

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

INVESTMENT UPDATE AND NTA STATEMENT

31 July 2019

PERIOD	INCOME RETURN ²	NTA RETURN ³	TOTAL RETURN ⁴	INCOME RETURN INCL FRANKING CREDITS	TOTAL RETURN INCL FRANKING CREDITS ⁵
1 Month	0.00%	2.99%	2.99%	0.00%	2.99%
3 Months	1.13%	2.79%	3.92%	1.50%	4.29%
6 Months	2.92%	7.63%	10.55%	4.05%	11.68%
1 Year	6.06%	-2.23%	3.83%	7.82%	5.59%
3 Years (annualised)	6.80%	-2.66%	4.14%	8.40%	5.74%
Inception ¹ (annualised)	5.89%	-1.00%	4.89%	7.26%	6.26%

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 5. Does 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 generate sustainable dividend income, while maximising franking where possible. We select companies that, in aggregate, have a history of paying consistent dividends. 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 6.51%, or 8.40% including franking credits. Dividend yield is calculated as the last four dividends paid over the 12 months to 31 July 2019 relative to the closing share price at the beginning of the period.

PERFORMANCE SUMMARY

CIE's investment portfolio performed strongly over the month of July 2019, with a return of 2.99%. The NTA before tax of the portfolio stood at \$0.96 per share.

The portfolio moved higher over the month as positive sentiment over the outcome of the Federal Election, upcoming tax cuts and interest rate reductions overrode a continuing slew of earnings downgrades.

Many of the stocks which have struggled over the last year are now starting to price in the benefits of improved activity from the above factors. Nonetheless, we expect the upcoming reporting season to be challenging as, despite some recent positives for equities, the results season covers a period in which economic activity slowed and corporate profits were pressured. After this period we expect activity to stabilise and improve.

PORTFOLIO COMMENTARY

CIE's cash position at the end of the month was 4.7%. We will continue to be opportunistic with our investing, especially over the reporting season, so the cash level may move around this target.

Throughout July activity in the fund was muted as we anticipate a volatile result season. After a recovery in its share price, we reduced our large holding in Stockland Corporation. We also exited the fund's position in Duluxgroup after the successful takeover of the company and further reduced our holding in Bendigo and Adelaide Bank.

MARKET COMMENTARY

Global markets were mixed over the month with the US, UK and Australia all higher. Continental Europe, Japan and China were all modestly lower. Although slowing US earnings were still positive giving some impetus to the market.

The global bond market largely held its recent gains. The US 10-year traded in a range of 2.0-2.1%, while the market awaited an anticipated reduction in interest rates by the Federal Reserve. The Fed delivered a 25bp cut on the last day of the month.

Australian bonds continued to rally. The 10-year Australian bond rate fell from a yield of 1.4% to 1.2% by the end of the month. The low bond rate points to prolonged period of low interest rates.

The Australian market as measured by the S&P ASX 200 index was 2.93% higher over the month, making it one of the best global performers. Despite ongoing earnings downgrades, share prices are being driven by lower interest rates and tax cuts. These factors should bring better conditions ahead.

PORTFOLIO OUTLOOK

We anticipate the upcoming result season to be volatile. Shares have rallied as interest rate cuts and upcoming tax cuts are expected to boost activity and profits in the future. The upcoming result season, however, covers a period in which economic activity slowed and corporate profits were pressured.

As a result, reporting season may see some weak operating results. The market will be looking closely at outlook commentary to gauge whether individual companies are showing any signs of recovery.

Close attention will be paid to the distinction between cyclical and structural concerns, with the market being more forgiving of cyclical issues.

The ongoing decline in interest rates should be a positive for yield-focussed strategies like CIE. Although there may be a bounce in yields post any trade resolution, underlying world growth remains modest at best.

CIE remains significantly exposed to those high income generating securities. In our view, these investments will be increasingly valuable in a world of low rates.

NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	31 July 2019	30 June 2019
NTA before tax	\$0.961	\$0.933
NTA after tax and before tax on unrealised gains	\$0.981	\$0.952
NTA after tax	\$0.948	\$0.928
Month-end closing share price (ASX:CIE)	\$0.815	\$0.755

GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Real Estate	19.23
Financials	17.61
Consumer Discretionary	15.44
Industrials	13.07
Communication Services	8.19
Utilities	7.38
Energy	7.04
Materials	4.43
Information Technology	1.75
Health Care	1.18
Cash	4.69

PORTFOLIO DETAILS

Median market cap (\$m)	3,315
Price to earnings ratio	18.47
Price to book ratio	1.70
Return on equity (%)	13.77
Beta	0.89

Source: Bloomberg LLP, Contango Asset Management.

COMPANY FACTS

KEY DETAILS	
ASX code:	CIE
Dividend policy	6.50% of 30 June pre-tax NTA
Target franking	50%
Dividend yield (net) ¹	6.51%
Dividend yield (gross) ¹	8.40%
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:	\$100.47 million
Shares on issue:	104.44 million
No. of stocks held:	44

1. Dividend yield is calculated as the last four dividends paid over the 12 months to 31 July 2019 relative to the closing share price of \$0.915 at the beginning of the period.

TOP 10 PORTFOLIO HOLDINGS

COMPANY NAME	WEIGHT %*
BANK OF QUEENSLAND	4.44
TABCORP HOLDINGS	4.26
BENDIGO AND ADELAIDE BANK	3.42
ASX	3.39
GPT GROUP	3.27
STOCKLAND	3.11
SPARK INFRASTRUCTURE GROUP	2.98
CARSALES.COM	2.89
BAPCOR	2.88
MCMILLAN SHAKESPEARE	2.87

* Due to rounding values may not equal 100%

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