

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

28 September 2018

PERIOD	INCOME RETURN ²	CAPITAL RETURN ³	TOTAL RETURN ⁴ (Net Tangible Assets ⁶)	TOTAL RETURN INCLUDING FRANKING CREDITS ⁵
1 Month	1.78%	-2.87%	-1.09%	-0.71%
3 Months	1.86%	1.34%	3.20%	3.60%
6 Months	5.26%	0.51%	5.78%	6.93%
1 Year	6.71%	-2.19%	4.51%	5.99%
3 Years (annualised)	6.80%	0.72%	7.53%	9.02%
Inception ¹ (annualised)	6.42%	-0.61%	5.81%	7.22%

Notes:

1) Inception date is 13 August 2015. 2) Income Return is the implied dividend earned for the period; 3) Capital Return is the movement in pre-tax NTA during the period; 4) Total Return is the Capital Return adjusted for distributions paid during the period; 5) Does not consider the individual investors personal tax position; and 6) NTA is the underlying portfolio value after all fees and expenses are deducted.

INVESTMENT OBJECTIVE

CIE is an income focused listed investment company, with a portfolio of stocks outside of the ASX 30. The stated objective of the company is to distribute 6.5% of the pre-tax Net Tangible Assets (NTA) per annum, while maximising franking where possible. The manager selects companies that, in aggregate, comprise a sustainable source of dividends. These companies are characterised by a strong and diverse collection of companies that exhibit solid cashflows and business models.

PERFORMANCE SUMMARY

Contango Income Generator's (CIE) investment portfolio was lower over the month of September 2018 with a return of -0.9%, giving up some of last month's strong returns. Despite the result the portfolio was up compared to the benchmark which fell by 1.1%. The NTA before tax of the portfolio stood at \$0.981 per share. The rolling 12-month return was 6.9% and the portfolio has achieved a total return since inception of 9.1% pa.

The Company's cash position at the end of the month was 4.6%, this compared to a target cash weight of 5%. We expect to be opportunistic with our trading so that cash may move around this target.

Over the month we exited the holding in Super Retail, at a profit. Although we consider the company to be a well-run retailer, the current balance sheet is stretched and, in our view, needs repair.

The portfolio also added to existing holdings in several stocks including Viva Energy, GPT and Xenith Ltd.

PORTFOLIO COMMENTARY

The Australian equity market struggled over the month (-1.1%), lagging global markets. Several factors weighed on performance. There was a lack of momentum, as much of the market went ex-dividend and bond markets also experienced a marked sell off (higher yields).

Sector performance rotated with the Energy (+4.3%) and Materials (+3.9%) sectors both doing better. Strength in the oil price and stabilisation in commodity prices helped. The poor performing sectors were Utilities and Healthcare. Healthcare has had a very strong run,

so it isn't surprising to see some profits taken off the table, while regulatory concerns were an issue within the Utility sector.

Stock performance was muted over the month. Three portfolio holdings were over 7% higher for the month, including Scottish Pacific, Xenith Ltd and Ingham Ltd.

Ingham, a large private equity firm, has offered \$4.40 per share for Scottish Pacific (SCO). The bid is through a scheme and is recommended unanimously by the board. SCO offers working capital solutions including corporate credit lines, invoice discounting and finance, asset finance and bad debt protection for small and medium enterprises.

CIE has been a shareholder in SCO for some time, the significant shareholding being acquired around \$2.90 in September last year. Since then, we have added modestly to the position, the last time being in July this year after the company reported a good result and dividend. We added to the position as we gained confidence that the company was gaining operational momentum.

We have also highlighted our positive view on SCO in our 'stock of the month' articles. We believe that the positions held in CIE have attributes that suitors may find attractive. Firstly, they have strong and large cash generation that is used to pay dividends. Secondly, they hold good balance sheets, allowing the acquirer to gear up on acquisition. Thirdly, the companies held are overweight defensive income streams, adding certainty to future cashflows.

Prior to the bid, SCO was a reasonable size position within the portfolio at 2.5%. We continue to search for companies with similar attributes and believe there may be ongoing corporate interest in some of the companies we own. Only one stock returned at below -7% for the month. Regis Healthcare was 15% lower, as the Government announced a Royal Commission into the Aged Care sector. We consider Regis as the most conservative operator in the sector and most likely to emerge the strongest over time.

PORTFOLIO OUTLOOK

Based on the company's distribution objective, CIE currently offers investors an estimated yield of 6.5% per annum (excluding franking). Interest rates remain low and economic activity, although slowing, slightly remains positive. Indications of inflation remain largely benign giving confidence that the investment outlook remains favourable.

NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	28 Sep 2018	31 Aug 2018
NTA before tax	\$0.981	\$1.010
NTA after tax and before tax on unrealised gains	\$1.030	\$1.016
NTA after tax	\$0.965	\$0.988
Month-end closing share price (ASX:CIE)	\$0.920	\$0.945

GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Consumer Discretionary	15.8
Consumer Staples	3.4
Energy	5.9
Financials	27.6
Health Care	2.4
Industrials	10.7
Information Technology	2.0
Materials	6.1
REITS	11.7
Communication Services	6.5
Utilities	4.6
Cash	3.5

PORTFOLIO CHARACTERISTICS

AUGUST 2018	CIE	ASX ALL ORDS INDEX
Dividend yield (gross)	6.9	5.6
Dividend yield (net)	5.1	4.1
Median market cap (\$m)	2,857	703
Price to earnings ratio	16.4	18.5
Earnings growth (%)	5.1	18
Return on equity (%)	20.0	15.8
Beta	0.86	0.98

Source: Bloomberg LLP

COMPANY FACTS

KEY DETAILS	
ASX Code:	CIE
Dividend Policy	6.50% of NTA
Historical Franking	50%
Benchmark:	ASX All Ordinaries Accumulation Index
Number of stocks:	35 – 50
Target / Max cash position:	5% / 50%
Portfolio size:	\$102.23 million
Shares on issue:	103.944 million
No. of stocks held:	47

TOP 10 PORTFOLIO HOLDINGS

CODE	COMPANY NAME	WEIGHT %
BOQ	Bank of Queensland Ltd	5.2
TAH	Tabcorp Holdings Ltd	4.5
BEN	Bendigo & Adelaide Bank Ltd	4.5
SGP	Stockland Group	3.2
BAP	Bapcor Limited	2.8
CTX	Caltex Australia Limited	2.8
DLX	Dulux Group Limited	2.5
SCO	Scottish Pacific Group Limited	2.5
SKI	Spark Infrastructure Group	2.5
MMS	McMillan Shakespeare Limited	2.4

CONTANGO INCOME GENERATOR LIMITED

ACN 160 959 991

Level 6, 10 Spring Street, Sydney NSW 2000

T: +61 2 9048 7888

W: www.contango.com.au/income-generator-limited

E: invest@contango.com.au

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