

# CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

## NTA STATEMENT AND PORTFOLIO UPDATE

### PERFORMANCE UPDATE

For November, the CIE portfolio posted a return of 3.4%, outperforming the broader market return of 1.9%, as measured by the ASX All Ords Accumulation Index. Long-term performance remains strong with the 12-month return at 16.8% (2.0% above the index return of 14.8%) whilst since inception CIE has delivered 11.9% relative to the index return at 10.1%.

The portfolio is managed conservatively with a cash holding of about 15% over the last year. This has contributed to the portfolio's risk profile being below market levels. Despite the lower risk the portfolio's return bettered the market return over the year. Usually, the portfolio can be expected to lag the broader market in strong share markets driven by momentum and less by company fundamentals as there is less focus on risk. In this context, the returns of the portfolio are quite pleasing.

The best performing stocks (+10% or above) for November were, **Scottish Pacific Group** (+15.4%), **Automotive Holdings** (+14.2%), **McMillan Shakespeare** (+13.0%) and **Navitas** (+10.1%). Scottish Pacific is a debtor finance company who held an inaugural investor day that we attended. The company continues to make steady progress, is conservatively managed and has good balance sheet. Automotive Holdings announced the sale of its troubled refrigerated logistics operation for A\$400m, a good price. We like companies that focus on strong core operations. McMillan Shakespeare has been part of a broader rally in novated and asset leasing companies as regulatory risk appears to have diminished.

In contrast, there were no major stock falls within the portfolio (-10% or more). IRESS was 7.4% lower after a modest earnings downgrade. Other stock news included the likely consummation of the Tabcorp/Tatts Group merger. The combined group is one of the fund's biggest holdings and we view the merger positively. Also, regulatory change will continue to weigh on Tabcorp's competitors, the corporate bookmakers. Although the process was lengthy, the outcome looks promising for the merged group.

Finally, Dulux reported its full year results with a typical solid result from its core paints business. Other divisions acquired through the Alesco acquisition in 2012 showed pleasing growth. The dividend for the year was 26.5cps fully franked, up 10%. Also, the company is completing a large investment in a new paint plant so cashflow should now improve into the next year.

### NET TANGIBLE ASSETS

NET TANGIBLE ASSETS	31 OCT 2017	30 NOV 2017
<b>NTA of investments before tax</b>	<b>\$1.020</b>	<b>\$1.052</b>
NTA of investments before tax on unrealised gains	\$1.015	\$1.047
<b>NTA after tax</b>	<b>\$0.999</b>	<b>\$1.022</b>
Month-end closing share price (CIE.ASX)	\$0.950	\$0.960
Month-end closing option price (CIEO.ASX)	\$0.002	\$0.002

### ASSET COMPOSITION

ASSET COMPOSITION	31 OCT 2017		30 NOV 2017	
Investment Type	\$m	%	\$m	%
ASX listed shares	83.19	85.9	86.11	86.7
Futures contracts	-	-	-	-
Liquidity	15.65	16.2	16.06	16.2
Tax asset (liability)	(2.04)	-2.1	(2.87)	-2.9
<b>Net Assets After Tax</b>	<b>\$96.80</b>	<b>100.0</b>	<b>\$99.30</b>	<b>100.0</b>
Ordinary Shares on Issue	96.863m		97.123m	
Options on Issue	21.614m		21.354m	

### PERFORMANCE

PERFORMANCE	CONTANGO INCOME GENERATOR	ASX ALL ORDS ACCUM INDEX	ADDED VALUE %
1 Month	3.4%	1.9%	1.4%
3 Months	5.6%	6.1%	-0.5%
6 Months	8.6%	7.4%	1.2%
12 Months	16.8%	14.8%	2.0%
Inception (Aug 2015)	11.9%	10.1%	1.8%

Source: Bloomberg, as of 30 November 2017

The fund continues to target a 15% cash weight. Portfolio activity was modest. The fund took some profits in Dulux, post dividend and after a strong run in the share price and reinvested in a range of existing holdings.

We switched a modest holding in Sigma Healthcare into Harvey Norman. Both business have their challenges and have low share prices, however, Harvey Norman appears a better risk/reward trade off.

