

**Contango Income Generator
Limited (CIE)**

Listed Managed Investments

June 2017 Quarterly Review

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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 15 August 2017	0.98
Market cap (\$M)	79.5
Shares on issue (M)	81.2
Options on issue (M)	33.9
Shares traded (\$M p.a)	51.7
12-month L/H (\$)	0.915/1.00
Listing date	August 2015

Fees

Management Fee (% p.a)	0.85-0.95*
Performance incentives (%)	na

*The management fee will be charged on a tiered scale. The annual management fee will be 0.95% for the portfolio value up to and including \$150m, 0.90% for the portfolio value above \$150m up to and including \$500m, and 0.85% for the portfolio value above \$500m

Premium/Discount to Pre-tax NTA

30 June 2017	-6.7%
3 year average	-3.8%

Dividend Yield

	%
FY15	na
FY16	3.26pf
FY17	6.74pf

Largest Shareholders

	%
Victor Plummer	3.1
HSBC Custody Nominees (Australia) Limited	1.0

As at 30 June 2017

COMPANY OVERVIEW

Contango Income Generator Limited (ASX: CIE) is an investment company which listed on the ASX in August 2015 following an initial public offer. Contango Asset Management Limited (ASX:CGA), an ASX listed company partly owned by its management and staff, is the Manager of the portfolio. CIE invests primarily in companies outside the top 30 ASX-listed securities and seeks to pay an annual dividend of at least 6.5% of NTA at the beginning of the financial year. Dividends will be franked to the maximum extent possible and will be paid on a semi-annual basis.

INVESTMENT OBJECTIVE

CIE seeks to provide investors with access to an above market yielding portfolio of primarily ex-30 ASX-listed securities on the basis that most people have exposure to the top 30 stocks through their own investment portfolios or through their superannuation funds. While trying to maximise total returns to investors, CIE also seeks to preserve capital through its ability to hold up to 50% of the portfolio in cash if attractive opportunities cannot be identified.

STYLE AND PROCESS

The Manager uses a combination of top down and bottom up fundamental analysis to identify attractive investment opportunities. The Manager believes economic conditions drive earnings and valuations and that sectors perform differently at each stage of the economic cycle. As such stocks are selected based on company fundamentals and then investment is based on the economic overlay determined. The Manager utilises filters such as: yield of 4%+, beta is lower than the market, franking levels, volatility, level of gearing, and liquidity.

PORTFOLIO CHARACTERISTICS

CIE holds a portfolio of ASX ex-30 stocks heavily weighted to the Financials and Consumer Discretionary sectors, with 43% of the portfolio allocated to these two sectors. The Manager takes high conviction positions and is index agnostic and therefore not concerned with the weighting of a stock in the index. This is highlighted by the top ten holdings, which account for 34.8% of the portfolio, compared to the relevant weighting in the All Ordinaries Index of 2.6%. Portfolio performance will largely be dependent on the stock picking abilities of the Manager.

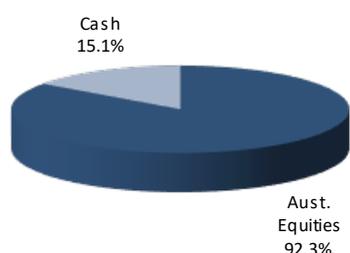
INDEPENDENT INVESTMENT RESEARCH COMMENTS

CIE seeks to maintain a portfolio that provides lower than market beta and offers a yield of at least 6.5%. Given the Manager's history we believe the yield is achievable. The Manager has shown its ability to manage a portfolio that achieves the stated objectives of the company through its management of the Contango Midcap Income Trust. The Trust was established in December 2012 and has similar objectives to CIE. For the 12 months to 30 June 2017, CIE delivered a portfolio return (pre-tax NTA plus dividends) of 11.0%, underperforming the ASX All Ordinaries Accumulation Index which increased 13.1% over the period. This reflects underweight positions in materials and energy, sectors which performed strongly. The S&P/ASX 200 Industrials Accumulation Index, which excludes resource focused stocks, rose 12.6% over the 12 months. CIE announced a FY2017 final dividend of 3.5 cents per share, 50% franked, taking the full year dividend to 6.5 cents per share, 50% franked, unchanged on the prior year. CIE shares have mostly traded at a discount since listing and at 30 June 2017 were at a 6.7% discount to pre-tax NTA. This is a reasonable entry point for investors seeking exposure to a portfolio of Australian shares outside the top 30 companies. However, we think the discount is likely to remain until the company can establish a track record of outperformance.

