

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

INVESTMENT UPDATE AND NTA STATEMENT

31 August 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%	-0.76%	-0.76%	0.00%	-0.76%
3 Months	0.00%	2.55%	2.55%	0.00%	2.55%
6 Months	1.18%	6.33%	7.51%	1.56%	7.89%
1 Year	5.90%	-5.56%	0.34%	7.61%	2.05%
3 Years (annualised)	6.66%	-3.34%	3.32%	8.24%	4.90%
Inception ¹ (annualised)	5.66%	-1.16%	4.50%	6.98%	5.82%

Notes: 1. Inception date is 13 August 2015. 2. Income Return is the dividends attributed to the period divided by the pre-tax net tangible assets (NTA) per share at the beginning of the period. 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. 5. Does not consider individual investors' personal tax positions.

INVESTMENT OBJECTIVE

CIE is an income-focused listed investment company, with a portfolio of companies largely outside of the ASX top-20. CIE's objective is to pay quarterly dividends that provide investors with an attractive and sustainable income stream that is franked to the maximum possible extent. 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 6.31%, or 8.13% including franking credits. Dividend yield is calculated as the dividends attributable to the 12 months to 31 August 2019 relative to the closing share price at the beginning of the period.

PERFORMANCE SUMMARY

CIE's portfolio outperformed the broader market in August returning -0.76%. The S&P/ASX 300 Index fell 2.97% over the period. The NTA before tax of the portfolio was \$0.95 per share.

The investment strategy is such that we expect the portfolio to outperform in down markets and this was again the case in August.

Results season peaked in August, with over 250 listed companies within the S&P ASX 300 Index reporting FY19 earnings. Results were mixed with the consumer sectors showing the greatest variability. The impact of the downturn in residential activity hit the earnings of those companies exposed to building. CIE has only a modest exposure to this sector.

For companies owned by CIE, the earnings season was tilted towards the positive – more companies met or exceeded expectations than disappointed, a pleasing result.

PORTFOLIO COMMENTARY

CIE's cash position at the end of the month was 4.5%, compared with the target cash weight of 5%. Profits were taken in several positions during the month including Iress, McMillan Shakespeare, carsales.com, Harvey Norman and AGL Energy. This cash was put back to work late in the period, increasing existing positions in defensive exposures including APA Group, GPT Group, AusNet Services and Viva Energy REIT. CIE's position in Reliance Worldwide was increased after a better than expected result.

Origin Energy was added, effectively replacing AGL Energy in the energy utility space. The company gives the portfolio exposure to the oil price rather than the coal focus of AGL and has recommenced dividend payments. Orora is the other addition with the share price now offering an attractive entry point. Amongst the best performers during the month were Smartgroup Corporation (21%), Lendlease Group (19%), McMillan Shakespeare (18%) and IPH (13%), whilst oOh!media (-31%), Virtus Health (-20%) and Viva Energy REIT (-18%) were the major laggards. The poor performers in the portfolio were amongst our most modest holdings.

MARKET COMMENTARY

World markets were volatile over the month, ending down with European and Asian markets suffering most. US markets recovered large intra-month losses to finish marginally weaker.

Markets continue to be most concerned about US and China trade along with the recent yield curve inversion (long term interest rates are below shorter-term rates) which has historically been a harbinger for recession.

Growth in leading indicators and US corporate earnings are also showing signs of slowing causing investors to continue to seek "safety" in assets such as bonds and gold. Global bond markets have rallied strongly (lower interest rates) in August with the Australian 10-Year bond falling below 1.0% for the first time.

The Australian S&P/ASX200 Index fell 3.0% in August after mixed results season. Most sectors were lower with only Healthcare (3%) and REITs (2%) bucking the trend.

PORTFOLIO OUTLOOK

The level and trajectory of interest rates indicate that growth will remain scarce and company earnings, especially those exposed to cyclical activity, will remain vulnerable. The opposing view is that the positive impacts from personal tax cuts, lower interest rates and a stabilization in the housing market are expected to flow through to Australian corporate profits.

CIE has largely pruned the portfolio positions that it considered to be vulnerable. We continue to build up the secure earnings streams that we believe are increasingly valuable in a world of low rates.

As for the rest of the market, we intend to be opportunistic. The volatility in stock prices does offer some prospects for gain and we intend to move to realise these. We will also be more active in reducing exposure as risks begin to be identified and use any volatility to add to or establish positions in companies if we see opportunities moving forward.

NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	31 August 2019	31 July 2019
NTA before tax	\$0.954	\$0.961
NTA after tax and before tax on unrealised gains	\$0.974	\$0.981
NTA after tax	\$0.943	\$0.948
Month-end closing share price (ASX:CIE)	\$0.800	\$0.815

GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Real Estate	20.81
Financials	19.59
Consumer Discretionary	14.19
Industrials	13.00
Energy	7.78
Utilities	6.77
Communication Services	5.67
Materials	5.22
Cash	4.46
Information Technology	1.57
Health Care	0.95

PORTFOLIO DETAILS

Median market cap (\$m)	3,721
Price to earnings ratio ¹	19.03
Price to book ratio ¹	1.70
Return on equity (%)	13.77
Beta ²	0.89

Source: Bloomberg, Contango Asset Management. Notes: 1. Trailing data. 2. Beta relative to the S&P/ASX 200 Index.

COMPANY FACTS

KEY DETAILS

ASX code	CIE
Dividend policy ¹	To generate sustainable dividend income, while maximising franking where possible
Target franking ¹	50%
Dividend timing ¹	Paid quarterly
Dividend yield (net) ²	6.31%
Dividend yield (gross) ²	8.13%
Investment objective	Invest in a portfolio of between 30 and 60 companies, typically outside of the S&P/ASX top 20, with the objective of achieving CIE's dividend policy
Target cash position	5%
Portfolio size	\$99.77
Shares on issue	104.44 million
No. of stocks held	46
Management fee	0.95% (ex-GST)

1. Dividends are subject to the availability of franking credits and corporate, legal and regulatory considerations. To the extent that CIE is not able to pay a dividend, it undertakes to return an appropriate amount of capital to shareholders via an on-market buyback.
2. Dividend yield is calculated as the last four quarterly dividends attributable to the 12 months to 31 August 2019 relative to the closing share price of \$0.945 at the beginning of the period.

TOP 10 PORTFOLIO HOLDINGS

COMPANY NAME	WEIGHT %
TABCORP HOLDINGS	4.50
BANK OF QUEENSLAND	4.40
GPT GROUP	3.65
BENDIGO AND ADELAIDE BANK	3.35
ASX	3.32
STOCKLAND	3.10
BAPCOR	3.09
CHARTER HALL GROUP	2.72
MCMILLAN SHAKESPEARE	2.70
STAR ENTERTAINMENT GRP LTD/T	2.57

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