

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

INVESTMENT UPDATE AND NTA STATEMENT

30 April 2020

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%	11.65%	11.65%	0.00%	11.65%
3 Months	1.05%	-27.18%	-26.13%	1.49%	-25.69%
6 Months	2.10%	-26.92%	-24.82%	3.00%	-23.92%
1 Year	4.34%	-25.49%	-21.15%	5.85%	-19.64%
3 Years (annualised)	5.85%	-12.42%	-6.57%	7.41%	-5.01%
Inception ¹ (annualised)	5.77%	-7.38%	-1.61%	7.20%	-0.18%

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 (ASX: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 30 April 2020 relative to the closing share price at the beginning of the period.

Performance Summary

CIE's investment portfolio returned 11.65% for the month of April. The NTA before tax of the portfolio was \$0.697 per share. The broader market, as measured by the S&P/ASX All Ordinaries Accumulation Index, returned 9.54% during the month. After removing the top 20 companies by market capitalisation to better reflect CIE's investment universe, the index gained 12.6%.

Portfolio Commentary

The portfolio followed the market higher over the month. Many of the companies that the market feared would be most impacted by the economic restrictions recovered well. The portfolio regained a reasonable proportion of the losses incurred since late February.

Financials lagged the rally over April, with the sector impacted by a couple of issues. Firstly, the Australian Prudential Regulation Authority indicated that it would prefer for banks and insurers to be conservative with dividend payments as the economy works its way through the difficulties ahead. Secondly, with unemployment rising quickly and many businesses under some strain, there is uncertainty around how severe the bad debt cycle will become.

The portfolio has been actively reducing its exposure to Financials over many months, but still has a reasonable holding as the sector is an important source of franked dividends.

The fund was very active during the month. We took the opportunity of a stronger market to move the portfolio towards a more defensive growth setting. There were many changes, but we believe the portfolio is left in a stronger position to generate returns while

gathering as much franking as prudently possible. Cash has remained stable at around 2.5%, below the target 5%.

In April 10 stocks delivered in excess of 20% returns for the portfolio. These included relatively new exposures such as Lovisa Holdings (51.4%), Evolution Mining (33.7%) and Appen (31.2%) as well as long-held stocks staging a recovery such as oOh!Media (+61.7%), Star Entertainment Group (40.9%), Tabcorp Holdings (27.3%), Adelaide Brighton (34.9%) and Bapcor (+20.8%).

The worst performing companies were mainly from the Financials sector, or those companies with defensive characteristics that had been good performers over the recent selloff. These included the banks and Utilities. The losses were modest.

The fund participated in four recapitalisations of portfolio holdings over the last month and a half, and several recapitalisations in companies that the fund did not previously hold. All of these are trading well above their issue prices, so have been profitable undertakings for the fund thus far. We will continue to seek out these opportunities.

Market Commentary

All market sectors finished higher over April. The S&P/ASX 200 index sector performance saw the Energy (25.0%), Information Technology (22.5%) and Consumer Discretionary (15.9%) sectors do best while Health Care (0.8%), Consumer Staples (2.4%), Utilities (2.7%) and Financials (2.9%) fared the worst. The progress Australia has made in containing the virus, and possible relief from the restrictive conditions, helped spark the rally in these stocks.

Global equity markets have rallied over the past six weeks after a significant market selloff. All major markets were higher over April, led by the US. The Australian market was around the middle of the pack with a gain of 9.5%.

Bond markets were unusually stable over the month – a welcome relief after the volatility experienced in March. The high-yield bond markets also improved giving a solid backdrop for equity markets.

The market remains focused on the flattening of the growth rate of COVID-19 infections in various countries. Thankfully it appears the predicted worst-case scenarios will not eventuate. The response from Governments and Central Banks around the world is the largest coordinated stimulus effort since WW2. Markets have been encouraged by the fact that many of the fiscal packages are aimed directly at labour retention and immediate spending support to counter the lockdowns around the world.

Portfolio Outlook

Over the last month, progress in containing the virus around the world has exceeded expectations. Credit markets have responded well with yields falling for loans to riskier companies. Over the next quarter we will likely see some of the worst economic data in living memory. Headlines will show growth collapsing and unemployment rising. The poor data is now widely expected by the markets, so it will be interesting to see the reaction when it is actually delivered.

Of more importance to share markets, we believe, will be the maintenance of support Governments have given to world economies. Positive progress in containing the virus will also be critical.

We have used the market weakness and the recent bounce to restructure the portfolio. The fund now has more growth companies as well as more stable defensive businesses. We believe these changes will be very positive in producing a more balanced portfolio as we continue to deliver on CIE's income and growth objectives.

At present, CIE maintains the capacity to pay a final dividend in respect of the current financial year.

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	\$73.23 million
Shares on issue	104.90 million
No. of companies held	51
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 30 April 2020 relative to the closing share price of \$0.79 at the beginning of the period.

NET TANGIBLE ASSETS (PER SHARE)	30 APR 2020	31 MAR 2020
NTA before tax	\$0.697	\$0.624
NTA after tax and before tax on unrealised gains	\$0.717	\$0.639
NTA after tax	\$0.710	\$0.636
Month-end closing share price (ASX:CIE)	\$0.540	\$0.545

GICS SECTOR ALLOCATION	WEIGHT %
Financials	16.90
Consumer Discretionary	16.68
Real Estate	16.18
Materials	11.05
Utilities	8.80
Industrials	7.80
Communication Services	6.63
Energy	5.46
Information Technology	4.37
Consumer Staples	3.90
Cash	2.24
Total	100.00

TOP 10 PORTFOLIO HOLDINGS	WEIGHT %
Aristocrat Leisure	3.51
Tabcorp Holdings	3.35
APA Group	3.21
AusNet Services	2.88
ASX	2.79
Charter Hall Group	2.77
Caltex Australia	2.75
Spark Infrastructure Group	2.71
Hotel Property Investment	2.62
Sydney Airport	2.60
Total	29.19

PORTFOLIO CHARACTERISTICS	
Median market cap (\$m)	3,471
Price to earnings ratio ¹	14.87
Price to book ratio ¹	1.28
Return on equity (%)	12.64
Beta ²	1.03

Source: Bloomberg, Contango Asset Management.

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

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

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