

CONTANGO INCOME GENERATOR LIMITED

CIE BENEFITING FROM DEFENSIVE STRATEGY

MARKET REVIEW

The December quarter marked the end of a volatile year for the equity market. In the quarter, the market returned a strong 6.5% driven by a 9.1% return from the Industrials. This helped to offset an 8.7% decline in Resources.

Over the year, the ASX All Ordinaries Index returned a modest 3.8%. The Index was weighed down by large cap stocks as the ASX 100 Index returned only 2.1%. Industrials outperformed Resources over the year as the ASX 100 Industrials Index returned a solid 7.7%.

PERFORMANCE

The CIE portfolio outperformed the ASX All Ordinaries Index by 3.3% in the December quarter, returning 9.9% compared to the index return of 6.6%. The portfolio benefited from its defensive strategy and stock selection.

The best performers over the quarter were SG Fleet (31.0%), Super Retail (26.1%) and Flexigroup (23.9%). The laggards included Spotless (-50.5%), GUD Holdings (-4.5%) and Tabcorp (-2.1%). The biggest disappointment for the fund was Spotless which had an earnings downgrade on the back of delays and extra costs. The portfolio's holding in Spotless is relatively modest.

TOP 10 HOLDINGS

CODE	STOCK	WEIGHT
BEN	Bendigo And Adelaide Bank	6.5%
TTS	Tatts Group Ltd	6.0%
ASX	ASX Ltd	6.0%
BOQ	Bank Of Queensland Ltd	4.9%
TAH	Tabcorp Holdings Ltd	4.0%
PTM	Platinum Asset Management Ltd	3.2%
SKI	Spark Infrastructure Group	3.1%
GUD	G.U.D. Holdings Limited	2.9%
CQR	Charter Hall Retail Reit	2.8%
NEC	Nine Entertainment Co Hldgs Ltd	2.7%

CIE's top 10 holdings reflect both Contango Asset Management's investment process and the overall aim of the fund.

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.

WHAT IS CIE?

Contango Income Generator Limited (CIE) is a Listed Investment Company whose aim is to provide shareholders with a sustainable income stream of franked dividends and modest capital growth over time. In addition, the Company seeks to provide investors with diversification from the largest 30 stocks by market capitalisation.

To deliver on its objective, CIE seeks to invest in high quality stocks that sit outside of the ASX top-30 and pay a sustainable franked dividend. Generally, these stocks will also have low volatility, sound balance sheets and sustainable earnings growth.

The Company's dividend policy is to pay annual dividends of not less than 6.5% of the Company's net tangible asset value per share. All dividends paid to shareholders will be franked to the maximum extent possible.

PORTFOLIO CHARACTERISTICS

Although relative performance is also important, the main aim of the fund is to generate sustainable dividend income for shareholders. On that front, excluding cash, the portfolio's dividend yield is currently 5.6% and 7.3% including franking.

Importantly, we are targeting our inaugural semi-annual dividend to be late March 2016. Also, shareholders are reminded that vesting of the Loyalty Options will occur at 7.00pm on 29 January 2016, with the options expected to be officially quoted on the ASX in February 2016.

DECEMBER 2015	CIE	ALL ORDS
Price to Earnings Ratio	14.7	14.9
Dividend Yield (net)	5.6	5.0
Dividend Yield (gross)	7.3	6.6
EPS Growth (%)	10.0	-3.9
Return on Equity (%)	16.2	15.9
Beta	0.89	-

Source: Bloomberg (consensus, 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.

As a result of the recovery in the US, the Federal Reserve raised rates for the first time in almost a decade in December. Looking forward, we believe the pace of US rate hikes will be gradual which is needed to ensure the economic recovery continues. The US economy is not strong enough to handle aggressive rate rises given ongoing deleveraging, subdued inflation and weak labour force participation. A gradual and measured normalisation cycle 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 to non-mining. With sub-trend growth and declining terms of trade, corporate Australia is in a difficult position and will need ongoing support from policy makers. While we don't expect any more rate cuts from the Reserve Bank of Australia, rates are likely to remain low for an extended period of time, including throughout 2016. Low rates will continue to put downward pressure on the AUD and support the local equity market (Chart 1).

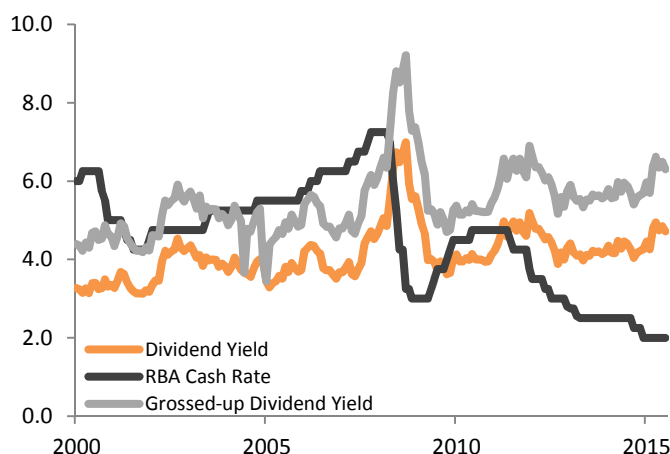
Australian corporate earnings are under pressure from subdued nominal GDP growth and increased competition. Large cap stocks are more exposed to these forces than smaller companies given they operate in more mature markets. However, the ex-30 segment of the sharemarket continues to offer attractive yield coupled with solid growth. Many of these ex-30 companies are in structurally growing industries or are able to increase market share independently of the performance of the broader industry.

On average, Australian equity valuations are not expensive and are trading a little below long run averages. Compared to bonds, equities continue to look attractive and offer a higher expected return.

For the year ahead, we expect only modest returns as the economy remains stuck in this low growth and low inflation environment. There will also be increased volatility as the Federal Reserve raises rates and as the Chinese economy rebalances. In this environment, the CIE portfolio should continue to perform relatively well as it has a defensive investment strategy with a focus on sustainable yield.

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

ASX 200 Dividend Yield & RBA 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.

Contango Income Generator Limited

ACN 160 959 991
Phone: +61 3 9222 2333 Level 27, 35 Collins Street MELBOURNE VIC Australia 3000
contango@contango.com.au www.contango.com.au