

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

INVESTMENT UPDATE AND NTA STATEMENT

31 May 2019

PERIOD	INCOME RETURN ²	NTA RETURN ³	TOTAL RETURN ⁴	INCOME RETURN INCL FRANKING CREDITS	TOTAL RETURN INCL FRANKING CREDITS ⁵
1 Month	1.13%	-0.52%	0.61%	1.50%	0.98%
3 Months	1.18%	3.69%	4.87%	1.56%	5.25%
6 Months	2.98%	6.18%	9.16%	4.13%	10.31%
1 Year	7.76%	-4.51%	3.25%	9.88%	5.37%
3 Years (annualised)	6.93%	-2.55%	4.38%	8.56%	6.01%
Inception ¹ (annualised)	6.26%	-1.89%	4.37%	7.72%	5.83%

Notes: 1. Inception date is 13 August 2015. 2. Income Return is the dividends paid 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 5Does not consider the individual investors personal tax position.

INVESTMENT OBJECTIVE

CIE is an income-focused listed investment company, with a portfolio of companies largely outside of the ASX top 30. CIE's stated objective 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.

Over the past 12 months, CIE has paid a dividend yield of 6.2%, or 8.0% including franking credits. Dividend yield is calculated as the last four dividends paid over the 12 months to 31 May 2019 relative to the closing share price of \$0.955 at the beginning of the period.

PERFORMANCE SUMMARY

CIE's investment portfolio was positive over the month of May, with a return of +0.6%, underperforming the broader market, as measured by the S&P ASX 200 Accumulation Index, by about 1%. The result comes after a strong April number. The gain in NTA has recovered some of the fall that was seen at the end of last year. Dividends have been paid over this period as well. At the end of May, the NTA before tax of the portfolio stood at \$0.930 per share.

Despite the positive portfolio performance, CIE's share price is still at a significant discount to NTA. This seems to be a trend in the industry at present, with most listed investment companies trading at discounts to their NTA. Addressing the ongoing share price discount is something to which we are committed. The only way we will achieve this is by maintaining investment discipline and performance, increasing shareholder engagement and by growing our shareholder base.

PORTFOLIO COMMENTARY

CIE's cash position at the end of the month was 6.0%, compared with a target cash weight of 5.0%. We will continue to be opportunistic with our investing so the cash level may move around this target.

Over the month activity in the portfolio was low. The portfolio added to existing holdings in Reliance Worldwide and Adelaide Brighton after the recent share price pullbacks. The potential bottoming of the residential housing market is a positive for both these stocks.

MARKET COMMENTARY

Global markets were buffeted over the month with all significant exchanges lower. The decline was led by the NASDAQ which was down 8.4%. The Dow Jones was down 6.7% while European exchanges and Asian exchanges were 6-8% lower.

The Australian market was marginally higher over the month, as the surprising Federal Election result helped the local index. Given the importance of franking to CIE investors, the CIE board supported the crusade against any proposed changes to franking credit legislation throughout the election campaign. The franking issue appeared to play a key role in the election outcome.

Bond markets around the world continue to rally (lower rates). The benchmark 10-year US government bond fell from 2.5% to 2.1% over the month, a significant move. The rally in bonds and sell off in equities reflect ongoing trade war concerns and a slowdown in world growth estimates, which, of course, may be related.

PORTFOLIO OUTLOOK

Over the month there were two significant events for the portfolio. Firstly, the unexpected election win for the Coalition and secondly, the significant move lower in interest rates, both worldwide and in Australia.

The election outcome is undoubtedly positive for CIE, given the portfolio's overweight position in Australia, with Financials being the largest sector in the portfolio. The ALP policy agenda brought significant uncertainty across many areas of the investment landscape, including housing, retail, banking and wealth management

The ongoing decline in interest rates will focus investors on the worth of securing yield. Although there may be a bounce higher in yield post any trade resolution, underlying world growth remains modest at best.

Interest rates remain low and economic activity, although slowing, remains positive. While volatility in equity markets is expected to continue, indications of inflation remain largely benign giving confidence that the investment outlook remains favourable over the medium term.

NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	31 May 2019	30 APRIL 2019
NTA before tax	\$0.930	\$0.935
NTA after tax and before tax on unrealised gains	\$0.946	\$0.949
NTA after tax	\$0.922	\$0.928
Month-end closing share price (ASX:CIE)	\$0.765	\$0.785

GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Financials	19.41
Real Estate	17.42
Consumer Discretionary	15.08
Industrials	12.92
Communication Services	6.65
Energy	6.12
Utilities	6.07
Materials	5.79
Consumer Staples	1.86
Information Technology	1.74
Health Care	0.93
Cash	6.03

PORTFOLIO CHARACTERISTICS

	CIE
Dividend yield (net) ¹	6.24%
Dividend yield (gross) ¹	8.04%
Median market cap (\$m)	3,772
Price to earnings ratio	17.73
Price to book ratio	1.68
Return on equity (%)	14.98
Beta	0.88

Source: Bloomberg LLP, Contango Asset Management. 1. Dividend yield is calculated as the last four dividends paid over the 12 months to 31 May 2019 relative to the closing share price of \$0.995 at the beginning of the period.

COMPANY FACTS

KEY DETAILS	
ASX code:	CIE
Dividend policy	6.50% of 30 June pre-tax NTA
Target franking	50%
Investment objective:	To distribute 6.5% of 30 June pre-tax NTA per annum while maximising franking credits
Number of stocks:	35 – 50
Target cash position:	5%
Portfolio size:	\$98.17 million
Shares on issue:	104.221 million
No. of stocks held:	42

TOP 10 PORTFOLIO HOLDINGS

COMPANY NAME	WEIGHT %
BENDIGO AND ADELAIDE BANK	4.92
BANK OF QUEENSLAND LTD	4.51
TABCORP HOLDINGS LTD	4.38
STOCKLAND	3.58
SPARK INFRASTRUCTURE GROUP	3.01
ASX LTD	2.96
STAR ENTERTAINMENT GRP LTD/T	2.84
MCMILLAN SHAKESPEARE LTD	2.74
CARSALES.COM LTD	2.72
UNIBAIL-RODAMCO-WESTFIEL/CDI	2.72

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

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 product identified in this document may not be suitable for your investment needs. This is not an offer to invest. © 2018 Contango Asset Management Limited