

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

INVESTMENT UPDATE AND NTA STATEMENT

31 May 2020

PERIOD	INCOME RETURN ²	NTA RETURN ³	TOTAL RETURN ⁴	INCOME RETURN INCL FRANKING CREDITS	TOTAL RETURN INCL FRANKING CREDITS ⁵
1 Month	1.38%	6.04%	7.42%	1.97%	8.01%
3 Months	1.10%	-15.13%	-14.03%	1.58%	-13.55%
6 Months	3.05%	-23.98%	-20.93%	4.35%	-19.63%
1 Year	4.26%	-20.57%	-16.31%	5.85%	-14.72%
3 Years (annualised)	6.18%	-10.22%	-4.04%	7.89%	-2.33%
Inception ¹ (annualised)	5.84%	-6.11%	-0.27%	7.32%	1.21%

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 5.18%, or 7.11% including franking credits. Dividend yield is calculated as the dividends attributable to the 12 months to 31 May 2020 relative to the closing share price at the beginning of the period.

Performance Summary

CIE's investment portfolio returned 7.42% for the month of May. The NTA before tax of the portfolio was \$0.74 per share. The broader market, as measured by the S&P/ASX All Ordinaries Accumulation Index rose 5.04% during the month. After removing the top 20 companies by market capitalisation to better reflect CIE's investment universe, the index rose by 6.98%. The strong performance for the month is pleasing and is derived from a recovery in many of the portfolio's oversold stocks, as well as the new growth stocks continuing to perform.

Portfolio Commentary

The portfolio recovered a reasonable amount of ground over May. Earlier in the rally, the growth stocks held by CIE performed well, with Breville Group, Charter Hall Group and Appen rallying. As the recovery matured, the range of stocks participating in the rally expanded to include many of the portfolio's value positions.

Sector performance saw the defensive sectors generally lag the market rally. The S&P/ASX 200 Index sector performance saw the Information Technology (14.6%), Communication Services (8.4%) and Materials (8.1%) sectors do best. Only two sectors were negative over May: Health Care (-5.3%), and Consumer Staples (-0.4%). This sectoral performance was similar to April. The progress Australia has made in containing the virus and its lifting of restrictions supported the rally in economically sensitive sectors.

CIE was active during the month, although to a lesser degree than in April. The major changes included adding Carsales.Com (CAR), which effectively replaced Treasury Wine Estates (TWE) in the portfolio. The

used car market is recovering strongly as public transport is being avoided and customers are trading down rather than purchasing new cars. CAR's large position in the Korean market is also a significant factor in the stock's strong performance. Wine sales are lagging in the recovery, especially in China, and trade issues continue to threaten TWE.

CIE also switched its REIT exposure from the office property-dominated DEXUS Property Group to BWP Trust (BWP). BWP counts the successful Bunnings Group as a major tenant, which provides the business with rent security in the current environment.

The fund also participated in a number of equity raisings including United Malt Group, Charter Hall Retail REIT and Credit Corp Group – all delivering profits. Late in the month some profits were taken in Aristocrat Leisure and Evolution Mining. The cash weighting was moved modestly higher.

Over the month there were six stocks that delivered in excess of 20% returns for the portfolio. These included Southern Cross Media Group (67.9%) which recovered from the large equity raising made last month, Webjet (35.3%), recovering from its large raising, Breville Group (27.3%), Charter Hall Group (26.7%), Smartgroup Corporation (24.3%) and Stockland Corporation (24.0%).

There were no holdings down more than 20%. The worst performing stock was Unibail-Rodamco-Westfield (URW) which was down 14.3%. While URW is exposed to quality shopping centres, the Northern Hemisphere is taking longer to recover from COVID-19 which is impacting returns.

Market Commentary

Global markets continued their rally over May. The NASDAQ again led markets higher, supported by its heavy technology weighting, while the Japanese and German markets also showed good strength. The Chinese and Hong Kong markets were down slightly, impacted by simmering political tensions. The Australian market lagged the rise as the large Bank sector struggled and the Health Care sector retreated after a strong run.

Bond markets were again unusually stable over the month. The US 10-year bond continues to trade around 0.65% and the Australian 10-year bond around 0.90%. Stability in the fixed income markets is giving equity markets confidence that debt funding remains available and cheap.

Progress in containing the virus continues to be made around the world at differing rates, and the likelihood of the 'worse-case' scenarios eventuating for world economies looks to be receding.

A positive sign for markets is that equities continue to take the ongoing negative economic data in their stride. While data remains very poor, there are signs the worst is behind us and these indicators may begin to improve.

Portfolio Outlook

The broadening of the rally has assisted the performance of CIE. The changes to the portfolio mix that occurred over the last few months are largely complete.

We will continue to monitor the growth of the virus around the world and the trend of economic data. Of more importance will be the maintenance of the support Governments and central banks have given to world economies and the ability to keep debt markets sanguine.

The portfolio now has more growth companies, as well as more stable defensive companies. We believe these changes are very positive and have resulted in a more balanced portfolio.

The company declared a fully franked dividend of 0.96 cents per share in May. Shareholders should receive payment on June 9.

GICS SECTOR ALLOCATION	WEIGHT %
Consumer Discretionary	16.19
Real Estate	15.69
Financials	15.66
Materials	12.12
Communication Services	9.02
Utilities	8.47
Industrials	7.35
Information Technology	4.37
Consumer Staples	4.17
Energy	3.80
Not Classified	3.16
Total	100.00

TOP 10 PORTFOLIO HOLDINGS	WEIGHT %
APA Group	3.17
Tabcorp Holdings	3.11
Charter Hall Group	2.91
Spark Infrastructure Group	2.80
ASX	2.80
Hotel Property Investments	2.73
Bapcor	2.67
Aristocrat Leisure	2.57
Magellan Financial Group	2.54
Waypoint REIT	2.54
Total	27.84

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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	5.18%
Dividend yield (gross) ²	7.11%
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	\$78.71 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 31 May 2020 relative to the closing share price of \$0.765 at the beginning of the period.

NET TANGIBLE ASSETS (PER SHARE)	31 MAY 2020	30 APR 2020
NTA before tax	\$0.739	\$0.697
NTA after tax and before tax on unrealised gains	\$0.769	\$0.717
NTA after tax	\$0.753	\$0.710
Month-end closing share price (ASX:CIE)	\$0.590	\$0.540

PORTFOLIO CHARACTERISTICS	
Median market cap (\$m)	3,633
Price to earnings ratio ¹	16.35
Price to book ratio ¹	1.43
Return on equity (%)	12.92
Beta ²	1.05

Source: Bloomberg, Contango Asset Management.

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

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