

# CONTANGO GLOBAL GROWTH (CQG)

INVESTMENT MANAGER'S MONTHLY PORTFOLIO UPDATE

31 JULY 2017

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## MONTHLY UPDATE

In the major economic regions, we are seeing growth picking up but with little or no evidence of rising inflation. Annual inflation rates have fallen in many countries since reaching highs in February this year. While improved economic growth has underpinned the perception that more central banks were likely to tighten policy by increasing interest rates or moderating asset purchases, the recent lower inflation numbers suggest that interest rate tightening is likely to be more limited and cautious.

Global equity markets continued to advance in July, largely on the back of strong corporate earnings, improved economic growth and steady bond yields. With bond yields remaining relatively low, the relative value of equities against bonds has continued to attract investors to equities. European equity markets have performed well, particularly the peripheral markets of Spain and Italy. Economic growth in Europe has surprised to the upside, political risk has diminished and although the ECB is expected to begin to slow down, halt or even reverse elements of its quantitative easing program over the next 12 months, the lack of any serious near term inflation threat is likely to ensure that any change in policy will be slow and gradual.

In the US, the recent GDP data showed that the economy expanded at a 2.6% pace in the June quarter after growing just 1.4% in the March quarter. Unusually, inflation has remained low despite strong economic growth. In this environment, it is expected that US interest rates will remain low. This is positive for equities.

The table below shows the returns of various global equity markets. The MSCI ACWI index rose 2.7% in United States dollar terms in July but when measured in Australian dollars it fell by 1.3% because the Australian dollar rose against the United States dollar.

Global Indices	1 mth	3 mth	12 mth
Dow Jones Industrial	2.5%	4.5%	18.8%
S&P 500	1.9%	3.6%	13.7%
NASDAQ Index	3.4%	5.0%	23.0%
Euro Stoxx 50 Price Index	0.2%	-3.1%	15.3%
FTSE 100	0.8%	2.3%	9.6%
German Aktien Index (DAX)	-1.7%	-2.6%	17.2%
France CAC40	-0.5%	-3.3%	14.7%
Nikkei 225 Index	-0.5%	3.8%	20.3%
Hang Seng Index	6.1%	11.0%	24.8%
Shanghai Composite Index	2.5%	3.8%	9.9%
India BSE 200 Index	5.6%	7.3%	18.7%
MSCI ACWI (US\$)	2.7%	4.9%	14.8%
MSCI ACWI Ex Aust (AU\$)	-1.2%	-1.7%	9.3%
ASX 300 Index	0.0%	-2.5%	7.0%

Source: Bloomberg, as of 31 July 2017

## PORTFOLIO UPDATE

The Contango Global Growth portfolio returned -2.1% for the month of July 2017, underperforming the benchmark index the MSCI All Country World Index ex-Australia (gross) that returned -1.2% by 0.9%, reported in Australian dollars and unhedged. Over the month, the Australian dollar appreciated against the United States dollar from USD 0.77 to USD 0.80, detracting 4% from the portfolio's performance. A strong contributor to performance was the portfolio's exposure to emerging markets equities (i.e. companies domiciled in countries that include Argentina, China and India) because emerging markets outperformed developed markets (i.e. companies domiciled in countries that include USA, Japan, Germany, United Kingdom).

The portfolio was invested as 81.5% in developed markets, 15.8% in emerging markets and the balance of 2.7% invested in cash. Over the year major global equity markets have generated strong returns: USA (+13.7%), Germany (+17.2%), France (+14.7%), UK (+9.6%), Japan (+20.3%) and China (+9.9%).

The portfolio continues to have significant investments in growing industry sectors being technology of 25.9%, healthcare of 15.5%, consumer discretionary of 16.6% and nil allocations to low growth sectors of utilities and telecoms. Companies held in these growing sectors have qualities of wide and growing competitive economic advantages supported by high returns on invested capital, superior growth prospects and low or no debt. These qualities help to protect the company from competition and maintain pricing power in their products, assisting them to continue to generate growing profits across a variety of market conditions.

