

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

28 February 2018

PERFORMANCE UPDATE

The month of February brought reporting season, with many companies reporting earnings for the last six months. Dividends were also announced. Of the 34 stocks¹ in the portfolio that reported, 32 included dividend announcements. Of these, 21 reported higher dividends including AGL (+32%) and Bapcor (+27%), nine were flat and two were lower. On average, the increase in reported dividends for companies in the portfolio was +3.4%, which was a positive result.

We are happy with the increase in dividends as a whole for the portfolio this period. The number of dividend increases is not overly different to previous periods, with the overall portfolio making steady progress.

For the month of February, the underlying portfolio posted a negative return of -2.1% versus a 0.2% return generated by the All Ordinaries Index. Market reactions to announcements have been much more extreme this reporting period. Companies that exceeded forecasts were met with muted enthusiasm while those that missed earnings, even marginally, were treated quite harshly.

Long-term performance remains solid with the 12 month return at 10.2% while, since inception, CIE has delivered a return of 9.8%. The CIE share price also increased by 1% over the month.

Stock performance within the portfolio over the month varied greatly. There was a dearth of strong performing stocks with the two best (above 15%) being GWA Group (+17%) having posted good results, and Nine Entertainment (+35%) on speculation of industry rationalisation. Both these stocks are modest holdings, and part of the dividend capture strategy. Core holdings failed to spark significant interest in the market, even when they produced good results. On the negative side was IPH Ltd (-34%) and Super Retail Group (-20%) both small holdings.

The portfolio is managed conservatively, with an effective cash holding of about 14%. Over the last month, we used the weakness in the market to modestly reduce the cash weighting by 2%. The cash holdings help to keep the portfolio's risk profile below that of the market. Usually, the portfolio can be expected to lag the index in strong markets driven by momentum rather than company fundamentals as there is less focus on risk. In this context, the returns of the portfolio are quite pleasing.

¹ Stocks included are all those non-REIT companies held over this period. Full year results are compared year on year, half year results compared half on half. Portfolio holdings assessed as at 15th January, that is, excludes dividend capture strategy stocks.

² In February, the CIE board reviewed and approved an increase in the number of stocks in the portfolio from 30-40 to 35-50 as part of the dividend capture strategy.

PORTFOLIO PERFORMANCE

PERFORMANCE	CONTANGO INCOME GENERATOR	ASX ALL ORDS ACCUM INDEX	ADDED VALUE %
1 Month	-2.1%	0.2%	-2.3%
3 Months	-2.3%	1.9%	-4.2%
6 Months	3.2%	8.1%	-4.9%
12 Months	10.2%	10.8%	-0.6%
Inception (Aug 2015)	9.8%	9.9%	-0.1%

Source: Bloomberg, as 28 February 2018

NET TANGIBLE ASSETS

NET TANGIBLE ASSETS (PER SHARE)	28 FEB 2018	31 JAN 2018
NTA before tax	\$1.008	\$1.030
NTA after tax and before tax on unrealised gains	\$1.010	\$1.027
NTA after tax	\$0.989	\$1.003
Month-end closing share price (CIE.ASX)	\$0.965	\$0.950
Month-end closing option price (CIEO.ASX)	\$0.001	\$0.002

Source: Bloomberg, as of 28 February 2018

KEY DETAILS

Report Date:	28 February 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 ² :	35 - 50
Target / Maximum cash position:	5% / 50%
Portfolio size:	\$99.077 million
Shares on issue:	98.210 million
No. of stocks held:	48
Share price:	\$0.965

PORTFOLIO OUTLOOK

The investing environment has changed over the last few months, with bond markets selling off (meaning higher interest rates) and tax cuts in the US. A possible outcome of this combination of events is inflation, which investment markets usually do not like. Currently, inflation looks benign but the markets will be on heightened alert to any breakout.

Volatility is likely to remain high until the uncertainty in markets become clearer. From a portfolio viewpoint, we sit with a relatively solid weighting in cash that will be deployed when we see fit. We are looking for companies with strong cash flows and balance sheets, as well as conservative management to deploy this cash.

As stated earlier the outcome of the recent results earnings season was one of steady improvements in dividends. The amount of volatility in the market will be viewed opportunistically to add to positions where value appears.

ASSET COMPOSITION

ASSET COMPOSITION	28 FEB 2018		31 DEC 2017	
	\$m	%	\$m	%
Investment Type				
ASX listed shares	92.88	95.6	95.72	97.2
Futures contracts	(8.40)	-8.6	(10.17)	-10.3
Liquidity	14.49	14.9	15.61	15.8
Tax asset (liability)	(1.84)	-1.9	(2.98)	-2.7
Net Assets After Tax	\$97.13	100.0	\$98.48	100.0
Ordinary Shares on Issue	98.210m		98.210m	
Options on Issue	20.354m		20.354m	

Source: Contango Asset Management, at 28 February 2018



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TOP 10 HOLDINGS

CODE	STOCK	WEIGHT %
ASX	ASX Ltd	5.4
BOQ	Bank of Queensland Ltd	5.0
BEN	Bendigo & Adelaide Bank Ltd	5.0
TAH	Tabcorp Holdings Ltd	4.5
ABC	Adelaide Brighton Ltd	2.7
CTX	Caltex Australia Ltd	2.7
PPT	Perpetual Ltd	2.7
CHC	Charter Hall Group	2.5
AZJ	Aurizon Holdings Ltd	2.5
CAR	Carsales.Com Ltd	2.4

Source: Bloomberg, as of 28 February 2018

SECTOR ALLOCATIONS

SECTOR	WEIGHT %
Consumer Discretionary	18.5
Consumer Staples	11.3
Energy	2.7
Financial Ex-REITS	31.6
Health Care	0.0
Industrials	8.3
Information Technology	2.0
Materials	6.5
REITS	9.0
Telecommunication Services	0.0
Utilities	3.8
[Cash]	14.8
[Futures]	-8.5

Source: Bloomberg, Contango Asset Management, as of 28 February 2018

PORTFOLIO CHARACTERISTICS

	CONTANGO INCOME GENERATOR	ASX ALL ORDS
JANUARY 2018		
Median market cap (\$m)	2071	716
Price to earnings ratio	16.4	18.1
Earnings growth (%)	4.7	8.4
Dividend yield (net)	5.0	4.3
Dividend yield (gross)	6.8	5.8
Return on equity (%)	16.8	14.6
Beta to ASX300	0.9	1.0

Source: Bloomberg, as of 28 February 2018