

## CONTANGO INCOME GENERATOR LIMITED

### CIE BENEFITS FROM DEFENSIVE PORTFOLIO IN AUGUST

#### WELCOME TO CIE MONTHLY NOTE

Welcome to the first Contango Income Generator Limited (CIE) monthly note. In this publication we will provide important information regarding the portfolio and comments on the outlook.

#### PORTFOLIO STRATEGY

CIE completed a successful launch in early August after raising over \$70 million. Once listed, the company's goal was to progressively invest the fund in a steady and considered manner which maximizes income distribution.

With increased volatility in markets during the month, the fund was able to time its entry into key stock positions to maximise value for shareholders. The portfolio's large cash holding also assisted in this process allowing us to take advantage while stocks were underperforming.

The portfolio's investment strategy is to be defensive given the subdued economic and market outlook. Within this positioning, the fund will aim to maximise franked dividends where possible.

Going into reporting season, the fund has been cautious by allowing companies to report before taking positions. This has been a successful strategy as companies delivering poor results have generally been sold down aggressively.

Once company results have been analysed by our investment team, stocks are then examined via our investment process and those offering stable dividend yields, solid earnings and healthy balance sheets have been added to the portfolio. Over reporting season CIE has been steadily locking in dividends with a view to delivering a steady income stream to its shareholders.

#### TOP 10 HOLDINGS

CIE's top 10 holdings reflect both Contango Asset Management's investment process, and the overall aim of the fund - to deliver sustainable dividend income to shareholders over time.

CODE	STOCK	WEIGHT
BEN	Bendigo and Adelaide Bank Ltd	6.5%
TTS	Tatts Group Ltd	5.5%
ASX	ASX Limited	5.3%
TAH	TABCORP Holdings Ltd	4.3%
GUD	G.U.D. Holdings	3.2%
PTM	Platinum Asset	2.9%
CQR	Charter Hall Retail	2.9%
AGL	AGL Energy Limited	2.6%
PPT	Perpetual Limited	2.5%
JBH	JB Hi-Fi Limited	2.3%

Given the fund is still only partially invested the top holdings may alter as the fund becomes more fully invested.

The portfolio's largest holding is Bendigo Bank, a company with a solid and growing franked dividend. The competitive position of the regional banks has improved compared to the majors following regulatory changes which are expected to benefit the regional banks.

The gaming stocks, Tatts Group and Tabcorp, both exhibited strong dividend and earnings growth in reporting season. Their stable business models and high free cash flow make them attractive investments for the fund.

The market related stocks like ASX Ltd offer strong balance sheets that should act to protect the companies in case of market declines. As the stocks all have strong free cash flows with little call on capital, cash can be used to add to dividends.

The fund bought into the placement by Charter Hall Retail REIT which is acquiring properties at attractive valuations. The exposure adds to the stability of the fund's dividend stream and the current yield is very attractive.

One of the largest stocks by market capitalisation in the fund is AGL. The stock offers a solid operating business, a good yield and is expected to release more cash in the future.

#### PERFORMANCE

As CIE has only just been listed, performance data is not yet available but it will be available in next months note.

## PORTFOLIO CHARACTERISTICS

The portfolio's characteristics reflect the aim of the fund which is to invest in low risk, high yielding companies that can grow their dividend over time.

AUGUST 2015	CIE	ALL ORDS
Price to Earnings Ratio	14.2	14.2
Dividend Yield (net)	6.1	5.1
Dividend Yield (gross)	7.7	6.6
EPS Growth (%)	6.0	4.5
Return on Equity (%)	14.2	15.5
Beta	0.78	0.98

Source: Factset (next twelve months)

## OUTLOOK

The outlook for the equity market is heavily dependent on the outlook for growth and interest rates.

We expect global growth will be positive but subdued over the next 12 months as solid conditions in the US are partly offset by weakness in emerging markets including China.

The outlook for China continues to deteriorate on the back of weak commodity prices, tightening financial conditions and soft momentum. However, we see the risk of a hard landing in China as low, as the authorities have sufficient resources to manage the slowdown.

The other key factor impacting the outlook is the timing and pace of US rate hikes. Underlying activity in the US is solid and is driving a recovery in the labour market which will force the Fed to raise rates later this year.

However, given a number of factors including ongoing deleveraging, subdued inflation and weak labour force participation, it is likely that US rate rises will be modest and gradual.

This will help keep US bond yields low which will in turn support growth and equity markets.

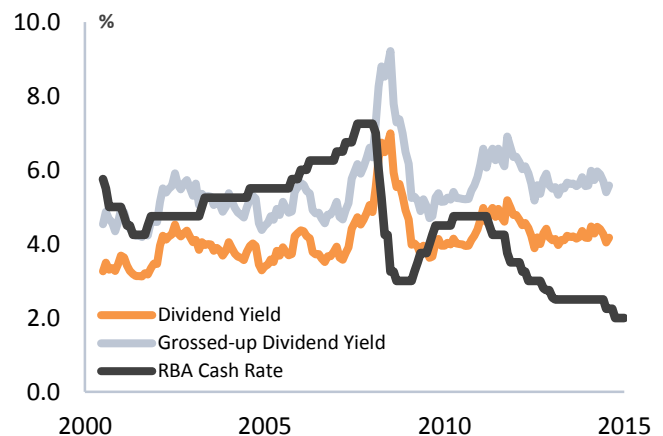
Locally, the outlook is for sub-trend growth as the economy transitions from mining investment to non-mining investment, net exports and consumption. With sub-trend growth and declining terms of trade, corporate Australia is in a difficult position to create jobs and will need further support from policy makers.

Although Aussie equities are not cheap on an historical basis, they are still expected to generate higher returns than either bonds or cash. This should continue to support the market over the next 12 months. As the Fed begins its normalisation of interest rate levels, we do expect periods of increased global market volatility which is normal at times of major policy adjustment.

The Aussie market in particular will be supported by the global equity rally but also the lower AUD and low interest rates which will support earnings growth.

## CHART 1: MARKET DIVIDEND YIELD IS WELL ABOVE THE RBA'S CASH RATE

### ASX 200 Dividend Yield & Cash Rate



Source: Bloomberg, RBA, Contango AM

## Disclaimer:

Contango Income Generator Ltd (CIE) has prepared this update for information purposes only related to the underlying investment portfolio. It does not contain investment recommendations nor provide investment advice. There may be errors in this document and the data provided within, you are to refer to audited statements and data officially released via the ASX. Investors in LICs should understand the distinction between Investment Portfolio Performance, NTA Performance and Share Price return. Neither CIE nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested within CIE or any associated product or Fund. Contango Asset Management Limited (CAML) ABN 52 085 487 421 AFSL No. 237119 is the investment manager of CIE. We strongly encourage you to obtain detailed professional advice and to read any relevant offer document in full before making any investment decision. CIE and any CAML investment fund identified in this document may not be suitable for your investment needs. This is not an offer to invest in a fund or product.

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