The top 5 best stock contributors to performance for the month of July 2017 on an absolute basis were:

- **MercadoLibre** (+10.5%) - which provides internet e-commerce trading services in South America.
- **HDFC Bank** (+6.9%) - which provides commercial and international banking services in India.
- **Tencent Holdings** (+7.8%) - a diversified Chinese e-commerce company which provides internet, mobile and telecom services.
- **Facebook** (+7.7%) - a USA based global social media company.
- **Ctrip** (+6.6%) - which operates an internet travel planning, hotel and air ticket reservations business in China.

The bottom 5 stock detractors to performance for the month of July 2017 on an absolute basis were:

- **Atlas Copco** (-9.3%) - a globally diversified manufacturer of heavy duty industrial equipment based in Sweden.
- **Reckitt Benckiser** (-7.7%) - a UK headquartered company that is a leading global manufacturer and marketer of household cleaning, health and personal care products.
- **Boston Scientific** (-7.7%) - a global developer and seller of medical devices used to diagnose and treat various medical conditions, based in the USA.
- **Techtronic Industries** (-7.0%) - engages in the manufacture of various electrical power tools under well-known brands of AEG, Homelite, Ryobi and Hoover. Headquartered in Hong Kong.

- **Canadian National Railways** (-6.3%) - a freight railway company, headquartered in Montreal, that carries railroad freight throughout Canada, the mid-west and southern USA.

## PORTFOLIO OUTLOOK

The Contango Global Growth portfolio continues to benefit from its emphasis on faster-growing companies than the general market, though at the risk of apparent high valuations. The technologies that have catalyzed a global boom across online media, enterprise software, and e-commerce have applications in other industries that perhaps are less than fully discounted in stock prices. Internet-based businesses remain an important part of the portfolio.

The investment adviser has a longstanding focus on growth companies in the technology sector, where the holdings have emphasised the emerging winners and beneficiaries of "Internet 2.0". The portfolio has benefited in a number of industry segments of dominant or even winner-take-all internet-based businesses. While investors are clearly paying high prices for these businesses, their surge in the current year can mostly be explained by stronger-than-expected reported earnings rather than a re-estimation of their future growth rates. At some point, Facebook's ability to deliver yet another new customised mobile advertisement or Amazon.com's disruption of yet another consumer category will face diminishing marginal returns, but the share prices of these companies don't discount that happening for many years.

KEY DETAILS	
Report Date:	31 July 2017
ASX Code (shares / options):	CQG / CQGO
Listed on ASX:	23 June 2017
Fund Manager:	Contango International Management Pty Limited
Investment Adviser:	WCM Investment Management
Benchmark:	MSCI All Country World Index ex-Australia with gross dividends reinvested reported in Australian dollars and unhedged
Number of stocks:	20 – 40
Maximum cash position:	7%
Stock universe:	Global (ex-Australia)
Portfolio size:	\$93.68 million
Shares on issue:	90.936 million
NTA (Pre-tax):	\$1.000
NTA (Post-tax):	\$1.030
Share Price:	\$1.115

## BENEFITS FROM INVESTING IN CONTANGO GLOBAL GROWTH FUND:

- **Specialist Management** - Provides access to the investment philosophy and process of **WCM Investment Management (WCM)**, a specialist active manager of global equities with a successful long term track record of generating total returns above the benchmark index.
- **Growing Businesses** - **WCM's** investment philosophy requires global companies to maintain durable and growing competitive advantages, or growing economic moats, high returns on invested capital, superior growth prospects and low debt.
- **Invest in Global Companies** - Opportunity to gain diversified exposure to leading global companies, outside of the limited opportunity afforded on the Australian equities market. The portfolio's exposures to the high growth sectors of technology, healthcare and consumer, complements the Australian equity market's exposures to resources and financials.
- **High Conviction Approach** - Disciplined research of the global listed company universe to assess the relative attractiveness of each sector, coupled with rigorous bottom up analysis of individual companies. The final portfolio of 20 to 30 stocks comprises **WCM's** best stock ideas. The portfolio is not diluted with inferior stock holdings.
- **Active Strategy** – The strategy offers a value added total return approach to investing in global equities, an asset class that has historically been characterised by strong investment returns.
- **Seasoned Investment Team** - **WCM** employs a dedicated, stable and experienced investment team to provide research coverage of global listed companies.

## PERFORMANCE\*

Performance	Contango Global Growth Ltd %	MSCI ACWI (ex-Australia) %	Value Add %
1 Month	-2.1	-1.2	-0.9

Source: WCM Investment Management, as of 31 July 2017.