### PORTFOLIO OUTLOOK

Global equities markets were mixed in November after the strong rises seen earlier in the year. The US market continued to do well. The Australian market was up 2% over the month, a reasonably good outcome. Sector performance was mixed as well with REITs and Energy doing best both being 4-5% higher. The market laggards over the month were the large cap dominated Banks and Telecommunications. The banks reported solid but unexciting profits and will have to undergo a Government review. The telecommunications sector continues to struggle with the NBN rollout.

As for most of this year, market is being driven higher by steady world economic growth for the major markets of USA, Japan and Europe and interest rates staying very low in a historical context. The main risks to the longevity of the bull market, that has been running for the last 8 years, is the capacity of the US economy to absorb this growth without moving interest rates, wages or inflation markedly higher. Continued economic growth should be expected to be met with monetary policy normalization from central banks. Central bankers are unlikely to be in a rush to increase interest rates, especially as inflation is expected to remain relatively low because of low wages growth.

Other factors to monitor are whether Chinese growth slows dramatically or if the interest rate differential between government bonds and non-government bonds (i.e. credit spreads) blow out.

These economic risk factors look reasonable now, but diversification is still needed given myriad of global geopolitical concerns.

The environment is generally supportive for equities.

30 November 2017

### TOP 10 HOLDINGS

CODE	STOCK	WEIGHT %
BOQ	Bank of Queensland Ltd	5.8
ASX	ASX Ltd	5.0
TAH	Tabcorp Holdings Ltd	4.7
BEN	Bendigo & Adelaide Bank Ltd	3.7
ABC	Adelaide Brighton Ltd	2.9
CHC	Charter Hall Group	2.8
SKI	Spark Infrastructure Group	2.6
CTX	Caltex Australia Ltd	2.6
DLX	Dulux Group Ltd	2.6
CAR	carsales.com Ltd	2.6

Source: Bloomberg, as of 30 November 2017

### SECTOR ALLOCATIONS

SECTOR	WEIGHT %
Consumer Discretionary	15.8
Consumer Staples	10.1
Energy	2.5
Financial Ex-REITS	26.3
Health Care	0.0
Industrials	8.2
Information Technology	1.4
Materials	6.6
REITS	9.4
Telecommunication Services	0.0
Utilities	4.2
[Cash]	15.5
[Futures]	0.0

Source: Bloomberg, as of 30 November 2017

### PORTFOLIO CHARACTERISTICS

NOVEMBER 2017	CONTANGO INCOME GENERATOR	ASX ALL ORDS
Median market cap (\$m)	2,145.1	637.6
Price to earnings ratio	17.0	17.2
Earnings growth (%)	5.7	4.9
Dividend yield (net)	5.2	4.4
Dividend yield (gross)	6.9	5.8
Return on equity (%)	17.0	17.0
Beta to ASX300	0.8	1.0

Source: Bloomberg, as of 30 November 2017

## ABOUT CONTANGO INCOME GENERATOR

Contango Income Generator Limited (CIE) is a listed investment company with the objective to deliver a sustainable income stream and modest capital growth to its shareholders over time. To deliver on its objective, the company will focus its investments on high yielding ASX listed securities that are outside of the largest 30 securities in the S&P ASX300 Index. This is because many investors are already exposed to these large cap stocks either directly or via existing managed fund or ETF investments.

If investors supplement their existing large cap portfolio with a diversified portfolio of high quality stocks outside of the top 30, they may be able to reduce the overall risk and volatility of their equity portfolio whilst maintaining or even increasing its dividend yield. This would be a more efficient portfolio allocation.

Contango Income Generator Limited has a dividend policy to pay a minimum 6.5% p.a. on its Net Tangible Asset Value, paid quarterly. The company may also pay additional special dividends when favourable market circumstances allow.

## WHO MANAGES THE 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. CGA is an Australian funds management company, listed on the ASX. A top-down and bottom-up manager, CGA 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.

## CONTANGO INCOME GENERATOR LIMITED

ACN 160 959 991  
 Level 27, 35 Collins Street MELBOURNE VIC 3000  
 T: +61 3 9222 2333  
 W: [contangoincomegenerator.com.au](http://contangoincomegenerator.com.au)  
 E: [info@contangoincomegenerator.com.au](mailto:info@contangoincomegenerator.com.au)

## 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 any investment decision. CIE and any CFML investment fund identified in this document may not be suitable for your investment needs. This is not an offer to invest in any security or financial product.

KEY DETAILS	
Report Date:	30 November 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:	\$101.92 million
Shares on issue:	97.122 million
No. of stocks held:	42
Share price:	\$0.960