

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

INVESTMENT UPDATE AND NTA STATEMENT

31 March 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%	-28.32%	-28.32%	0.00%	-28.32%
3 Months	1.07%	-33.01%	-31.94%	1.53%	-31.48%
6 Months	2.08%	-35.09%	-33.01%	2.97%	-32.12%
1 Year	4.49%	-31.05%	-26.56%	6.05%	-25.00%
3 Years (annualised)	5.90%	-15.36%	-9.46%	7.47%	-7.89%
Inception ¹ (annualised)	5.92%	-9.68%	-3.76%	7.39%	-2.29%

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 5.27%, or 7.11% including franking credits. Dividend yield is calculated as the dividends attributable to the 12-months to 31 March 2020 relative to the closing share price at the beginning of the period.

Performance Summary

CIE's investment portfolio returned -28.32% for the month of March. The NTA before tax of the portfolio was \$0.624 per share. The broader market, as measured by the S&P/ASX All Ordinaries Accumulation Index fell 20.94% during the month. After removing the top 20 companies by market capitalisation to better reflect CIE's investment universe, the index fell by 22.80%.

Portfolio Commentary

Global markets were dealt another blow in March as the devastating financial impact of the coronavirus became more evident. There were essentially only losers across CIE's listed company universe. Even defensive businesses with sound asset bases and strong balance sheets such as airports, casinos, shopping malls and toll roads all found themselves in the firing line, right alongside higher-risk and seemingly lower quality businesses.

The market has now entered a recapitalisation phase. During this period of government directed slowdown, many companies have seen their revenues collapse and now require liquidity to keep their businesses alive. Several have approached the market for additional funding. Our strategy throughout this period will be to maintain sufficient cash to ensure CIE can participate in capital raisings to minimise any dilution impact on our investments. We will also look to be opportunistic by participating in other raisings that we believe have the highest probability of generating future gains for CIE investors.

All S&P/ASX 200 Index sectors finished significantly in the red led by Energy (-37.6%), Real Estate (-35.6%), Financials (-27.6%) and

Consumer Discretionary (-25.9%). Sectors that fell the least included Consumer Staples (-3.9%), Health Care (-5.4%) and Utilities (-6.2%). CIE is typically more exposed to companies with defensive characteristics including a reliable yield and stable capital value. The performance of the usually defensive REIT sector to which CIE has exposure was disappointing with several companies within the sector now trading at around 20% to 50% of their net asset value. We believe, as a group, REIT's offer significant value at these depressed prices.

CIE was active in the market in March. Positions were established in two growth companies that we believe will add value to the portfolio in time, namely Breville Group and Appen Limited. Appen represents CIE's first investment into the strongly growing technology services sector and both companies were CIE's best performing investments in March rising 16.2% and 11.4% respectively. The worst performing shares in the portfolio were those companies where capital raisings were anticipated including Southern Cross Media Group (-74.9%), Ooh! Media Group (-72.0%) and Webjet (-60.7%).

Market Commentary

Global markets continued to fall heavily in March with US and European markets declining between 10% and 20%. Asian markets fared better with China and Hong Kong falling by less than 10%. The Australian share market was amongst the worst performers with the S&P/ASX 200 Index falling more than 21% over the month. Volatility wasn't confined to equities. Bond markets were also caught up in the turmoil with the benchmark US 10-year treasury falling from a 1.15% yield to 0.67%. The Australian 10-year bond yield fell to 0.76% from 0.82% in February.

Investors are now laser-focussed on COVID-19 growth rates. Market volatility is likely to continue as investors attempt to anticipate the long-term economic fall-out from the virus and any likely Government response. Whilst it is too early to determine the long-term effectiveness of Government directives on social distancing and gatherings, there continues to be huge liquidity and fiscal support coming from central banks that have served to steady markets to date.

Portfolio Outlook

The investment outlook is clearly very uncertain. A small signal of a return to anything resembling "normal" will likely see markets rise rapidly. We suspect, however, that it is more likely we will continue to read poor headlines highlighting collapsing growth and rising unemployment for at least another quarter or two. We believe that

it remains critical to focus on the forward-looking data, the most important of which will be the rate of infection growth in the larger economies of the US and Europe along with the behaviour of global credit markets.

In recent times we have taken advantage of the market weakness to add some growth companies to the portfolio and will continue to do so in order to provide investors with a more balanced portfolio whilst always remaining true to the Company's income objective.

Longer term (and assuming an eventual return to more normal levels of economic activity) we believe the market represents good value. However, the dividend outlook for all companies, including a number of CIE's investments, is expected to come under considerable pressure as businesses look to conserve their cash. CIE is focussed on holding and, where appropriate, adding to those investments that it believes can continue to pay dividend. At present, CIE maintains the capacity to continue to pay quarterly dividends for the remainder of FY20.

NET TANGIBLE ASSETS (PER SHARE)	31 MAR 2020	29 FEB 2020
NTA before tax	\$0.624	\$0.871
NTA after tax and before tax on unrealised gains	\$0.639	\$0.898
NTA after tax	\$0.636	\$0.882
Month-end closing share price (ASX:CIE)	\$0.545	\$0.780

GICS SECTOR ALLOCATION	WEIGHT %
Financials	18.78
Real Estate	18.16
Consumer Discretionary	14.56
Materials	10.23
Utilities	9.59
Industrials	9.07
Energy	6.76
Cash	3.62
Information Technology	3.46
Communication Services	3.42
Consumer Staples	2.36
Total	100.00

PORTFOLIO CHARACTERISTICS	
Median market cap (\$m)	3,251
Price to earnings ratio ¹	13.14
Price to book ratio ¹	1.09
Return on equity (%)	8.05
Beta ²	0.98

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	5.27%
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	\$65.77 million
Shares on issue	104.90 million
No. of companies held	48
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 %
Spark Infrastructure Group	3.41
Tabcorp Holdings	3.36
Caltex Australia	3.20
APA Group	3.15
AusNet Services	3.03
Dexus	2.82
Aristocrat Leisure	2.77
Bank of Queensland	2.76
Charter Hall Group	2.76
Sydney Airport	2.71
Total	29.99

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