

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

29 March 2018

PERFORMANCE UPDATE

March was a difficult month for global equity markets. The major markets were lower, with the S&P500 down 2.7%, the Dow 3.7% lower, and the tech-heavy NASDAQ 2.9% lower.

Factors that weighed on the market included the threat of tariff wars between the US and China, softer than expected economic data and intensifying regulatory pressures for the US technology sector and Australian banking sector.

Meanwhile, global bond markets rallied as investors sought protection from volatile equity markets, and positioned for a possible slowdown in growth. Typically, the portfolio performs better than the market in this kind of environment.

The underlying portfolio posted a return of -3.1% for the month of March compared to the market return of -3.6%, an outperformance of 50bp. While the 12 month return at 2.4% is slightly down on the Index (3.7%), it is a stronger result when compared to the ASX300 Industrials Accumulation Index (the Index more closely aligned with stocks in the portfolio), which has been flat for the last 12 months. Performance since inception remains solid at 8.2%.

Stock performance over the month, again, varied significantly. The best performer was NZME Ltd (14%). NZME is a New Zealand based multi-media company which reported good progress on earnings and balance sheet over the last six months. NZME is a good dividend payer, yielding 9% (unfranked). Debtor finance company, Scottish Pacific (+10%) also reported a solid result. Both these are modest holdings in the fund.

The poor performers included the two regional banks, Bendigo and Adelaide Bank (BEN, -10%) and Bank of Queensland (BOQ, -13%). BOQ is yet to report, and while BEN reported a slightly disappointing result it did increase the dividend and the outlook was more optimistic.

The regional banks appear to be caught up in the Royal Commission into banking, with the whole sector under some pressure. The recommendations of the Commission are difficult to predict at this stage but it is very likely that the regional banks will be far less impacted than the major banks. In fact, there is a possibility that in a relative sense the regional banks will be better off. Both banks have strong balance sheets, and we expect steady progress in earnings and dividends. We don't consider this pullback a long-term structural issue, so the two regional banks are amongst the fund's largest holdings.

The cash weighting in the fund is around 13% which helps to keep the portfolio's risk profile below that of the market.

PORTFOLIO PERFORMANCE

PERFORMANCE	CONTANGO INCOME GENERATOR	ASX ALL ORDS ACCUM INDEX	ADDED VALUE %
1 Month	-3.1%	-3.6%	0.5%
3 Months	-5.8%	-3.7%	-2.1%
6 Months	0.0%	4.2%	-4.2%
12 Months	2.4%	3.7%	-1.3%
Inception (Aug 2015)	8.2%	8.1%	0.1%

Source: Bloomberg, as 29 March 2018

NET TANGIBLE ASSETS

NET TANGIBLE ASSETS (PER SHARE)	29 MAR 2018	28 FEB 2018
NTA before tax	\$0.976	\$1.008
NTA after tax and before tax on unrealised gains	\$0.983	\$1.010
NTA after tax	\$0.971	\$0.989
Month-end closing share price (CIE.ASX)	\$0.965	\$0.965
Month-end closing option price (CIEO.ASX)	n/a	\$0.001

Source: Bloomberg, as of 29 March 2018

KEY DETAILS

Report Date:	29 March 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:	35 - 50
Target / Maximum cash position:	5% / 50%
Portfolio size:	\$95.982 million
Shares on issue:	103.520 million
No. of stocks held:	43
Share price:	\$0.965

Source: Bloomberg, at of 29 March 2018

PORTFOLIO OUTLOOK

We expect market volatility to continue in the near term. Throughout this period, the management of the portfolio maintains a deliberate and focussed strategy. Firstly, we focus on stocks where we see solid, attractive and maintainable yields backed by good balance sheets and sustainable businesses. We continue to target gross yields 100bp above the market with a portfolio of stocks that achieve this with strong business fundamentals through cashflow and strong balance sheets. Secondly, we will deploy capital opportunistically when appropriate.

From a macro perspective, the fund will perform best in a low growth and benign inflation environment when bond markets are rallying or stable. We will pursue the strategy through the current period in a disciplined manner.

ASSET COMPOSITION

ASSET COMPOSITION	29 MAR 2018		28 FEB 2018	
Investment Type	\$m	%	\$m	%
ASX listed shares	82.60	82.2	92.88	95.6
Futures contracts	-	-	(8.40)	-8.6
Liquidity	18.49	18.4	14.49	14.9
Tax asset (liability)	(0.61)	-0.6	(1.84)	-1.9
Net Assets After Tax	\$100.48	100.0	\$97.13	100.0
Ordinary Shares on Issue	103.520m		98.210m	
Options on Issue	Nil		20.354m	

Source: Contango Asset Management, at 29 March 2018



SHAWN BURNS
SENIOR PORTFOLIO MANAGER
CONTANGO ASSET MANAGEMENT

CONTANGO INCOME GENERATOR LIMITED

ACN 160 959 991

Level 6, 10 Spring Street Sydney NSW 2000

T: +61 2 9048 7888

W: contangoincomegenerator.com.au

E: info@contangoincomegenerator.com.au

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. Gross performance does not reflect the impact from fees, taxes and charges. Past performance is not a predictor of future returns. Contango Funds Management Limited (CFML) ABN 52 085 487 421 AFSL No. 237119 is the investment manager. 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 professional advice and 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. © 2018 Contango Asset Management Limited

TOP 10 HOLDINGS

CODE	STOCK	WEIGHT %
ASX	ASX Ltd	4.9
BOQ	Bank of Queensland Ltd	4.5
TAH	Tabcorp Holdings Ltd	4.4
BEN	Bendigo & Adelaide Bank Ltd	4.0
CTX	Caltex Australia Ltd	2.5
ABC	Adelaide Brighton Ltd	2.4
CHC	Charter Hall Group	2.3
AGL	AGL Energy Ltd	2.3
SKI	Spark Infrastructure Group	2.3
SXL	Southern Cross Media Group Ltd	2.3

Source: Bloomberg, as of 29 March 2018

SECTOR ALLOCATIONS

SECTOR	WEIGHT %
Consumer Discretionary	17.9
Consumer Staples	9.5
Energy	2.5
Financial Ex-REITS	27.4
Health Care	0.0
Industrials	7.5
Information Technology	2.0
Materials	6.2
REITS	8.6
Telecommunication Services	0.0
Utilities	4.5
Cash	13.9

Source: Bloomberg, Contango Asset Management, as of 29 March 2018

PORTFOLIO CHARACTERISTICS

MARCH 2018	CONTANGO INCOME GENERATOR	ASX ALL ORDS
Median market cap (\$m)	2,274	653
Price to earnings ratio	16.2	17.0
Earnings growth (%)	7.3	5.1
Dividend yield (net)	5.3	4.4
Dividend yield (gross)	7.0	6.1
Return on equity (%)	16.9	17.1
Beta to ASX300	0.9	1.0

Source: Bloomberg, as of 29 March 2018