

# CONTANGO INCOME GENERATOR LIMITED (ASX:CIE) INVESTMENT UPDATE AND NTA STATEMENT

30 June 2018

## PERFORMANCE UPDATE

Global equity markets were slightly weaker in June. There continues to be simmering tension around a trade war. Although the extent of trade tariffs mentioned to date do not threaten global economic growth, there is some risk of escalation.

The US bond market rallied (lower interest rates) on the back of the trade war fears as bonds are viewed as a safe haven and also potentially attractive if world growth slows. Against this backdrop, the Australian equity market posted reasonable returns (+3.0%). Part of this was a relief rally in areas of the market that had underperformed over the last several months. There was less news emanating from the Royal Commission which helped to steady the performance of some stocks, most notably the major banks, while a rally in bonds helped the yield sensitive stocks.

Performance of the portfolio for the month was 1.1% which lagged the broader market of 3.0%. Returns since inception have been 8.6%.

Significant stock performance over the month included (greater than +10%), Iress Ltd (+16.3%) and Caltex Australia Ltd (+10.6%). Iress has recovered virtually all its previous underperformance, but there has been no new news since the AGM in May. Caltex has benefited from Woolworths ending an agreement to sell its petrol business to BP, a competitor to Caltex. Caltex will continue to supply fuel to Woolworths for the time being, worth about \$150m for a full year.

There was only one stock that contributed below 10% for the month being Regis Healthcare (-11.6%). The aged care industry has seen some negative regulatory changes to its ability to recover costs, however these have been known for some time. There has also been some market concern about the mix of funding becoming less favourable for Regis. There has been no sign of this in the financials but we will investigate any signs of this when the company reports next month. Regis is a moderate holding in the fund.

The cash weighting in the fund is around 12%. The fund has commenced to deploy more cash into the market with a target of about 5% cash over time. Over the month the fund realised some profits in a few high performing stocks that may be repurchased at lower levels. Also, we have identified a couple of new stocks that we think are at attractive levels. Therefore, the cash levels could be deployed quite quickly.

## PORTFOLIO PERFORMANCE

PERFORMANCE (before management fees)	CONTANGO INCOME GENERATOR	ASX ALL ORDS ACCUM INDEX	ADDED VALUE %
1 Month	1.07%	2.95%	-1.88%
3 Months	3.04%	8.03%	-4.99%
6 Months	-2.96%	4.04%	-7.00%
12 Months	4.56%	13.73%	-9.17%
Inception <sup>1</sup> (annualised)	8.56%	10.28%	-1.72%

1. Inception date 13 August 2015

## NET TANGIBLE ASSETS (NTA)

NET TANGIBLE ASSETS (PER SHARE)	30 JUNE 2018	31 MAY 2018
NTA before tax	\$0.968	\$0.974
NTA after tax and before tax on unrealised gains	\$0.971	\$0.981
NTA after tax	\$0.957	\$0.966

## KEY DETAILS

Report Date:	30 June 2018
ASX Code:	CIE
Listed on ASX:	14 August 2015
Fund Manager:	Contango Funds Management Ltd
Benchmark:	ASX All Ordinaries Accumulation Index
Number of stocks:	35 – 50
Target / Maximum cash position:	5% / 50%
Portfolio size:	\$100.88 million
Shares on issue:	103.81million
No. of stocks held:	45
Share price:	\$0.94

## PORTFOLIO OUTLOOK

The portfolio is currently being impacted by several issues, both positive and negative. On the negative side, the geo-political issues over trade wars and political instability continue to weigh on global markets. However, these should not have a significant impact on the ability of the fund's share portfolio to pay dividends. The portfolio does favour franked dividends and high yield stocks which results in a relatively high exposure to Australia.

In Australia, the level of Government inquiry across several sectors has resulted in uncertainty about any eventual outcomes. There has been softness in the shares of many companies exposed to this regulatory risk. We view this as a cyclical event that will fade over time. The focus of the manager has been to assess any outcomes and real risks to dividend flows emanating from any of these reviews.

On the positive side, Australian growth remains solid and there appears little evidence of inflation in the system. Australian interest rates are expected to remain low at least well into next year. Therefore, the basic fundamentals look solid giving us medium term optimism for the portfolio.



**SHAWN BURNS**  
SENIOR PORTFOLIO MANAGER  
CONTANGO ASSET MANAGEMENT

## PORTFOLIO CHARACTERISTICS

MAY 2018	CONTANGO INCOME GENERATOR	ASX ALL ORDS INDEX
Median market cap (\$m)	2336	664
Price to earnings ratio	16.2	20.3
Earnings growth (%)	6.4	21.0
Dividend yield (net)	5.2	4.0
Dividend yield (gross)	6.9	5.5
Return on equity (%)	18.0	17.8
Beta	0.8	1.0

## TOP 10 HOLDINGS

CODE	STOCK	WEIGHT %
BOQ	Bank of Queensland Ltd	4.7
BEN	Bendigo & Adelaide Bank Ltd	4.4
TAH	Tabcorp Holdings Ltd.	4.3
CTX	Caltex Australia Ltd	3.1
SKI	Spark Infrastructure Group	2.7
SGP	Stockland	2.6
BAP	Bapcor Ltd	2.5
BAP	ASX	2.5
AGL	AGL Energy Ltd	2.4
IRE	Iress Ltd	2.3

## SECTOR BREAKDOWN

SECTOR	WEIGHT %
Consumer Discretionary	20.8
Consumer Staples	3.0
Energy	4.6
Financials	24.8
Health Care	1.9
Industrials	9.2
Information Technology	4.2
Materials	5.5
REITS	8.8
Telecommunication Services	0.0
Utilities	5.0
Cash	12.2

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