as much from physical stores (online grocery especially the offering from Amazon improved dramatically with same day delivery)."
Canada	"I worked less (due to the pandemic) and am now working more due to the needs to stabilize my business with sweat equity because the travel industry has been so deeply affected."
Amsterdam	"Working 5 days a week in an office...we now spend more time with the kids and am more involved in pick up drop offs. Business travel has recommenced, and conferences have started again. People are more flexible with time and work than they used to be."
India	"I will do less travel for work as it can be done via Zoom".
UK	"Likelihood is I will work 3-4 days at home going forward. The advancement in our IT network due to being forced to work from home has meant the requirement to travel for work on a regular basis is removed. I also regularly caught the bus to work pre covid, but I am now less likely to use public transport. As I am at home more, we have considered getting rid of one car as it is very rare for both cars to be used at the same time."

Question 6 - Have you (or people you know) splurged on items or services during lockdown that you don't think you will use much in a "normal" world?

With this question, we are trying to get a sense of whether there has been pull forward demand for some items. Some common responses included home video streaming services (e.g. Netflix), gym equipment and alcohol.

San Francisco	"Exercise equipment for home exercise"
London	"Fair bit of vegetable gardening done in lockdown by a few of my friends. Haven't seen much produce since Freedom Day."
Singapore	"High quality alcohol at home" "Work from home meant many people kitted out a home office. Home gym equipment was flying off the shelf but I definitely think people will be back at the gym as soon as possible. Some friends upgraded their TVs and entertainment. Bicycles were hard to come by in Singapore. Cycling was an excuse to get out of the house. Post covid I think you'll see a lot of bicycles being sold."
Amsterdam	"No, we have bought things that make life easier at home because we spend so much more time here and will do in the future. We have bought office and networking equipment (subsidised or paid by work). Best investment was a decent home Wi-Fi router so we can take advantage of the internet."
India	"People have spent a lot on Netflix which people would generally not do. People would prefer going to a movie hall than watching it on Netflix. Even gym equipment at home."
Europe	"A few friends have bought bikes, campervans, rollerblades – all that collect dust now."
New Jersey	"Lots of people bought a second home - will be interesting to see that market play out."



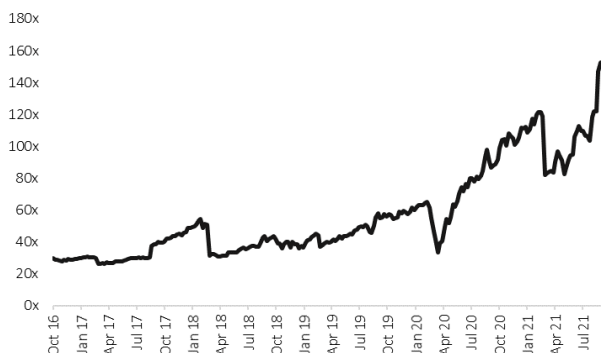
Question 7 - What sectors do you see as being permanently better off as a result of COVID (i.e. the increased activity is not just a blip, it is here to stay)?

Technology and convenience were common themes in the responses to this question.

- Canada “Digital infrastructure (data centres, strong fibre connections). Logistics (warehouse owners, businesses who hold exclusive contracts to delivery routes).”
- Europe "Digital - digital ID verification for onboarding, payment platforms, contactless experiences, e-commerce and trade (we just bought a washing machine and never went into a store) two clicks, real time update on delivery and install). Banks are investing more to get people online and out of branches.”
- Europe “Cars - people still avoiding air transport and doing more driving holidays in EU to avoid complexities of airports.”
- UK “Pets and pet accessories - we adopted a cat in December and there are already pet (dog) food shortages in the UK.”
- London “The private health care market is booming in the UK. The NHS is struggling under a huge backlog, so more people are going private.”
- San Francisco “SaaS targeting workflow and collaboration.”
- London “Click & Collect and delivery. We had never previously ordered groceries online and now we do. Delivery costs £1 for a time slot, we do a big shop online once a week then gradually pick things up we need from the local supermarket.”
- Singapore “Cyber security as we move to more offsite work. Companies' security is only as strong as its weakest link. With many employees working from home and using public Wi-Fi networks security is far more important. Telecommunications will benefit from people increasing their spend on home internet services.”
- New York “Pet ownership has increased significantly since lockdown and so will associated spend.”
“Health tech, Ed tech. All tech.”

We have already seen a re-rating in the Australian IT sector, as can be seen in Chart 6 below. However, it is not just IT sector companies that can benefit here. Banks can get more customers using digital apps and out of branches, Supermarkets can optimise online through click & collect and numerous other companies can benefit from Software as a Service. The response on the UK public vs private health system bodes well for Ramsay Healthcare. In all, we need to be cognisant of the benefits that technology can have across a number of sectors.

