

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE) INVESTMENT UPDATE AND NTA STATEMENT

31 January 2018

PERFORMANCE UPDATE

For January, the CIE portfolio posted a return of -0.7%, underperforming the broader market return of -0.3%, as measured by the ASX All Ords Accumulation Index. Long-term performance remains solid with the 12-month return at 13.8% (0.8% above the index return of 13.0%) whilst, since inception, CIE has delivered 11.1% relative to the index return of 10.2%.

The portfolio is managed conservatively, with a cash holding of about 14%. This has helped keep the portfolio's risk profile below that of the broader market. Despite lower risk, the portfolio's return is ahead of the market over the year. Usually, the portfolio can be expected to lag the 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 recent bond market selloff has impacted some of the stocks in the portfolio, including REITs and utilities. These types of companies are more closely linked to the movements in the bond rate. Income and yield funds such as CIE are not immune to these moves, however two key points can be made. First, in aggregate, dividends will be maintained, and there is potential for some dividend growth. Second, while the fund has some exposure to the utility, REIT and infrastructure sectors that are usually more impacted by higher bond yields, this exposure isn't overly large and is part of a diversified broader portfolio. The likelihood is that the fund will lag the broader market when bond yields rise, accompanied by a strong stock market. However, a strong market and rising bond yields have, historically, not coexisted for long.

The upcoming reporting season will see around 70% of the fund's holdings report earnings and dividends.

Performance across all sectors represented in the portfolio was very narrow, ranging from +3% to -4%, with no one sector either outperforming or significantly underperforming.

There were a couple of standout performers last month, with both Regis Healthcare (REG) and Xenith IP Group (XIP) gaining over 10%, clawing back some of last year's underperformance. One stock that lagged was Navitas Ltd (NTV). The company reported a disappointing earnings result with growth targets not being met. We were pleased the fully-franked dividend was kept steady. The balance sheet remains sound and underlying growth was good.

PERFORMANCE

PERFORMANCE	CONTANGO INCOME GENERATOR	ASX ALL ORDS ACCUM INDEX	ADDED VALUE %
1 Month	-0.7%	-0.3%	-0.4%
3 Months	3.2%	3.6%	-0.4%
6 Months	7.6%	8.8%	-1.2%
12 Months	13.8%	13.0%	0.8%
Inception (Aug 2015)	11.1%	10.2%	0.9%

Source: Bloomberg, as of 31 January 2018

NET TANGIBLE ASSETS

NET TANGIBLE ASSETS (PER SHARE)	31 JAN 2018	31 DEC 2017
NTA before tax	\$1.030	\$1.040
NTA after tax and before tax on unrealised gains	\$1.027	\$1.031
NTA after tax	\$1.003	\$1.010
Month-end closing share price (CIE.ASX)	\$0.950	\$0.970
Month-end closing option price (CIEO.ASX)	\$0.002	\$0.003

Source: Bloomberg, as of 31 January 2018

KEY DETAILS

Report Date:	31 January 2018
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:	\$101.19 million
Shares on issue:	98.210 million
No. of stocks held:	49
Share price:	\$0.950

Other noteworthy movements in the fund included completing taking profits in Smart Group (SIQ), and building a position in SG Fleet (SGF).

PORTFOLIO OUTLOOK

Global equity markets continued to remain firm with the US market powering ahead. The US was helped by continuing strong economic data and the likelihood of corporate tax rate cuts.

Economic indicators continue to be broadly positive, but moderating to a slight degree.

The most significant change over the month was the selloff in the US bond market. The benchmark US 10 year bond rose from about 2.4% to 2.7% over the month.

Equity markets saw some weakness at the end of the month, but after a very strong move higher over the last few months. However, if the bond market suffers a severe sell off, equity markets may remain vulnerable.

In Australia, the outlook for earnings growth is more subdued. Large cap companies in Australia have positive earnings but are low growth. Australia is likely to see milder interest rate increases than the rest of the world. Despite low interest rates compared to the rest of the world, the \$A has confounded expectations and continues to rise. A continuing rise in the currency will ultimately dampen domestic activity and help keep rates low. An expectantly weak USD and strong iron ore prices are supporting the \$A.

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



SHAWN BURNS
SENIOR PORTFOLIO MANAGER
CONTANGO ASSET MANAGEMENT

TOP 10 HOLDINGS

CODE	STOCK	WEIGHT %
ASX	ASX Ltd	5.0
TAH	Tabcorp Holdings Ltd	4.9
BOQ	Bank of Queensland Ltd	4.8
BEN	Bendigo & Adelaide Bank Ltd	4.7
ABC	Adelaide Brighton Ltd	2.6
CTX	Caltex Australia Ltd	2.6
PPT	Perpetual Ltd	2.6
CHC	Charter Hall Group	2.5
AZJ	Aurizon Holdings Ltd	2.5
CAR	Carsales.Com Ltd	2.4

Source: Bloomberg, as of 31 January 2018

SECTOR ALLOCATIONS

SECTOR	WEIGHT %
Consumer Discretionary	19.9
Consumer Staples	11.3
Energy	2.6
Financial Ex-REITS	31.6
Health Care	0.0
Industrials	9.2
Information Technology	2.4
Materials	6.2
REITS	9.4
Telecommunication Services	0.0
Utilities	3.8
[Cash]	13.7
[Futures]	-10.1

Source: Bloomberg, Contango Asset Management, as of 31 January 2018

PORTFOLIO CHARACTERISTICS

JANUARY 2018	CONTANGO INCOME GENERATOR	ASX ALL ORDS
Median market cap (\$m)	2061.5	672.1
Price to earnings ratio	16.6	17.38
Earnings growth (%)	6.9	5.0
Dividend yield (net)	5.2	4.4
Dividend yield (gross)	7.0	5.7
Return on equity (%)	17.5	17.1
Beta to ASX300	0.9	1.0

Source: Bloomberg, as of 31 January 2018

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.

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. © 2018 Contango Asset Management Limited

ASSET COMPOSITION

ASSET COMPOSITION	31 JAN 2018		31 DEC 2017	
	\$m	%	\$m	%
Investment Type				
ASX listed shares	95.72	97.2	87.14	87.9
Futures contracts	(10.17)	-10.3	-	-
Liquidity	15.61	15.8	14.99	15.1
Tax asset (liability)	(2.98)	-2.7	(2.98)	-3.0
Net Assets After Tax	\$98.48	100.0	\$99.15	100.0
Ordinary Shares on Issue	98.210m		97.123m	
Options on Issue	20.354m		21.354m	

Source: Contango Asset Management, at 31 January 2018