

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

INVESTMENT UPDATE AND NTA STATEMENT

PERFORMANCE UPDATE

For December, the CIE portfolio posted a return of 0.5%, underperforming the broader market return of 2.0%, as measured by the ASX All Ords Accumulation Index. Long-term performance remains solid with the 12-month return at 12.9% (0.4% above the index return of 12.5%) whilst since inception CIE has delivered 11.8% relative to the index return of 10.7%.

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.

December was a relatively quiet month in terms of company news and performance. Strongest sectoral performance came from Energy and Materials with both sectors generating greater than 6% returns on the back of strong commodity prices and better expectations of growth. CIE does not hold pure commodity stock exposures as they are considered too volatile and unpredictable for the fund.

Tabcorp Holdings (TAH) was the strongest performer at 15.1% in the fund. TAH is also one of the fund's largest holdings. The company benefited from the merger with Tatts Group obtaining final approvals, and also encouraging potential regulatory changes. No other stocks delivered better or worse than (+/-) 10% in the fund.

In stock news, a competitor to Regis Healthcare (REG), Japara Healthcare, flagged a disappointing first half due to the impact of a severe influenza season on nursing home occupancy. REG made no announcement but was mildly weaker on this news. We consider REG the strongest company in this sector.

Also, Aurizon Holdings (AZJ) was down modestly due to the Queensland regulator delivering a disappointing draft proposal on the returns that AZJ can earn on its rail network.

Several of the fund's largest holdings, such as ASX Ltd, Bank of Queensland, and Dulux had modest share price pullbacks over December after very strong moves earlier in the year. The fund has taken profits in many of these stocks.

PERFORMANCE

PERFORMANCE	CONTANGO INCOME GENERATOR	ASX ALL ORDS ACCUM INDEX	ADDED VALUE %
1 Month	0.5%	2.0%	-1.5%
3 Months	6.2%	8.2%	-2.0%
6 Months	7.7%	9.3%	-1.6%
12 Months	12.9%	12.5%	0.4%
Inception (Aug 2015)	11.8%	10.7%	1.1%

Source: Bloomberg, as of 31 December 2017

NET TANGIBLE ASSETS

NET TANGIBLE ASSETS (PER SHARE)	31 DEC 2017	30 NOV 2017
NTA before tax	\$1.040	\$1.052
NTA after tax and before tax on unrealised gains	\$1.031	\$1.047
NTA after tax	\$1.010	\$1.022
Month-end closing share price (CIE.ASX)	\$0.970	\$0.960
Month-end closing option price (CIEO.ASX)	\$0.003	\$0.002

KEY DETAILS

Report Date:	31 December 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:	\$101.01 million
Shares on issue:	98.210 million
No. of stocks held:	44
Share price:	\$0.970

The fund continues to target a 15% cash weight. Portfolio activity was modest. The fund took some profits in McMillan Shakespeare Ltd, SmartGroup Corp and the combined Tabcorp/Tatts Group. A position was established in AMP, after it fell out of the top 30 stocks. We expect AMP Ltd to deliver a gross yield of 8%. The fund purchased a modest position in GUD as it appears a stable diversifier with a 6.4% gross yield. Also, a position was re-established in SG Fleet as regulatory concerns eased.

PORTFOLIO OUTLOOK

Global equity markets were mostly higher in December, continuing a steady rally that has continued throughout most of the year. European markets were flat to slightly lower.

Economic lead indicators and those indicators that measure economic activity are broadly positive with the geographic spread and strength of data being the best in many years.

As we approach global monetary tightening, with the US already well underway, market focus will be on the fixed interest markets and how they react to the tightening.

Inflation and wages growth around the world remain subdued, which is supporting lower interest rates. Any significant movement upwards in wages or inflation may unsettle fixed interest markets.

For equity markets the outlook is balanced between how severe any sell off in fixed interest markets are compared to better earnings from the stronger economic growth. So far, fixed interest markets have been relatively well behaved and earnings have been good.

In Australia, the outlook for earnings growth is more subdued. Large cap companies in Australia have positive earnings but are low growth. Also, Australia is likely to see milder interest rate increases than the rest of the world.

With earnings growth expected in 2018, dividends well supported as well as interest rates remaining low. The environment is generally supportive for equities.

31 December 2017



SHAWN BURNS
SENIOR PORTFOLIO MANAGER
CONTANGO ASSET MANAGEMENT

TOP 10 HOLDINGS

CODE	STOCK	WEIGHT %
ASX	ASX Ltd	5.8
BOQ	Bank of Queensland Ltd	5.7
TAH	Tabcorp Holdings Ltd	5.5
BEN	Bendigo & Adelaide Bank Ltd	4.9
ABC	Adelaide Brighton Ltd	3.1
CTX	Caltex Australia Ltd	2.9
CHC	Charter Hall Group	2.9
CAR	Carsales.Com Ltd	2.7
AZJ	Aurizon Holdings Ltd	2.6
HPI	Hotel Property Investments	2.6

Source: Bloomberg, as of 31 December 2017

SECTOR ALLOCATIONS

SECTOR	WEIGHT %
Consumer Discretionary	16.4
Consumer Staples	9.8
Energy	2.5
Financial Ex-REITS	28.6
Health Care	0.0
Industrials	7.8
Information Technology	1.8
Materials	6.3
REITS	9.1
Telecommunication Services	0.0
Utilities	4.0
[Cash]	13.7
[Futures]	0.0

Source: Bloomberg, as of 31 December 2017

PORTFOLIO CHARACTERISTICS

DECEMBER 2017	CONTANGO INCOME GENERATOR	ASX ALL ORDS
Median market cap (\$m)	2178.4	670.2
Price to earnings ratio	17.2	17.4
Earnings growth (%)	5.6	4.8
Dividend yield (net)	5.1	4.4
Dividend yield (gross)	6.8	5.8
Return on equity (%)	17.7	16.5
Beta to ASX300	0.9	1.0

Source: Bloomberg, as of 31 December 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.

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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.

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ASSET COMPOSITION

ASSET COMPOSITION	31 DEC 2017		30 NOV 2017	
Investment Type	\$m	%	\$m	%
ASX listed shares	87.14	87.9	86.11	86.7
Futures contracts	-	-	-	-
Liquidity	14.99	15.1	16.06	16.2
Tax asset (liability)	(2.98)	-3.0	(2.87)	-2.9
Net Assets After Tax	\$99.15	100.0	\$99.30	100.0
Ordinary Shares on Issue	98.210m		97.123m	
Options on Issue	20.354m		21.354m	