## MARKET ALLOCATIONS

Developed & Emerging Markets Allocations	Contango Global Growth Fund %
Developed Markets	81.5
Emerging Markets	15.8
Cash	2.7

Source: WCM Investment Management, as of 31 July 2017.

## REGIONAL ALLOCATIONS

Developed & Emerging Markets Allocations	Contango Global Growth Fund %
Americas	63.7
Europe	17.8
Asia/Pacific	15.8
Cash	2.7

Source: WCM Investment Management, as of 31 July 2017.

## TOP 10 HOLDINGS

STOCK	Weight (%)
Cooper Companies	3.9
HDFC Bank	3.7
Reckitt Benckiser	3.4
Canadian National Railway	3.3
Visa Inc	3.2
Amphenol	3.2
Keyence Corp	3.1
Quintiles Transnational Hold	3.1
Tencent Holdings Ltd	3.1
Boston Scientific Corp	3.0

Source: WCM Investment Management, as of 31 July 2017.

## SECTOR ALLOCATIONS

Sector	Weight (%)
Technology	25.9
Consumer Discretionary	16.6
HealthCare	15.5
Financials	10.5
Consumer Staples	8.2
Industrials	8.1
Materials	5.4
Energy	4.3
Real Estate	2.9
Telecom Services	0.0
Utilities	0.0
Cash	2.7

Source: WCM Investment Management, as of 31 July 2017.

## COUNTRY ALLOCATIONS

Country	Contango Global Growth Fund %
USA	57.8
United Kingdom	6.2
Hong Kong	6.0
India	3.7
Canada	3.3
Japan	3.1
Taiwan	3.0
Switzerland	2.7
Argentina	2.7
Denmark	2.4
Sweden	2.4
Italy	2.3
France	1.7
Cash	2.7

Source: WCM Investment Management, as of 31 July 2017.

## PORTFOLIO CHARACTERISTICS

Portfolio Characteristics	Contango Global Growth Fund
P/E (trailing)	33.2
P/E (forward)	27.2
Dividend Yield %	1.0
EPS Growth (LT) %	13.7
Return on Equity %	19.6
LT Debt / Total Cap %	31.7
Wt. Ave. Market Cap (AUD bill.)	112,055.6

Source: WCM Investment Management, as of 31 July 2017.

## WHO MANAGES CQG'S PORTFOLIO?

Contango Global Growth Limited (ASX code: CQG) has appointed Contango International Management Limited as manager of the portfolio. The manager has appointed WCM as adviser to provide portfolio investment and management services. The role of the manager is to supervise the adviser.

The manager is a wholly owned subsidiary of Contango Asset Management, an ASX listed funds management company (ASX code: CGA). CGA is a dedicated active funds manager, covering the entire spectrum of Australian equities of large, mid,

small and micro capitalisation companies. CGA's investment team is large and is led by George Boubouras (Managing Director / Chief Investment Officer).

WCM is an established and independent funds manager of globally listed companies. The firm is based in Laguna Beach, California and is 100% owned by active employees. Of WCM's 38 team members, 26 are equity owners, including all portfolio managers responsible for managing the CQG portfolio. This ensures alignment of interests between investors and WCM. WCM's Investment Strategy Group is responsible for construction of the final portfolio of 20 to 40 globally listed companies.

## HOW DOES WCM MANAGE CQG'S PORTFOLIO?

WCM's investment strategy is to have a high conviction, actively managed, long only, global equities portfolio invested in listed securities of developed markets (ex-Australia) and emerging markets companies. The portfolio construction process is based on rigorous bottom-up company analysis to identify quality global growth businesses with high returns on invested capital, superior growth prospects and low debt. It also requires the company to maintain a durable and growing competitive advantage, or growing economic moat. The focus on quality companies helps to protect capital in weak markets. The final portfolio is diversified across individual stocks (20 to 40), sectors (including information technology, consumer sectors of staples and discretionary, healthcare, financials and industrials) and countries, both developed (including USA, UK, Europe, Japan) and emerging (including China, India, Brazil).

### NOTES:

\* Gross performance does not reflect the impact from fees, taxes and charges. Past performance is not a predictor of future returns.

### DISCLAIMER:

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