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The Manager
ASX Market Announcements
Australian Securities Exchange Limited
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By e-Lodgement

INVESTMENT MANAGER'S MONTHLY PORTFOLIO UPDATE AS AT 31 AUGUST 2017

Contango Income Generator Limited (the **Company** or **CIE**) (ASX: CIE) wishes to provide shareholders with an update in respect of the Portfolio. Shareholders are referred to the Investment Manager's Monthly Portfolio Update as at 31 August 2017 from Shawn Burns, Senior Portfolio Manager at Contango Asset Management Limited, that is provided with this announcement.

Yours faithfully

Andrew MacDonald
Chairman

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

MONTHLY PORTFOLIO UPDATE

MARKETS UPDATE

Economic growth in the major developed regions has converged above the 2% level, the first period of solid synchronised growth in many years. Meanwhile, inflation remains quiescent, negating the need for prompt central bank action. However, while the broader economic environment provides a positive backdrop for markets, geopolitical risk seems to be on the rise. The escalation in tensions over North Korea and its nuclear testing program following US President Trump's threat to rain "fire and fury like the world has never seen" on North Korea has served to add to anxiety.

Global equity markets were largely unchanged in August, with concerns over the escalation of tensions on the Korean peninsula offsetting the ongoing improvement in growth and earnings. Despite the imposition of further UN sanctions, the North Korean regime has continued its missile-testing program. Gold has been one of the beneficiaries of the ratcheting up of threats from both North Korea and the US while the USD has continued to soften. Global bond yields moved slightly lower on the back of surprisingly low inflation and partly because of the move towards safe havens.

The Australian equity market managed a 0.7% return in August, and while it is up 3.9% for the year to date, the domestic market has been flat since falling from its near-6000 level in early May. Since end-April, the overall market has been weighed down by concerns over a heavily indebted household sector against a backdrop of weak wages growth, tightening financial conditions, at least for housing investors, and a general lack of consumer confidence. Over this four month period the bank sector is down 8.7% while building materials -8.3%, retailers -6.6% and REITs -4.7%, have been undermined by concerns relating to consumer confidence, the threat from Amazon and the housing cycle. The pharmaceuticals sector has lost 5% since April, partly because of the surprise lift in the AUD while the telco's sector was down a further 9.7%, taking the year to date loss to 22.4%.

The best performing sectors over this period, and indeed in the past month, have been capital goods, up 14.7%, food and beverages, up 12.8%, materials up 8.8% and transport, up 6.9%. The favoured themes for investors are clearly the recovery in the global cycle, and in commodity prices, defensive growth exposures and infrastructure. Consumer facing, domestic cyclical themes have continued to struggle.

PORTFOLIO UPDATE

The performance of the CIE portfolio was 2.1% over the month, outperforming the ASX All Ords Accumulation Index return of 0.8%. Over the quarter, CIE returned 2.9% against index return of 1.3% and over the year CIE returned 8.5% against 8.9% for the index. Since inception CIE has risen 10.5% against the market increase of 8.3%.

KEY DETAILS

Report Date:	31 August 2017
ASX Code (Shares / Options):	CIE / CIEO
Listed on ASX:	14 August 2015
Fund Manager:	Contango Funds Management Ltd
Benchmark:	ASX All Ordinaries Accumulation Index
Number of stocks:	30 – 40
Target / Maximum cash position:	5% / 50%
Portfolio size:	\$84.98 million
Shares on issue:	81.151 million
No. of stocks held:	52
NTA (Pre-tax):	\$1.045
NTA (Post-tax):	\$1.023
Share price:	\$0.980

PORTFOLIO CHARACTERISTICS

AUGUST 2017	CONTANGO INCOME GENERATOR	ASX ALL ORDS
Median market cap (\$m)	1,977.3	606.2
Price to earnings ratio	16.7	17.1
Earnings growth (%)	7.4	5.2
Dividend yield (net)	5.2	4.5
Dividend yield (gross)	6.9	5.9
Return on equity (%)	16.6	17.0
Beta to ASX300	0.8	1.0

Source: Bloomberg, as of 31 August 2017

Over the last year, the performance has been delivered with a cash holding of around 15% and a beta well below the market. In contrast, the ASX 300 Industrial Accumulation Index returned 6.6% over the year. In this context, the returns of the portfolio continue to be pleasing.

The current and target cash weight is approximately 15% (adjusted for the short SPI position).

The best performing stocks (+10% or better) for August were **Asaleo Care** (+21.5%), **SmartGroup** (+18.8%), **Maca** (+14.0%), **IOOF Holdings** (+13.8%), **SG Fleet Group** (+12.3%), **Medibank** (+11.8%) and **Villa World** (+10.7%). These stocks reflect a healthy mix of sectoral exposure. We continue to pursue stocks that possess sound balance sheets, cash flows and yield. The strategy has delivered solid portfolio performance over the last year.

In contrast, stocks returning below -10% for the month were **Automotive Holdings** (-16.5%) after a strong rally in past few months, **Xenith IP Group** (-12.6%) and **Sigma Healthcare** (-10.9%). Sigma faced ongoing uncertainty around acquisition synergies and weak sales performance on challenging industry conditions.

