

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

31 July 2018

PERFORMANCE SUMMARY

CIE's investment portfolio performed well for the month of July 2018 with a positive return of 1.76%. The NTA before tax of the portfolio stood at \$0.983 per share. The rolling 12-month return was 7.02% and the fund has achieved a total return since inception of 8.94% pa.

INVESTMENT OBJECTIVE

As an income-focused, ex-top 30 listed investment company, CIE's stated objective is to distribute 6.5% of NTA per annum, with dividends to be franked where possible.

CIE's fund performed well in the 12 months ended 30 June 2018, remaining true to its income strategy. After moving to quarterly dividends in September 2017, CIE paid three dividends of 1.6cps, each 50% franked. This represents an annualised yield of 6.6% based on the 30 June 2018 NTA of \$0.968 and an annualised grossed up yield of 8.1%, factoring in franking credits.

INCREASED INVESTMENT IN THE PORTFOLIO

CIE announced its intention in May 2018 to increase the equities proportion of the portfolio to around 95%. We are pleased to advise that this reweighting has been implemented, with the cash weighting in the fund now reduced to the target of 5%.

The fund deployed cash mostly into existing holdings that offer attractive valuations. The higher stock weighting should increase the level of dividends and franking over time, subject of course to market conditions.

PERFORMANCE COMMENTARY

The Australian equity market posted another positive month following the lead of global equities as investors took some comfort from what seemed to be signs of an easing in recent global trade tensions.

Financial stocks like the banks and fund managers rallied in the absence of further significant news from the financial services Royal Commission, as well as long-term interest rates around the world being relatively stable.

CIE's performance was particularly pleasing as the portfolio cannot hold top 30 companies. Consequently, CIE was unable to benefit from the second month of significant gains in the four major banks (CBA + 2.6%, WBC +0.6%, ANZ +3.8%, NAB +3.4% in July 2018).

Market volumes traded were lower in the lead up to the annual reporting season in August 2018, when companies report their end of financial year results.

The telecommunications sector (+7.6%) led the market higher as competition in the sector stabilised ahead of the anticipated 5G roll out next year. Industrials rose (+3.4%) as sector leaders continued to perform ahead of the reporting season. Other sectors to perform well were Healthcare (+2.1%), Financials (+2%) and Consumer Discretionary (+1.2%).

Significant stock performers in the portfolio over the month (> 10%) included Super Retail (+14.1%) and IPH (+10.1%). Super Retail rose on the back of increased market confidence in the retail sector

PORTFOLIO PERFORMANCE <i>(before fees and expenses)</i>	CONTANGO INCOME GENERATOR	ASX ALL ORDS ACCUM INDEX
1 Month	1.76%	1.22%
3 Months	4.23%	5.67%
6 Months	-0.56%	5.67%
12 Months	7.02%	14.91%
Inception ¹ <i>(annualised)</i>	8.94%	10.43%

1. Inception 13 August 2015

NET TANGIBLE ASSETS (PER SHARE)	31 July 2018	30 June 2018
NTA before tax	\$0.983	\$0.968
NTA after tax and before tax on unrealised gains	\$0.987	\$0.971
NTA after tax	\$0.967	\$0.957
Month-end closing share price (ASX:CIE)	\$0.915	\$0.940

KEY DETAILS

Report Date:	31 July 2018
ASX Code:	CIE
Listed on ASX:	14 August 2015
Fund Manager:	Contango Funds Management
Benchmark:	ASX All Ordinaries Accumulation Index
Number of stocks:	35 – 50
Distribution Policy	6.50% of NTA
Estimated Franking	50%
Target / Maximum cash position:	5% / 50%
Portfolio size:	\$102.04 million
Shares on issue:	103.811 million
No. of stocks held:	47
Share price:	\$0.915

whilst IPH has continued to recover as the market gained confidence that its recent acquisitions are showing signs of improvement.

The worst performing stock in the portfolio was Z-Energy (-5.7%). Z-Energy issued an unexpected earnings downgrade. Z-Energy is a relatively small holding in the fund.

PORTFOLIO OUTLOOK

Australian growth continues to remain solid and there appears little evidence of inflation in the system. Australian interest rates are expected to remain low at least well into next year. Therefore, the business fundamentals look solid giving us medium term optimism for the performance of the portfolio.



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TOP TEN HOLDINGS		
CODE	COMPANY NAME	WEIGHT %
BOQ	Bank of Queensland Ltd	5.2
BEN	Bendigo & Adelaide Bank Ltd	4.9
TAH	Tabcorp Holdings Ltd	4.4
CTX	Caltex Australia Limited	3.0
SGP	Stockland Group	3.0
SKI	Spark Infrastructure Group	2.6
BAP	Bapcor Limited	2.6
DLX	Dulux Group Limited	2.5
ASX	ASX Limited	2.5
PPT	Perpetual Limited	2.4

PORTFOLIO CHARACTERISTICS		
JULY 2018	CONTANGO INCOME GENERATOR	ASX ALL ORDS INDEX
Median market cap (\$m)	2631	668
Price to earnings ratio	15.8	20.7
Earnings growth (%)	5.8	24.2
Dividend yield (gross)	6.8	5.5
Dividend yield (net)	5.0	3.9
Return on equity (%)	18.8	13.0
Beta	0.85	1.0

Source: Contango Asset Management Limited, Bloomberg LLP

GICS SECTOR ALLOCATION	PORTFOLIO WEIGHT %
Consumer Discretionary	21.4
Consumer Staples	3.0
Energy	6.0
Financials	27.2
Health Care	1.9
Industrials	10.1
Information Technology	4.0
Materials	6.1
REITS	10.9
Telecommunication Services	0.0
Utilities	4.9
Cash	4.6

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