

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

31 December 2018

| 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% | -3.54% | -3.54% | 0.00% | -3.54% |
| 3 Months | 1.58% | -13.86% | -12.28% | 1.92% | -11.94% |
| 6 Months | 3.46% | -12.71% | -9.25% | 4.20% | -8.51% |
| 1 Year | 6.30% | -18.75% | -12.45% | 7.65% | -11.10% |
| 3 Years (annualised) | 6.82% | -6.81% | 0.01% | 8.28% | 1.47% |
| Inception ¹ (annualised) | 6.02% | -4.86% | 1.16% | 7.31% | 2.45% |

Notes:

1) Inception date is 13 August 2015. 2) Income Return is the income paid during the period divided by the beginning period pre-tax net tangible assets (NTA) per share. 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; and 5) Does not consider the individual investors personal tax position.

INVESTMENT OBJECTIVE

CIE is an income focussed listed investment company, with a portfolio of stocks outside of the top 30 ASX listed companies. The stated objective of the Company is to distribute 6.5% of the pre-tax Net Tangible Assets (NTA) per annum, while maximising franking where possible. We select companies that, in aggregate, generate a sustainable dividend income. The portfolio is characterised by a strong and diverse portfolio of companies that exhibit good cash flows and business models.

At a share price of \$0.79 at 31 December 2018, CIE yields over 7.8% (net). Historically franking has been 50%, which equates to a gross yield of over 9.5%.

PERFORMANCE SUMMARY

CIE's investment portfolio was lower over the month of December, with a return of -3.54%, underperforming the broader market. The NTA before tax of the portfolio stood at \$0.845 per share. The rolling 12-month return was -11.10% and the fund has achieved a total return since inception of 2.45% per annum (including franking).

PORTFOLIO COMMENTARY

CIE's cash position at the end of the month was 4.3%, compared with a target cash weight of 5%. We expect to be opportunistic with our investing so that cash may move around this target.

Over the last few months the Company has steadily increased some of its defensive positions, and reduced exposure to stocks which are considered in a weak or exposed position either through cyclical or regulatory risk. For example, the portfolio's current exposure to REIT's and Utilities, considered two of the most defensive sectors, is about 22%.

A new position was established in AusNet Services in December. AusNet operates a gas distribution business as well as an electricity distribution and transmission business.

Other existing holdings were also increased over the month, including Smart Group, carsales.com.au and GPT Group. Additions to the portfolio have been either defensive companies or quality growth companies that have been treated harshly in the market sell off.

MARKET OBJECTIVE

Global equity markets deteriorated significantly over the month. The falls were led by the markets that had been the strongest, such as the US. Australia was also lower but less so, as the domestic index had lagged.

The falls in global equities appear to be liquidity and technically driven, as there was no significant deterioration in traditional fundamentals. Momentum-based strategies now comprise a large part of global trading. Momentum has clearly been broken in many indices which has triggered further selling.

Sector performance was mixed with the best sectors being Materials, Utilities and REIT's. The positive performance of both REIT's and Materials is unusual given Materials usually rely on strong world growth and REITs are a haven in declining growth scenarios. The portfolio is overweight REIT's given their higher yield characteristics, but not Materials. The worst performing sectors included Banks and Diversified Financials. CIE has a significant stake in these sectors.

The best performing stocks in the portfolio were, unsurprisingly, defensive exposures. These included the property companies such as Charter Hall, Dexu and GPT Group. AGL also did well, regaining some of its defensive status after facing regulatory issues for most of the year.

The poorest performing stocks included those exposed to the stock market, like Magellan and Perpetual Trustees. These stocks earn fees largely based on the level of the stock market.

PORTFOLIO OUTLOOK

We are looking forward to the upcoming reporting season and expect some solid results. However, share market weakness may see some conservatism by boards when declaring dividends. Therefore, dividend growth may be low. As previously we will measure and report the outcome.

Interest rates remain low with Australian bonds around 2.4%, and economic activity, although slowing slightly, remains positive. Indications of inflation remain largely benign giving confidence that the investment outlook remains favourable.

NET TANGIBLE ASSETS (NTA)

| NTA (PER SHARE) | 30 Dec 2018 | 30 Nov 2018 |
|--|-------------|-------------|
| NTA before tax | \$0.845 | \$0.876 |
| NTA after tax and before tax on unrealised gains | \$0.876 | \$0.900 |
| NTA after tax | \$0.866 | \$0.887 |
| Month-end closing share price (ASX:CIE) | \$0.790 | \$0.810 |

GICS SECTOR ALLOCATION

| GICS SECTOR ALLOCATION | WEIGHT % |
|------------------------|----------|
| Communication Services | 6.12 |
| Consumer Discretionary | 14.47 |
| Consumer Staples | 1.48 |
| Energy | 6.28 |
| Financials | 23.82 |
| Health Care | 1.14 |
| Industrials | 11.56 |
| Information Technology | 2.01 |
| Materials | 6.07 |
| REITS | 15.17 |
| Utilities | 6.63 |
| Cash | 5.24 |

PORTFOLIO CHARACTERISTICS

| December 2018 | CIE |
|-------------------------|-------|
| Dividend yield (gross) | 9.53% |
| Dividend yield (net) | 7.87% |
| Median market cap (\$m) | 2,778 |
| Price to earnings ratio | 13.49 |
| Earnings growth (%) | 4.00 |
| Return on equity (%) | 15.14 |
| Beta | 0.89 |

Source: Bloomberg LLP.

COMPANY FACTS

| KEY DETAILS | |
|-----------------------|---|
| ASX code: | CIE |
| Dividend policy | 6.50% of pre-tax NTA |
| Historical franking | 50% |
| Investment objective: | To distribute 6.5% of pre-tax NTA per annum while maximising franking credits |
| Number of stocks: | 35 – 50 |
| Target cash position: | 5% |
| Portfolio size: | \$88.08 million |
| Shares on issue: | 104.075 million |
| No. of stocks held: | 43 |

TOP 10 PORTFOLIO HOLDINGS

| CODE | COMPANY NAME | WEIGHT % |
|------|------------------------------|----------|
| BOQ | Bank of Queensland Ltd | 5.20 |
| BEN | Bendigo & Adelaide Bank Ltd | 5.19 |
| ASX | ASX Ltd | 2.57 |
| PPT | Perpetual Ltd | 2.33 |
| MYS | MyState Ltd | 2.32 |
| MFG | Magellan Financial Group Ltd | 1.85 |
| MPL | Medibank Private Ltd | 1.73 |
| ECX | Eclipx Group | 1.31 |
| IFL | IOOF Holdings Ltf | 1.31 |
| SGP | Stockland | 3.12 |
| | | 26.93 |

CONTANGO INCOME GENERATOR LIMITED

ACN 160 959 991

Level 6, 10 Spring Street, Sydney NSW 2000

T: +61 2 9048 7888

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

E: invest@contango.com.au

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