PORTFOLIO OUTLOOK

Market gains over recent months have been supported by a relatively elevated equity risk premium, improvement in earnings prospects and decline in bond yields. However, the global reflation trade appears to have stalled over recent months and the increased tail risks in the domestic economy have given rise to a more cautious outlook. Interest rates are expected to rise but, again, not significantly. The outlook for the broader market is cautiously positive.

The bond market appears to have stabilised over recent months as global growth momentum rolled over. However, bond proxies remain vulnerable to higher interest rates and will be purchased on a selective basis. The fund will continue to follow the existing strategy of capturing low risk yield.

BENEFITS FROM INVESTING IN MIDCAP INCOME STOCKS WITH CONTANGO INCOME GENERATOR

- **Consistent income stream.** The dividend policy is 6.5% of the Company's net tangible asset value per share per year. CIE has increased the frequency of dividend payments to quarterly, effective in the current 2018 financial year.
- **Diversification.** The Company offers exposure to high yielding equities that are outside of the ASX top-30. This helps to diversify an investor's portfolio away from sectors that are over-represented in the top-30 including the Banks.
- **Tax effective.** The company is tax aware and all dividends paid to Shareholders will be franked to the maximum extent possible.
- **Large opportunity set.** The company's universe is the ASX300 ex-30 which has 270 more investment opportunities than funds that focus on the top-30.

PERFORMANCE*

PERFORMANCE	CONTANGO INCOME GENERATOR	ASX ALL ORDS ACCUM INDEX	ADDED VALUE
1 Month	2.1%	0.8%	1.3%
3 Months	2.9%	1.3%	1.6%
6 Months	6.5%	2.6%	3.9%
12 Months	8.5%	8.9%	-0.4%
Inception (Aug 2015)	10.5%	8.3%	2.2%

Source: Bloomberg, as of 31 August 2017

TOP 10 HOLDINGS

CODE	STOCK	WEIGHT %
ASX	ASX Ltd	6.3
BOQ	Bank of Queensland Ltd	5.8
TAH	Tabcorp Holdings Ltd	4.3
BEN	Bendigo & Adelaide Bank Ltd	4.2
CAR	Carsales.com Ltd	3.0
IFL	IOOF Holdings Ltd	3.0
CTX	Caltex Australia Ltd	2.8
SKI	Spark Infrastructure Group	2.8
CHC	Charter Hall Group	2.8
ABC	Adelaide Brighton Ltd	2.7

Source: Bloomberg, as of 31 August 2017

SECTOR ALLOCATIONS

SECTOR	WEIGHT (%)
Financials Ex-REITs	28.5
Consumer Discretionary	19.1
REITs	10.7
Industrials	8.8
Materials	8.3
Information Technology	4.7
Utilities	4.4
Consumer Staples	3.3
Energy	2.8
Health Care	2.7
Telecommunication Services	0.0
[Cash]	13.8
[Futures]	-7.1

Source: Bloomberg, as of 31 August 2017

- **Access to IPOs and discounted capital raisings.** the company has access to these opportunities which are usually out of reach of the individual investor.

WHO MANAGES CIE'S PORTFOLIO?

Contango Asset Management Limited (**CGA**) is CIE's portfolio manager through its subsidiary Contango Funds Management Limited. Shawn Burns is the Senior Portfolio Manager for the Income Generator strategy. Shawn is supported by a Deputy Portfolio Manager and a large investment team lead by the Chief Investment Officer (CIO) George Boubouras. **CGA** is a high performing Australian funds management company that offers both core and satellite portfolio solutions that cover the entire market capitalisation range. CGA is listed on the ASX.

HOW DOES CGA MANAGE THE PORTFOLIO?

CGA is a top-down and bottom-up manager. The manager uses a business cycle approach to generate alpha (persistent out-performance) by systematically incorporating economic, industry and stock specific factors into the portfolio construction process. The manager uses a proprietary research process developed over many decades with a proven long term track record.

CGA's investment strategy has been highly successful at delivering superior outcomes for clients over a long period of time and the company is proud of its long-term performance.

31 August 2017



SHAWN BURNS
SENIOR PORTFOLIO MANAGER
CONTANGO ASSET MANAGEMENT

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NOTES

- * Gross performance does not reflect the impact from fees, taxes and charges. Past performance is not a predictor of future returns.
- # The Company will normally pay annual dividends amounting to a minimum 6.5%pa yield on the Net Tangible Asset value per share prevailing at the beginning of each financial year payable via (four) quarterly dividend payments. CIE may have declared a Dividend prior to your reading this document. Only refer official ASX Announcements. All dates, dividend amounts & any franking which may be attached to possible future dividends are indicative only until formally declared.

DISCLAIMER: This update has been prepared 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. Contango Funds Management Limited (**CFML**) ABN 52 085 487 421 AFSL No. 237119 is the investment manager of CIE. Neither CIE, CFML nor their respective 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. We strongly encourage you to obtain detailed professional advice and to read any relevant offer document in full before making

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