Chart 6
There has already been a massive re-rate in the multiples of the S&P/ASX 300 IT Index



Source: Factset, Contact Asset Management



Question 8 - What worries you most about your nation's economy in the next twelve months (e.g. job losses, increased inflation, house price collapse, banks putting more pressure on borrowers, more lockdowns etc)?

Inflation fears are commonplace. Those in the UK seem more bearish than a lot of other respondents as the additional complexities from Brexit bring their own challenges. There are also concerns around China.

- USA "Inflation, without a doubt. Prices continue to skyrocket while salaries are most definitely not keeping up."
"Inflation and a possible housing crisis."
"I think things are generally bullish short-term, but at some point, we have to bite the bullet on inflation as well as tapering COVID support."
- San Francisco "Confrontation with China and its impact of tech supply chain."
- London "Inflation here just keeps rising every month, coupled with the cost of living I can't understand how some people get by. I can't see any more lockdowns happening I think Boris will do literally anything to make sure that doesn't happen again. As I mentioned before the British Pound is struggling to rebound after COVID and Brexit combined. The feeling is that they will struggle for a while because they just keep borrowing (public sector another \$20 billion last month).
- UK "The UK is carrying a significant debt burden so how this is addressed will be interesting, and we are already seeing an increase in inflation, possibly as a means of managing the debt level. We have recently had an increase in the National Insurance level to essentially cover healthcare/social care and I can see more tax rises coming. We still haven't seen the full fallout of Brexit yet from a financial perspective, as any downturn to date can be attributed to covid."
"Mortgage rates in the UK are incredibly low at present, for example you can get a 5-year fixed mortgage at 1.89% interest with a 20% deposit. Along with a 'stamp duty holiday' during covid, house prices are continuing to increase. Inflation is expected to hit c5% this year, so it can be assumed that the base rate will increase from its historic low of 0.1%, and this could trigger an increase in mortgage rates. For many who have borrowed too much, this will be an issue when low fixed rates come to an end. I can see this being an issue with repossessions in 2-3 years' time."
- Singapore "In the next 12 months inflation is a concern. As a person looking to buy a home I'd be happy for housing prices to return to earth but this is potentially a concern for those that have benefited from increased property value when their employment status has been questionable."
- Amsterdam "Unemployment is not the problem, here it is about 3%. There is a skills shortage and the costs are going up, it's taking much longer to fill roles and we are relying more on outside the EU and the ""skilled migrant"" visas to recruit. Regarding inflation, prices have increased as businesses seek to recover some of their losses, but it's not as bad as what friends in the US have seen. House prices are very high here, but interest rates are incredibly low and bank accounts over 100k have negative interest."
"Gas - last year was the coldest winter in 20 years...cost €3500 in gas/electricity to heat the house for the 12 months to September. It's an old big house, but it's expensive!"
- India "Oil prices going up will automatically result in food inflation. That is a big concern for the middle-class family in India. Oil prices have a major impact directly or indirectly to the middle-class family in India. Also, another lockdown which can affect the unorganised sector in India which consist of 90% of the workforce. Lockdown would affect the daily wage workers. The unorganised has a major contribution to Indian GDP and growth."



Our Closing Thoughts

One thing is certain – we cannot wait to be on the other side of lockdowns!

We are encouraged by how many societies have returned to normal reasonably quickly notwithstanding a few tweaks to the lives we knew. A few themes came through our questionnaire:

- COVID has fast tracked a shift in technology – particularly if it makes our lives easier and safer. This goes across a range of sectors.
- The traditional work week and CBDs are experiencing change, but that doesn't necessarily mean that the office is dead. Rather, the way we use the office is evolving.
- High asset prices are underpinning confidence as is low unemployment. However, most remain cognisant that the inflation genie may get out of the bottle.
- Travel and experiences will get a short-term boost, probably to the detriment of spending on "things".
- Job security is a must watch. People have continued to spend on goods and services. Big ticket items will require continued confidence and stable cash flow. Travel, eating out, cars, boats, experiences etc will remain popular if there is plenty of disposable income at hand.

We are not convinced that there are clear cut winners and losers out of the reopening trade. The overseas experience has taught us that one needs to be cautious that expectations do not run too far ahead of reality. While we remain aware of behavioural trends, nothing is more important than investing in high quality businesses run by capable people that offer us a compelling dividend stream.

Finally, on a more human note, the following responses made us particularly excited about life on the other side of lockdowns:

"It's also been nice to see how communities have got back around each other. The worst part of COVID was the way that people shied away from each other, no more hellos in the street, avoiding contact etc. It has been great seeing everyone smile again."

"It has been positive seeing people get together and laugh and love. It's what we need as humans."

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