

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

INVESTMENT UPDATE AND NTA STATEMENT

29 February 2020

PERIOD	INCOME RETURN ²	NTA RETURN ³	TOTAL RETURN ⁴	INCOME RETURN INCL FRANKING CREDITS	TOTAL RETURN INCL FRANKING CREDITS ⁵
1 Month	1.05%	-9.02%	-7.97%	1.49%	-7.53%
3 Months	2.06%	-10.43%	-8.37%	2.94%	-7.49%
6 Months	3.15%	-8.73%	-5.58%	4.27%	-4.46%
1 Year	4.53%	-2.95%	1.58%	6.10%	3.15%
3 Years (annualised)	5.90%	-4.10%	1.80%	7.47%	3.37%
Inception ¹ (annualised)	6.08%	-3.00%	3.08%	7.59%	4.59%

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 Return plus NTA Return. 5. Does not consider individual investors' personal tax positions.

Investment Objective

Contango Income Generator Limited ("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 5.14%, or 6.93% including franking credits. Dividend yield is calculated as the dividends attributable to the 12-months to 29 February 2020 relative to the closing share price at the beginning of the period.

Performance Summary

CIE's investment portfolio returned -7.97% for the month of February. The NTA before tax of the portfolio was \$0.871 per share. The broader market, as measured by the S&P/ASX All Ordinaries Accumulation Index fell 8.08% during the month. After removing the top 20 companies by market capitalisation to better reflect CIE's investment universe, the index fell by 9.80%.

Portfolio Commentary

As predicted in the last report, the large number of ASX-listed companies that reported first-half earnings in February resulted in an increase in portfolio activity for CIE relative to prior months and several portfolio changes.

The reporting season, overall, was positive for the companies owned by CIE with almost all meeting or beating expectations. Of CIE's investments, MyState Ltd was the standout, reporting positive earnings driven by volumes exceeding our expectations and controlled costs. There was one exception, Reliance Worldwide Corporation, which disappointed investors on both earnings and outlook. Its share price finished the month almost 25% lower.

All market sectors finished significantly in the red. The S&P/ASX 200 Index sector performance saw the Health Care (-3.7%), Real Estate (-4.6%), Utilities (-4.5%) and Financials (-5.7%) sectors do best on a relative basis (though still negative) whilst Communication Services (-16.0%), Information Technology (-13.2%) and Materials (-12.9%) were the worst. The Real Estate, Utilities and Financial sectors are

well represented within the CIE portfolio given their defensive and income characteristics.

Local market falls during the month provided CIE with the opportunity to add to number of existing positions including IRESS, Event Hospitality and Entertainment and SmartGroup. As well, four new positions were initiated, namely: Treasury Wine Estates, after its sharp share price fall in January; Lovisa Holdings, a strongly growing retailer of affordable jewellery; Evolution Mining, a well-managed gold company; and travel group, Webjet.

The best performing investments for CIE over the period were MyState Ltd (+10.2%), G.U.D. Holdings (+3.6%), Charter Hall Retail REIT (+2.8%) and VIVA Energy Group (+2.3%). Profits were taken in G.U.D. Holdings with the position eventually exited by month's end.

Accompanying Reliance Worldwide Corporation amongst the largest decliners in the portfolio were Southern Cross Media Group (-22.2%), Adelaide Brighton (-17.6%) and Tabcorp Holdings (-16.9%).

Market Commentary

Global markets suffered significant falls in February ending a long run of gains. Major equities indices were 8% - 10% lower on average as investors' fears of the increasing spread of the Coronavirus to more countries took hold. Hong Kong (-0.7%) and China (-1.6%) were only marginally down in February but had already suffered huge falls in the previous month. Other markets were playing catch up this month.

Whilst the effect of the virus on world growth remains difficult to estimate, it is clear that global supply chains are being severely impacted across major industries. Many companies across a broad range of industries have already flagged the increasing likelihood of a negative earnings impact and now consumer confidence is being impacted, as evidenced by the recent emptying of supermarket shelves.

Bond markets reacted predictably given their "safe haven" status, rallying strongly (yields lower). The US 10 -year benchmark bond yield fell 33 basis points to 1.26% whilst the Australian 10-year government bond also fell to 0.82% at the end of February from the January close of 0.95%.

Portfolio Outlook

Whilst there can be no doubt that the current market volatility is the result of the unknown impact from the Coronavirus, we can't forget that up until the beginning of the month markets were at or near all-time highs with investors building in aggressive expectations. That said, this pullback in the market is presenting investment opportunities (assuming the virus can be contained).

CIE has typically been more exposed to the defensive sectors for their reliable yields and stable capital values, the flip side being that they offer lower growth. The aim is to use this market weakness to add some growth companies to the portfolio to provide a more balanced portfolio as we continue to strive to meet CIE's income and growth objectives.

NET TANGIBLE ASSETS (PER SHARE)	29 Feb 2020	31 Jan 2020
NTA before tax	\$0.871	\$0.957
NTA after tax and before tax on unrealised gains	\$0.898	\$0.975
NTA after tax	\$0.882	\$0.948
Month-end closing share price (ASX:CIE)	\$0.780	\$0.850

GICS SECTOR ALLOCATION	WEIGHT %
Real Estate	20.84
Financials	19.31
Consumer Discretionary	13.46
Industrials	10.87
Materials	9.03
Energy	8.81
Utilities	8.17
Communication Services	4.36
Cash	2.09
Information Technology	1.87
Consumer Staples	1.20
Total	100.00

PORTFOLIO CHARACTERISTICS	
Median market cap (\$m)	3,585
Price to earnings ratio ¹	17.86
Price to book ratio ¹	1.51
Return on equity (%)	8.06
Beta ²	0.87

Source: Bloomberg, Contango Asset Management.

Notes: 1. Trailing data. 2. Beta relative to the S&P/ASX 200 Index.

KEY DETAILS

ASX code	CIE
Dividend policy ¹	To generate sustainable dividend income, while maximising franking where possible
Target franking ¹	100%
Dividend timing ¹	Paid quarterly
Dividend yield (net) ²	5.14%
Dividend yield (gross) ²	6.93%
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	\$92.28 million
Shares on issue	104.63 million
No. of stocks held	50
Management fee	0.95% (ex-GST)

Notes: 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 28 February 2020 relative to the closing share price of \$0.78 at the beginning of the period.

TOP 10 PORTFOLIO HOLDINGS	WEIGHT %
Tabcorp Holdings	3.93
Caltex Australia	3.67
Stockland	3.50
Bank of Queensland	3.24
Dexus	3.19
Spark Infrastructure Group	3.13
Bendigo and Adelaide Bank	2.99
MyState	2.90
GPT Group	2.78
Star Entertainment Group	2.71
Total	32.04

CONTANGO INCOME GENERATOR LIMITED

ACN 160 959 991

Level 6, 10 Spring Street, Sydney NSW 2000

T: 1300 001 750

W: www.contango.com.au/income-generator-limited

E: invest@contango.com.au