

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

30 November 2018

PERIOD	INCOME RETURN ²	NTA RETURN ³	TOTAL RETURN ⁴	INCOME RETURN INCL FRANKING CREDITS	TOTAL RETURN INCL FRANKING CREDITS ⁵
1 Month	1.70%	-3.74%	-2.03%	2.07%	-1.67%
3 Months	3.32%	-13.27%	-9.95%	4.03%	-9.24%
6 Months	5.08%	-10.06%	-4.98%	6.17%	-3.89%
1 Year	7.75%	-16.73%	-8.98%	9.41%	-7.32%
3 Years (annualised)	6.91%	-4.95%	1.96%	8.39%	3.44%
Inception ¹ (annualised)	6.26%	-3.93%	2.33%	7.60%	3.66%

Notes:

1) Inception date is 13 August 2015. 2) Income Return is the income paid during the period divided by the beginning period pre-tax net tangible assets (NTA) per share. NTA is the underlying portfolio value after all fees and expenses are deducted; 3) NTA Return is the movement in pre-tax NTA during the period; 4) Total Return is the Income plus NTA Return; and 5) Does not consider the individual investors personal tax position.

INVESTMENT OBJECTIVE

CIE is an **income focussed** listed investment company, **with a portfolio of stocks outside of the top 30 ASX listed companies**. 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**. We select companies that, in aggregate, generate a sustainable dividend income. The portfolio is characterised by a strong and diverse portfolio of companies that exhibit good cash flows and business models.

PERFORMANCE SUMMARY

We expect Contango Income Generator's investment portfolio to outperform in downward markets and underperform in rising markets, and this was demonstrated in November. The CIE portfolio had a return of -2.03% compared with the broader market of -2.20%. The NTA after tax of the portfolio stood at \$0.887 per share. The NTA return over the period was -3.74%.

CIE's share price pulled back over the month from \$0.89 to \$0.81, pushing out the previously modest discount to pre-tax NTA of 2.3% to 7.5% at the end of November. This a marked divergence from the underlying portfolio performance. **Based on CIE's stated dividend policy of paying 6.5% of pre-tax NTA per annum - historically this has been franked to 50% - the 30 November closing share price of \$0.81 equates to a grossed-up yield of 9.3%.**

The portfolio's cash position at the end of the month was 6%, this is compared to a target cash weight of 5%. We expect to be opportunistic with our investing so that cash may move around this target.

The portfolio continued to be active during November, exiting both Navitas and Ingham's. These stocks have a takeover premium embedded in their share prices and have both been successful investments for CIE. We reduced holdings in several companies whose business models are under pressure, including Automotive Holdings and Medibank Private. These stocks are individually modest investments for CIE but in aggregate represent a reasonable proportion of the portfolio. The strategy is to upgrade the quality and defensiveness of the portfolio for the foreseeable future.

PORTFOLIO COMMENTARY

Markets were volatile over November with US and Japanese equities rallying while China and the UK struggled. Macro news was generally supportive of markets. Late in the month the Federal Reserve Chair, Jerome Powell, indicated that current rates were close to neutral. Though perhaps containing an element of "jawboning", his rhetoric provided some support to fixed interest markets and in turn equity markets. The US long bond rallied from 3.2% to around 3% - this is good for the stocks in CIE's portfolio.

The local market struggled over the month with the benchmark ASX200 down 2.2%. Australia has noticeably lagged major global markets recently but there is hope of some catch up. Year to date the ASX 200 index has returned -6.5% relative the US S&P 500 +1.0%.

Sector performance was generally positive for the Company. Financials rallied after several tough months. Energy and Materials were the laggards, but both of these sectors are significantly under represented within the portfolio.

The best performing stocks in the portfolio were Regis Healthcare (+14.6%), Xenith IP (+13.6%) and Ingham's Ltd (+12.6). Ingham's has now been exited at a good profit. Xenith IP has been a problematic investment but over the month was the target of a bid. The bid is largely scrip based and has been well received by the market. Significant synergies are expected to be generated and provides the combined group extra scale and potential within the market.

PORTFOLIO OUTLOOK

Interest rates remain low, with Australian 10-year bonds around 2.6%, and economic activity, although slowing, remains positive. Indications of inflation remain largely benign giving confidence that the investment outlook remains favourable.

NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	30 Nov 2018	31 Oct 2018
NTA before tax	\$0.876	\$0.910
NTA after tax and before tax on unrealised gains	\$0.900	\$0.928
NTA after tax	\$0.887	\$0.916
Month-end closing share price (ASX:CIE)	\$0.810	\$0.890

GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Communication Services	6.0
Consumer Discretionary	14.2
Consumer Staples	1.5
Energy	6.4
Financials	24.5
Health Care	2.4
Industrials	11.3
Information Technology	2.0
Materials	6.2
REITS	14.5
Utilities	5.1
Cash	6.0

PORTFOLIO CHARACTERISTICS

October 2018	CIE
Dividend yield (gross)	7.4
Dividend yield (net)	5.5
Median market cap (\$m)	2,893
Price to earnings ratio	13.7
Earnings growth (%)	2.6
Return on equity (%)	15.5
Beta	0.89

Source: Bloomberg LLP.

COMPANY FACTS

KEY DETAILS	
ASX code:	CIE
Dividend policy	6.50% of pre-tax NTA
Historical franking	50%
Investment objective:	To distribute 6.5% of pre-tax NTA per annum while maximising franking credits
Number of stocks:	35 – 50
Target cash position:	5%
Portfolio size:	\$92.79 million
Shares on issue:	103.944 million
No. of stocks held:	45

TOP 10 PORTFOLIO HOLDINGS

CODE	COMPANY NAME	WEIGHT %
BOQ	Bank of Queensland Ltd	5.1
BEN	Bendigo & Adelaide Bank Ltd	4.9
TAB	Tabcorp Holdings	4.4
SGP	Stockland Group	3.1
SKI	Spark Infrastructure Group	2.9
CTX	Caltex Australia	2.8
SGR	Star Entertainment Group	2.7
DLX	DuluxGroup Limited	2.5
HPI	Hotel Property Investments	2.5
BAP	Bapcor Limited	2.5
		33.4

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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