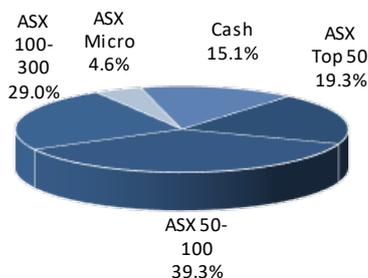
SECTOR BREAKDOWN

Sector	31 Mar (%)	30 Jun (%)
Energy	2.3	2.5
Materials	6.3	8.1
Industrials	9.6	7.5
Consumer Discretionary	21.5	16.5
Consumer Staples	2.5	2.1
Health Care	1.9	2.2
Financials	32.2	26.5
Information Technology	2.2	4.6
Telecommunication Services	0.0	0.0
Utilities	4.5	4.7
REITS	9.0	10.2
SPI Futures	-6.7	0.0
Cash	14.6	15.1

Asset Weighting



Size Weighting



Board of Directors

Dr. Andrew MacDonald	Chairman (Non-Executive)
Mark Kerr	Director (Non-Executive)
Don Clarke	Director (Non-Executive)
George Boubouras	Director (Executive)
Steve Bennett	Director (Non-Executive)

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

PERFORMANCE ANALYTICS

Performance	June Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	0.49	11.02	na	na
Peer Group Median (pre-tax NTA plus dividends), %*	-0.49	6.81	na	na
ASX All Ords Acc Index (%)	-1.54	13.12	na	na
Out/Under performance of index (%)	2.03	-2.10	na	na
Share Price + Dividends (%)	-0.52	12.19	na	na
Tracking Error (%)	2.03	4.69	na	na

*Peer Group is Australian Shares Mid/Small Cap as classified in the IIR monthly LIC report

OTHER DATA

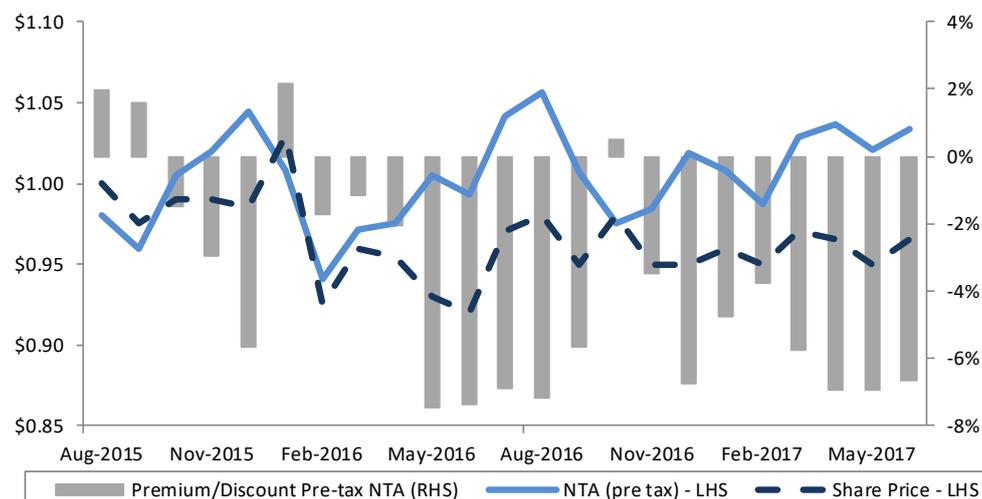
- ◆ **Dividend policy** – CIE will seek to pay annual dividends amounting to a minimum 6.5%pa yield on the net tangible asset value per share prevailing at the beginning of the financial year.
- ◆ **Capital management policy** – CIE can buy back its shares, however has no buy back facility in operation.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – Yes, at 3% discount.

CIE's Portfolio (Top 10) Weighting

Code	Portfolio (%)	ASX All Ordinaries Index (%)
ASX	6.0	0.6
BOQ	5.3	0.3
TAH	4.4	0.2
BEN	3.7	0.3
SKI	2.8	0.3
ABC	2.7	0.2
CHC	2.7	0.1
HPI	2.6	0.0
CTX	2.5	0.5
IFL	2.4	0.2
	34.8	2.6

Source all figures: CIE/Independent Investment Research/IRESS. All data as at 30 June 2017 unless otherwise specified.

NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

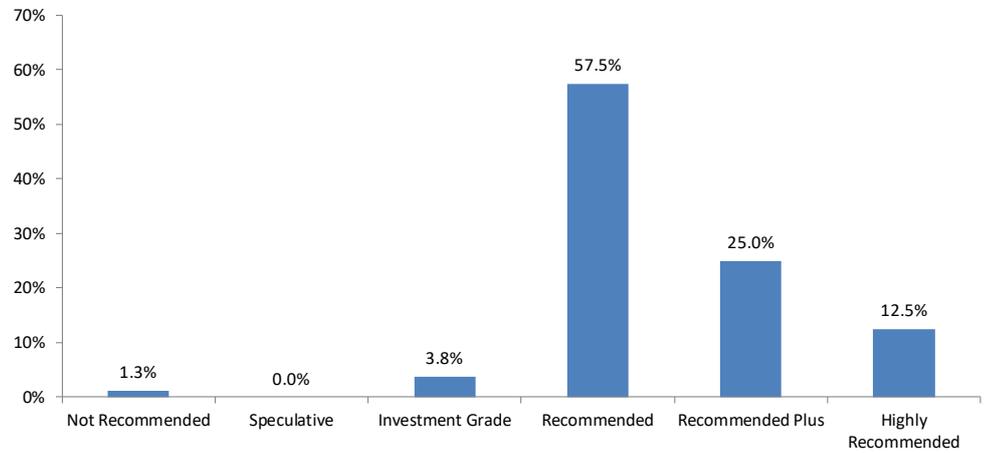
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–82</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>60–78</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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